HSBC Bank Malta p.l.c.
Annual Report and Accounts 2013

HSBC

The HSBC Group

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 6,300 offices in 75 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

HSBC Bank Malta p.l.c.
Registered in Malta: number C3177
Registered Office and Head Office:
116 Archbishop Street
Valletta VLT 1444
Malta
Telephone: 356 2597 0000
Customer Service: 356 2380 2380
Facsimile: 356 2380 4923
www.hsbc.com.mt

HSBC Holdings plc
Registered Office and Group Management Office:
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8888
Facsimile: 44 020 7992 4880
www.hsbc.com

Contents

2	Chairman's Statement
8	Chief Executive Officer's Review
16	Board of Directors
18	Executive Committee
20	Financial Review
22	Report of the Directors
26	Statement of Compliance with the Code of Principles of Good Corporate Governance
35	Remuneration Report
38	Directors' Responsibilities Statement
39	Statements of Profit or Loss
40	Statements of Other Comprehensive Income
41	Statements of Financial Position
42	Statements of Changes in Equity
44	Statements of Cash Flows
45	Notes on the Financial Statements
108	Independent Auditors' Report to the Members of HSBC Bank Malta p.l.c.
110	Statements of Profit or Loss and Statements of Other Comprehensive Income: Five-Year Comparison
111	Statements of Financial Position: Five-Year Comparison
112	Statements of Cash Flows: Five-Year Comparison
113	Accounting Ratios: Five-Year Comparison
114	Financial Highlights in US dollars
115	Branches and Offices

Chairman's Statement

2013 was a year of considerable challenges for both HSBC Bank Malta and the banking sector in general. Nevertheless, the bank delivered a resilient set of results and its performance held up well despite significant challenges associated with difficulties in Europe, a low interest rate environment, an evolving regulatory framework for the financial services sector and a subdued local economy.

Results

Profit before taxation was €90m, a decrease of €5m, or 5%, compared to 2012. Profit attributable to shareholders was down 5% to €59m compared with the previous year resulting in earnings per share of 20.1 cent. This performance compares favourably with the financial services sector in Malta.

On the basis of these results, the Board is recommending a final gross dividend of 5.2 cent per share (3.4 cent net of tax). Together with the interim gross dividend of 10.0 cent per share paid in September 2013, the total dividend for the year is 15.2 cent per share (9.9 cent net of tax). The Board is also recommending a bonus issue of 1 share for every 9 shares held as on 29 April 2014 through the capitalisation of reserves amounting to €10m. This will increase share capital from €87m to €97m.

The bank's dividend policy and distribution percentage remains unchanged from 2012. As we shall go on to explain, however, actual dividends in the hands of shareholders will be affected by the revised Malta Financial Services Banking Rule 09, covering all banks in Malta, which came into effect on 31 December 2013.

Strategy

The key objective of the HSBC Group (the 'Group') is to become the world's leading international bank.

Is-sena 2013 kienet sena ta' sfidi kbar mhux biss għall-HSBC Bank Malta imma għas-settur bankarju kollu. Madankollu, l-bank kiseb sett ta' riżultati sodi u l-prestazzjoni tiegħu żammet sħiħa minkejja l-irjieħ kuntrarji kkawżati mill-problemi fl-Ewropa, ir-rati baxxi tal-imgħax, it-tibdil fir-regolamenti tas-servizzi finanzjarji, u l-pass mrażżan tal-ekonomija lokali.

Riżultati

Il-profitt qabel it-taxxa kien ta' €90m, tnaqqis ta' €5m, jew 5%, meta mqabbel mal-2012. Il-profitt li jiġi attribwit lill-azzjonisti niżel b'5% meta mqabbel mas-sena ta' qabel għal €59m, biex il-qligħ sehem b'sehem kien ta' 20.1 ċenteżmi. Dan ir-riżultat jipparaguna tajjeb mas-settur tas-servizzi finanzjarji f'Malta.

Abbażi ta' dawn ir-riżultati l-Bord qed jiddikjara dividend finali gross ta' 5.2 ċenteżmi kull sehem (3.4 ċenteżmi wara t-taxxa). Jekk tgħoddu mad-dividend interim gross ta' 10.0 ċenteżmi fuq kull sehem imħallas f'Settembru 2013, id-dividend totali għas-sena jiġi 15.2 ċenteżmi kull sehem (9.9 ċenteżmi wara t-taxxa). Il-Bord qed jirrakkomanda wkoll li jingħata bonus ta' sehem wieħed għal kull disa' ishma miżmuma fid-29 ta' April 2014 billi jiġu kapitalizzati €10m mir-riżervi. B'dan il-pass il-kapital azzjonarju jitla' minn €87m għal €97m.

Il-politika tal-bank rigward id-dividendi u l-perċentwal imqassam jibqgħu l-istess bħal tal-2012 imma, kif se jkun imfisser 'il quddiem, id-dividendi attwali f'idejn l-azzjonisti ġew milquta mir-reviżjoni tar-Regola Bankarja Nru 09 tas-Servizzi Finanzjarji ta' Malta li daħlet fis-seħħ fl-31 ta' Diċembru 2013 u tgħodd għall-banek kollha f'Malta.

Strateġija

L-għan ewlieni tal-Grupp HSBC (il-'Grupp') hu li jsir l-aqwa bank internazzjonali tad-dinja. Tul l-istorja

Throughout its history, the Group has always been at the heart of growing economies and regions, and has striven to connect customers to opportunities, wherever they may be. The Group has enabled businesses to thrive, economies to prosper, and people to fulfil their hopes and realise their aspirations.

Consequently, the HSBC Group's strategic direction is closely aligned to international trade and focused on economic development and wealth creation. In order to implement this strategy, the Group has set three priorities: enabling growth; implementing the highest possible global standards in terms of financial crime and regulatory compliance; and streamlining processes and procedures.

Our strategy in Malta is closely aligned to that of the HSBC Group. We seek to build and invest in our domestic franchise and help our customers seek out growth opportunities both in Malta and across a broad range of global markets. In this respect, one of the key initiatives in 2013 has been the launch of Malta Trade for Growth. As part of this important initiative we established a €50m trade fund to support those companies looking to take advantage of exciting new international opportunities. After only three months approximately 68% of the fund has already been allocated which reflects the international ambitions of Maltese businesses as they pursue growth.

Regulatory changes

Over the past twelve months, the European Union has accelerated the process of developing a more unified financial services framework. While there is general support for the overall process, a number of the changes which are being implemented, and measures which have been proposed, are presenting considerable challenges to the financial services sector. Uncertainty remains about the interpretation, and implementation, of certain important proposals and a significantly heighted level of oversight of the whole industry has also added to the pressure.

Key rule changes that will impact the financial services industry include:

- The implementation of the European Commission's Capital Requirements Directive ('CRDIV'). This will lead to increased capital requirements across the sector.
- The eventual implementation of the EU Deposit Guarantee Scheme. This is likely to lead to a sharp increase in rates of contribution by banks.
- While there is still some uncertainty as to the impact of the final decisions around the EU Bank Resolution Fund, it is expected that this will impact sector profitability as additional contributions will be required to build the fund.

tieghu, il-Grupp dejjem kien fil-qalba ta' reġjuni u ekonomiji fejn hemm it-tkabbir u dejjem stinka biex iressaq il-klijenti lejn l-opportunitajiet. Il-Grupp ħadem biex in-negozji jiffjorixxu u l-ekonomiji jipprosperaw u biex jghin lin-nies iwettqu t-tamiet u l-ħolm u jilħqu l-ambizzjonijiet taghhom.

Ghalhekk id-direzzjoni strateġika tal-Grupp HSBC timxi fil-qrib mal-kummerċ internazzjonali u hija ffokata fuq l-iżvilupp ekonomiku u l-ħolqien tal-ġid. Biex jimplimenta din l-istrateġija, il-Grupp iffissa tliet prijoritajiet – it-tkabbir; l-implimentazzjoni tal-oghla standards globali possibbli fejn jidħlu reati finanzjarji u osservanza tar-regoli; u r-razjonalizzazzjoni tal-proċessi u l-proċeduri.

L-istrateġija taghna f'Malta timxi qrib ma' dik tal-Grupp HSBC. Ahna nfittxu li nibnu u ninvestu fl-operat lokali u li nghinu l-klijenti jsibu opportunitajiet ta' tkabbir sew f'Malta u kemm fuq firxa wiesgha ta' swieq globali. F'dan ir-rigward waħda mill-inizzjattivi kruċjali tal-2013 kienet it-tnedija tal-Malta Trade for Growth. Bħala parti minn din l-inizzjattiva importanti waqqafna fond ta' €50m ghall-kummerċ, biex isostni lil dawk il-kumpaniji li jridu jaħtfu l-opportunitajiet ġodda u eċċitanti li jsibu barra minn Malta. Wara biss tliet xhur, madwar 68% tal-fond diġà ġie allokat – sinjal ċar tal-ambizzjonijiet internazzjonali tan-negozji Maltin biex jirnexxilhom jikbru.

Tibdil regolatorju

Fit-tnax-il xahar li ghaddew rajna lill-Unjoni Ewropea taċċelera l-pass biex tasal ghal qafas aktar unifikat ta' servizzi finanzjarji. Waqt li t-tibdil li sar u dak propost, kellu appoġġ ġenerali, dan ippreżenta bosta sfidi ghas-settur tas-servizzi finanzjarji. Ghad hemm inċertezza dwar kif ċerti proposti importanti ghandhom jiġu interpretati u implimentati, fosthom dawk li se jżidu l-pressjoni minħabba li se tiżdied sew is-sorveljanza fuq l-industrija.

Fost il-bidliet ewlenin fir-regoli li se jolqtu l-industrija tas-servizzi finanzjarji hemm dawn:

- It-twettiq tad-Direttiva tal-Kummissjoni Ewropea dwar ir-Rekwiżiti ta' Kapital (CRDIV). Din se twassal ghal rekwiżiti oghla ta' kapital ghas-settur kollu.
- It-twettiq 'il quddiem tal-Iskema Ewropea ta' Garanzija ghad-Depożitanti. Din x'aktarx ser iwassal ghal żieda qawwija fir-rata ta' kontribuzzjoni tal-banek.
- Ghalkemm ghadu mhux ċert x'se jkun l-impatt tad-deċiżjonijiet finali dwar il-Fond Ewropew ta' Riżoluzzjoni ghall-Banek, huwa mistenni li tintlaqat il-profittabilità tas-settur minħabba li jkunu meħtieġa kontribuzzjonijiet addizzjonali biex jinbena l-fond.

Chairman's Statement (continued)

- At a local level, the amendment of the Malta Financial Services Authority ('MFSA') Banking Rule 09 at the end of 2013, has required banks in Malta to hold additional reserves against non-performing loans. Banks are now obliged to determine the dividends that they intend to distribute to shareholders and then hold back a proportion of these dividends in the form of a reserve that becomes part of Tier 1 capital on their balance sheet. While the revised rule will not impact notional dividend pay out rates it will have an effect on the amount of actual cash that banks will be able distribute to shareholders. In addition to the revised rule, the MFSA has required banks to seek formal approval for all dividend pay outs prior to distribution.

During 2013, HSBC Malta – as a systemically important financial institution in the country – was advised, alongside two other local institutions, that it will be jointly regulated by both the European Central Bank ('ECB') and the MFSA commencing late 2014. Some 130 other financial organisations across the EU will also be subject to similar changes in oversight. As part of the transition process, an asset quality test and stress test process will take place in the first half of the year. HSBC Bank Malta is well placed to meet these challenges.

With the additional oversight and scrutiny, both locally and from abroad, the business will see a substantial rise in regulatory costs in 2014.

Sustainability

Sustainability and our role as a good corporate citizen remain a core part of HSBC's values. We firmly believe that success is measured not only in financial terms but that we also have an important part to play in the communities where we work. The HSBC Malta Foundation (the 'Foundation') is a key part of our commitment to sustainability in Malta. This was directly recognised in September last year when Mr Douglas Flint, HSBC Group Chairman, visited Malta to launch the 'Catch the Drop' campaign.

This national environmental and educational campaign about water and its conservation and use will reach every student in Malta, some 50,000 children in 155 schools, all 68 Local Councils, as well as the Maltese public at large. Our own employees are at the heart of this campaign with over 200 members of staff volunteering to deliver the information sessions in the various schools and councils.

The campaign is an important part of HSBC's global USD100m five year water initiative that seeks to educate and bring real change and benefit to water related issues.

- Lokalment, ir-reviżjoni fl-aħħar tas-sena l-oħra tar-Regola Bankarja Nru 09 tal-Awtorità Maltija għas-Servizzi Finanzjarji (l-'MFSA') ifisser li l-banek f'Malta jkollhom iżommu riżervi addizzjonali għal self li mar ħażin. Ir-regola tal-MFSA kif riveduta tordna lill-banek biex jikkonsidraw id-dividendi li jkollhom ħsieb iqassmu lill-azzjonisti u mbagħad iżommu parti minn dawn id-dividendi lura fil-forma ta' riżerva fil-karta tal-bilanċ, liema riżerva tkun tagħmel parti mill-kapital tal-Ewwel Saff. Waqt li r-regola kif riveduta ma jkollhiex impatt fuq id-dividend 'pay out rate', ikollha effett fuq l-ammont attwali ta' flus li l-banek ikunu jistgħu jqassmu lil-azzjonisti minħabba li jridu jnaqqsu r-riżerva mid-dividend imħallas. Apparti r-regola riveduta, l-MFSA trid ukoll li l-banek jitolbu approvazzjoni formali għal kull ħlas ta' dividendi qabel ma dawn jitqassmu.

Fl-2013, l-HSBC Malta – bħala istituzzjoni finanzjarja importanti fis-sistema tal-pajjiż – kien avżat li hu, flimkien ma' żewġ istituzzjonijiet lokali oħra, se jibda jkun regolat b'mod konġunt mill-Bank Ċentrali Ewropew ('ECB') u l-MFSA b'seħħ mill-aħħar parti tal-2014. Hemm madwar 130 organizzazzjoni finanzjarja oħra madwar l-Ewropa li se jkunu sottomessi għal tibdil simili fis-sorveljanza. Bħala parti mill-proċess ta' transizzjoni għall-ECB, fl-ewwel nofs tas-sena se jsir proċess ta' eżamijiet, l-ewwel eżami fuq il-kwalità tal-assi u l-ieħor eżami tal-istress. L-HSBC Malta huwa ppreparat biex jilqa' dawn l-isfidi.

Din iż-żieda fis-sorveljanza u l-iskrutinju sew lokalment kemm minn barra se ttaqqal sostanzjalment il-piż tal-ispejjeż regolatorji fuq in-negozju tagħna għall-2014.

Sostenibilità

Is-sostenibilità u s-sehem tagħna bħala ċittadin korporattiv eżemplari jibqgħu parti essenzjali mill-HSBC. Aħna nemmnu bis-serjetà illi s-suċċess ma jitkejjilx biss f'termini finanzjarji imma li għandna rwol importanti x'naqdu fil-komunità fejn naħdmu. L-HSBC Malta Foundation (il-'Fondazzjoni') għandha sehem kruċjali fl-istrateġija tagħna u fil-mod kif aħna nħarsu lejn is-sostenibilità. Dan kollu kien rikonoxxut direttament meta f'Settembru li għadda s-Sur Douglas Flint, Chairman tal-Grupp HSBC, żar Malta biex jinawgura l-kampanja 'Catch the Drop'.

Catch the Drop hija kampanja nazzjonali li se tilħaq lil kull student f'Malta, madwar 50,000 tifel u tifla f'155 skola, 68 Kunsill Lokali, u l-pubbliku Malti kollu. Fil-qalba ta' din il-kampanja għandna l-impjegati tagħna, li aktar minn 200 minnhom offrew minn jeddhom li jmorru jippreżentaw sessjonijiet ta' informazzjoni fl-iskejjel u l-kunsilli differenti.

Il-kampanja hija parti important mill-inizzjattiva globali tal-HSBC ta' USD100m li għandha l-għan li teduka u ġġib tibdil reali u benefiċċji fi kwestjonijiet li għandhom x'jaqsmu mal-ilma.

HSBC Group Chairman Douglas Flint meeting HSBC Malta employees volunteering in the HSBC Water Programme's 'Catch the Drop' Campaign.

Closely connected to the global nature of the HSBC Group water programme, HSBC Malta sent six volunteers to spend a week in Ghana where the internationally recognised NGO WaterAid, as part of the HSBC Water Programme, is working to improve access to safe water, sanitation and hygiene. Ultimately a combined staff and bank initiative will aim to bring direct benefit to the people of Ghana.

Apart from the work around water, which has been funded by a direct grant of USD500,000 from the HSBC Group, the HSBC Malta Foundation continued to focus on three key areas: caring for disadvantaged children; Malta's environment; and Malta's heritage. During 2013, work progressed on several flagship projects, including the restoration of the Church of Our Lady of Victories in Valletta. Through this initiative, 'Din l-Art Ħelwa' a leading non-governmental heritage and environmental organisation aims to restore, conserve and enhance this unique and historically significant church located at the very entrance of Malta's capital city. As 'Principal Valued Partner' in this project, the HSBC Malta Foundation is contributing towards the restoration of the church's beautiful ceiling vaults.

Another key project carried out by the Foundation relates to the I-land Observatory and Interpretation Centre in Mġarr. The project is a partnership with the University of Malta and the Mġarr Local Council. A 10-year agreement between the three parties will take Malta's first centre for integrated natural and cultural heritage management a step closer to its implementation.

In 2013, the Foundation continued to support the Notarial Archives Resources Council in Valletta. The Notarial Archives are home to over 20,000 registers containing historical documents that date back to the

B'rabta fil-qrib man-natura globali tal-programm tal-ilma tal-Grupp HSBC, l-HSBC Malta bagħat sitt volontiera għal ġimgħa fil-Ghana fejn l-NGO WaterAid, li hi rikonoxxuta internazzjonalment, qed taħdem, bħala parti mill-HSBC Water Programme, biex ikun hemm aċċess aħjar għall-ilma nadif, sanità u iġjene. Il-mira finali ta' din l-inizzjattiva li qed issir bejn l-impjegati u l-bank hija li tgħin direttament lin-nies tal-Ghana.

Apparti x-xogħol fuq l-ilma, li ġie finanzjat separatament b'għotja diretta mill-Grupp HSBC ta' USD500,000, l-HSBC Malta Foundation kompliet tiffoka fuq tliet oqsma ewlenin: il-kura tat-tfal inqas ixxurtjati, l-ambjent u l-patrimonju. Fl-2013 mexa 'l quddiem ix-xogħol fuq diversi proġetti maġġuri, fosthom ir-restawr tal-Knisja tal-Vittorji fil-Belt Valletta. B'din l-inizzjattiva t-trust nazzjonali Maltija Din l-Art Ħelwa, organizzazzjoni mhux governattiva ewlenija fil-qasam tal-wirt kulturali u l-ambjent, qed timmira li tirrestawra, tikkonserva u ssebbaħ din il-knisja unika. L-HSBC Malta Foundation hija *Principal Valued Partner* f'dan il-proġett, u bħala tali qed tikkontribwixxi għar-restawr tal-ħnejjiet tas-saqaf tal-knisja.

Proġett ieħor ewlieni li qed twettaq il-Fondazzjoni huwa dak tal-I-land Observatory and Interpretation Centre fl-Imġarr. Il-proġett qed isir bi sħubija bejn l-Università ta' Malta u l-Kunsill Lokali tal-Imġarr. Permezz ta' ftehim ta' 10 snin bejn it-tliet partijiet dan l-ewwel ċentru Malti għall-amministrazzjoni integrata tal-wirt naturali u kulturali jista' jersaq pass ieħor biex jibda jseħħ.

Fl-2013 il-Fondazzjoni kompliet tagħti l-appoġġ lill-Kunsill għar-Riżorsi tal-Arkivju Notarili fil-Belt Valletta. L-Arkivju Notarili għandu 'l fuq minn 20,000 reġistru ta' dokumenti storiċi li jmorru lura sas-seklu

Chairman's Statement (continued)

1500s. These manuscripts are a truly unique primary source of historical information and offer invaluable insights into a rich and colourful culture and history. HSBC Malta Foundation has been the principal sponsor of the Notarial Archives for the last nine years, and it would also be fitting to acknowledge the excellent and tireless work undertaken by hundreds of HSBC staff volunteers.

Board

During 2013, there were a number of changes in our Board of Directors. My predecessor, Mr Albert Mizzi, retired as Chairman and Director of the bank after 14 years of loyal and dedicated service to HSBC. On behalf of the Board, management and staff, I would like to express my gratitude to Mr Mizzi for his dedicated and loyal service as Chairman of the bank. His outstanding stewardship has been instrumental to build our business into what it is today.

Mr Charles John Farrugia and Mr Peter Boyles resigned from their directorships, whilst Mr Peter Paul Testeferrata Moroni Viani did not seek re-election at the 2013 Annual General Meeting. I would like to thank these gentlemen for their excellent work and years of service to the bank.

We have been pleased to welcome the following new members who joined during the year and up till the date of this report to the Board: Mr Brian Robertson; Mr John Bonello; Prof. Andrew Muscat; and Mrs Caroline Zammit Testaferrata Moroni Viani. The latter was elected director in the last Annual General Meeting.

Mr Brian Robertson is former Chief Executive Officer of HSBC Bank, a Group Managing Director of HSBC Holdings and a member of the Group Management Board.

Mr John Bonello is Chairman of the bank's Audit & Risk Committee and Remuneration Committee. He was formerly Chairman and Senior Partner of PricewaterhouseCoopers from where he retired in December 2009.

Prof. Andrew Muscat is a partner at Mamo TCV Advocates where he heads the Corporate & Banking Department. He is Professor at the Faculty of Laws of the University of Malta.

Mrs Caroline Zammit Testaferrata Moroni Viani holds various directorships and executive positions within Testaferrata Group and within UK based subsidiaries of Mercury plc. She is a member of the bank's Audit and Risk Committee.

I am privileged to be the Chairman of a Board whose members have a wealth of knowledge and experience at both a local and international level. We continue to guide the organisation through these challenging times and ensure we take sustainable decisions for the benefit of all our stakeholders.

I am confident that with this strong team of Directors, we can continue to provide the necessary stewardship for our organisation and ensure its success.

sittax. Dawn il-manuskritti huma uniċi bħala għajn primarja ta' kif nistgħu nħarsu lejn il-passat kulturali ta' Malta. L-HSBC Malta Foundation, flimkien ma' mijiet ta' volontiera minn fost l-impjegati tal-bank, ilha għal dawn l-aħħar disa' snin l-isponsor ewlieni tal-Arkivju Notarili.

Il-Bord

Matul l-2013 kien hemm numru ta' tibdiliet fil-Bord tad-Diretturi. Il-predeċessur tiegħi, is-Sur Albert Mizzi rtira minn Chairman u Direttur tal-bank wara erbatax -il sena ta' servizz leali u dedikat lill-HSBC. F'isem il-Bord, il-management u l-ħaddiema, nixtieq nuri l-apprezzament tiegħi lis-Sur Mizzi għad-dedikazzjoni u s-servizz leali tiegħu bħala Chairman tal-bank.

Is-Sur Charles John Farrugia u s-Sur Peter Boyles irriżenjaw mill-post ta' direttur waqt li s-Sur Peter Paul Testeferrata Moroni Viani ma reġax offra ruħu għall-elezzjoni fil-Laqgħa Ġenerali Annwali tal-2013. Nixtieq inrodd ħajr lil dawn is-sinjuri għax-xogħol eċċellenti u s-snin ta' servizz lill-bank.

Matul is-sena kien pjaċir tagħna li nilqgħu lil dawn il-membri ġodda fuq il-Bord: is-Sur Brian Robertson, is-Sur John Bonello, il-Profs Andrew Muscat u s-Sinjura Caroline Zammit Testaferrata Moroni Viani. Din tal-aħħar ġiet eletta direttur fl-aħħar Laqgħa Ġenerali Annwali.

Is-Sur Brian Robertson kien Kap Eżekuttiv tal-HSBC Bank, huwa Direttur Maniġerjali tal-Grupp HSBC Holdings u membru tal-Bord tat-Tmexxija tal-Grupp.

Is-Sur John Bonello huwa Chairman tal-Kumitat tal-Verifika u r-Riskju u tal-Kumitat tar-Remunerazzjoni tal-bank. Qabel kien jokkupa l-pożizzjoni ta' Chairman u Senior Partner ma' PricewaterhouseCoopers minn fejn irtira f'Diċembru 2009.

Profs Andrew Muscat huwa soċju ma' Mamo TCV Advocates fejn hu l-kap tal-Corporate & Banking Department. Huwa Professor fil-Fakultà tal-Liġi fl-Università ta' Malta.

Is-Sinjura Caroline Zammit Testaferrata Moroni Viani għandha diversi direttorati u pożizzjonijet eżekuttivi mal-Grupp Testaferrata kif ukoll ma' sussidjarji ta' Mercury plc ibbażati fir-Renju Unit. Hija membru tal-Kumitat tal-Verifika u r-Riskju tal-bank.

Jien għandi l-privileġġ inkun Chairman ta' Bord li l-membri tiegħu huma għonja fil-għerf u l-esperjenza sew lokali kif ukoll internazzjonali. Flimkien niggwidaw lil din l-organizzazzjoni f'dawn iż-żminijiet ta' sfida u naraw li nieħdu deċiżjonijiet sostenibbli għall-ġid tal-partijiet kollha interessati.

Inħossni fiduċjuż li b'tim ta' diretturi sod bħal dan nistgħu nkomplu naqdu lil din l-organizzazzjoni kif hemm bżonn u niżguraw suċċess.

HSBC Malta CEO Mark Watkinson accepting the prestigious award for Bank of the Year in Malta 2013 during the FT award ceremony in London.

International recognition

For the third consecutive year, HSBC Bank Malta has been named Bank of the Year in Malta by the Financial Times publication *The Banker*. This prestigious award recognises HSBC Malta's financial strength, customer service standards, innovation, technological excellence and commitment to its community.

The Banker award is a tribute to the role HSBC plays in Malta.

Looking ahead

The challenges outlined in my introduction and which will be further elaborated upon by our Chief Executive Officer in his Review, constitute the backdrop against which we will continue to steer this business forward, and to search for sustainable growth, during 2014.

Though this will not be easy, with a strong Board, an excellent management team and the benefit of belonging to one of the world's largest financial groups, we are well placed to forge ahead.

My gratitude and appreciation goes to the Board of Directors, management and staff of the bank for their commitment and hard work. I also thank our shareholders and our customers for placing their trust in our organisation.

Sonny Portelli, *Chairman*
24 February 2014

Rikonoxximent Internazzjonali

Għat-tielet sena konsekuttiva, l-HSBC Bank Malta kien nominat bħala l-Bank tas-sena f'Malta mill-pubblikazzjoni *The Banker* tal-Financial Times. Dan il-premju prestiġjuż jagħti rikonoxximent lill-HSBC Malta għas-saħħa finanzjarja, l-istandard tas-servizz lill-klijenti, l-innovazzjoni, l-eċċellenza teknoloġika, u l-impenn lejn il-komunità.

Il-premju ta' *The Banker* jagħti ġieħ lis-sehem tal-HSBC f'Malta.

Prospetti għall-futur

L-isfidi li semmejt fil-bidu, u li jgħid iżjed fuqhom is-CEO fl-analiżi tiegħu, huma fl-isfond ta' dak li se niltaqgħu miegħu aħna u mmexxu lil din l-organizzazzjoni 'l quddiem waqt li naħdmu u nfittxu kif nikbru b'mod sostenibbli fl-2014.

Mhux se jkun faċli, imma għandna Bord b'saħħtu u tim ta' tmexxija eċċellenti u għandna l-benefiċċju li nifformaw parti minn grupp finanzjarju fost l-akbar fid-dinja.

Irrid nesprimi l-gratitudni u l-apprezzament tiegħi lill-Bord tad-Diretturi, lill-management u lill-ħaddiema tal-bank għall-impenn u x-xogħol dedikat tagħhom. Nirringrazzja wkoll lill-azzjonisti u l-klijenti tagħna għall-fiduċja tagħhom f'din l-organizzazzjoni.

Chief Executive Officer's Review

In a year of considerable challenges, HSBC Bank Malta has delivered a set of resilient results that compare favourably with the sector. Principal headwinds faced included the continued uncertainty in the eurozone, record low European Central Bank ('ECB') interest rates, significant regulatory changes and subdued local economic growth.

Despite this backdrop, our franchise in Malta has performed remarkably well and this is a tribute to the hard work of our team on the ground. We continue to invest in our business to ensure its long term sustainability and strive to provide the highest level of service to our customers and community.

Performance

HSBC Bank Malta delivered a profit before tax of €90m for the year ended 31 December 2013. This was a decline of €5m or 5% on the prior year.

All three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets, were profitable during the year under review.

Net interest income reduced by 6% to €125m compared with €133m in 2012. The fall in interest income reflected: the impact of a tightening in interest margin earned on the loan portfolio; lower average lending balances associated with a slow economy; and a decline in interest earned on investments as the proceeds of higher yielding maturing bonds were re-invested at lower rates. This was partially mitigated by a fall in the cost of funds as customers moved to shorter-dated deposits.

Net fee and commission income of €30m was broadly in line with 2012. However the performance was impacted by lower income from wealth sales. The Wealth business underwent a significant transformation in 2013 as it was aligned with HSBC Group strategy.

Din kienet sena ta' sfidi qawwija, li fiha l-HSBC Bank Malta rnexxilu jikseb sett ta' riżultati sodi li jħabbtuha tajjeb mas-settur. Il-fatturi li l-aktar laqtuna kienu l-inċertezza kontinwa fiż-żona tal-ewro, ir-rati baxxi rekord tal-imgħax tal-Bank Ċentrali Ewropew (l-'ECB'), it-tibdil serju li sar fir-regolamenti, u l-pass imrażżan tat-tkabbir ekonomiku domestiku.

Minkejja dan l-isfond, l-operat tagħna f'Malta mar tajjeb sew, u dan huwa ta' ġieħ għall-ħaddiema tagħna. Aħna nibqgħu ninvestu fin-negozju tagħna biex nassiguraw li jibqa' sostenibbli fit-tul u nagħmlu ħilitna biex nagħtu servizz tal-ogħla livell lill-klijenti u lill-komunità.

Riżultati

Għas-sena li għalqet fil-31 ta' Diċembru 2013, l-HSBC Bank Malta għamel profitt qabel it-taxxa ta' €90m. Kien hemm tnaqqis ta' €5m jew 5% fuq is-sena ta' qabel.

It-tliet linji ta' negozju, ir-Retail Banking and Wealth Management, il-Commercial Banking u l-Global Banking and Markets, kollha għamlu profitt matul is-sena li qed nitkellmu fuqha.

Id-dħul nett mill-imgħax niżel b'6% għal €125m meta mqabbel mal-€133m tal-2012. Il-waqgħa fid-dħul mill-imgħax tirrifletti l-impatt li kellhom l-issikkar tal-marġni tal-interessi fuq is-self, l-inżul fil-medja tal-bilanċi mislufa kkawżat minn ekonomija imrażżna, u t-tnaqqis fil-qligħ mill-imgħax fuq l-investimenti hekk kif ammonti mifdija ta' bonds b'rati għolja ġew investiti f'oħrajn b'rati aktar baxxi. Dan ittaffa xi ftit billi naqsu l-interessi li ħallasna fuq id-depożiti meta l-klijenti bdew imorru għal depożiti ta' skadenza aktar qasira.

Id-dħul nett minn drittijiet u kummissjoni kien ta' €30m – bejn wieħed u ieħor bħal tal-2012. Madankollu dan ir-riżultat sofra l-effett ta' dħul aktar baxx mill-bejgħ tal-prodotti tal-Wealth Management. Il-Wealth Management għadda minn trasformazzjoni sħiħa fl-2013 biex jinġab konformi mal-istrateġija globali tal-HSBC.

HSBC Life Assurance (Malta) Ltd. reported a profit before tax of €13m compared with €18m in 2012. The result in 2012 had however benefited from a strong recovery in investment returns during the year that was not repeated in 2013.

A net gain of €4m was reported as a result of a re-positioning of the investment portfolio.

Operating expenses of €93m were €3m or 4% lower compared with the previous year, however 2012 costs included a €6m provision in relation to a staff early voluntary retirement scheme. Underlying expenses rose by 2%. The increase of €3m, or 8%, in administrative expenses reflected a rise in compliance, regulatory mandated project costs and security and fraud-risk related costs. The continued investment to improve technology capability was funded by savings from simplification and re-engineering of processes.

The cost efficiency ratio, which compares operating expenses to net operating income, was at 49.9% compared with 49.0% in 2012.

Despite the ongoing regional economic uncertainties, loan impairments have been subdued and reduced to €3m compared with €5m in 2012. Overall asset quality remains acceptable with a high percentage of tangible security held for the overall loan portfolio.

Gross new lending to customers amounted to €597m (2012: €507m). This reflects the bank's continued support to the local economy. However net loans and advances to customers at €3,301m were €53m lower than at 31 December 2012. In times of uncertainty or economic stress there has been a tendency among commercial customers to use surplus cash to repay borrowings and delay investments. By way of contrast the retail mortgage business continued to show steady growth.

Deposit levels at €4,518m were broadly unchanged despite continued competitive pressures.

The bank's available-for-sale investments portfolio remains well diversified and conservatively positioned.

The bank's liquidity position is strong with an advances-to-deposit ratio of 73%, compared with 74% at 31 December 2012.

The bank continued to strengthen its total capital ratio to 12.9%. At the same time Tier 1 capital ratio rose to 9.4%.

Profit attributable to shareholders amounted to €59m, down €3m or 5%, compared with €62m in 2012, resulting in earnings per share of 20.1 cent. The Board is recommending a final gross dividend of 5.2 cent per share. The Board is also recommending a bonus share of 1 share for every 9 shares held as on 29 April 2014

L-HSBC Life Insurance (Malta) Ltd. irrapportat profitt qabel it-taxxa ta' €13m meta mqabbel mat-€18-il miljun tal-2012. Ma ninsewx iżda li fl-2012 kien hemm il-benefiċċju ta' rkupru qawwi fir-renditi tal-investimenti – ħaġa li ma reġgħetx ġrat fl-2013.

Ġie rrappurtat ukoll qligħ nett ta' €4m bħala riżultat ta' tibdil fil-pożizzjoni tal-portafoll tal-investimenti.

L-ispejjeż tal-operat kienu ta' €93m, jiġifieri €3m jew 4% anqas meta mqabbel mal-2012. F'dik is-sena l-ispejjeż kienu jinkludu provvediment ta' €6m għar-rigward ta' skema volontarja ta' rtirar kmieni mill-impjegati. Spejjeż bażiċi għolew bi 2%. Kien hemm żieda ta' €3m, jew 8%, fl-ispejjeż tar-regolamentazzjoni, spejjeż ta' proġetti regolatorji mandatorji u spejjeż marbutin mas-sigurtà u r-riskju ta' frodi. L-investiment li baqa' għaddej f'teknoloġija aktar avvanzata kien iffinanzjat minn tifdil li sar permezz tas-simplifikazzjoni u r-ristruttrar tal-proċessi.

Ir-ratio tal-ispejjeż kontra d-dħul, li jqabbel l-ispejjeż mad-dħul, f'għeluq is-sena kien ta' 49.9%, imqabbla mad-49.0% f'għeluq l-2012.

Minkejja l-inċertezzi ekonomiċi kontinwi fir-reġjun, il-provvediment għal self li nahsbu li ser imur ħażin naqas għal €3m, meta mqabbel mal-€5m tal-2012. Il-kwalità tal-assi baqgħet ġeneralment tajba, bil-portafoll totali tas-self kopert fil-parti l-kbira tiegħu minn sigurtà tanġibbli.

Is-self ġdid gross lill-klijenti għan-negozju ammonta għal €597m (2012: €507m). Dan jirrifletti l-appoġġ kontinwu tal-bank għall-ekonomija lokali. Madankollu l-ammont ta' €3,301m self nett lill-klijenti kien €53m anqas minn dak tal-31 ta' Diċembru 2012. It-tendenza tal-klijenti kummerċjali fi żmien ta' inċertezza u għafsa fl-ekonomija dejjem kienet li jużaw flus żejda li jkollhom fl-idejn biex iħallsu lura d-dejn u ma jagħmlux l-investiment. B'kuntrast ma' dan, in-negozju fis-self għad-djar lill-pubbliku kompla juri tkabbir sod.

Id-depożiti, li ammontaw għal €4,518m, baqgħu ġeneralment fuq l-istess livell minkejja l-pressjoni ma tiqafx mill-kompetizzjoni.

Il-portafoll tal-investimenti available-for-sale tal-bank baqa' diversifikat sew u miżmum f'pożizzjoni konservattiva.

Il-likwidità tal-bank ukoll qiegħda f'pożizzjoni b'saħħitha. Ir-relazzjoni tas-self mad-depożiti kienet ta' 73% meta mqabbla mal-74% tal-31 ta' Diċembru 2012.

Il-bank kompla jsaħħaħ ir-relazzjoni komplessiva tal-kapital li telgħet għal 12.9%. Fl-istess ħin ir-relazzjoni tal-kapital tal-Ewwel Saff (Tier 1) telgħet għal 9.4%.

Il-profitt li jiġi attribwit lill-azzjonisti ammonta għal €59m, jiġifieri niżel bi €3m jew 5% meta mqabbel mat-€62m tal-2012. Dan jirriżulta fi qligħ sehem b'sehem ta' 20.1 ċenteżmi. Wara li qies dawn ir-riżultati, il-Bord qed jirrakkomanda dividend finali gross ta' 5.2 ċenteżmi għal kull sehem. Il-Bord qed jirrakkomanda wkoll li jingħata bonus ta' sehem wieħed għal kull disa' ishma miżmuma

Chief Executive Officer's Review (continued)

by the capitalisation of reserves amounting to €10m increasing share capital from €87m to €97m.

Retail Banking and Wealth Management ('RBWM')

A combination of a low interest rate environment and a major transformation of our wealth proposition made 2013 a difficult year for the retail banking franchise. However the work put into the business in 2013 will lead to long term benefits both for our customers and the bank.

We have transitioned from a product/sales focus to a global best-in-class 'needs fulfilled' proposition. Our staff will no longer be targeted with achieving specific product sales but, rather, will place their customers at the heart of everything they do and will be measured on the quality of their client interactions and the needs fulfilled.

Throughout the year, various products and initiatives were launched, most noticeably the innovative mortgage campaigns, through which HSBC continually offered the best rates in Malta.

In 2013, RBWM enhanced its digital capability with the launch of new Internet security both for web purchases and to manage day-to-day accounts. In addition, the public website was upgraded to bring it into line with new HSBC Group standards. The HSBC Bank Malta website now benefits from a new look and feel, and faster and easier navigation.

fil-29 ta' April 2014 billi jiġu kapitalizzati €10m mir-riżervi. B'dan il-pass il-kapital azzjonarju jitla' minn €87m għal €97m.

Servizzi Bankarji Personali ('RBWM')

Matul l-2013 għaddejna minn ambjent ta' rati baxxi tal-imgħax u minn trasformazzjoni maġġuri fil-Wealth Management. Dawn flimkien għamluha sena diffiċli għall-operat tas-servizzi bankarji personali. Imma x-xogħol li sar f'dan il-qasam fl-2013 se jwassal għal benefiċċji fit-tul sew għall-klijenti kemm għall-kumpanija.

Fejn qabel konna nikkonċentraw fuq il-bejgħ ta' prodotti, issa mxejna għal proponiment globali best-in-class ta' 'twettiq ta' ħtiġijiet'. Il-mira tal-impjegati tagħna mhux se tkun iżjed li jilħqu tant bejgħ ta' prodotti speċifiċi imma li jqiegħdu l-klijent fiċ-ċentru ta' xogħolhom, u s-suċċess tagħhom se jitkejjel bil-kwalità tar-relazzjonijiet tagħhom mal-klijenti u tat-twettiq tal-ħtiġijiet tagħhom.

Matul is-sena ġew imnedija diversi prodotti u inizzjattivi, l-aktar viżibbli fosthom il-kampanji innovattivi għal self fuq djar fejn l-HSBC baqa' joffri l-aħjar rati f'Malta.

Fl-2013, l-RBWM għolla l-kapaċità diġitali tiegħu billi nieda mezz ġdid ta' sigurtà fuq l-Internet, sew għal min jixtri online kemm għal min jidħol fl-Internet biex juża l-kontijiet tiegħu. Barra minn dan, is-sit elettroniku għall-pubbliku ġie rivedut għall-aħjar biex ikun konformi mal-istandard il-ġdid tal-Grupp HSBC. Is-sit tal-HSBC Bank Malta issa jgawdi minn dehra isbaħ u huwa aktar faċli u ħafif biex taħdem fih.

Twelve HSBC Malta branches have been upgraded over the last 2 years in line with the bank's €10 million branch refurbishment programme.

Throughout the year we continued to invest in the retail network. We refurbished our Gozo branch, reopened the teller points at Swieqi and started works to refurbish our flagship branch at Valletta. Three new 24x7 lobbies were constructed and we doubled our ATM capacity in high usage locations, whilst completing our rollout of the ATM network, installing the latest technology self-service machines.

Commercial Banking ('CMB')

Despite a tough economic backdrop and subdued credit demand, the commercial banking business did an excellent job of growing its share of international business in Malta, particularly with respect to Trade, Payments and Cash Management and Foreign Exchange.

The bank's commitment towards the business community is reflected in the amount of loans and overdrafts approved in 2013. Approvals were at twice the level of 2012 and, once drawn, these facilities will play an important part of stimulating the local economy.

The launch of the 'Malta Trade for Growth' initiative underlined the bank's international credentials. The initiatives attracted over 500 enquiries from Maltese businesses which trade – or aspire to trade – internationally.

As part of the Malta Trade for Growth initiative in December 2013 a €50m trade fund was launched to support businesses looking for new international opportunities. After only three months some 68% of the fund has already been allocated – clearly underlying the interest, amongst the business community, of international growth opportunities. The launch of the Trade Fund was accompanied by the 'Why Malta?' video and the 'Doing Business in Malta' guide. These are both key promotional tools that can be used by businesses to facilitate international connectivity and provide a better understanding of the opportunities of doing business both in and from Malta.

During the year we have commenced work on a number of critical ideas and initiatives behind promoting Malta's potential as a global trade and logistics hub at the heart of the Mediterranean. Malta's strategic location, with close proximity to the European market and that of North Africa, offers an opportunity that we are keen to develop and that will provide long term benefits for Malta.

In the technological space, we migrated our Internet platform to HSBCnet and further enhanced the internet services provided to our customers.

Throughout the year we invested in training, sending staff members to local and overseas courses and programmes. We organised Thought Leadership events such as 'The Central Banking Revolution and the impact on the World Economy.'

Matul is-sena komplejna ninvestu wkoll fil-fergħat tagħna. Ġeddejna l-fergħa ta' Għawdex, erġajna ftaħna l-posti tal-kaxxiera fis-Swieqi, u bdejna x-xogħol ta' rinnovament tal-fergħa ewlenija tagħna fil-Belt Valletta. Bnejna tliet *lobbies* 24x7 ġodda u rduppjajna d-disponibilità tal-ATMs fil-postijiet fejn l-aktar jintużaw, waqt li komplejna l-programm tal-ATMs billi hriġna aktar magni *self-service* ġodda bl-aħħar teknoloġija.

Servizzi Bankarji Kummerċjali ('CMB')

Minkejja l-isfond ekonomiku diffiċli u l-kalma fid-domanda għall-kreditu, id-dipartiment tas-servizzi bankarji kummerċjali rnexxielu jkabbar sew is-sehem li kellu tan-negozju internazzjonali f'Malta, speċjalment fejn jidħlu l-Kummerċ, Pagamenti u Mmaniġġjar tal-Flus u l-Kambju.

L-impenn tal-bank lejn il-komunità kummerċjali jidher fl-ammont ta' self fiss u kurrenti li kien approvat fl-2013, li laħaq id-doppju ta' dak tal-2012. Ladarba jinġibdu, dawn il-flus se jaqdu rwol importanti ta' stimolu għall-ekonomija lokali.

L-inawgurazzjoni tal-inizzjattiva 'Malta Trade for Growth' tefgħet id-dawl fuq il-kredenzjali internazzjonali tal-bank. L-inizzjattivi ġibdu madwar 500 domanda minn negozjanti Maltin li għandhom, jew jaspiraw li jkollhom, kummerċ ma' barra minn Malta.

Bħala parti mill-inizzjattiva Malta Trade for Growth, f'Diċembru 2013 ġie varat fond ta' kummerċ b'ammont ta' €50m biex jagħti appoġġ lin-negozji li qed ifittxu opportunitajiet ġodda internazzjonali. Wara biss tliet xhur, madwar 68% tal-fond diġà ġie allokat – evidenza ċara ta' kemm il-komunità kummerċjali hija ħerqana għal opportunitajiet biex tifrex internazzjonalment. Mat-tnedija tal-Fond ta' Kummerċ ħarġu wkoll il-video 'Why Malta?' u l-gwida 'Doing Business in Malta'. Dawn it-tnejn huma għodda importanti ta' promozzjoni li n-negozji jistgħu jużaw biex jiffaċilitaw il-konnettività internazzjonali u jfissru aħjar l-opportunitajiet li jeżistu għall-kummerċ f'Malta u minn Malta.

Matul is-sena bdejna x-xogħol fuq għadd ta' ideat u inizzjattivi kritiċi bil-għan li nagħtu spinta lill-potenzjal li għandha Malta bħala ċentru globali ta' kummerċ u loġistika f'nofs il-Mediterran. L-opportunità li toffri l-pożizzjoni strateġika ta' Malta, li hi daqshekk qrib is-suq tal-Ewropa u dak tal-Afrika ta' Fuq, hija waħda li aħna ħerqana li niżviluppaw u li se tħalli ġid fit-tul għall-pajjiż.

Fl-ispazju teknoloġiku qlibna s-sistema tal-Internet tagħna għall-HSBCnet u komplejna ngħollu l-livell tas-servizzi bl-Internet li nagħtu lill-klijenti.

Matul is-sena investejna fit-taħriġ tan-nies tagħna b'attendenza f'korsijiet u programmi f'Malta u barra. Organizzajna attivitajiet ta' Thought Leadership bħal ma kien 'The Central Banking Revolution and the impact on the World Economy.'

Chief Executive Officer's Review (continued)

HSBC Malta CEO Mark Watkinson and Head of CMB Michel Cordina with Prime Minister Joseph Muscat during the launch of the €50m Malta Trade for Growth Fund.

Global Banking & Markets (GB&M)

The GB&M business had a strong year in 2013, benefiting from some excellent de-risking work with respect to the investment portfolio in 2012. Some 90% of the portfolio is now in 'investment grade' instruments. This has served the bank very well in these uncertain times. The bank continues its policy of not holding any peripheral European sovereign debt.

The Capital Financing team remained focused on developing the local bond market and led one of the most successful bond issues in 2013. Prospects in this space look positive for 2014.

GB&M continues to work closely with its colleagues in commercial banking, in particular with respect to meeting client foreign exchange and hedging requirements. The GB&M business has access to world-class HSBC Group support in this area and this is particularly relevant with respect to our Renminbi offering. We remain the only bank in Malta that can directly support customers with buying and selling goods in the Chinese currency. This provides our customers with a distinct competitive advantage when trading with China.

HSBC Technology and Services ('HTS')

HTS plays a key role in ensuring that HSBC Bank Malta provides the convenience of 24/7 systems to its

Servizzi Bankarji u Swieq Globali ('GB&M')

Id-dipartiment tal-GB&M kellu sena tajba fl-2013, bit-twettiq ta' xogħol mill-aqwa biex jitnaqqas ir-riskju meta mqabbel mal-portafoll tal-investimenti li kien hemm fl-2012. Issa għandna 90% tal-portafoll investit fi strumenti ta' 'grad tal-investiment'. F'dawn iż-żminijiet ta' inċertezza dan il-fatt sewa tajjeb lill-kumpanija. Il-bank baqa' jsostni l-politika li ma jżommx titoli ta' dejn sovran minn pajjiżi periferiċi Ewropej.

It-tim tal-Finanzjament tal-Kapital baqa' mmirat fuq l-iżvilupp tas-suq lokali tal-bonds u ħa ħsieb il-ħruġ ta' wieħed mill-aktar bonds li rnexxew fl-2013. Il-prospetti għall-2014 f'dan il-qasam jidhru pożittivi.

Il-GB&M għadu jaħdem qrib tal-kollegi tiegħu fis-servizzi bankarji kummerċjali, speċjalment biex jissodisfaw il-ħtiġijiet tal-klijenti fejn jidħlu l-kambju u l-*hedging*. Is-sezzjoni tal-GB&M għandha aċċess għall-appoġġ ta' livell dinji tal-Grupp HSBC f'dan il-qasam, u dan hu l-każ partikolarment għall-offerta tagħna għar-Renminbi. Aħna għadna l-uniku bank f'Malta li jista' jgħin direttament lill-klijenti biex jixtru u jbigħu prodotti fil-munita Ċiniża. B'hekk il-klijenti tagħna għandhom vantaġġ kompetittiv distint fin-negozju maċ-Ċina.

Teknoloġija u Servizzi ('HTS')

L-HTS għandu rwol ewlieni biex jiżgura li l-HSBC Bank Malta jipprovdi lill-klijenti l-kumdità ta' sistemi 24/7 u customers and cost-effective banking operations. It is the 'enabler' of the businesses that serve our customers ensuring that we lead through excellent service and world-class technical expertise.

In 2013, both our personal and commercial internet banking platforms received additional investment and careful focus was placed on ensuring the highest level of internet banking security.

Significant refurbishment work took place on our portfolio of branches as we strive to implement the highest HSBC Group standards and to develop a world-class customer offering. New branch designs reflect the changing expectations of our customers and the way we actively seek to meet these needs. Our internet banking, together with our ATM network, deposit machines and call centre operations are market leading.

People

During 2013 we re-organised our operations around new global business and functional lines and drove to improve the connectivity of our organisation and people within the HSBC Group. It remains a key opportunity for the bank to leverage the unrivalled global reach of HSBC.

We have launched a new local talent management proposition that is focused on a number of initiatives and activities that will allow us to develop our key talent and take their professional skills to the next level. This includes leadership training and development interventions, increased exposure to senior management across the region, participation in an external industry leadership programme and short term international assignments.

Coupled with the talent initiative, the HSBC internship scheme continues to gather positive momentum and has now become an excellent feeder into our re-launched two year Graduate Management programme. Last year we recruited 9 people on to the graduate programme and will be shortly launching the 2014 scheme. This is a critical part of building the next generation talent pipeline and strengthening local succession plans.

During 2013, Malta participated in the HSBC Group's Global People Survey. This gave us an indication of the levels of engagement and enablement of our people. Whilst there is still some work to do the overall results were very encouraging.

We are proud of our engaged professional workforce as it is through their dedication, commitment and hard work that we continue to be able to deliver results, meet our customer needs and be viewed as an employer of choice in Malta.

operazzjonijiet bankarji bi nfiq effettiv. Huwa dak li 'jagħti l-kapaċità' lid-dipartimenti l-oħra biex jaqdu lill-klijenti u jiżgura li nkunu fuq quddiem bis-servizz eċċellenti u t-tagħrif tekniku ta' livell dinji.

Fl-2013 erġajna investejna aktar fil-pjattaforma personali kif ukoll f'dik kummerċjali tas-servizzi bankarji bl-internet, u tajna każ partikolari biex naraw li jkun hemm l-ogħla livell ta' sigurtà fis-servizzi bl-internet.

Sar tiġdid estensiv fuq il-medda ta' fergħat tagħna hekk kif qed indaħħlu l-ogħla standards tal-Grupp HSBC u niżviluppaw servizz tal-iprem livell għall-klijenti. Id-disinji li qed nagħtu lill-fergħat jirriflettu l-aspettativi ġodda tal-klijenti u l-mod kif naħdmu b'mod attiv biex nilqgħu l-ħtiġijiet tagħhom. Is-servizzi tagħna bl-internet, l-ATMs, il-magni ta' depożitu u l-*call centre* huma kollha fuq ta' quddiem nett fis-suq.

Il-ħaddiema

Fl-2013 għamilna rijorganizzazzjoni tal-operat tagħna fuq linji ġodda globali ta' negozju u funzjonijiet, u ħdimna biex titjieb il-konnettività fl-organizzazzjoni u bejn in-nies fi ħdan il-Grupp HSBC. Il-bank għandu firxa globali li ħadd ma jgħaddiha, u l-vantaġġ li jista' jieħu minnha għadu joffri opportunità kruċjali għall-bank.

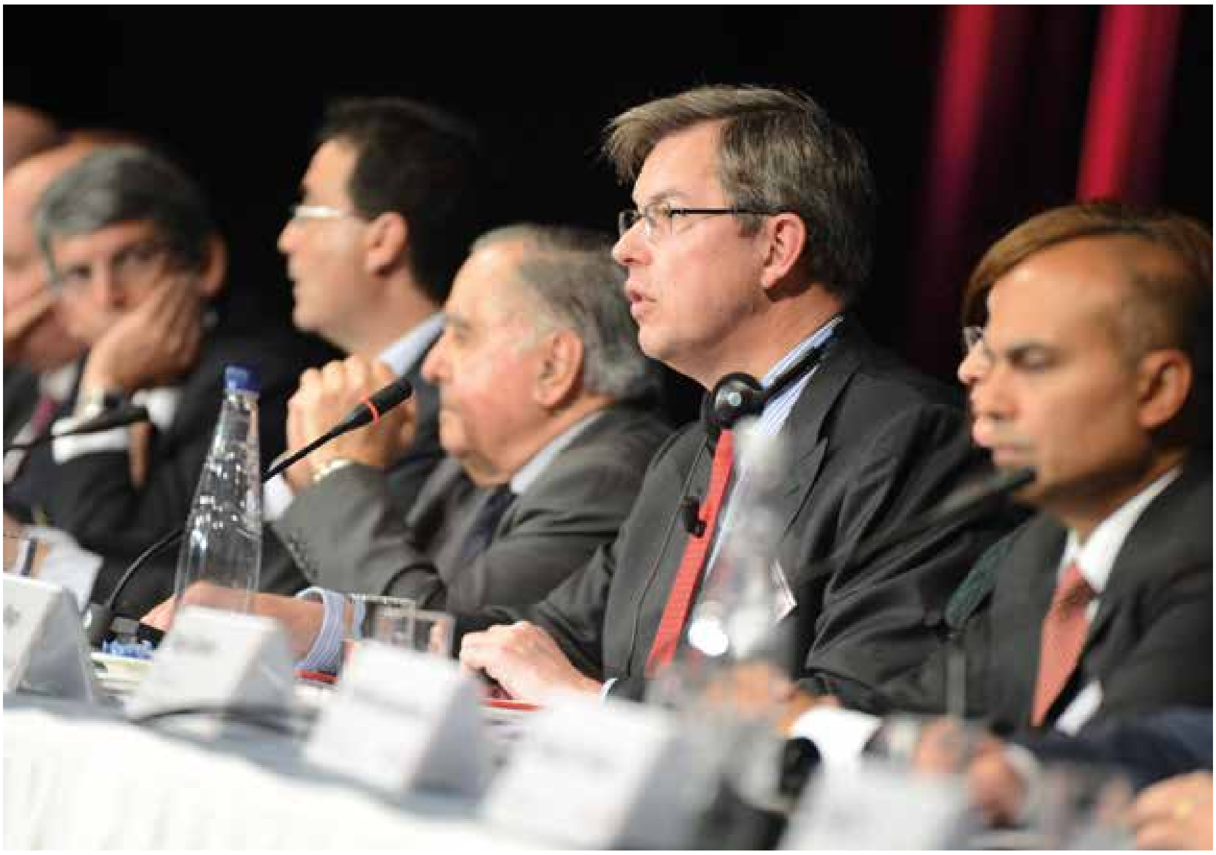
Nedejna proponiment ta' tmexxija għal talent lokali ġdid li jiffoka fuq numru ta' inizzjattivi u attivitajiet li se jippermettilna li niżviluppaw it-talent ewlieni tagħna u ntellgħu l-ħiliet professjonali tagħhom għal-livell ogħla. Dan jinkludi taħriġ ta' kif tkun mexxej, interventi ta' żvilupp, aktar esponiment fi tmexxija għolja madwar ir-reġjun, parteċipazzjoni fi programm estern ta' tmexxija fl-industrija, u perijodi qosra ta' xogħol barra minn Malta.

Flimkien ma' din l-inizzjattiva għal min jipprometti, għadha għaddejja b'ritmu inkoraġġanti l-iskema ta' internship tal-HSBC, li issa saret mezz eċċellenti biex wieħed jidħol għall-programm ta' sentejn ta' Graduate Management, li reġa' beda jitħaddem. Is-sena l-oħra daħħalna 9 min-nies fil-programm ta' gradwati u dalwaqt inħabbru l-iskema għall-2014. Dan huwa element kritiku fil-bini ta' ġenerazzjoni ġdida ta' ħaddiema ta' talent u jsaħħaħ il-pjani ta' suċċessjoni lokali.

Matul l-2013 Malta ħadet sehem fil-Global People Survey tal-Grupp HSBC. Dan tana idea tal-livell ta' impenn u kapaċità tan-nies tagħna. Waqt li għad hemm xi xogħol xi jsir, b'mod ġenerali r-riżultat kien ta' kuraġġ kbir.

Aħna niftaħru bil-ħaddiema professjonali u dedikati tagħna, għax hu permezz tal-impenn, dedikazzjoni u ħidma soda tagħhom li nibqgħu f'pożizzjoni li niksbu r-riżultati, naqdu l-ħtiġijiet tal-klijenti u nuru li aħna opzjoni tajba għall-impieg f'Malta.

Chief Executive Officer's Review (continued)



HSBC Malta CEO Mark Watkinson addressing shareholders with Board of Directors.

Executive Committee ('EXCO')

The bank's Executive Committee at the date of this report is made up of the following team members:

Mark Watkinson	Chief Executive Officer
Decca Fan	Chief Operating Officer
Paul Steel	Head of RBWM
Michel Cordina	Head of CMB
James Woodeson	Head of GB&M
Josephine Magri	Chief Financial Officer
Joyce Grech	Chief Risk Officer
Mandy Garner	Head of Human Resources
John R. Sammut	Head of Internal Audit
Henry Firmstone	General Counsel

I would like to thank former EXCO colleagues who have moved on to new roles in the last 12 months, particularly Ranjit Gokarn, previously Chief Operating Officer, Stewart Luscott-Evans previously Chief Risk Officer, Chris Bond previously Head of Global Banking and Markets and Mark Sims previously Head of Human Resources. I wish them the very best of luck in their new positions and endeavours.

Il-Kumitat Eżekuttiv ('EXCO')

Il-Kumitat Eżekuttiv tal-bank huwa magħmul minn dawn il-membri:

Mark Watkinson	Kap Eżekuttiv
Decca Fan	Kap Operattiv
Paul Steel	Kap tal-RBWM
Michel Cordina	Kap tas-CMB
James Woodeson	Kap tal-GB&M
Josephine Magri	Kap Finanzjarju
Joyce Grech	Kap tar-Riskju
Mandy Garner	Kap tar-Riżorsi Umani
John R. Sammut	Kap tal-Verifika Interna
Henry Firmstone	Avukat Ġenerali

Nixtieq nirringrazzja lil dawk il-kollegi li kienu membri tal-EXCO u li mxew fi rwoli ġodda fl-aħħar tnax-il xahar, b'mod speċjali lil Ranjit Gokarn, li kien Kap Operattiv, lil Stewart Luscott-Evans li kien Kap tar-Riskju, lil Chris Bond li kien Kap tal-Global Banking and Markets u lil Mark Sims li kien Kap tar-Riżorsi Umani. Nixtiqilhom l-aqwa risq fil-pożizzjonijiet u l-isfidi l-ġodda tagħhom.

Outlook

Looking ahead, 2014 will be another year full of challenges, but also opportunities. The bank remains cautiously optimistic. Global conditions will likely remain difficult for the medium term however we are starting to see green shoots of growth as markets become more optimistic.

As part of the world's leading international bank, we are looking to leverage growth opportunities both in Malta as well as globally. Our ability to connect customers with global opportunities is unrivalled in Malta and a key to facilitating our own long term growth as well as that of Malta itself. The opportunities exist to leverage the best of markets such as Singapore and Dubai and to help create a sustainable long term competitive advantage for Malta as a trading and logistic hub. The key building blocks for the country already exist; the Malta International Airport, the Malta Freeport and developments such as Smart City. We now need to work together to ensure that the pieces become part of an overall whole that is then built into an unassailable competitive advantage for the whole country.

HSBC is committed to Malta and to building a strong, sustainable business here. This is evidenced by our on-going investment in our people, branches, ATM network, systems and the franchise in general.

I would like to thank our Board, the management and staff as well as you our shareholders and customers for your support in 2013. I reiterate that it is indeed a privilege and honour to work for HSBC Bank Malta p.l.c.

Mark Watkinson, *Chief Executive Officer*
24 February 2014

Prospetti għall-futur

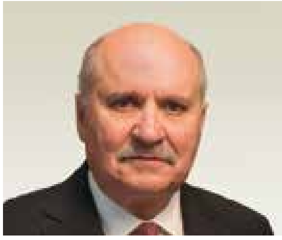
Jekk inħarsu 'l quddiem, naraw li s-sena 2014 se tkun sena oħra ta' sfida, imma wkoll ta' opportunità. Il-bank jibqa' ottimista, imma kawt. Is-sitwazzjoni globali x'aktarx tibqa' waħda diffiċli fit-terminu medju, imma qed nibdew naraw jinbet ftit aħdar hekk kif is-swieq jakkwistaw aktar fiduċja.

Bħala parti mill-bank ewlieni internazzjonali fid-dinja, qed naraw kif nagħmlu biex nisfruttaw l-opportunitajiet ta' tkabbir li naraw f'Malta u globalment. Ħadd daqsna f'Malta m'għandu l-kapaċità li jqabbad klijenti f'opportunitajiet globali, u dan huwa kruċjali biex jgħin fit-tkabbir fit-tul mhux biss tagħna imma wkoll ta' Malta. L-opportunitajiet qegħdin hemm biex naħdmu mal-aħjar swieq, bħal Singapore u Dubai, u biex ngħinu biex noħolqu vantaġġ kompetittiv sostenibbli fit-tul għal Malta bħala ċentru kummerċjali u loġistiku. Il-bċejjeċ biex nibnu dan il-mudell għall-pajjiż diġà jeżistu – l-ajruport internazzjonali ta' Malta, il-port ħieles, u proġetti ta' żvilupp bħal Smart City. Issa rridu naħdmu flimkien biex naraw li l-bċejjeċ isiru parti minn ħaġa sħiħa li mbagħad tinbena f'vantaġġ kompetittiv għal Malta li ħadd ma jkun jista' jkissru.

L-HSBC huwa kommess lejn Malta u lejn il-bini ta' negozju b'saħħtu u sostenibbli f'dawn il-gżejjer. Dan jixhduh il-programmi kontinwi ta' investiment tagħna fil-ħaddiema, fil-fergħat, fl-ATMs, fis-sistemi u fl-operat in ġenerali.

Nixtieq nirringrazzja lill-Bord, lill-management u 'l-ħaddiema kif ukoll lilkom l-azzjonisti u l-klijenti tagħna għall-appoġġ li tajtuna fl-2013. Nerġa' ngħid li hu tassew ta' privileġġ u unur għalija li naħdem għall-HSBC Bank Malta p.l.c.

Board of Directors

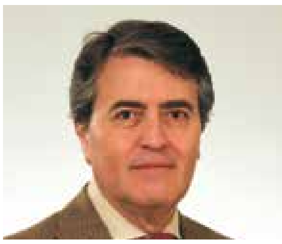


Saviour sive Sonny Portelli, NON-EXECUTIVE CHAIRMAN
Appointed Chairman of HSBC Bank Malta p.l.c. on 31 May 2013 after having served as Director on the Board since 9 October 2006. Mr Portelli had an early career in the Malta Civil Service which he left to join the Tourism Sector. Former Chairman of the Malta Council for Economic and Social Development, of GO plc and of Air Malta plc. Mr Portelli is also former Chairman of the bank's Audit and Risk Committee and of the Remuneration Committee.

Mark Watkinson, DIRECTOR AND CHIEF EXECUTIVE OFFICER
Appointed Chief Executive Officer on 1 January 2012 and Director on 14 February 2012. Prior to taking up his appointment in Malta, Mr Watkinson was Head of Commercial Banking for North America based in New York. Mr Watkinson has been with HSBC for 27 years. He has worked in New York, Toronto as Head of Commercial Banking for HSBC Canada and as President and Chief Executive Officer for HSBC Bank in the Philippines.

Ranjit Gokarn, DIRECTOR
Appointed Director on 28 June 2012. Mr Gokarn has been an HSBC Group International Manager for over 23 years. Over this period, he has worked in India, Singapore, Japan, the United Arab Emirates, United Kingdom and France. Prior to taking up his appointment in Malta, Mr Gokarn was Senior Executive Continental Europe based in Paris. On 3 January 2014 he relinquished his post as Chief Operating Officer of the bank to take up the role of Chief Operating Officer of HSBC Bank Turkey.

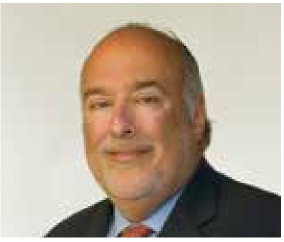
Brian Robertson, NON-EXECUTIVE DIRECTOR
Appointed Director of the bank on 5 April 2013. Former Group Managing Director and Chief Executive Officer of HSBC Bank plc. Presently Chairman of HSBC Latin America, Chairman of HSBC Turkey and Director of HSBC North America Holdings.



Philip Farrugia Randon, NON-EXECUTIVE DIRECTOR
Director of HSBC Bank Malta p.l.c. since June 2004. Graduated LL.D. in 1973 and joined the bank in 1974 as a legal adviser. Held the post of Company Secretary and the post of Head of Group Legal Department of the bank for several years. Retired from the bank in May 2008. Member of the bank's Audit and Risk Committee and Remuneration Committee.

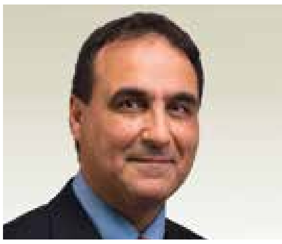
John Bonello, NON-EXECUTIVE DIRECTOR
Appointed Director of the bank on 15 July 2013. Chairman of the bank's Audit & Risk Committee and of the bank's Remuneration Committee. He is a Chartered Accountant and a Certified Public Accountant and holds various directorships in Maltese public listed and private companies. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired in December 2009. Member of the Joint Disciplinary Board of the Accountancy Board and the Malta Institute of Accountants. Also contact member in Malta for the Institute of Chartered Accountants in England and Wales.

Caroline Zammit Testaferrata Moroni Viani, NON-EXECUTIVE DIRECTOR
Director of HSBC Bank Malta p.l.c. since 18 April 2013. Holds various directorships and executive positions within Testaferrata Group and within UK based subsidiaries of Mercury plc. Member of the bank's Audit and Risk Committee.



James Dunbar Cousin, NON-EXECUTIVE DIRECTOR
Appointed Director of HSBC Bank Malta p.l.c. on 1 April 2009. Joined Barclays Bank D.C.O. in 1968. Occupied various managerial roles within the branch network of Mid-Med Bank p.l.c. Subsequently, he occupied the roles of Executive Manager and later Head of Commercial Banking of the bank. Mr Dunbar Cousin retired from the bank at the end of 2008. Appointed member of the bank's Remuneration Committee during 2013.

Andrew Muscat, NON-EXECUTIVE DIRECTOR
Appointed Director of the Bank on 16 January 2014. Partner at Mamo TCV Advocates where he heads the Corporate & Banking Department. Professor at the Faculty of Laws of the University of Malta. Former Director of Mid-Med Bank p.l.c. and also former member of the Board of Governors of the Malta Financial Services Centre.



George Brancaleone, COMPANY SECRETARY AND HEAD OF CORPORATE GOVERNANCE
Company Secretary of HSBC Bank Malta p.l.c. since June 2004. Joined the bank in 1980 and graduated LL.D. in 1988. Company Secretary of various HSBC subsidiaries in Malta since 2001. Registered office 116, Archbishop Street, Valletta. Tel: 2380 2404.

Executive Committee

Mark Watkinson, DIRECTOR AND CHIEF EXECUTIVE OFFICER
Appointed Chief Executive Officer on 1 January 2012 and Director on 14 February 2012. Prior to taking up his appointment in Malta, Mr Watkinson was Head of Commercial Banking for North America based in New York. Mr Watkinson has been with HSBC for 27 years. He has worked in New York, Toronto as Head of Commercial Banking for HSBC Canada and as President and Chief Executive Officer for HSBC Bank in the Philippines.

Decca Fan, CHIEF OPERATING OFFICER
Decca Fan was appointed as Chief Operating Officer for HSBC Malta on 1 March 2014. She has been with the HSBC Group for over 25 years, having worked in RBWM in Hong Kong, as Head of Operations at the Shanghai Processing Centre, Head of Operations at the Group Service Centre in Malaysia and recently as Managing Director of Group Service Centre in Sri Lanka before moving to Malta.

Paul Steel, HEAD OF RBWM
Appointed in the current role in October 2011. Previously the Head of Retail Distribution for Continental Europe, based out of Paris managing countries such as Russia, Kazakhstan, Poland, France and Turkey. Prior to this, he was Deputy Head of Retail Banking and Wealth Management in France as well as Head of Network. Mr Steel has been with HSBC for 7 years.

Michel Cordina, HEAD OF CMB
Appointed Head of Commercial Banking on 1 June 2011. Prior to taking up this appointment, Mr Cordina was Deputy Head of CMB and has worked in London performing the role of Head of Sales Performance in CMB, UK. Mr Cordina is a banking professional and has over 30 years banking experience. He has previously worked in the branch network, working both in the Personal and Commercial areas of the bank and worked in a number of Head Office departments, where he performed the role of Deputy Head of Operations and Head of Business Transformation for HSBC.

James Woodeson, HEAD OF GB&M
Recently appointed as Head of Global Banking & Markets, HSBC Bank Malta p.l.c. Mr Woodeson has worked for HSBC for 12 years and has held senior positions within the Global Markets and Global Asset Management businesses in London and Hong Kong. Prior to taking up his appointment in Malta, he was Head of Global Markets and subsidiary Board Director, HSBC Jersey.

Josephine Magri, CHIEF FINANCIAL OFFICER
Appointed Chief Financial Officer on 1 July 2010. Graduated BA (Hons) Accountancy in 1996 and is a member of Malta Institute of Accountants. Joined HSBC Malta in 2000 as Finance Manager at HSBC Life Assurance (Malta) Ltd. and has accumulated over 13 years HSBC experience in Senior Finance positions covering Financial Accounting, Management Reporting, Asset and Liability Management and Capital Management. Ms Magri is a Director of HSBC Life Assurance (Malta) Ltd.

Joyce Grech, CHIEF RISK OFFICER
Appointed Chief Risk Officer in April 2013. Ms Grech has worked with HSBC for 17 years. During her career, Ms Grech occupied various roles, mainly in Malta with a brief period in the London Head Office. She started her career in Trade Finance and Commercial Banking before moving to the bank's Credit department where she spent over 5 years, of which the final 3 as Deputy Head of Credit. Before taking up her new role she worked in the bank's Retail Banking and Wealth Management division where she headed the Customer Value Management department.

Mandy Garner, HEAD OF HUMAN RESOURCES
With twenty years'experience in human resources, Ms Mandy Garner moved to Malta from HSBC in Jersey Channel Islands, where she supported the Expat business and took a lead role on all HR issues across the Channel Islands and Isle of Man. Ms Garner previously worked for Santander and the UK National Health Service and was educated in the UK, holding an MA in Law and Employee Relations and is also a Member of the Institute of Personnel and Development.

John R. Sammut, HEAD OF INTERNAL AUDIT
John Sammut, Head of Internal Audit of HSBC Bank Malta p.l.c. since January 2007. Graduated in MA Financial Services and BA (Hons) Accountancy from the University of Malta. He is an Associate of the Institute of Financial Services UK and also a Fellow of the Institute of Accountants Malta. Joined the bank in 1977 and has occupied a number of senior posts.

Henry Firmstone, GENERAL COUNSEL
Appointed General Counsel on 1 June 2013. Prior to taking up his appointment in Malta, Mr Firmstone was General Counsel for HSBC New Zealand for 10 years including 5 years as Head of Compliance. He has also worked for HSBC in Hong Kong and Barclays in London spanning across a legal career of 25 years.

Financial Review

Summary of Financial Performance

HSBC Bank Malta and its subsidaries delivered a resilient performance for the year ended 31 December 2013 against a challenging economic backdrop. The performance held up well despite continued market difficulties in Europe and the associated low interest rate environment, regulatory changes both at home and abroad and a subdued local economy. Reported profit before tax of €90m decreased by 5%, or €5m compared to 2012. This was principally caused by a reduction in interest margin earned due to the on-going low interest rate environment and a lower contribution from the Life business compared with the prior year that had benefited from a strong recovery in investment returns. This was in part offset by a decrease in costs and lower loan impairments.

Profit attributable to shareholders was €59m, a decrease of €3m over prior year figures.

Net operating income of €187m reduced by €11m compared with €198m in 2012. Net interest income decreased by €8m to €125m.

Operating expenses at €93m were €3m lower than prior year primarily as a result of restructuring costs of €6m taken in 2012. Excluding this item, expenses rose by 2% on prior year.

The cost efficiency ratio was 49.9% compared with a prior year ratio of 49.0%.

Shareholder ratios

Earnings per share in 2013 stood at 20.1 cent compared with 21.1 cent for the same period in 2012. The pre-tax return on shareholders' funds in 2013 was 21.4% compared with 23.8% in 2012.

The Directors propose a final gross dividend of 5.2 cent per share. This follows on the gross interim dividend of 10.0 cent paid in September 2013.

In December 2013 the Malta Financial Services Authority ('MFSA') revised the Banking Rule 09 in an effort to bolster the level of bank reserves. The revised rule will impact all banks in Malta that do not have a Tier 1 Capital ratio of 14%. The impact of the new rule was to reduce gross final dividend to 5.1 cent per share instead of a final gross dividend of 7.1 cent which would otherwise have been distributed.

The Board is recommending a bonus issue of 1 share for every 9 shares held as on 29 April 2014 by the capitalisation of reserves amounting to €10m increasing share capital from €87m to €97m.

Net interest income

Net interest income reduced by 6% to €125m compared with €133m in 2012. The fall in interest income reflected the impact of a tightening in interest margin earned on the loan portfolio, lower average lending balances associated with a slow economy and a decline in interest earned on investments as the proceeds of higher yielding maturing bonds were re-invested at lower yields. This was partially mitigated by a fall in the cost of funds as customers moved to shorter-dated deposits.

Non-interest income

Non-interest income of €62m fell by €3m or 4% compared with €65m in 2012.

Net fee and commission income of €30m was broadly in line with 2012. However, the performance was impacted by lower income from wealth sales. The Wealth business underwent a significant transformation in 2013 as it was aligned with the HSBC Group strategy.

HSBC Life Assurance (Malta) Ltd. reported a profit before tax of €13m compared with €18m in 2012. The result in 2012 had however benefited from a strong recovery in investment returns during the year.

A net gain of €4m was reported as a result of re-positioning of the investment portfolio as part of a regular risk review.

Operating expenses

Operating expenses of €93m were €3m or 4% lower compared with the previous year however 2012 costs included €6m provision in relation to staff early voluntary retirement scheme.

The increase of €3m, or 7%, in administrative expenses reflected a rise in compliance, maintenance, regulatory mandated project costs and security and fraud-risk related costs. The continued investment to improve technology capability was funded by savings from simplification and re-engineering of processes.

Net impairment

Despite the ongoing regional economic uncertainties, loan impairments have reduced to €3m compared with €5m in 2012. Overall asset quality remains acceptable with a high percentage of tangible security held for the overall loan portfolio.

Taxation

The 2013 effective rate of tax was 35.1% per cent. Tax expense for 2013 amounted to €32m.

Assets

Total assets amounted to €5,722m, 3% lower than at 31 December 2012.

Net loans and advances to customers at €3,301m were €53m or 2% lower than at 31 December 2012. The mortgage portfolio continued to achieve steady growth. Gross new lending to customers amounted to €597m (2012: €507m).

The bank's liquidity position remains strong with advances to deposit ratio of 73% compared with 74% at 31 December 2012.

The bank's available-for-sale investments portfolio remains well diversified and conservatively positioned.

Life assurance business assets are primarily designated as financial assets at fair value through profit or loss. This portfolio at €477m increased by 5% or €22m on last year.

Liabilities

Total liabilities reduced by €187m to €5,299m.

Customer deposits at €4,518m were broadly unchanged despite continued competitive pressures.

Funds under management by the group reached a year end closing level of €764m.

Liabilities under insurance contracts issued increased marginally by €32m during the year to reach a year end level of €525m.

Shareholders' funds

Equity totalled €423m at year end following dividend payments of €34m during 2013.

The number of shareholders as at 31 December 2013 stood at 10,124.

The bank continued to strengthen its total capital ratio to 12.9%. Tier 1 capital ratio as at 31 December 2013 stood at 9.4%.

During 2014 HSBC Malta will be participating in the European Central Bank ('ECB') comprehensive assessment which includes an asset quality review ('AQR') and a stress test. These will be carried out by ECB in cooperation with MFSA. The AQR will be carried out first followed some time later by the stress test. For the AQR the minimum capital benchmark has been set at 8% Common Equity Tier 1 Capital ('CET1'). The stress test will be based on the adjusted capital base post AQR and the stress test benchmark has been set by the ECB at 5.5% CET1. The results of the AQR are expected to be released in Quarter 3. In 2013, the bank analysed the impact of several stress scenarios, including several different microeconomic scenarios. The results of this internal analysis indicated that the bank would remain adequately capitalised.

Report of the Directors

Results for 2013

HSBC Bank Malta p.l.c. (the 'bank') and its subsidiaries (the 'group') reported a profit before tax of €90m for the year under review. Profit attributable to shareholders of the bank was €59m.

A gross interim ordinary dividend of 10.0 cent per share was paid on 5 September 2013. The Directors have proposed a gross final dividend of 5.2 cent per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 17 March 2014. The directors are recommending a bonus issue of 1 share for every 9 shares held as on 29 April 2014 by capitalising retained earnings amounting to €10m.

Further information about the results is provided in the group statement of profit or loss and the statement of other comprehensive income on pages 39 and 40.

Principal activities

Principal activities of parent company

The bank provides a comprehensive range of banking and financial related services.

The bank is authorised to carry on the business of banking, under the Banking Act, 1994 as a credit institution. It is also a licensed financial intermediary in terms of the Financial Markets Act, 1990. The bank also holds Category 3 and Category 4 Investment Services licenses issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994. These licenses authorise the bank to provide both investment services to third parties and trustee or custodian services for collective investment schemes.

The group comprised the following subsidiaries at 31 December 2013: HSBC Life Assurance (Malta) Ltd., HSBC Global Asset Management (Malta) Limited, HSBC Securities Services (Malta) Limited, HSBC Stockbrokers (Malta) Limited and HSBC Insurance Management Services (Europe) Limited. HSBC Stockbrokers (Malta) Limited was dissolved and voluntarily wound up in accordance with the Companies Act 1995 on 30 September 2013. HSBC Stockbrockers (Malta) Limited transferred all its Malta Stock Exchange plc trading activity to HSBC Bank Malta p.l.c. which commenced stockbrocking activity with effect from 23 September 2013. HSBC Securities Services (Malta) Limited commenced the process of winding up its operations with a view to be placed into dissolution during 2014.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Ltd. is authorised by the Malta Financial Services Authority to carry on business of insurance in Malta under the Insurance Business Act, 1998. It offers a range of protection and investment life assurance products distributed mainly through HSBC Bank Malta p.l.c. which is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Ltd. under the Insurance Intermediaries Act, 2006.

HSBC Insurance Management Services (Europe) Limited is authorised by the Malta Financial Services Authority to act as an insurance manager. It provides operational support to HSBC Life Assurance (Malta) Ltd. and HSBC Life (Europe) Ltd based in Dublin.

HSBC Global Asset Management (Malta) Limited is the investment solutions provider of the HSBC Group in Malta. It manages an array of funds which have exposure to both Maltese and international financial markets. HSBC Global Asset Management (Malta) Limited specialises in the provision of tailor-made discretionary portfolio management services for institutions and family offices.

HSBC Securities Services (Malta) Limited is licensed under the Investment Services Act, 1994 and its main business activity is the provision of fund administration services to proprietary and third party investment funds. It also provides back office support to HSBC Bank Malta p.l.c. in the distribution of third party investment funds through the bank network. HSBC Securities Services (Malta) Limited is expected to be placed into voluntary liquidation and subsequent winding up during the next financial year.

Business review

A review of the business of the bank and its subsidiaries during the year under review and an indication of likely future developments are given in the 'Chief Executive Officer's Review' on pages 8 to 15.

Shareholder Register Information pursuant to Listing Rule 5.64

HSBC Bank Malta p.l.c.'s authorised share capital is €141,000,000. The issued and fully paid up capital is €87,552,000 divided into 291,840,000 Ordinary Shares of a nominal value of 30.0 cent each. The issued share capital consists of one class of ordinary shares with equal voting rights attached and freely transferable.

HSBC Europe B.V. holds 70.03% of the bank's shares.

The largest single shareholder of the bank, provided it holds at least thirty three per cent (33%) of the ordinary issued share capital of the bank, shall be entitled to appoint the Chairman from amongst the Directors appointed or elected to the Board.

Every shareholder owning eleven per cent (11%) of the ordinary issued share capital, shall be entitled to appoint one Director for each and every eleven per cent (11%) of the ordinary issued share capital of the bank owned by such shareholder. Any fractional shareholding not so utilised in the appointment of Director(s) shall be entitled to participate in the voting for the election of further Directors.

There is an Achievement Shares scheme in existence whereby employees in the GCB3 grade and higher can be awarded shares in HSBC Holdings plc, depending on their performance. Share awards will be released to the individual after 3 years, provided the participant remains continuously employed within HSBC. During the 3-year period the employee has no voting rights whatsoever.

The rules governing the appointment of Board members are contained in Articles 77 to 80 of the bank's Articles of Association. An extraordinary resolution approved by the shareholders in the general meeting is required to amend the Articles of Association.

The powers of the Directors are outlined in Articles 73, 74 and 85 of the bank's Articles of Association. In terms of Article 12 of the said Articles of Association, the bank may, subject to the provisions of the Companies Act, 1995 acquire or hold any of its shares.

The Collective Agreement regulates redundancies, early retirement, resignation or termination of employment of employees. There are no contracts between the bank and the Directors on the bank's Board providing for compensation on resignation or termination of directorship.

It is hereby declared that, as at 31 December 2013, the requirements pursuant to Listing Rules 5.64.7 and 5.64.10 did not apply to the bank.

Shareholder Register Information

Directors' interest in the share capital of the bank or in related companies at 31 December 2013:

Saviour sive Sonny Portelli	4,700 shares
Philip Farrugia Randon	6,400 shares
John Bonello	33,000 shares

Mrs Caroline Zammit Testaferrata Moroni Viani has a beneficial interest of 58,800 ordinary shares in HSBC Bank Malta p.l.c. through the shareholding of Testaferrata Moroni Viani (Holdings) Limited, 40,000 ordinary shares through the shareholding of Testaferrata Moroni Viani Limited and 5,000 ordinary shares through the shareholding of Sales and Letting Limited.

There were no changes to Directors' interest from 31 December 2013 to 31 January 2014.

Shareholders holding five per cent (5%) or more of the equity capital at 31 January 2014:

HSBC Europe B.V.	70.03%

Number of shareholders at 31 January 2014:

One class of shares (All shares have equal voting rights)	10,118 shareholders

Report of the Directors (continued)

Shareholder Register Information (continued)

Number of shareholders analysed by range

	31 January 2014	
Range of shareholding	Total shareholders	Shares
1 – 500	2,075	634,261
501 – 1,000	1,564	1,266,123
1,001 – 5,000	4,040	10,220,850
5,001 and over	2,439	279,718,766
Total shareholding	**10,118**	**291,840,000**

Standard licence conditions applicable under the Investment Services Act

In accordance with SLC 7.35 of the Investment Services Rules For Investment Services Providers regulated by the Malta Financial Services Authority, licence holders are required to include breaches of standard licence conditions applicable under the Investment Services Act in the Directors' Report. Accordingly, the Directors confirm that no breaches of the standard licence conditions and no other breach of regulatory requirements under the Investment Services Act, which were subject to administrative penalty or regulatory sanction, were reported.

Board of Directors

The Directors who served during the year and up till the date of this report are as follows:

Saviour sive Sonny Portelli (appointed Chairman on 31 May 2013)
Mark Watkinson
Ranjit Gokarn
Philip Farrugia Randon
James Dunbar Cousin
Brian Robertson (appointed on 5 April 2013)
Caroline Zammit Testaferrata Moroni Viani (appointed on 18 April 2013)
John Bonello (appointed on 15 July 2013)
Andrew Muscat (appointed on 16 January 2014)
Peter William Boyles (resigned on 5 March 2013)
Peter Paul Testaferrata Moroni Viani (resigned on 18 April 2013)
Albert Mizzi (Chairman) (resigned on 31 May 2013)
Charles John Farrugia (resigned on 20 August 2013)

Executive Committee

The bank's Executive Committee at the date of this report is composed of the following:

Mark Watkinson	Chief Executive Officer
Decca Fan	Chief Operating Officer
Paul Steel	Head of RBWM
Michel Cordina	Head of CMB
James Woodeson	Head of GB&M
Josephine Magri	Chief Financial Officer
Joyce Grech	Chief Risk Officer
Mandy Garner	Head of Human Resources
John R. Sammut	Head of Internal Audit
Henry Firmstone	General Counsel

Auditors

KPMG have expressed their willingness to continue in office. A resolution proposing the reappointment of KPMG as auditors of the bank will be submitted at the forthcoming Annual General Meeting.

Going concern

As required by Listing Rule 5.62, as at the reporting date, upon due consideration of the bank's profitability, financial position, capital adequacy and solvency, the Directors confirm the bank's ability to continue operating as a going concern for the foreseeable future.

Statement by the Directors pursuant to Listing Rule 5.70.1

Pursuant to Listing Rule 5.70.1 there were no material contracts to which the bank, or anyone of its subsidiary undertakings, was party to and in which anyone of the Directors was directly or indirectly interested.

Statement by the Directors pursuant to Listing Rule 5.68

We, the undersigned declare that to the best of our knowledge, the financial statements prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board on 24 February 2014 by:

Sonny Portelli, *Chairman*

Mark Watkinson, *Chief Executive Officer*

Statement of Compliance with the Code of Principles of Good Corporate Governance

The Board of Directors (the 'Board') is committed to the HSBC global values of dependability, openness to different ideas and cultures, and connection with customers, communities, regulators and each other. The Board ensures that each employee is aware of the obligation to ensure that his or her conduct consistently matches HSBC Bank Malta p.l.c. (the 'bank') values so as to serve positively the customers who entrust their financial needs to HSBC.

The Board is proud of the fact that HSBC Bank Malta p.l.c. and its subsidiaries (the 'group') has a solid corporate governance framework that is built around the principles of control and accountability. This culture stems from a philosophy that puts the protection of investors and the interest of customers at the forefront.

Corporate governance is subject to regulation by the Malta Financial Services Authority Listing Rules. As a company whose equity securities are listed on a regulated market, HSBC Bank Malta p.l.c. endeavours to adopt the Code of Principles of Good Corporate Governance (the 'Code' or 'Principles') embodied in Appendix 5.1 to Chapter 5 of the Listing Rules.

In terms of Listing Rule 5.94, the bank is obliged to disclose compliance and non-compliance with the provisions of the said Code. The bank strives to maintain the highest standards of disclosure in reporting the effective measures adopted to ensure compliance with the Principles, and to explain the instances of non-compliance.

Compliance with the Code

Principle 1: The Board

The bank is headed by an effective Board that leads and controls the business. As at the reporting date the Board was constituted by nine members who are honest, competent and solvent, and thus fit and proper to direct the business of the bank. Directors, individually and collectively, are of the appropriate calibre, with the necessary skills and experience to assist them in providing leadership, integrity and judgement in directing the bank. The courageous integrity, honesty and diligence of the Directors guarantee that the bank adheres to HSBC Group's (the 'Group') highly ethical business values and this is reflected in the decision and policy-making process of the bank.

The behaviour of every Director is focused on adding value to the bank by working with management to build a successful bank, enhance shareholder value and safeguard the interest of third parties. Each Director is a steward of the bank's assets.

Board members are accountable for their performance and that of their delegates to shareholders and relevant stakeholders. Besides having a broad knowledge of the bank's business they are also conversant with the statutory and regulatory requirements regulating this business.

The Board determines the bank's strategic aims and organisational structures and regularly reviews management performance. It ensures that the bank has the appropriate financial and human resources to meet its objectives. Moreover, it exercises prudent and effective controls which enable risk to be assessed and managed in order to achieve the short and long term sustainability of the business.

The Board delegates specific responsibilities to a number of committees, notably the Audit and Risk Committee, the Remuneration Committee and the Executive Committee. Further detail in relation to the committees and their responsibilities can be found under principle 4 of this statement.

The process of appointment of Directors is conducted in terms of the Memorandum and Articles of Association of the company. The Board consists of not more than nine Directors who are appointed/elected by the shareholders. Every shareholder owning 11 per cent of the ordinary share capital is entitled to appoint one Director for each 11 per cent shareholding. The majority shareholder therefore has the right to appoint six Directors. Furthermore, any excess fractional shareholding not so utilised may be used to participate in the voting for the election of further Directors. Shareholders who own less than 11 per cent of the ordinary share capital participate in the election of the remaining three Directors. The largest single shareholder (subject to a minimum 33 per cent holding of the ordinary issued share capital of the bank), is entitled to appoint a Chairman from amongst the Directors appointed or elected to the Board.

Principle 2: Chairman and Chief Executive Officer

The position of the Chairman and that of the Chief Executive Officer are occupied by different individuals. There is a clear division of responsibilities between the running of the Board and the Chief Executive Officer's responsibility in managing the bank's business. This separation of roles of the Chairman and Chief Executive Officer avoids concentration of authority and power in one individual and differentiates leadership of the Board from the running of the business.

The Chairman exercises independent judgement even though he is appointed by the majority shareholder. He leads the Board, sets the agenda and ensures that the Directors receive precise, timely and objective information and at the same time ensures effective communication with shareholders. During Board meetings, he encourages active engagement by all Board members for the discussion of complex and contentious issues and ensures that Directors constructively challenge senior management.

The Chief Executive Officer develops, drives and delivers performance within strategic goals, commercial objectives and business plans agreed by the Board. He effectively leads the senior management in the day-to-day running of the bank, ensures compliance with appropriate policies and procedures and maintains an effective framework of internal controls over risk in relation to the business. He is also responsible for the recruitment and appointment of senior management, after consultation with the Board.

Principle 3: Composition of the Board

Experience has shown that the size of the Board is appropriate to ensure the effective management and oversight over the bank's operations. The Board is composed of nine Directors; each of whom is skilful, competent, knowledgeable and experienced to fulfil one's role diligently. Each Director possesses the requisite ability to assess business risk and to identify key performance indicators.

As at 31 December 2013 the Board was composed of a non-executive independent Chairman, two executive Directors, five non-executive Directors, four of whom are deemed to be independent. With effect from 16 January 2014 Dr Andrew Muscat was appointed as non-executive Director. The non-executive Directors bring an external perspective to the Board when they constructively challenge and help develop proposals on strategy, scrutinise the performance of management, and monitor the risk profile and the reporting of performance.

The independent non-executive Directors as at 31 December 2013 were the following:

Sonny Portelli

Philip Farrugia Randon

Caroline Zammit Testaferrata Moroni Viani

James Dunbar Cousin

John Bonello

In determining the independence or otherwise of its Directors, the Board has considered, inter alia, the principles relating to independence embodied in the Code, the Group's own practice as well as general principles of good practice.

In terms of Principle 3.4, each non-executive Director has confirmed in writing to the Board that he/she undertook:

a) to maintain in all circumstances his/her independence of analysis, decision and action;

b) not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and

c) to clearly express his/her opposition in the event that he/she finds that a decision of the Board may harm the bank.

Principle 4: The Responsibilities of the Board

The Board develops the bank's strategy, policies and business plans. During 2013, two strategy off-site meetings were specifically held for this purpose. The Board of Directors monitors effectively the implementation of strategy and policy by management within the parameters of all relevant laws, regulations and codes of best practice. The Board ensures that a balance is maintained between enterprise and control.

The evaluation of management's implementation of corporate strategy and financial obligations is based on the use of key performance indicators enabling the bank to adopt expedient corrective measures. These key business risk and performance indicators are benchmarked against industry norms so as to ensure that the bank's performance is effectively evaluated.

The Board's informed assessment of management's performance emanates from a clear internal and external reporting system. The Board continuously assesses the bank's strengths and weaknesses in the micro-environment and its opportunities and threats in the macro-environment.

The Board ensures that the bank has appropriate policies and procedures in place that guarantee that the bank and its employees adhere to the highest standards of corporate conduct and comply with the applicable laws, regulations, business and ethical standards.

Statement of Compliance with the Code of Principles of Good Corporate Governance (continued)

The Board ensures that its level of power is known by all Directors and the senior management of the bank. Any delegation of responsibility and functions is clearly documented in the Terms of Reference (TOR) embodied in the corporate governance framework.

The Board delegates specific responsibilities to Committees, which operate under their respective formal TOR:

Audit and Risk Committee
The Audit and Risk Committee met six times during 2013. The TOR are modelled on the recommendations in the Cadbury Report, the UK Walker Review, and are compliant with the Listing Rules.

The Committee protects the interests of the bank's shareholders. As the name of the Committee suggests, this Committee has a dual function: that of audit and that of risk. This Committee has non-executive responsibility for oversight of, and advice to, the Board on matters relating to financial reporting. From a risk aspect, this Committee is responsible for advising the Board on high level risk related matters. In providing such oversight and advice to the Board, the Committee shall oversee: current and forward looking risk exposures, the bank's risk appetite and future risk strategy, including capital and liquidity management strategy, and management of risk within the bank.

The Audit and Risk Committee scrutinises and approves related party transactions. It considers the materiality and the nature of the related party transactions carried out by the bank to ensure that the arms' length principle is adhered to at all times.

The members of the Audit and Risk Committee are Mr John Bonello (Chairman), Dr Philip Farrugia Randon LL.D. and Mrs Caroline Zammit Testaferrata Moroni Viani who are independent non-executive Directors. Senior Managers of the bank are invited to attend any of the meetings as directed by the Committee. The Chief Executive Officer, the Chief Operating Officer, the Chief Risk Officer and a representative of the external auditors attend the meetings. In line with Listing Rule 5.131, the Head of Internal Audit is always present for these meetings and has a right of direct access to the Chairman of the Committee at all times.

During 2013, Mr Bonello was appointed by the Board as the Director who is independent and competent in accounting and/or auditing in terms of Listing Rule 5.117 on the basis that he is a Member of the Institute of Chartered Accountants in England and Wales and is also a Certified Public Accountant and Member of the Malta Institute of Accountants. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired in 2009.

In terms of Listing Rule 5.127.7, the Audit and Risk Committee is responsible for developing and implementing policy on the engagement of the external auditor to supply non-audit services. Since HSBC Holdings plc is a Securities Exchange Commission ('SEC') registered company, non-audit services provided by the external auditor are regulated in terms of the SEC rules.

Remuneration Committee ('REMCO')
REMCO is dealt with under the Remuneration Report, which also includes the Remuneration Statement in terms of Code Provision 8.A.4.

Executive Committee ('EXCO')
EXCO meets on a monthly basis to oversee the overall day-to-day management of the bank in accordance with such policies and directions as the Board may from time to time determine. The Chief Executive Officer chairs this Committee which is composed of the Chief Operating Officer together with the senior management of the bank. The EXCO Committee is empowered by its TOR to sub-delegate its powers to the following sub-committees:

- **The Risk Management Committee**
  This Committee meets on a monthly basis and is chaired by the Chief Executive Officer, with the Chief Risk Officer acting as Deputy Chairman. Membership also includes the Chief Operating Officer, the Chief Financial Officer, the Head of Retail Banking and Wealth Management, the Head of Commercial Banking, the Head of Global Banking and Markets, the Head of Wholesale and Markets Risk, the Head of Credit Risk Management, Analytics and Systems, the Head of Internal Audit, General Counsel and the Head of Security and Fraud Risk.

  This Committee is responsible for all risks in all businesses, functions and subsidiaries under the ownership of HSBC Bank Malta p.l.c., including inter alia Credit Risk, Market Risk, Operational Risk, Concentration Risk, Legal and Regulatory Risk, Security and Fraud Risk and Reputational Risk. The Risk Management Committee is also responsible for the setting and monitoring of a Risk Appetite Framework for EXCO/Board approval, signing off on material credit risk models, and consideration of top and emerging risks, risk map and scenario analysis. Individual risk acceptance and approval is not within the TOR of the Committee, and continues to be approved under existing delegated authorities within the management structure of the bank.

- **The Asset and Liability Management Committee ('ALCO')**
  This Committee reviews the financial risks of the group in Malta and oversees the prudent management of interest rate risk, liquidity and funding risk, capital, foreign exchange risk, solvency risk, market sector risk and country risk. Furthermore, ALCO monitors the external environment and measures the impact on profitability of factors such as interest rate volatility, market liquidity, exchange rate volatility, monetary and fiscal policies and competitor banks' activity. ALCO monitors the capital adequacy making use of capital forecasts to ensure that enough capital is readily available at all times to meet the demand arising from business expansion and regulation. ALCO monitors and reviews the duration and cash flow matching of insurance assets and liabilities.

  The Chief Executive Officer has primary responsibility for ensuring efficient development of Asset and Liability Management. Membership consists of senior executives with responsibility for the following functions: corporate banking, retail banking, treasury, financial control, marketing, and credit. The ALCO, which is chaired by the Chief Executive Officer and deputised by the Chief Operating Officer, meets once a month.

- **Global Standards In-Country Execution Committee**
  The Global Standards In-Country Execution Committee manages delivery and execution of the Global Standards Programme which is across HSBC Group-wide to ensure consistent application throughout the organisation of the highest standards.

  The membership of this Committee, which is chaired by the bank's Chief Executive Officer, is composed of all the senior managers and key Global Standards personnel. This Committee meets on a monthly basis.

Principle 5: Board Meetings

The Board meets on a quarterly basis, unless further meetings are required to discharge its duties effectively. During the period under review the Board held six meetings.

The Chairman ensures that all relevant issues are on the agenda, supported by all the available information. The agenda strikes a balance between long-term strategic objectives and short term performance issues. Notice of the dates of Board meetings together with supporting materials are circulated to the Directors well in advance of the meetings.

Minutes are prepared during Board meetings that record faithfully attendance, discussed matters and decisions. These minutes are subsequently circulated to all the Directors as soon as practicable after the meeting.

Besides Board meetings, Directors participate in strategy sessions and seminars on the bank's financial performance. They also attend other bank functions like the Let's Lead Conference and meetings with the bank's Talent Pool. All the Directors dedicate the necessary time and attention to their duties as Directors of the bank.

Directors' Attendance at Board Meetings:

Members	Attended
Albert Mizzi (resigned on 31 May 2013)	3 out of 3
Saviour sive Sonny Portelli (appointed Chairman on 31 May 2013)	6 out of 6
Mark Watkinson	6 out of 6
Ranjit Gokarn	5 out of 6
Peter W. Boyles (resigned on 5 March 2013)	1 out of 1
Brian Robertson (appointed on 5 April 2013)	3 out of 5
Philip Farrugia Randon	6 out of 6
James Dunbar Cousin	6 out of 6
Peter Paul Testaferrata Moroni Viani (resigned on 3 April 2013)	2 out of 2
Caroline Zammit Testaferrata Moroni Viani (appointed on 18 April 2013)	3 out of 3
Charles John Farrugia (resigned on 20 August 2013)	5 out of 5
John Bonello (appointed on 15 July 2013)	1 out of 2

Statement of Compliance with the Code of Principles of Good Corporate Governance (continued)

Principle 6: Information and Professional Development

The Board appoints the Chief Executive Officer of the bank upon guidance and recommendation from the HSBC Group. The Board is consulted on the appointment of other members of senior management. This enables the bank to avail itself of the vast wealth of competence, talent and experience found across the Group.

Full, formal and tailored induction programmes, with particular emphasis on the systems of risk management and internal controls are arranged for newly appointed Directors. The programmes consist of a series of meetings with senior executives to enable new Directors to familiarise themselves with the bank's strategy, risk appetite, operations and internal controls. Directors also receive comprehensive guidance on Directors' duties and liabilities.

Directors also have access to the advice and services of the Company Secretary who is responsible for adherence to Board procedures as well as for effective information flows within the Board, its Committees and with senior management. The Company Secretary also coordinates a development programme based on the Director's individual needs.

Directors are given opportunities to update and develop their skills and knowledge, through briefings by senior executives and externally-run seminars throughout their directorship. Moreover, Directors have access to independent professional advice, at the bank's expense.

The Chairman of the Board and the Chairman of the Audit and Risk Committee attend on an annual basis the Group Chairman's Non-Executive Directors' Forum and the Audit Committee Chairmen Forum where they are updated on the latest Group's strategy and global financial and economic developments.

As part of succession planning and talent management, the Board and the Chief Executive Officer ensure that the bank implements appropriate schemes to recruit, retain and motivate high quality executive officers. They also encourage members of management to move to the higher ranks within the organisation and seek to maintain high morale amongst the bank's personnel.

Principle 7: Evaluation of the Board Performance

The Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not appoint an ad hoc Committee to carry out this performance evaluation but the evaluation exercise was conducted through a Board Effectiveness Questionnaire modelled on a Questionnaire used by the Group.

No material recommendations resulted from the analysis of responses to this Effectiveness Questionnaire.

Principle 8: Committees

The Remuneration Committee is dealt with under the Remuneration Report, which also includes the Remuneration Statement in terms of Code provisions 8.A.4.

The Nominations Committee is dealt with under Non-Compliance with the Code Section.

Principles 9 and 10: Relations with Shareholders, with the Market, and with Institutional Shareholders

The bank maintains on-going communication with its shareholders and the market on its strategy and performance in order to enhance trust and confidence in the bank. During the period under review the bank has issued various company announcements and media releases to explain ongoing corporate developments and material events and transactions which have taken place and their impact on the financial position of the bank.

The bank communicates with shareholders in three main ways:

- through the 'Annual Report and Accounts' which is mailed to every shareholder and is available on the bank's website;
- through the periodical shareholder electronic publication entitled 'L-azzjonist'; and
- at the Annual General Meeting and Extraordinary General Meetings (further detail is provided under the section 'General Meetings').

The bank also holds meetings for stockbrokers, financial intermediaries and the media to explain the salient features of the interim and annual financial results.

The bank maintains an open channel of communication with its shareholders through the Company Secretarial Office and through the Head of Communications.

The Chairman ensures that the views of shareholders are communicated to the Board as a whole. Moreover, the Chairman arranges for all Directors to attend the Annual General Meeting and for the Chairmen of the Audit and Risk Committee and the Remuneration Committee to be available to answer questions. The conduct of the meeting is conducive to valid discussion and appropriate decision making.

In terms of the bank's Articles of Association, the Directors shall on the request of members of the company holding not less than one-tenth of the paid up share capital proceed duly to convene an Extraordinary General Meeting of the bank. Minority shareholders are not prohibited from formally presenting an issue to the Board of Directors.

Principle 11: Conflicts of Interests

Directors are aware that their primary responsibility is always to act in the interest of the bank and its shareholders as a whole, irrespective of who appointed them to the Board. This entails that they avoid conflicts of interest at all times and that their personal interests never take precedence over those of the bank and its shareholders.

In line with HSBC Group best practice, the Board operates a Conflicts Policy. In terms of this policy a Director is to avoid situations in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the bank.

By virtue of the bank's Articles of Association a Director is bound not to vote at a Board meeting on any contract or arrangement or any other proposal in which he has a material interest, either directly or indirectly.

On joining the Board and regularly thereafter, Directors are informed and reminded of their obligations on dealing in securities of the bank within the parameters of law and the Listing Rules. A proper procedure of reporting advance notices to the Chairman by a Director who intends to deal in the bank's shares has been endorsed by the Board in line with the Principles, the Listing Rules and the internal Code of Dealing.

Principle 12: Corporate Sustainability

HSBC's Corporate Sustainability ('CS') activities take place within the context of the Group wide strategy. In Malta the bank fulfils the Group's CS strategy primarily through the HSBC Malta Foundation (the 'Foundation').

Sustainability is core to the way we operate at HSBC and it is recognised that the bank has a responsibility that spreads far wider. The three pillars of the HSBC Malta Foundation aim to improve the quality of life and education for children, especially those disadvantaged, to promote and work towards a more sustainable environment and to preserve Malta's rich and unique historical heritage.

Voluntary work is highly encouraged and pride is taken in HSBC staff who contribute to the charities and causes that they feel passionate about and are encouraged to take an active role in initiatives supported by the Foundation with an extra day's leave granted for voluntary work. HSBC staff are divided into five teams under the "HSBC Cares" to help to drive our commitment and passion for assisting in the community with the key objective of taking part and broadening the involvement level across the bank.

Other companies are encouraged to join in with the Foundation in various activities and projects to further strengthen its support to the community.

The Foundation works with the wider HSBC Group to make the most of the resources and capabilities of a global bank for the benefit of the local Maltese community with various signature projects having a significant impact on a large number of people thus showing the bank's strong commitment towards the community.

Sustainability and our role as a good corporate citizen remains a core part of HSBC. The HSBC Group Chairman Mr Douglas Flint visited Malta to launch the 'Catch the Drop' campaign that will reach every student in Malta with the main emphasis on water shortage, water consumption reduction and water harvesting. Our employees are at the heart of this campaign with over 200 members of staff volunteering to deliver the information sessions in the various schools and councils. The campaign is an important part of HSBC's global USD100m Water Programme that seeks to educate and bring real change and benefit to water related issues. Closely connected to the global nature of the HSBC Group water programme, HSBC Malta sent six volunteers to spend a week in Ghana where the international recognised NGO WaterAid, as part of the HSBC Water Programme, is working to improve access to safe water, sanitation and hygiene.

Statement of Compliance with the Code of Principles of Good Corporate Governance (continued)

Non-Compliance with the Code

Principle 4 (Code Provision 4.2.7)

Code Provision 4.2.7. recommends 'the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility'. The bank discloses that it can comply with this provision only partially. In terms of its Memorandum and Articles of Association, the bank's shareholders lead the process for Board appointments, unless the need arises to fill in casual vacancies. The Board is nonetheless satisfied that the HSBC Group has talented persons within its global structures who could fill in vacant executive positions at Board level, thus ensuring an orderly succession thereto.

Principle 8B (Nomination Committee)

In the context of the process of appointment of directors described in principle 1 above, the Board did not consider it necessary to constitute a formal Nomination Committee. Any issues that could arise with regard to nomination are dealt with by the Chairman of the Board and the Chairman of the Audit and Risk and Remuneration Committees in liaison with the CEO.

Principle 9 (Code Provision 9.2)

This Code Provision recommends the bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. Although the bank does not have such mechanism in place there is ongoing open dialogue between the bank's senior management and the non-executive Directors to ensure that no such conflicts arise.

Listing Rule 5.97.4

Internal control

The Board is ultimately responsible for the bank's system of internal control and for reviewing its effectiveness. Such procedures are designed to manage rather than to eliminate the risk of failure, to achieve business objectives and can only provide reasonable and not absolute assurance against material error, losses or fraud.

The Group has adopted a risk management and internal control structure referred to as the 'three lines of defence' to ensure we achieve our commercial aims while meeting regulatory and legal requirements. It is a key part of our operational risk management framework.

- First line – global businesses and HSBC Technology Services form the first line of defence with responsibility for identifying, managing and mitigating risks that may affect the processes they run.
- Second line – global functions, such as Risk, Finance and Human Resources, are responsible for setting policy and for providing assurance, challenge and oversight of the activities conducted by the first line.
- Third line – Internal Audit forms the third line of defence, providing independent assurance to senior management and to the Board over the design and operation of HSBC's risk management, governance and internal control processes.

HSBC's key risk management and internal control procedures include the following:

- Global standards. Functional, operating, financial reporting and certain management reporting standards are established by global function management committees, for application throughout HSBC. These are supplemented by operating standards set by functional and local management as required for the type of business and geographical location of each subsidiary.
- Delegation of authority within limits set by the Board. The Board has delegated specific, clear and unequivocal authority to the Chief Executive Officer to manage the day-to-day affairs of the business for which he is accountable within limits set by the Board. Delegation of authority from the Board requires the CEO to maintain appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to the business.

- Risk identification and monitoring. Systems and procedures are in place to identify, control and report on the major risks facing the bank including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability and operational (including accounting, tax, legal, compliance, fiduciary, information, external fraud, internal fraud, political, physical, business continuity, systems operations, project and people risk). Exposure to these risks is monitored by the Risk Management Committee. Asset and Liability Committee and Executive Committee.
- Changes in market conditions/practices. Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the bank to heightened risk of loss or reputational damage. During 2013, attention was focused on: eurozone members' departure from the currency union; regulatory developments; regulatory commitments and consent orders including the Deferred prosecution Agreement; challenges to achieving our strategy in a downturn; internet crime and fraud; social media risk; level of change creating operational complexity and heightened operational risk; information risk.
- IT operations. Centralised functional control is exercised over all IT developments and operations. Common systems are employed for similar business processes wherever practicable.
- Comprehensive annual financial plans are prepared, reviewed and approved by the Board. Results are monitored and progress reports are prepared on a monthly basis to enable comparisons with plan. Financial accounting and management reporting standards have been established. Centralised functional control is exercised over all computer system developments and operations. In order to ensure consistency and benefit from economies of scale, identical IT systems are being employed, where possible, for similar business processes.
- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to line management. In addition, functional management in the bank has been given the responsibility to implement HSBC policies, procedures and standards in the areas of finance; legal and regulatory compliance; internal audit; human resources; credit risk; market risk; operational risk; computer systems and operations; property management; and for certain HSBC Group business and product lines.
- The Chief Risk Officer is responsible for the management of specific risks within the bank including credit risk in the wholesale and retail portfolios, compliance risks, markets risk and operational risk. Risks are monitored via regular Risk Management Committee's meetings and via reporting to the Executive Committee and to the Board.
- Internal Audit. The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Internal Audit function provides independent and objective assurance in respect of adequacy of the design and operating effectiveness of the bank's framework of risk management, control and governance processes focusing on the areas of greatest risk to the bank using a risk-based approach. The Head of Internal Audit reports to the Head of Global Internal Audit in so far as independence and resourcing are concerned.
- Internal Audit recommendations. Executive management is responsible for ensuring that recommendations made by the Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Internal Audit.
- The bank's Compliance Department ensures that HSBC Bank Malta Group and its employees maintain the highest standards of corporate conduct including compliance with all the local and international regulatory obligations and HSBC Group ethical standards and regulations.
- Through the Audit and Risk Committee, the Board reviews the processes and procedures to ensure the effectiveness of the system of internal control of the bank and its subsidiaries, which are monitored by internal audit.

Statement of Compliance with the Code of Principles of Good Corporate Governance (continued)

Listing Rule 5.97.5
The information required by this Listing rule is found in the Directors' Report.

General meetings

The General Meeting is the highest decision making body of the bank. A General Meeting is called by twenty-one days' notice and it is conducted in accordance with the Articles of Association of the bank.

The Annual General Meeting deals with what is termed as 'ordinary business', namely the receiving or adoption of the annual financial statements, the declaration of a dividend, the appointment of the Board (which may or may not involve an election), the appointment of the external auditors and the grant of the authority to the Board to fix the external auditors' emoluments. Other business which may be transacted at a General Meeting will be dealt with as Special Business.

All shareholders registered in the shareholders' Register on the record date as defined in the Listing Rules, have the right to attend, participate and vote in the General Meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the General Meeting may request the bank to include items on the agenda of a General Meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the bank at least forty-six days before the date set for the relative General Meeting.

A shareholder who cannot participate in the General Meeting can appoint a proxy by written or electronic notification to the bank. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the General Meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for that purpose.

Remuneration Report

1. Terms of Reference and Membership

The Remuneration Committee (the 'Committee') is primarily responsible to make recommendations on the reward policy, on fixed and variable pay and for ensuring their implementation.

The Committee's membership consists of an independent chairman and two independent non-executive Directors. During the year under review the Committee was originally composed of Mr Sonny Portelli as Chairman and Dr Philip Farrugia Randon (independent non-executive director) and Mr Peter Paul Testaferrata Moroni Viani (non-executive director) as members. Subsequently, Mr John Bonello was appointed Chairman and Dr Philip Farrugia Randon and Mr James Dunbar Cousin (independent non-executive director) as members.

During the year the Committee amended its Terms of Reference ('TOR') to ensure a more robust remuneration framework through a greater connection between the Committee and the HSBC Group Remuneration Committee and also through a stronger alignment between reward and risk framework.

2. Meetings

Three meetings were held by the Committee during 2013 and were attended as follows:

Saviour sive Sonny Portelli (former Chairman)	(2 out of 2)
John Bonello (present Chairman)	(1 out of 1)
Peter Paul Testaferrata Moroni Viani	(1 out of 1)
Philip Farrugia Randon	(3 out of 3)
James Dunbar Cousin	(2 out of 2)

The Chief Executive Officer and the Head of Human Resources attended all the Committee's meetings whilst the Chief Operating Officer attended two meetings and Chief Risk Officer was in attendance at one meeting. All executives abstained from participating in the discussion regarding their own remuneration.

3. Activities

The Committee considered various matters including the following:-

- Remuneration Report for Financial Year 2013
- Total Variable Pay spend for Performance Year 2013
- Fixed and Variable Pay for Senior Management (i.e. Business Heads/Functional Heads)
- Fixed and Variable Pay for Middle Management
- Fixed and Variable Pay for Junior Managers and Clerical employees
- Variable Pay for Global Markets
- Retention of key senior employees by devising appropriate remuneration packages
- The Committee's TOR
- Wealth Management and Retail Banking Incentive Plans

In determining remuneration levels for performance year 2013 the Committee applied HSBC Group's (the 'Group') remuneration strategy and policy, taking into account the interests of the shareholders and the broader external context.

4. Remuneration Statement

4.1 Reward Policy

The reward policy which formalised the bank's current practice and policies was approved by the Board of the bank in 2011. There were no significant changes to this policy during 2013 and none are being envisaged during 2014.

The bank's reward policy was formulated in accordance with the Banking Rule BR12, the Capital Requirements Directive and the Group's reward strategy. This strategy provides a reward framework for the bank aimed at supporting sustainable performance over the long-term. Performance is judged not only on what is achieved over the short and medium term, but also on how it is achieved, as the latter contributes to the sustainability of the bank. This reward framework includes the following key elements:

a. an assessment of reward with reference to clear annual and long-term objectives summarised in performance scorecards and to adherence to the HSBC Group Values of being 'open, connected and dependable' and acting with 'courageous integrity';

b. a focus on total compensation (fixed pay, variable pay and the value of long term incentives) with variable pay (namely bonus and the value of long term incentives) differentiated by company and individual performance. Variable pay is also shaped by risk considerations in that performance is assessed taking risk into account; and

c. a total remuneration package (salary, bonus, long term incentive awards and other benefits) which is competitive in relation to comparable organisations in the local market.

In order to ensure clarity over remuneration, there are four elements of remuneration, with the first three being performance related:

1. Fixed Pay
2. Bonus (Variable Pay)
3. HSBC Share Awards
4. Benefits

The Committee considers the total variable pay spend relative to the bank's performance with the key driver being Profit before Tax. Other key measures are taken into account such as Cost Efficiency Ratio, Cost Target, Revenue Target and Return on Risk Weighted Assets.

In order to incentivise senior executives to deliver sustainable long-term business performance, where appropriate, a portion of the variable pay is subject to deferral and is awarded in the form of HSBC Shares under the Group's discretionary incentive plan.

Senior and Middle Management are eligible for an annual fixed pay review and variable pay award. A Fixed pay pool is determined by the Committee based on a percentage of the total salary costs of the Senior and Middle Managers. The variable pay is also established by the Committee and determined by company and individual performance of the Senior and Middle Managers against objectives which are aligned with the Group's strategy.

For clerical employees and junior managers fixed pay is determined by Collective Agreement and awards are differentiated by individual performance and grade. The Committee considers the allocation of variable pay to this part of the workforce collectively taking account of company profitability and key measures mentioned above. Individual awards are based on the achievement of both finance and non-financial objectives.

The determination of the variable pay spend for Global Markets takes account of the local performance of the business as well as the overall profitability of the Global Markets business across the world.

The Chief Executive Officer's reward package is also reviewed and approved by the HSBC Group Remuneration Committee.

4.2 Code Provision 8.A.5

Emoluments of the Executive Committee members as at 31 December 2013

Fixed Remuneration	*Variable Remuneration*	*Share Options*	*Others*
€1,710,439	€726,949	€220,133	€1,211,855

Emoluments of Directors

Fixed Remuneration	*Variable Remuneration*	*Share Options*	*Others*
€169,300	None	None	None

Details of Directors' fees for the financial year under review were as follows:

	€
Albert Mizzi	15,000
Saviour sive Sonny Portelli	39,350
Peter Paul Testaferrata Moroni Viani	9,000
Philip Farrugia Randon	36,800
James Dunbar Cousin	19,800
Charles John Farrugia	12,000
Caroline Zammit Testaferrata Moroni Viani	18,000
John Bonello	19,350
Total	169,300

Fees payable to Directors or Committee members who are not employees of the bank are set by reference to market practice, taking into account the time commitment and complexity of the work undertaken and relative fees paid throughout the HSBC Group.

The Directors' fees are approved in aggregate by the shareholders at the Annual General Meeting. Those directors who are employed with the bank are not paid any fees for their directorship.

5. Policy of Senior Executive Contracts

Standard contracts for Senior Executives employed locally would generally be indefinite. Normal retirement from the bank would be in line with local legislation. A three month notice period is required for Senior Executives, who would similarly be entitled to a notice of a minimum of three months in the event that the bank terminates the employment on grounds of redundancy.

International assignees appointed to Senior Executive positions are covered by the standard Group contracts policy. The period of notice required to be given to terminate, by either party, can be up to six months.

Directors' Responsibilities Statement

The Companies Act, 1995 requires the Directors of HSBC Bank Malta p.l.c. (the 'bank') to prepare financial statements for each financial period which give a true and fair view of the financial position of the bank and the bank and its subsidiaries (the 'group') as at the end of the financial period and of the profit or loss of the bank and the group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the bank and the group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994.

The Directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors, through oversight of management, are responsible to ensure that the bank establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the group's business. This responsibility includes establishing and maintaining controls pertaining to the bank's objective of preparing financial statements as required by the Companies Act, 1995 and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:

Sonny Portelli, *Chairman*

Mark Watkinson, *Chief Executive Officer*

Statements of Profit or Loss for the year 1 January 2013 to 31 December 2013

		Group		Bank	
		2013	2012	**2013**	2012
	Note	**€000**	€000	**€000**	€000
Interest and similar income					
– on loans and advances, balances with Central Bank of Malta, Treasury Bills and other instruments	*6*	**143,314**	151,261	**143,306**	151,232
– on debt and other fixed income instruments	*6/12*	**18,792**	23,376	**18,069**	21,715
Interest expense	*7*	**(37,395)**	(41,537)	**(37,503)**	(41,897)
Net interest income		**124,711**	133,100	**123,872**	131,050
Fee and commission income		**31,332**	32,572	**28,339**	28,610
Fee and commission expense		**(1,795)**	(2,081)	**(1,596)**	(1,819)
Net fee and commission income	*8*	**29,537**	30,491	**26,743**	26,791
Dividend income	*9*	**–**	–	**12,308**	20,896
Trading profits	*10*	**9,523**	9,316	**9,523**	9,316
Net income from insurance financial instruments designated at fair value	*12*	**25,528**	43,115	**–**	–
Net gains on sale of available-for-sale financial investments	*11*	**4,295**	4,049	**4,352**	3,344
Net earned insurance premiums	*12*	**66,073**	67,284	**–**	–
Net other operating (expense)/income	*12*	**(1,454)**	3,291	**969**	677
Total operating income		**258,213**	290,646	**177,767**	192,074
Net insurance claims incurred and movement in policyholders' liabilities	*12*	**(71,201)**	(92,970)	**–**	–
Net operating income	*12*	**187,012**	197,676	**177,767**	192,074
Employee compensation and benefits	*13*	**(48,539)**	(54,680)	**(45,335)**	(51,344)
General and administrative expenses		**(38,483)**	(35,474)	**(35,829)**	(33,378)
Depreciation	26	**(3,449)**	(4,059)	**(3,440)**	(4,052)
Amortisation	25	**(2,844)**	(2,566)	**(2,824)**	(2,541)
Net operating income before impairment charges and provisions		**93,697**	100,897	**90,339**	100,759
Net impairment on financial assets	*14*	**(3,272)**	(5,115)	**(3,272)**	(5,115)
Net provisions for liabilities and other charges		**52**	(447)	**52**	(446)
Profit before tax	*15*	**90,477**	95,335	**87,119**	95,198
Tax expense	*16*	**(31,760)**	(33,733)	**(30,704)**	(33,642)
Profit for the year		**58,717**	61,602	**56,415**	61,556
Profit attributable to shareholders		**58,717**	61,602	**56,415**	61,556
Earnings per share	*17*	**20.1c**	21.1c	**19.3c**	21.1c

The notes on pages 45 to 107 are an integral part of these financial statements.

Statements of Other Comprehensive Income for the year 1 January 2013 to 31 December 2013

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Items that may be reclassified to Profit or Loss:				
Available-for-sale investments:				
– fair value gains	**305**	16,671	**655**	16,136
– fair value gains transferred to profit or loss on disposal	**(4,295)**	(4,049)	**(4,352)**	(3,344)
– income taxes	**1,396**	(4,418)	**1,294**	(4,477)
	(2,594)	8,204	**(2,403)**	8,315
Items that will not be reclassified to Profit or Loss:				
Properties:				
– revaluation	**84**	(4,022)	**84**	(4,022)
– income taxes	**(20)**	583	**(20)**	583
	64	(3,439)	**64**	(3,439)
Other comprehensive income for the year, net of tax	**(2,530)**	4,765	**(2,339)**	4,876

The notes on pages 45 to 107 are an integral part of these financial statements.

Statements of Financial Position at 31 December 2013

		Group		Bank	
		2013	2012	**2013**	2012
	Note	**€000**	€000	**€000**	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*18*	**151,458**	106,991	**151,457**	106,990
Cheques in course of collection		**9,703**	7,211	**9,703**	7,211
Derivatives	*19*	**12,666**	17,615	**12,666**	17,615
Financial assets designated at fair value	*20*	**477,345**	454,591	**–**	–
Financial investments	*21*	**918,292**	987,471	**897,794**	962,721
Loans and advances to banks	*22*	**564,790**	681,352	**564,675**	678,765
Loans and advances to customers	*23*	**3,300,982**	3,354,413	**3,300,982**	3,354,413
Shares in subsidiary companies	*24*	**–**	–	**35,707**	35,707
Intangible assets	*25*	**86,618**	91,210	**10,093**	11,943
Property, plant and equipment	*26*	**61,491**	54,872	**61,575**	54,953
Investment property	*27*	**14,529**	14,471	**11,660**	11,660
Non-current assets held for sale	*28*	**11,783**	11,240	**11,783**	11,240
Current tax assets		**7,939**	6,134	**2,720**	2,727
Deferred tax assets	*33*	**12,522**	11,273	**12,504**	11,253
Other assets	*29*	**52,735**	46,509	**9,432**	8,982
Prepayments and accrued income	*30*	**38,677**	41,121	**33,673**	35,699
Total assets		**5,721,530**	5,886,474	**5,126,424**	5,311,879
Liabilities					
Derivatives	*19*	**12,929**	17,857	**12,929**	18,172
Deposits by banks	*31*	**41,794**	258,611	**41,794**	258,611
Customer accounts	*32*	**4,517,862**	4,516,999	**4,554,104**	4,537,127
Current tax liabilities		**16**	24	**–**	–
Deferred tax liabilities	*33*	**25,195**	24,363	**–**	–
Liabilities under investment contracts	*34*	**16,763**	17,254	**–**	–
Liabilities under insurance contracts	*35*	**524,999**	493,254	**–**	–
Other liabilities	*36*	**38,274**	29,222	**30,707**	24,395
Accruals and deferred income	*37*	**30,230**	33,559	**29,419**	32,143
Provisions for liabilities and other charges	*38*	**3,211**	7,493	**3,149**	7,423
Subordinated liabilities	*39*	**87,273**	87,240	**88,040**	87,987
Total liabilities		**5,298,546**	5,485,876	**4,760,142**	4,965,858
Equity					
Called up share capital	*40*	**87,552**	87,552	**87,552**	87,552
Revaluation reserve	*41*	**35,107**	37,637	**34,636**	36,975
Retained earnings	*41*	**300,325**	275,409	**244,094**	221,494
Total equity		**422,984**	400,598	**366,282**	346,021
Total liabilities and equity		**5,721,530**	5,886,474	**5,126,424**	5,311,879
Memorandum items					
Contingent liabilities	*42*	**111,852**	104,569	**113,555**	106,272
Commitments	*43*	**1,269,222**	1,073,831	**1,273,196**	1,081,194

The notes on pages 45 to 107 are an integral part of these financial statements.

The financial statements on pages 39 to 107 were approved and authorised for issue by the Board of Directors on 24 February 2014 and signed on its behalf by:

Sonny Portelli, *Chairman*

Mark Watkinson, *Chief Executive Officer*

Statements of Changes in Equity for the year 1 January 2013 to 31 December 2013

	Note	*Share capital* €000	*Revaluation reserve* €000	*Retained earnings* €000	*Total equity* €000
Group					
At 1 January 2013		**87,552**	**37,637**	**275,409**	**400,598**
Profit for the year		**–**	**–**	**58,717**	**58,717**
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		**–**	**198**	**–**	**198**
– fair value gains transferred to profit or loss on disposal, net of tax		**–**	**(2,792)**	**–**	**(2,792)**
Properties:					
– revaluation of properties, net of tax		**–**	**64**	**–**	**64**
Total other comprehensive income		**–**	**(2,530)**	**–**	**(2,530)**
Total comprehensive income for the year		**–**	**(2,530)**	**58,717**	**56,187**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		**–**	**–**	**155**	**155**
– dividends	*45*	**–**	**–**	**(33,956)**	**(33,956)**
Total contributions by and distributions to owners		**–**	**–**	**(33,801)**	**(33,801)**
At 31 December 2013		**87,552**	**35,107**	**300,325**	**422,984**
At 1 January 2012		87,552	32,872	246,041	366,465
Profit for the year		–	–	61,602	61,602
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		–	10,836	–	10,836
– fair value gains transferred to profit or loss on disposal, net of tax		–	(2,632)	–	(2,632)
Properties:					
– revaluation of properties, net of tax		–	(3,439)	–	(3,439)
Total other comprehensive income		–	4,765	–	4,765
Total comprehensive income for the year		–	4,765	61,602	66,367
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		–	–	394	394
– dividends	45	–	–	(32,628)	(32,628)
Total contributions by and distributions to owners		–	–	(32,234)	(32,234)
At 31 December 2012		87,552	37,637	275,409	400,598

The notes on pages 45 to 107 are an integral part of these financial statements.

	Note	Share capital €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
Bank					
At 1 January 2013		**87,552**	**36,975**	**221,494**	**346,021**
Profit for the year		**–**	**–**	**56,415**	**56,415**
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		**–**	**426**	**–**	**426**
– fair value gains transferred to profit or loss on disposal, net of tax		**–**	**(2,829)**	**–**	**(2,829)**
Properties:					
– revaluation of properties, net of tax		**–**	**64**	**–**	**64**
Total other comprehensive income		**–**	**(2,339)**	**–**	**(2,339)**
Total comprehensive income for the year		**–**	**(2,339)**	**56,415**	**54,076**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		**–**	**–**	**141**	**141**
– dividends	*45*	**–**	**–**	**(33,956)**	**(33,956)**
Total contributions by and distributions to owners		**–**	**–**	**(33,815)**	**(33,815)**
At 31 December 2013		**87,552**	**34,636**	**244,094**	**366,282**
At 1 January 2012		87,552	32,099	192,203	311,854
Profit for the year		–	–	61,556	61,556
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		–	10,489	–	10,489
– fair value gains transferred to profit or loss on disposal, net of tax		–	(2,174)	–	(2,174)
Properties:					
– revaluation of properties, net of tax		–	(3,439)	–	(3,439)
Total other comprehensive income		–	4,876	–	4,876
Total comprehensive income for the year		–	4,876	61,556	66,432
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		–	–	363	363
– dividends	*45*	–	–	(32,628)	(32,628)
Total contributions by and distributions to owners		–	–	(32,265)	(32,265)
At 31 December 2012		87,552	36,975	221,494	346,021

The notes on pages 45 to 107 are an integral part of these financial statements.

Statements of Cash Flows for the year 1 January 2013 to 31 December 2013

	Note	Group 2013 €000	Group 2012 €000	Bank 2013 €000	Bank 2012 €000
Cash flows from operating activities					
Interest, commission and premium receipts		**256,793**	264,547	**182,462**	188,640
Interest, commission and claims payments		**(89,324)**	(91,318)	**(42,640)**	(45,336)
Payments to employees and suppliers		**(86,291)**	(94,419)	**(83,616)**	(88,953)
Operating profit before changes in operating assets/liabilities		**81,178**	78,810	**56,206**	54,351
(Increase)/decrease in operating assets:					
Financial assets designated at fair value		**171**	(51,728)	**–**	–
Reserve deposit with Central Bank of Malta		**1,242**	43,305	**1,242**	43,305
Loans and advances to customers and banks		**42,900**	19,009	**42,900**	18,943
Treasury Bills		**(46,845)**	98,179	**(46,845)**	98,179
Other receivables		**(8,861)**	98	**(3,085)**	15,022
Increase/(decrease) in operating liabilities:					
Customer accounts and deposits by banks		**6,906**	112,221	**22,674**	95,951
Other payables		**7,330**	(2,464)	**6,455**	(9,455)
Net cash from operating activities before tax		**84,021**	297,430	**79,547**	316,296
Tax paid		**(32,682)**	(39,076)	**(26,446)**	(33,736)
Net cash from operating activities		**51,339**	258,354	**53,101**	282,560
Cash flows from investing activities					
Dividends received		**21**	26	**8,000**	13,600
Interest received from financial investments		**30,255**	41,356	**26,719**	29,775
Purchase of financial investments		**(277,694)**	(375,638)	**(275,655)**	(375,638)
Proceeds from sale and maturity of financial investments		**334,396**	335,059	**328,537**	306,239
Purchase of property, plant and equipment, investment property and intangible assets		**(12,087)**	(6,133)	**(12,000)**	(6,046)
Proceeds on sale of property, plant and equipment and intangible assets		**476**	502	**476**	502
Net cash flows from/(used in) investing activities		**75,367**	(4,828)	**76,077**	(31,568)
Cash flows from financing activities					
Dividends paid		**(33,956)**	(32,628)	**(33,956)**	(32,628)
Cash used in financing activities		**(33,956)**	(32,628)	**(33,956)**	(32,628)
Increase in cash and cash equivalents		**92,750**	220,898	**95,222**	218,364
Effect of exchange rate changes on cash and cash equivalents		**(33,029)**	(583)	**(33,029)**	(583)
Net increase in cash and cash equivalents		**125,779**	221,481	**128,251**	218,947
		92,750	220,898	**95,222**	218,364
Cash and cash equivalents at beginning of year		**428,661**	207,763	**426,073**	207,709
Cash and cash equivalents at end of year	*46*	**521,411**	428,661	**521,295**	426,073

The notes on pages 45 to 107 are an integral part of these financial statements.

Notes on the Financial Statements

1 Reporting entity

HSBC Bank Malta p.l.c. (the 'bank') is a limited liability company domiciled and incorporated in Malta.

The consolidated financial statements of the bank as at and for the year ended 31 December 2013 comprise the bank and its subsidiaries (together referred to as the 'group' and individually as 'group entities').

2 Basis of preparation

a *Statement of compliance*

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

All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

These financial statements have also been drawn up in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995, enacted in Malta.

On 1 January 2013, the group adopted the following significant new standards which were endorsed by the EU and/or allowed to be early adopted with effect from annual periods commencing 1 January 2013. The financial effect of these new standards and amendments is insignificant to these consolidated financial statements:

- IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12') and IFRS 13 'Fair Value Measurements' ('IFRS 13').
- Under IFRS 10, there is one approach for determining consolidation for all entities, based on the concepts of power, variability of returns and their linkage. This replaces the approach which applied to previous financial statements which emphasised legal control or exposure to risks and rewards, depending on the nature of the entity. The group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns by exercising its power over the entity. In accordance with the transitional provisions of IFRS 10, the group reviewed the population of investments in entities as at 1 January 2013 to determine whether entities previously consolidated or unconsolidated in accordance with IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities' changed their consolidation status as a result of applying IFRS 10. The result of this review was that the effect of applying the requirements of IFRS 10 did not have any effect on these consolidated financial statements. Therefore no restatements are necessary on application of IFRS 10.
- IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including for unconsolidated structured entities. The disclosure requirements of IFRS 12 do not require comparative information to be provided for periods prior to initial application. New disclosures are provided in Note 49.

  These two standards are effective for annual periods commencing on 1 January 2014 but are allowed to be early adopted by IFRS as adopted by the EU.
- IFRS 13 establishes a single framework for measuring fair value and introduces new requirements for disclosure of fair value measurements. IFRS 13 is effective for annual period commencing on or after 1 January 2013. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

During 2013, the group adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of HSBC Bank Malta p.l.c.

2 Basis of preparation *(continued)*

b *Basis of measurement*

Assets and liabilities are measured at historical cost except for certain intangible assets measured at the present value of in-force long-term insurance business, and the following that are measured at fair value:

– Derivatives;

– Financial instruments designated at fair value through profit or loss;

– Available-for-sale financial investments;

– Property; and

– Liabilities under investment contracts.

c *Functional and presentation currency*

The financial statements are presented in euro, which is the group's functional currency.

d *Use of estimates and assumptions*

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates, actual results in the future may differ from estimates upon which financial information is prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4, 25 and 53.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by group entities. As noted in 2a, the group chose to early adopt the requirement of IFRS 10 and IFRS 12.

a *Basis of consolidation*

i Consolidation

HSBC Bank Malta p.l.c. controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities. For the group to have power over an entity, it must have the practical ability to exercise those rights. In the rare situations where potential voting rights exist, these are taken into account if the group has the practical ability to exercise those rights.

Where voting rights are not relevant in deciding whether the group has power over an entity, the assessment of control is based on all facts and circumstances. The group may have power over an entity even though it holds less than a majority of the voting rights, if it holds additional rights arising through other contractual arrangements or substantive potential voting rights which give it power.

When assessing whether to consolidate investment funds, the group reviews all facts and circumstances to determine whether the group, as fund manager, is acting as agent or principal, the group may be deemed to be a principal, and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the funds by exercising its power.

3 Significant accounting policies *(continued)*

a *Basis of consolidation (continued)*

i Consolidation (continued)

The acquisition method of accounting is used when subsidiaries are acquired by the group. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of the group's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in profit or loss. In the event that the amount of net assets acquired is in excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of HSBC's previously held equity interest, the difference is recognised immediately in profit or loss.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Entities that are controlled by the group are consolidated from the date the group gains control and cease until the date the group loses control of the entities.

HSBC performs a re-assessment of consolidation whenever there is a change in the facts and circumstances of determining the control of all entities.

ii Transactions eliminated on consolidation

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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b *Financial instruments*

i Non-derivative financial instruments

Non-derivative financial instruments are recognised on trade date when the group enters into contractual arrangements with counterparties. These financial instruments are recognised initially at fair value adjusted with, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, highly liquid investments and deposits with contractual maturity of three months or less. Loans and advances to banks and Amounts owed to banks that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows. Subsequent to initial recognition, cash and cash equivalents are measured at amortised cost.

3 Significant accounting policies *(continued)*

b *Financial instruments (continued)*

i Non-derivative financial instruments (continued)

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management. The group designates financial instruments at fair value when the designation:

– eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different basis. Under this criterion, the only class of financial instruments designated by the group is financial assets and financial liabilities under investment contracts.

  Liabilities under linked contracts are based on the fair value of the assets held in the linked funds, with changes recognised in profit or loss. Liabilities under other types of investment contracts would be measured at amortised cost. If no designation was made for the assets relating to the customer liabilities they would be classified as available-for-sale and the changes in fair value would be recorded directly in other comprehensive income. These financial instruments are managed on a fair value basis and management information is also prepared on this basis. Designation at fair value of the financial assets and liabilities under investment contracts allows the changes in fair values to be recorded in profit or loss and presented in the same line.

– applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, certain financial assets held to meet liabilities under insurance contracts are the main class of financial instruments so designated. The group has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks. Reports are provided to management on the fair value of the assets.

The fair value designation, once made, is irrevocable. Subsequent to initial recognition, the fair values are remeasured, and gains and losses from changes therein are recognised in Net income from insurance financial instruments designated at fair value.

Available-for-sale

Treasury Bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale.

Available-for-sale financial investments are subsequently remeasured at fair value and changes therein are recognised in other comprehensive income until the financial assets are either sold or become impaired. When available-for-sale financial investments are sold, the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss as Net gains on sale of available-for-sale financial investments.

Unquoted equity securities the fair value of which cannot be reliably measured are carried at cost less impairment.

Loans and advances to banks and customers

Loans and advances to banks and customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. Loans and advances are recognised when the cash is advanced to the borrowers. They are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Loans and advances to banks and customers are classified as loans and receivables.

Subordinated liabilities, deposits by banks and amounts owed to customers

Financial liabilities are recognised when the group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortised cost, using the effective interest rate method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

3 Significant accounting policies *(continued)*

b *Financial instruments (continued)*

ii Derivative financial instruments

Derivatives are recognised initially and are subsequently remeasured at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair value of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in profit or loss.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss. These gains and losses are reported in Trading profits, except where derivatives are managed in conjunction with financial instruments designated at fair value in which case gains and losses are reported in Net income from insurance financial instruments designated at fair value. Derivatives that do not qualify for hedge accounting include non-qualifying hedges entered into as part of documented interest rate management strategies for which hedge accounting was not, or could not be applied.

Hedge accounting

When derivatives are designated as hedges, the group classifies them as either:

– hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); or
– hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges').

Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow hedge provided certain criteria are met.

At the inception of a hedging relationship, the group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedging risks in the fair value or cash flows of the hedged items. Interest on designated qualifying hedges is included in Net interest income.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in profit or loss, along with changes in the fair value of the hedged items or group thereof that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to profit or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to profit or loss immediately.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in profit or loss.

The accumulated gains and losses recognised in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

Notes on the Financial Statements (continued)

3 Significant accounting policies *(continued)*

b *Financial instruments (continued)*

ii Derivative financial instruments (continued)

Cash flow hedge (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to profit or loss.

Hedge effectiveness testing

To qualify for hedge accounting, the bank requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted by the group to assess hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80% to 125%.

Hedge ineffectiveness is recognised in profit or loss in Trading profits.

iii Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the group has transferred its contractual right to receive the cash flows of the financial assets, and either

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

iv Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

v Repurchase transactions

The group enters into purchases of investments under agreement to resell substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell at future dates are not recognised. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised using the effective interest method over the period of the transactions and is included in interest.

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c *Investment in subsidiaries*

HSBC Bank Malta p.l.c. classifies investments in entities which it controls as subsidiaries.

The bank's investments in subsidiaries are stated at cost less any impairment losses.

Impairment losses recognised in prior periods are reversed through profit or loss if, and only if, there has been a change in the estimates used to determine the recoverable amount of the investment in subsidiary since the last impairment loss was recognised.

3 Significant accounting policies *(continued)*

d *Intangible assets*

Intangible assets include software and the present value of in-force long-term insurance business.

Software acquired by the group is initially measured at cost and subsequently stated net of accumulated amortisation and any impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of software, from the date it is available for use. Estimated useful life is the lower of legal duration and expected useful life. The estimated useful life of software ranges between 3 – 5 years.

For the accounting policy governing the present value of in-force long-term insurance business see note 3i (iv).

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e *Property, plant and equipment*

i Owned assets

Property, plant and equipment are initially measured at cost. Freehold and long leasehold properties are remeasured to fair value on the basis of their existing use. Revaluations are performed by a professionally qualified architect with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Any surpluses arising on revaluation are credited to a revaluation reserve, net of deferred tax. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to profit or loss.

Items of property, plant and equipment are stated net of accumulated depreciation and any impairment losses.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net in profit or loss within Net other operating (expense)/income. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings. Any amounts written-off are recognised in profit or loss within General administrative expenses.

ii Finance and operating leases

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases.

When the group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment and the corresponding liability to the lessor is included in Other liabilities. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in Net interest income over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When the group is the lessee, leased assets are not recognised on the statement of financial position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in General and administrative expenses and Net other operating (expense)/income respectively.

iii Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iv Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative period are as follows:

– long leaseholds, freehold buildings and improvements	50 years
– short leaseholds and improvements to rented property	over term of lease
– equipment, furniture and fittings	3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes on the Financial Statements (continued)

3 Significant accounting policies *(continued)*

f *Investment property*

Property held for long-term rental yields or for capital appreciation or both that is not occupied by the group is classified as investment property.

Investment properties are included in the statement of financial position at fair value with changes therein recognised in profit or loss in the period of change. Fair values are determined by professional valuers who apply recognised valuation techniques. Any gain or loss on the disposal of an investment property is recognised in profit or loss. When the use of property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

g *Impairment*

i *Financial investments: available-for-sale securities*

At each reporting date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the equity securities classified as available-for-sale below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in profit or loss when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income.
- for an available-for-sale equity security, subsequent decreases in the fair value of the available-for-sale equity security are recognised in profit or loss, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

ii Loans and receivables

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recognised in profit or loss. The carrying amount of impaired loans as at the reporting date is reduced through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include:

- the size of the loan;
- the number of loans in the portfolio; and
- the importance of the individual loan relationship, and how this is managed.

Loans that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology.

For all loans that are considered individually significant, the group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used by the group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For those loans where objective evidence of impairment exists, impaired losses are determined considering the following factors:

- the group's aggregate exposure to the customer;
- the viability of the customer's business model and their capability to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the group and the likelihood of other creditors continuing to support the customer;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit risk mitigants) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

The realisable value of security is determined based on the current market value when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices; however, adjustments are made to reflect local conditions, such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least annually and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

ii Loans and receivables (continued)

Collectively assesed loans and advances

Impairment is assessed on a collective basis in two circumstances:

– to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and

– for homogeneous groups of loans that are not considered individually significant.

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include type of business involved, type of products offered, security obtained or other relevant factors. This reflects impairment losses that the group has incurred as a result of events occurring before the reporting date, which the group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

– historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);

– the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the loss on an individual loan; and

– management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period between a loss occurring and its identification may vary over time as these factors change.

For homogeneous groups of loans that are not considered individually significant, two alternative methods are used to calculate allowances on a portfolio basis:

– When appropriate empirical information is available, the group utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the likelihood that loans will progress through the various stages of delinquency and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

– When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the group adopts a formulaic approach based on historical loss rate experience. Loss rates are calculated from the discounted expected future cash flows from a portfolio.

  The inherent loss within each portfolio is assessed on the basis of statistical analysis using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical analysis, they are taken into account by adjusting the impairment allowances derived solely from the statistical analysis to reflect these changes as at the reporting date.

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

ii Loans and receivables (continued)

Collectively assesed loans and advances (continued)

These additional portfolio risk factors may include recent loan portfolio growth and product mix, unemployment rates, bankruptcy trends, loan product features (such as the ability of borrowers to repay adjustable-rate loans where reset interest rates give rise to increases in interest charges), economic conditions such as national and local trends in housing markets and interest rates, portfolio seasoning, account management policies and practices, current levels of write-offs, changes in laws and regulations and other factors which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

iii Non-financial assets

The carrying amounts of the group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

The recoverable amount of non-financial assets is the greater of their fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

iv Reversals of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. For financial assets measured at amortised cost and available-for-sale financial investments that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial investments that are equity securities, the reversal is recognised directly in other comprehensive income.

An impairment loss on non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

v Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security have been received.

h *Non-current assets held for sale*

Non-current assets are classified as held for sale when their carrying amounts will be recovered principally through sale, they are available for sale in their present condition and their sale is highly probable. Immediately before classification as held for sale, the assets are remeasured in accordance with the group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Notes on the Financial Statements (continued)

3 Significant accounting policies *(continued)*

i *Insurance and investment contracts*

Through its insurance subsidiary, the group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

Insurance contracts are accounted for as follows:

i Premiums

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked business where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

ii Claims and reinsurance recoveries

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims. Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claims.

iii Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated based on actuarial principles.

Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices.

A liability adequacy test is carried out on insurance liabilities to ensure that the carrying amount of the liabilities is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Where a shortfall is identified it is charged immediately to profit or loss.

iv Present value of in-force long-term insurance business

The value placed on insurance contracts that are classified as long-term insurance business, and are in force at the reporting date is recognised as an asset.

The present value of in-force long-term insurance business is determined by discounting future cash flows expected to emerge from business currently in force, using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses and a risk discount rate that reflects the risk premium attributable to the respective long-term insurance business. Movements in the present value of in-force long-term insurance business are included in Net other operating (expense)/income on a gross of tax basis.

v Investment contracts

Investment contracts are those contracts where there is no significant insurance risk.

Customer liabilities under unit-linked investment contracts and the linked financial assets are designated at fair value through profit or loss, and the movements in fair value are recognised in profit or loss in Net income from insurance financial instruments designated at fair value.

Premiums receivable and amounts withdrawn are accounted for as increases/decreases in the liability recorded in respect of investment contracts.

Liabilities under unit-linked investment contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices.

Investment management fees receivable are recognised in profit or loss over the period of the provision of the investment management services in Net fee and commission income.

3 Significant accounting policies *(continued)*

i *Insurance and investment contracts (continued)*

v Investment contracts (continued)

The incremental costs directly related to the acquisition of new investment contracts or renewal of existing investment contracts are deferred and amortised over the period of the provision of the investment management services.

j *Provisions*

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Restructuring

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

k *Financial guarantee contracts*

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of the initial fair value less cumulative amortisation and the best estimate of the expenditure required to settle the obligations. Financial guarantees are included within customer accounts.

l *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments except those classified as held for trading or designated at fair value through profit or loss are recognised in Interest and similar income and Interest expense in profit or loss using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest receivable or interest payable over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the original effective interest rate.

3 Significant accounting policies *(continued)*

m *Non-interest income*

i Net fee and commission income

Fee income is recognised as follows:

- on the execution of a significant act when the significant act has been completed; and
- as the services are provided except where the fee is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in Net interest income.

Other fee and commission expense, which relates mainly to transaction and service fees are expensed as the services are received.

ii Dividend income

Dividend income is recognised on the date the entity's right to receive income is established which in the case of quoted securities is usually the ex-dividend date.

iii Net income from insurance financial instruments designated at fair value

Net income from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss; and
- interest income and expense and dividend income arising on these financial instruments.

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n *Employee benefits*

i Defined contribution plan

The group contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as an employee compensation and benefit in profit or loss in the periods during which services are rendered by employees.

ii Termination benefits

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

iii Share-based payment transactions

Share-based payment arrangements in which the group receives goods or services as consideration for equity instruments in the ultimate parent company are accounted for as equity-settled share-based payment transactions.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

3 Significant accounting policies *(continued)*

o *Foreign currencies*

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the reporting date. Foreign currency differences on monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Any exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised in profit or loss if the gain or loss on the non-monetary item is recognised in profit or loss.

p *Income tax*

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q *Operating segments*

Measurement of segment assets, liabilities, income and expenses is based on the group's accounting policies. Segment income and expenses include transfers between segments. Shared costs are included in segment on the basis of the actual recharges made.

r *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on these financial statements.

4 Financial instruments and risk management

a *Use of financial instruments*

The nature of the group's core banking operations implies that financial instruments are extensively used in the course of its routine business. The group's financial instruments consist of primary instruments and include cash balances with banks, loans and advances to customers, securities and amounts due to banks and customers.

The group is exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on group financial performance and position.

The principal categories of risk are credit risk, market risk and liquidity risk. These categories of risk in relation to life insurance business are described in note 4(e) and are excluded from group figures disclosed in notes 4(a) to 4(c).

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e)(ii)*

i Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance and treasury business. It also arises when issuers of debt securities are downgraded and as a result the value of group's holdings of these assets fall. The group has standards, policies and procedures dedicated to control and monitor the risk arising from all such activities.

Within the overall framework of the group policy, the group has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis which includes the management of adverse trends. Management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentrations by market sector and product.

Special attention is paid to problem loans. Specialist units are established by the group to provide customers with support in order to help them avoid default wherever possible.

a Collateral and other credit enhancements

Collateral can be an important mitigant of credit risk. Nevertheless, it is group's policy to establish that loans are within the customer's capacity to repay rather than to over rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured.

The group is required to implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and determine suitable valuation parameters. Such parameters are expected to be conservative, reviewed regularly and supported by empirical evidence. Security structures and legal covenants are required to be subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

The table below sets out the principal types of collateral held against different types of financial assets:

Type of credit exposure

		Percentage of collateralised exposure	
	Principal type of security held for secured lending	***31 December 2013***	*31 December 2012*
		%	%
Loans and advances to retail customers			
Mortgage lending	Residential property	**100**	99
Personal lending	Residential property	**64**	57
Credit cards	None	**–**	–
Loans and advances to corporate customers			
Government and public sectors	Government guarantees	**86**	85
Other	Commercial property	**47**	58

The group typically does not hold collateral against financial assets designated at fair value, financial investments and loans to banks, and no such collateral was held at 31 December 2013 and 2012.

Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value ('LTV'). LTV is calculated as the ratio of the gross amount of loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

4 Financial instruments and risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e)(ii) (continued)*

i Credit risk management (continued)

a Collateral and other credit enhancements *(continued)*

Residential mortgage lending and commitments for mortgage lending

	31 December 2013	*31 December 2012*
	€000	€000
Loan to value (LTV) ratio		
Less than 25%	**291,207**	280,098
25% to 50%	**433,767**	434,192
51% to 75%	**500,632**	486,411
76% to 90%	**281,165**	233,855
91% to 100%	**117,350**	46,789
Greater than 100%	**17,498**	21,791
	1,641,619	1,503,136

b Credit quality of loans and advances

Group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss. Risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly. The credit quality of unimpaired loans is assessed by reference to the group's standard credit rating system.

ii Renegotiated loans and forbearance

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. Under certain circumstances, the group may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer. This practice of renegotiation for credit purposes is known as loan forbearance. When the contractual payment terms of a loan have been modified because the bank has significant concerns about the borrower's ability to meet contractual payments when due, these loans are classified as 'renegotiated loans'. For the purposes of this disclosure the term 'forbearance' is synonymous with the renegotiation of loans.

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximize collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and other forms of loan modifications and re-ageing.

Our policies and practices are based on criteria which enable management to judge whether repayment is likely to continue. These typically provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations.

For retail lending our credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received. Where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the renegotiation, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as impaired, unless the concession granted is insignificant.

When we grant a concession to a customer that we would not otherwise consider, as a result of their financial difficulty, this is objective evidence of impairment and impairment losses are measured accordingly. A renegotiated loan is presented as impaired when there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e)(ii) (continued)*

ii Renegotiated loans and forbearance (continued)

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is disclosed as renegotiated. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

The following tables show the gross carrying amounts of the bank's holdings of renegotiated loans and advances to customers by industry sector and credit quality classification:

	Neither past due nor impaired	*Past due but not impaired*	*Impaired*	*Total*
	€000	**€000**	**€000**	**€000**
Group/Bank				
At 31 December 2013				
Personal				
– first lien residential mortgages	**32,755**	**6,578**	**5,000**	**44,333**
– other personal	**996**	**510**	**26,519**	**28,025**
Corporate and commercial				
– commercial real estate and other property-related	**3,420**	**2,973**	**84,470**	**90,863**
– other commercial	**13,179**	**10,176**	**83,550**	**106,905**
Financial institutions	**–**	**–**	**807**	**807**
	50,350	**20,237**	**200,346**	**270,933**
Total impaired allowances renegotiated loans				
– individually assessed	**–**	**–**	**48,652**	**48,652**
– collectively assessed	**99**	**74**	**3,197**	**3,370**
	99	**74**	**51,849**	**52,022**
Collateral held	**45,315**	**14,674**	**117,823**	**177,812**
Group/Bank				
At 31 December 2012				
Personal				
– first lien residential mortgages	33,154	8,209	3,857	45,220
– other personal	1,634	742	30,788	33,164
Corporate and commercial				
– commercial real estate and other property-related	8,886	4,297	64,597	77,780
– other commercial	29,804	8,580	73,584	111,968
Financial institutions	–	–	2,269	2,269
	73,478	21,828	175,095	270,401
Total impaired allowances renegotiated loans				
– individually assessed	–	–	44,479	44,479
– collectively assessed	241	69	3,409	3,719
	241	69	47,888	48,198
Collateral held	56,839	19,221	96,571	172,631
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers as at 31 December 2013				**8.03%**

4 Financial instruments and risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e)(ii) (continued)*

ii Renegotiated loans and forbearance (continued)

Interest income recognised during 2013 in respect to forborne assets amounts to €9,100,000.

Movement in forbearance activity during the year:	
1 January 2013	270,330
Additions	6,408
Retired from foreborne	(5,972)
31 December 2013	**270,766**

iii Credit exposure

The group's maximum exposure to credit risk on financial instruments, whether recognised or unrecognised, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

– Recognised financial assets comprise Balances with Central Bank of Malta, Treasury Bills and cash, Cheques in course of collection, Financial assets at fair value through profit or loss, Financial investments, loans and advances and acceptances and endorsements. The maximum exposure of these financial assets to credit risk, equals their carrying amount.

– Financial guarantees granted. The maximum exposure to credit risk is the full amount that the group would have to pay if the guarantees are called upon.

– Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities.

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same industry sector and so their ability to meet contractual obligations is similarly affected by certain conditions.

The following industry concentrations are considered significant for gross Loans and advances to customers:

	2013	2012
	€000	€000
Group/Bank		
Agriculture	**4,081**	4,499
Fishing	**4,520**	3,460
Mining and quarrying	**37**	1,938
Manufacturing	**98,970**	136,908
Electricity, gas and air-conditioning supply	**106,217**	106,888
Water supply, sewerage waste management and remediation activities	**32,966**	33,627
Construction	**360,517**	385,817
Wholesale and retail trade and repairs	**295,597**	315,554
Transport, storage and communication	**44,027**	51,993
Accommodation and food service activities	**150,404**	152,971
Information and communication	**69,559**	80,240
Financial and insurance activities	**59,622**	75,323
Real estate activities	**103,964**	68,124
Professional, scientific and technical activities	**10,037**	24,597
Administrative and support service activities	**14,694**	15,424
Public administration and defence and compulsory social security	**122,885**	114,954
Education	**2,613**	1,434
Human health and social work activities	**33,378**	33,684
Arts, entertainment and recreation	**7,513**	2,870
Other services activities	**9,030**	8,806
Household and individuals	**1,843,750**	1,801,482
Gross loans and advances to customers	**3,374,381**	3,420,593

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e)(ii) (continued)*

iii Credit exposure (continued)

Debt securities and other bills by rating agency (S&P Rating Agency) designation:

	Treasury Bills	*Debt securities*	*Total*
	€000	**€000**	**€000**
Group			
At 31 December 2013			
AAA	**–**	**171,739**	**171,739**
AA- to AA+	**4,999**	**201,507**	**206,506**
Lower than A-	**43,938**	**524,510**	**568,448**
	48,937	**897,756**	**946,693**
At 31 December 2012			
AAA	–	207,517	207,517
AA- to AA+	–	86,656	86,656
A- to A+	–	668,514	668,514
	–	962,687	962,687

iv Credit quality of financial assets

The following tables provide a detailed analysis of the credit quality of the group's lending portfolio:

a Distribution of gross loans and advances by credit quality

	Loans and advances to customers	*Loans and advances to banks*	*Loans and advances to customers*	*Loans and advances to banks*
	2013	**2013**	2012	2012
	€000	**€000**	€000	€000
Group				
Gross loans and advances:				
– neither past due nor impaired	**2,921,534**	**564,687**	3,061,173	681,272
– past due but not impaired	**149,724**	**–**	137,067	–
– impaired	**303,123**	**–**	222,353	–
	3,374,381	**564,687**	3,420,593	681,272

Loans and advances to banks booked in subsidiary undertakings are neither past due nor impaired.

b Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at the reporting date can be assessed by reference to group's standard credit grading system. The following information is based on that system:

	Loans and advances to customers	*Loans and advances to banks*	*Loans and advances to customers*	*Loans and advances to banks*
	2013	**2013**	2012	2012
	€000	**€000**	€000	€000
Group				
Satisfactory risk	**2,731,457**	**564,687**	2,742,227	681,272
Watch list and special attention	**128,055**	**–**	234,143	–
Sub-standard but not impaired	**62,022**	**–**	84,803	–
	2,921,534	**564,687**	3,061,173	681,272

Loans and advances to banks booked in subsidiary undertakings are of satisfactory risk.

4 Financial instruments and risk management *(continued)*

b *Credit risk excluding Insurance Credit Risk which is reported under 4(e)(ii) (continued)*

iv Credit quality of financial assets (continued)

c Loans and advances which were past due but not impaired

The past due ageing analysis includes loans and advances less than 90 days past due amounting to €145,167,000 (2012: €121,697,000).

	Loans and advances to customers	
	2013	2012
	€000	€000
Group		
Past due up to 29 days	**109,326**	91,325
Past due 30 – 59 days	**22,334**	21,625
Past due 60 – 89 days	**13,507**	8,747
Past due 90 – 179 days	**4,502**	13,942
Past due over 180 days	**55**	1,428
	149,724	137,067

d Individually impaired gross loans by segment

	Loans and advances to customers	
	2013	2012
	€000	€000
Group		
Personal banking	**59,427**	44,083
Commercial and corporate	**226,849**	139,455
Other	**16,847**	38,815
	303,123	222,353

v Movement in allowance accounts for loans and advances to customers

	Individually assessed allowances	*Collective allowances*	*Individually assessed allowances*	*Collective allowances*
	2013	**2013**	2012	2012
	€000	**€000**	€000	€000
Group				
Change in allowances for uncollectability:				
At 1 January	**52,904**	**13,276**	45,402	12,600
Additions	**12,791**	**–**	13,330	676
Reversals	**(3,321)**	**(57)**	(3,605)	–
Exchange movement	**(30)**	**–**	–	–
Discount unwind	**(2,164)**	**–**	(2,223)	–
At 31 December	**60,180**	**13,219**	52,904	13,276

vi Settlement risk

The group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

c *Liquidity risk*

Liquidity risk is the risk that the group does not have sufficient financial resources to meet its financial obligations when they fall due or will have to do so at excessive cost. This risk can arise from mismatches in timing of cash flows.

The objective of the group's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. It is the group's objective to maintain a diversified and stable funding base with the objective of enabling the group to respond quickly and smoothly to unforeseen liquidity requirements.

The group's liquidity and funding management process includes:

- projecting cash flows by considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crisis while minimising adverse long-term implications for the business.

Current accounts and savings deposits payable on demand or at short notice form a significant part of the group's funding. The group places considerable importance on maintaining the stability of these deposits.

Cash flows payable by the group under financial liabilities by remaining maturities

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*	*Carrying amount*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Group						
At 31 December 2013						
Deposits by banks	**41,534**	**48**	**221**	**–**	**41,803**	**41,794**
Customer accounts	**3,529,883**	**940,940**	**65,091**	**–**	**4,535,914**	**4,517,862**
Subordinated liabilities	**1,339**	**3,064**	**103,741**	**–**	**108,144**	**87,273**
Other financial liabilities	**32,249**	**5,310**	**111**	**–**	**37,670**	**37,670**
	3,605,005	**949,362**	**169,164**	**–**	**4,723,531**	**4,684,599**
Loan commitments	**937,455**	**107,283**	**224,306**	**178**	**1,269,222**	**1,269,222**
At 31 December 2012						
Deposits by banks	257,707	786	277	–	258,770	258,611
Customer accounts	3,535,407	869,994	146,416	–	4,551,817	4,516,999
Subordinated liabilities	2,203	2,203	74,530	31,038	109,974	87,240
Other financial liabilities	28,165	550	–	–	28,715	28,715
	3,823,482	873,533	221,223	31,038	4,949,276	4,891,565
Loan commitments	836,276	81,380	156,175	–	1,073,831	1,073,831

Cash flows payable by the group under investment contracts and insurance contracts issued are disclosed in note 4e(iii).

Derivatives are assumed to be payable on demand and not by contractual maturity because trading liabilities are typically held for short periods of time.

4 Financial instruments and risk management *(continued)*

c *Liquidity risk (continued)*

	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Gross nominal outflow	Carrying amount
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Bank						
At 31 December 2013						
Deposits by banks	**41,534**	**48**	**221**	**–**	**41,803**	**41,794**
Customer accounts	**3,566,203**	**940,940**	**65,091**	**–**	**4,572,234**	**4,554,104**
Subordinated liabilities	**1,339**	**3,109**	**104,689**	**–**	**109,137**	**88,040**
Other financial liabilities	**24,682**	**5,310**	**111**	**–**	**30,103**	**30,103**
	3,633,758	**949,407**	**170,112**	**–**	**4,753,277**	**4,714,041**
Loan commitments	**941,429**	**107,283**	**224,306**	**178**	**1,273,196**	**1,273,196**
At 31 December 2012						
Deposits by banks	257,707	786	277	–	258,770	258,611
Customer accounts	3,555,535	869,994	146,416	–	4,571,945	4,537,127
Subordinated liabilities	2,224	2,224	74,690	31,770	110,908	87,987
Other financial liabilities	23,338	550	–	–	23,888	23,888
	3,838,804	873,554	221,383	31,770	4,965,511	4,907,613
Loan commitments	843,639	81,380	156,175	–	1,081,194	1,081,194

The above tables incorporate all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments. Furthermore, loan commitments are not recognised on the Statements of Financial Position.

Assets available to meet these liabilities and to cover outstanding commitments, include balances with Central Bank of Malta, cash, cheques in course of collection, loans and advances to banks and to customers, and marketable debt securities.

The group would meet unexpected net cash outflows by accessing additional funding sources such as interbank lending, or by selling securities such as debt securities, or report arrangements.

d *Market risk*

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and market prices will reduce the group's income or the value of its portfolios.

The objective of the group's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the group's status as a premier provider of financial products and services.

The group manages market risk through risk limits approved by HSBC Holdings. Limits are set by product and risk type with market liquidity being a principal factor in determining the level of limits set.

The group's interest rate exposures comprise those originating in its treasury activities and those originating in other banking activities. The primary source of interest rate risk originating in other banking activities arises from the employment of non-interest liabilities, such as shareholders' equity and current accounts, as well as fixed rate loans and liabilities, other than those generated by treasury business. The group's Asset and Liability Management Committee ('ALCO') assesses the interest rate risks which arise in the business. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on Net interest income.

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

i *Fair value and price verification control*

Where certain financial instruments are measured at fair value, the valuation and the related price verification processes are subject to independent validations. The determination of fair values is therefore a significant element in the reporting of the group's global market activities.

Certain of the group's financial assets and liabilities are carried at cost or amortised cost less impairment and not at fair value.

a Investments – Equity and other non-fixed income instruments available-for-sale

Certain unlisted equity investments are carried at cost less impairment. The group's carrying amount of these investments was €73,000 (2012: €73,000) and the bank's carrying amount was €70,000 (2012: €70,000). There is no market for these investments and no recent transactions that provide evidence of the current fair value. Discounted cash flow techniques do not provide a reliable measure of the fair value of these investments.

b Loans and advances to banks and customers

This category of asset is reported net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2013 the group's carrying amount was €3,865,772,000 (2012: €4,035,765,000), and the bank's carrying amount was €3,865,657,000 (2012: €4,033,178,000).

The loans and advances to customers category of asset amounts to €3,300,982,000 (2012: €3,354,413,000). This carrying value approximates to fair value in the case of loans which are repriceable at the group's discretion. These loans constitute a significant element of the total loan portfolio.

The loans and advances to banks category of asset amounts to €564,790,000 (2012: €681,352,000) for the group and €564,675,000 (2012: €678,765,000) for the bank. For loans and advances to banks within the 'less than one year' maturity band, fair value is taken to be the amount carried at the reporting date. As at 31 December 2013, 91% of loans and advances to banks had a contractual repricing within the 'less than three months' band. Interest rates on these loans and advances reflect current market rates, and therefore the carrying amount approximates to fair value.

c Amounts owed to banks and customers

This category of liability is carried at amortised cost and as at 31 December 2013 amounts to €4,559,656,000 (2012: €4,775,610,000) for the group and €4,595,898,000 (2012: €4,795,738,000) for the bank. Of this liability, 70% has contractual repricing with the 'less than three months' band, 22% reprices within the 'between three months and one year' band whilst 8% reprices within the 'between one year and five years' band. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at the reporting date.

d Subordinated liabilities

This category of liability is carried at amortised cost. Fair value based on quoted market prices at the reporting date without deduction for transaction costs amounts to €94,095,000 as at 31 December 2013 (2012: €92,533,000).

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

ii Basis of valuing financial assets and liabilities measured at fair value

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

	Valuation techniques			
	Quoted market price	*Using observable inputs*	*With significant unobservable inputs*	
	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**
Group				
At 31 December 2013				
Assets				
Derivatives	**–**	**12,666**	**–**	**12,666**
Financial assets designated at fair value through profit or loss	**477,345**	**–**	**–**	**477,345**
Financial investments: available-for-sale	**918,219**	**73**	**–**	**918,292**
Liabilities				
Derivatives	**–**	**12,929**	**–**	**12,929**
Liabilities to customers under investment contracts	**16,763**	**–**	**–**	**16,763**
At 31 December 2012				
Assets				
Derivatives	–	17,615	–	17,615
Financial assets designated at fair value through profit or loss	454,591	–	–	454,591
Financial investments: available-for-sale	987,398	73	–	987,471
Liabilities				
Derivatives	–	17,857	–	17,857
Liabilities to customers under investment contracts	17,254	–	–	17,254

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

ii Basis of valuing financial assets and liabilities measured at fair value (continued)

	Valuation techniques			
	Quoted market price	*Using observable inputs*	*With significant unobservable inputs*	
	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**
Bank				
At 31 December 2013				
Assets				
Derivatives	**–**	**12,666**	**–**	**12,666**
Financial investments: available-for-sale	**897,724**	**70**	**–**	**897,794**
Liabilities				
Derivatives	**–**	**12,929**	**–**	**12,929**
At 31 December 2012				
Assets				
Derivatives	–	17,615	–	17,615
Financial investments: available-for-sale	962,651	70	–	962,721
Liabilities				
Derivatives	–	18,172	–	18,172

iii Credit risk adjustment methodology

The group adopts a credit risk adjustment against over the counter derivative transactions to reflect within fair value the possibility that the counterparty may default, and it may not receive the full market value of the transactions.

The group calculates the credit risk adjustment by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default. The calculation is performed over the life of the potential exposure.

For most products, the group uses a simulation methodology to calculate the expected positive exposure. The methodology simulates the range of potential exposures of the group to the counterparty over the life of an instrument. The range of exposures is calculated across the portfolio of transactions with a counterparty to arrive at an expected overall exposure. The probability of default assumptions are based upon historic rating transition matrices. The credit rating used for a particular counterparty is that determined by the bank's internal credit process. Rating transition is taken account of throughout the duration of the exposure. A standard loss given default assumption is generally adopted. The group considers that an appropriate spread to reflect its own probability of default within the credit risk adjustment calculation is currently zero. Consequently, the group does not derive the adjustment on a bilateral basis and has a zero adjustment against derivative liabilities, often referred to as a 'debit valuation adjustment'. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv Value at risk ('VAR')

One of the principal tools used by the group to monitor and limit market risk exposure is VAR. VAR is a technique that estimates potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VAR models used by the group are predominantly based on historical simulation. The historical simulation models derive plausible future scenarios from historical market rate time series, taking account of inter-relationships between different markets and rates, for example, between interest rates and foreign exchange rates.

The historical simulation models used by the group incorporate the following features:

- potential market movements are calculated with reference to data from the last two years;
- historical market rates and prices are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;
- VAR is calculated to a 99% confidence level; and
- VAR is calculated for a one-day holding period.

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations, for example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The group recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures.

The VAR for the group was as follows:

	2013	2012
	€000	€000
At 31 December	**1,059**	1,605
Average	**925**	1,947
Minimum	**779**	1,483
Maximum	**1,292**	2,577

The reduction in VAR as at 31 December 2013 compared with 31 December 2012 was mainly due to better matching of the assets and liabilities as at the reporting date. VAR has also reduced due to a more benign period in the last 500 days of data.

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

v *Sensitivity of net interest income*

A principal part of HSBC's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). For simulation modelling, business use a combination of scenarios relevant to local businesses and local markets and standard scenarios which are required throughout HSBC.

The table below sets out the impact on future net income/net assets of an incremental 15 basis points parallel fall or rise in all yield curves worldwide on the first day of the following year based on current balance sheet position/ risk profiles and current managed interest rate policy.

	Impact on profit for the year	*Impact on net assets*	*Impact on profit for the year*	*Impact on net assets*
	2013	**2013**	2012	2012
	€000	**€000**	€000	€000
Group/Bank				
+ 15 basis points	**1,306**	**(1,150)**	870	(1,572)
- 15 basis points	**(1,313)**	**1,143**	(870)	1,572

vi *Currency concentration*

	Reporting currencies	*Other currencies*	*Total*	*Reporting currencies*	*Other currencies*	*Total*
	2013	**2013**	**2013**	2012	2012	2012
	€000	**€000**	**€000**	€000	€000	€000
Group						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**149,678**	**1,780**	**151,458**	82,341	24,650	106,991
Cheques in course of collection	**9,441**	**262**	**9,703**	6,727	484	7,211
Derivatives	**9,724**	**2,942**	**12,666**	15,065	2,550	17,615
Financial assets designated at fair value	**386,261**	**91,084**	**477,345**	362,045	92,546	454,591
Financial investments	**686,414**	**231,878**	**918,292**	819,097	168,374	987,471
Loans and advances to banks	**97,510**	**467,280**	**564,790**	85,784	595,568	681,352
Loans and advances to customers	**3,261,466**	**39,516**	**3,300,982**	3,316,273	38,140	3,354,413
Other assets	**284,703**	**1,591**	**286,294**	274,592	2,238	276,830
Total assets	**4,885,197**	**836,333**	**5,721,530**	4,961,924	924,550	5,886,474

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

vi Currency concentration (continued)

	Reporting currencies	*Other currencies*	*Total*	*Reporting currencies*	*Other currencies*	*Total*
	2013	**2013**	**2013**	2012	2012	2012
	€000	**€000**	**€000**	€000	€000	€000
Group						
Liabilities and equity						
Derivatives	**9,996**	**2,933**	**12,929**	15,212	2,645	17,857
Deposits by banks	**8,892**	**32,902**	**41,794**	226,513	32,098	258,611
Customer accounts	**3,822,843**	**695,019**	**4,517,862**	3,728,524	788,475	4,516,999
Liabilities to customers under investment contracts	**16,763**	**–**	**16,763**	17,254	–	17,254
Liabilities under insurance contracts issued	**524,999**	**–**	**524,999**	493,254	–	493,254
Subordinated liabilities	**87,273**	**–**	**87,273**	87,240	–	87,240
Other liabilities	**91,950**	**4,976**	**96,926**	89,315	5,346	94,661
Total equity	**422,984**	**–**	**422,984**	400,598	–	400,598
Total liabilities and equity	**4,985,700**	**735,830**	**5,721,530**	5,057,910	828,564	5,886,474

	Reporting currencies	*Other currencies*	*Total*	*Reporting currencies*	*Other currencies*	*Total*
	2013	**2013**	**2013**	2012	2012	2012
	€000	**€000**	**€000**	€000	€000	€000
Bank						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**149,677**	**1,780**	**151,457**	82,340	24,650	106,990
Cheques in course of collection	**9,441**	**262**	**9,703**	6,727	484	7,211
Derivatives	**9,724**	**2,942**	**12,666**	15,065	2,550	17,615
Financial investments	**665,916**	**231,878**	**897,794**	794,383	168,338	962,721
Loans and advances to banks	**97,395**	**467,280**	**564,675**	83,197	595,568	678,765
Loans and advances to customers	**3,261,466**	**39,516**	**3,300,982**	3,316,273	38,140	3,354,413
Other assets	**187,556**	**1,591**	**189,147**	181,926	2,238	184,164
Total assets	**4,381,175**	**745,249**	**5,126,424**	4,479,911	831,968	5,311,879
Liabilities and equity						
Derivatives	**9,996**	**2,933**	**12,929**	15,527	2,645	18,172
Deposits by banks	**8,892**	**32,902**	**41,794**	226,513	32,098	258,611
Customer accounts	**3,859,085**	**695,019**	**4,554,104**	3,748,652	788,475	4,537,127
Subordinated liabilities	**88,040**	**–**	**88,040**	87,987	–	87,987
Other liabilities	**58,299**	**4,976**	**63,275**	58,615	5,346	63,961
Total equity	**366,282**	**–**	**366,282**	346,021	–	346,021
Total liabilities and equity	**4,390,594**	**735,830**	**5,126,424**	4,483,315	828,564	5,311,879

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

e *Insurance risk*

The insurance risk of the group represents that faced by the life insurance subsidiary company. The principal insurance risk is that the cost of claims combined with acquisition and administration costs may exceed the aggregate amount of premiums received and investment income. The group manages its insurance risks through the application of formal underwriting, reinsurance and claims procedures designed to ensure compliance with regulations.

The following table provides an analysis of the insurance risk exposures by type of business:

	Group	
	2013	2012
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**348,206**	341,956
Term assurance and other long-term contracts	**2,568**	2,489
Total non-linked	**350,774**	344,445
Life insurance (linked)	**174,225**	148,809
Liabilities under insurance contracts issued	**524,999**	493,254
Investment contracts	**16,763**	17,254
Total insurance liabilities	**541,762**	510,508

Present value of in-force long-term insurance business ('PVIF')

The HSBC life insurance business is accounted for using the embedded value approach, which, inter alia, provides a comprehensive framework for the evaluation of insurance and related risks.

The following table shows the effect on the PVIF of reasonably possible changes in the main economic assumptions across the life insurance business:

		PVIF Impact	
		2013	2012
Assumptions	**Movement**	**€000**	€000
As published			
Risk free rate	+100 basis points	**10,298**	8,222
Risk free rate	-100 basis points	**(10,238)**	(9,396)
Expenses inflation	+10%	**(662)**	(549)
Expenses inflation	+10%	**717**	598
Lapse rate	+100 basis points	**(495)**	(820)
Lapse rate	-100 basis points	**252**	687

HSBC's life insurance business is exposed to a range of financial risks, including market risk, credit risk and liquidity risk. The nature and management of these risks is described below.

i Market risk

a Interest rate risk

Life insurance business is exposed to interest rate risk when there is a mismatch in terms of duration or yields between assets and liabilities. The group manages the interest rate risk arising from its insurance underwriting business by establishing limits centrally. These govern the sensitivity of the net present values of expected future cash flows.

Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the profits after tax and net assets of the insurance underwriting business.

b Equity risk

The group manages the equity risk arising from its holdings of equity securities centrally by setting limits on the maximum market value of equities that the insurance underwriting business may hold. Equity risk is also monitored by estimating the effect of predetermined movements in equity prices on the profit for the year and total net assets of the insurance underwriting business.

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

i Market risk (continued)

b Equity risk *(continued)*

An immediate and permanent movement in interest yield curves as at the reporting date would have the following impact on the profit for the year and net assets at that date:

	2013		2012	
	Impact on profit for the year	*Impact on net assets*	*Impact on profit for the year*	*Impact on net assets*
	€000	**€000**	€000	€000
+100 basis points shift in yield curves	**(559)**	**(559)**	(1,683)	(1,683)
-100 basis points shift in yield curves	**539**	**539**	981	981
+10 per cent increase in equity prices	**233**	**233**	209	209
-10 per cent increase in equity prices	**(234)**	**(234)**	(383)	(383)

ii Credit risk

HSBC's life insurance underwriting business is exposed to credit risk in respect of its investment portfolios and reinsurance transactions. The Investment Committee is responsible for the quality and performance of the investment portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

The following table presents the analysis of debt securities within insurance business by rating agency (S & P Rating Agency):

	Debt securities	
	2013	2012
	€000	€000
AAA	**43,011**	27,490
AA- to AA+	**60,326**	75,397
A- to A+	**49,575**	147,519
Lower than A-	**104,372**	14,913
Unrated	**14,484**	14,575
	271,768	279,894

iii Liquidity risk

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk. As part of the management of this exposure, estimates are prepared for most lines of life insurance business of cash flows expected to arise from insurance funds at the reporting date.

The following table shows the expected maturity of insurance liabilities at the reporting date:

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	€000	**€000**	**€000**	**€000**	**€000**
At 31 December 2013					
Liabilities under investment contracts	**136**	**336**	**3,244**	**20,457**	**24,173**
Liabilities under insurance contracts	**13,967**	**34,849**	**172,738**	**293,288**	**514,842**

Notes on the Financial Statements (continued)

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

iii Liquidity risk (continued)

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	€000	**€000**	**€000**	**€000**	**€000**
At 31 December 2012					
Liabilities under investment contracts	186	301	3,278	19,764	23,529
Liabilities under insurance contracts	13,619	30,140	152,846	263,583	460,188

The methodology used for estimating liquidity risk is as follows:

– Linked Insurance Reserves are derived via undiscounted cash flows on a statutory basis. No future premiums are assumed and investment returns are not included in the provisions. All decrements are considered.

– Linked Investment Reserves are as above but only consider contractual maturities and no other form of decrement.

– Non-Linked Reserves are derived via undiscounted statutory reserves run-off on a reporting basis. All future premiums are considered and provisions based on all expected decrements. Timing of cash flows are based on the expected run-off of the reserve.

5 Capital management and allocation

HSBC's capital management approach is driven by its strategy taking into account the regulatory, economic and commercial environment in which it operates. HSBC's capital management policy is to maintain a strong capital base to support the development of its business and the risks inherent in its business and to meet regulatory capital requirements at all times.

Capital management policy is monitored by ALCO. An annual group capital plan is drawn up and approved by the Board with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The group recognises the impact on shareholder returns by the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity from increased leverage.

In implementing the EU's directives which regulate capital requirements, The Malta Financial Services Authority ('MFSA') supervises the group on a consolidated basis and the bank on a solo basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the group and the bank.

The group's capital base is divided in two tiers, as defined in BR03 (the Own Funds of Credit Institutions Authorised Under the Banking Act 1994):

– Original own funds comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book values of intangible assets, 50% of investment in HSBC Life Assurance (Malta) Ltd. and final dividend are deducted in arriving at original own funds calculation. Depositor compensation scheme reserve is excluded from original own funds.

– Additional own funds comprise qualifying subordinated loan capital, collective impairment allowances, and unrealised gains arising on the fair valuation of financial investments held as available-for-sale. Additional own funds also include reserves arising from the revaluation of properties. The remaining 50% of the book value of the investment in HSBC Life Assurance (Malta) Ltd. is deducted in arriving at additional own funds calculation.

  The group's risk and capital management policy is based on the Basel II framework which is structured on three pillars. These have been adopted by the MFSA by way of banking rules as follows:

– Pillar 1 capital requirements – BR04 (Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994) covers the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and securitisation requirements. These requirements are expressed in terms of Risk Weighted Assets ('RWAs').

  The group has adopted the standardised approach in determining the material risks on its banking operations and operational risk. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories.

5 Capital management and allocation *(continued)*

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined accordingly. Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market related risk such as foreign exchange, interest rate and equity position risks and counterparty risk.

Pillar 1 includes a capital requirement for operational risk. The capital required under the standardised approach is one of three different percentages of total operating income less insurance premiums allocated to each of eight defined business lines. This approach uses an average of the last three financial years' revenue.

- Pillar 2 capital requirements – BR12 (The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994) involves both the credit institution and the regulator in assessing whether the institution should hold additional capital against risks not covered under pillar 1. The bank conducts an Internal Capital Adequacy Assessment Process ('ICAAP') annually to determine a forward looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates the group's risk management processes and governance framework. A range of stress tests are applied to the bank's base capital plan. These, coupled with the bank's economic capital framework and other risk management practices, are used to assess our internal capital adequacy requirements. The ICAAP is based upon a pillar 1 plus approach whereby the pillar 1 capital requirements for credit and operational risks are supplemented by an assessment of other material residual risks not fully addressed under pillar 1. The residual risks considered for ICAAP included concentration, liquidity, reputational and strategic risks, interest rate risk in the banking book and risks arising from the macroeconomic environment. The group assesses credit risk by utilising the embedded operational infrastructure for the pillar 1 capital calculation together with an additional suite of models that take into account the internal assessment of diversification of risks, within our portfolios and similarly, any concentrations of risk that arise. The bank maintains a prudent stance of capital coverage, ensuring that any model risk is mitigated. Interest rate risk in the banking book ('IRRBB') is defined as the exposure of non-trading products to interest rates. IRRBB economic capital is measured as the amount of capital necessary to cover an unexpected loss in the value of our non-trading products over one year to a 99% level of confidence. An ICAAP was undertaken during the first half of the year. This document was approved by ALCO and EXCO and presented to the MFSA for review. The results of this year's ICAAP demonstrated that the group maintained an adequate level of capital in relation to its risk profile to meet regulatory requirement and withstand stress scenarios.

  Following the ICAAP submission, the regulator carries out the Supervisory Review Evaluation Process ('SREP') and enters into discussion with the bank on the appropriate level of capital adequacy to cover pillar 2 risks.

- *Stress and scenario testing*

  Stress testing form part of the group's risk and capital framework and is an integral component of ICAAP. As a key risk management tool, stress testing highlights to senior management potential adverse unexpected outcomes related to a mixture of risks and provides an indication of how much capital might be required to absorb losses, should adverse scenarios occur. Stress testing is used to assess risk concentrations, estimate the impact of stressed earnings, impairments and write-downs on the overall capital adequacy under a variety of adverse scenarios.

  Macroeconmic stress testing considers the impact on both earnings and capital for a range of scenarios. It entails multi-year systemic shocks to assess the group's ability to meet its capital requirement and liabilities as they fall due under a downturn in the business cycle and/or macroenonomic environment.

  The principal business benefits of the stress testing framework include: understanding the impact of recessionary scenarios; assessing material risk concentrations; and forecasting the impact of market stress and scenarios on the group's balance sheet liquidity.

  At group level, a series of stress events are monitored on a regular basis to assess the potential impact of an extreme yet plausible event on the group. As a result, senior management is continuously enhancing internal controls to monitor the situation on an ongoing basis. In an adverse scenario, the group also has at its disposal a range of mitigating actions it can implement. The latter also form part of the ICAAP document.

- Pilllar 3 – BR07 (Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act, 1994) is related to market discipline and aims to make institutions more transparent by requiring them to publish specific disclosures on the institution's risk and capital management under the Basel II framework. The group is considered as a significant local subsidiary of HSBC Holdings plc and is therefore exempt in terms of article 23 of BR07 from full risk disclosure requirements under pillar 3. HSBC Holdings plc publishes pilllar 3 disclosures as a separate document on the Group Investor Relations website.

Regulatory changes

The Capital Requirement Directive and the Capital Regulatory Requirement collectively called CRDIV, based on Basel III rules, was finalised in June 2013 and came into effect on 1 January 2014.

Under the new rules the bank's capital position will be positively impacted due to the reclassification of property revaluation reserves to Common Equity Tier 1 capital from additional own funds and changes in treatment of the bank's investment in the life company.

5 Capital management and allocation *(continued)*

Regulatory changes (continued)

During 2014 HSBC Malta will be participating in the European Central Bank comprehensive assessment that includes an asset quality review and a stress test. In 2013, the bank analysed the impact of several stress scenarios, including several different macroeconomic scenarios. The results of the bank's internal analysis indicated that the bank would remain adequately capitalised.

	Group			*Bank*		
	Exposure value	*RWA*	*Capital Required*	*Exposure value*	*RWA*	*Capital Required*
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Exposures under the standardised approach						
Central government and central banks	**795,870**	**–**	**–**	**795,870**	**–**	**–**
Institutions	**1,030,592**	**153,521**	**12,282**	**1,030,843**	**153,553**	**12,284**
Public sector	**255,791**	**19,723**	**1,578**	**255,791**	**19,723**	**1,578**
Corporates	**468,243**	**474,996**	**38,000**	**468,240**	**474,993**	**38,000**
Retail	**378,013**	**257,856**	**20,628**	**378,013**	**257,856**	**20,628**
Secured on real estate property	**2,183,118**	**1,130,194**	**90,416**	**2,183,118**	**1,130,194**	**90,416**
Past due items	**169,543**	**226,404**	**18,112**	**169,543**	**226,404**	**18,112**
Other items	**277,218**	**220,300**	**17,624**	**284,641**	**227,992**	**18,239**
Credit and counterparty risk	**5,558,388**	**2,482,994**	**198,640**	**5,566,059**	**2,490,715**	**199,257**
Operational risk		**339,861**	**27,189**		**339,861**	**27,188**
Market risk						
– Foreign exchange risk		**3,390**	**271**		**3,390**	**271**
Total risk weighted assets and capital required		**2,826,245**	**226,100**		**2,833,966**	**226,716**

	Group		*Bank*	
	Face value	*Weighted amount*	*Face value*	*Weighted amount*
	2013	**2013**	**2013**	**2013**
Assets	**€000**	**€000**	**€000**	**€000**
Balances with Central Bank of Malta, Treasury Bills and cash	**151,457**	**–**	**151,457**	**–**
Cheques in course of collection	**9,703**	**1,941**	**9,703**	**1,941**
Financial investments	**898,176**	**2,864**	**898,141**	**2,855**
Loans and advances to banks	**564,687**	**113,736**	**564,675**	**113,716**
Loans and advances to customers	**3,374,381**	**2,024,670**	**3,374,381**	**2,024,670**
Shares in subsidiary companies	**–**	**–**	**7,129**	**7,129**
Property, plant and equipment and investment property	**73,144**	**73,144**	**73,235**	**73,235**
Other assets	**36,685**	**20,039**	**36,439**	**20,061**
Prepayments and accrued income	**33,780**	**33,726**	**33,673**	**33,382**
	5,142,013	**2,270,120**	**5,148,833**	**2,276,989**
Contingent liabilities, commitments and other	**1,887,538**	**212,874**	**1,893,036**	**213,726**
Total adjusted assets and off-balance sheet items		**2,482,994**		**2,490,715**
Operational risk		**339,861**		**339,861**
Market risk – Foreign exchange risk		**3,390**		**3,390**
Total risk weighted assets		**2,826,245**		**2,833,966**

5 Capital management and allocation *(continued)*

	Group	*Bank*
	2013	**2013**
	€000	**€000**
Total own funds		
Tier 1		
Called up share capital	**87,552**	**87,552**
Retained earnings	**240,559**	**240,726**
Exclusions/deductions:		
– Depositor compensation scheme reserve	**(28,542)**	**(28,542)**
– Investment in HSBC Life Assurance (Malta) Ltd.	**(14,289)**	**(14,289)**
– Final dividend	**(9,885)**	**(9,885)**
– Intangible assets	**(10,093)**	**(10,093)**
	265,302	**265,469**
Tier 2		
Available-for-sale reserve	**10,705**	**10,705**
Property revaluation reserve	**27,286**	**27,286**
Collectively assessed allowances	**13,219**	**13,219**
Subordinated liabilities	**63,292**	**63,292**
Deductions:		
– Investment in HSBC Life Assurance (Malta) Ltd.	**(14,289)**	**(14,289)**
	100,213	**100,213**
Total own funds	**365,515**	**365,682**
Capital adequacy ratio at 31 December 2013		
Tier 1 Ratio	**9.4%**	**9.4%**
Total capital ratio	**12.9%**	**12.9%**
Capital adequacy ratio at 31 December 2012		
Tier 1 Ratio	8.3%	8.4%
Total capital ratio	12.4%	12.5%

6 Interest and similar income

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
On loans and advances to banks	**1,914**	3,464	**1,891**	3,430
On loans and advances to customers	**140,979**	146,870	**140,994**	146,875
On balances with Central Bank of Malta	**322**	462	**322**	462
On Treasury Bills	**99**	465	**99**	465
	143,314	151,261	**143,306**	151,232
On debt and other fixed income instruments	**26,433**	30,797	**25,659**	29,007
Amortisation of net premiums	**(7,641)**	(7,421)	**(7,590)**	(7,292)
	18,792	23,376	**18,069**	21,715
	162,106	174,637	**161,375**	172,947
Interest receivable and similar income from:				
– Group companies	**1,886**	3,375	**1,886**	3,375
– subsidiary companies	**–**	–	**15**	5

Discount unwind on impaired loans and advances to customers included in interest receivable on loans and advances to customers amounted to €2,164,000 (2012: €2,223,000).

Notes on the Financial Statements (continued)

7 Interest expense

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
On deposits by banks	**119**	656	**119**	656
On customer accounts	**32,827**	36,430	**32,935**	36,790
On subordinated liabilities	**4,449**	4,451	**4,449**	4,451
	37,395	41,537	**37,503**	41,897
Interest payable to:				
– Group companies	**93**	640	**93**	640
– subsidiary companies	**–**	–	**108**	360

8 Net fee and commission income

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Net fee and commission income that is not an integral part of the effective interest method on:				
– financial assets or liabilites not at fair value through profit or loss	**17,594**	17,118	**17,594**	17,118
– trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals and other institutions	**9,350**	11,035	**4,764**	5,346
– other	**2,593**	2,338	**4,385**	4,327
	29,537	30,491	**26,743**	26,791
Net fee and commission income from:				
– Group companies	**1,248**	1,527	**699**	761
– subsidiary companies	**–**	–	**3,913**	4,124

Net fee and commission income for the bank include €2,649,000 (2012: €3,549,000) derived from investment services activities.

9 Dividend income

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Subsidiary companies	**–**	–	**12,308**	20,896

10 Trading profits

	2013	2012
	€000	€000
Group/Bank		
Profit on foreign exchange activities	**9,213**	9,182
Net profits on financial instruments at fair value through profit or loss	**310**	134
	9,523	9,316

11 Net gains on sale of available-for-sale financial investments

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Net revaluation gains transferred from equity	**4,295**	4,049	**4,352**	3,344

12 Net operating income

Net operating income includes net income from Life insurance business analysed as follows:

	Group	
	2013	2012
	€000	€000
Net interest income	**711**	1,661
Net fee and commission income	**666**	883
Net income from insurance financial instruments designated at fair value through profit or loss	**25,528**	43,115
Net (losses)/gains on sale of available-for-sale financial investments	**(57)**	777
Net earned insurance premiums	**66,073**	67,284
Net other operating (expense)/income	**(2,653)**	2,731
	90,268	116,451
Net insurance claims incurred and movement in policyholders' liabilities	**(71,201)**	(92,970)
	19,067	23,481

a *Net earned insurance premiums*

	Group	
	2013	2012
	€000	€000
Life insurance		
Gross premium written	**70,702**	71,432
Outward reinsurance premiums	**(4,629)**	(4,148)
	66,073	67,284

b *Net insurance claims incurred and movement in policyholders' liabilities*

	Group					
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
	2013	**2013**	**2013**	2012	2012	2012
	€000	**€000**	**€000**	€000	€000	€000
Life insurance						
Claims paid	**44,523**	**(1,096)**	**43,427**	51,201	(1,783)	49,418
Change in technical provision	**31,575**	**(5,049)**	**26,526**	56,170	(12,937)	43,233
Change in claims provision	**1,561**	**(313)**	**1,248**	1,459	(1,140)	319
	77,659	**(6,458)**	**71,201**	108,830	(15,860)	92,970

Notes on the Financial Statements (continued)

13 Employee compensation and benefits

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Wages, salaries and allowances	**45,197**	45,517	**41,790**	42,431
Defined contribution social security costs	**2,122**	2,509	**2,353**	2,352
Retirement benefits	**844**	5,870	**830**	5,838
Share-based payments	**376**	784	**362**	723
	48,539	54,680	**45,335**	51,344
	Number	*Number*	***Number***	*Number*
Average number of employees				
– executive and senior managerial	**261**	259	**244**	238
– other managerial, supervisory and clerical	**1,122**	1,153	**996**	1,091
– others	**31**	37	**31**	37
	1,414	1,449	**1,271**	1,366

During 2011, the bank announced an early voluntary retirement scheme for its employees as part of the continued transformation programme for the business. The provision as at 31 December 2013, amounted to €1,956,000 for the group (2012: €6,038,000) and €1,925,000 for the bank (2012: €5,976,000). The charge for the year amounted to €380,000 for the group and the bank (2012: group: €5,612,000; bank: €5,580,000).

In order to align the interests of staff with those of shareholders, share options in ordinary shares of the ultimate parent company are offered to group employees under all-employee share plans and achievement shares awarded to group senior management under discretionary incentive plans. The company offers the following types of share option schemes to its employees.

Main Plans	Policy	Purpose
Savings related share options plans	• Exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or fifth anniversaries of the commencement of three-year or five-year contracts, respectively • The exercise price is set at a 20% (2012: 20%) discount to the market value immediately preceding the date of invitation	• Eligible employees save up to £250 per month (or its equivalent in euros), with the option to use the savings to acquire shares • To align the interests of all employees with the creation of shareholder value
HSBC Holdings Group share option plan	• Plan ceased in May 2005 • Exercisable between third and tenth anniversaries of the date of grant	• Long-term incentive plan between 2000 and 2005 during which certain HSBC employees were awarded share options

	Group			
	Options	*Weighted average exercise price (€)*	*Options*	*Weighted average exercise price (€)*
	2013	**2013**	2012	2012
Savings related Share Option Plans				
Outstanding at 1 January	**677,764**	**4.61**	768,222	3.89
Granted during the year	**–**	**–**	511,004	5.52
Exercised during the year	**(96,990)**	**5.25**	(391,041)	3.83
Closed during the year	**(62,964)**	**4.86**	(210,421)	5.64
Outstanding at 31 December	**517,810**	**4.45**	677,764	4.61
Exercisable at 31 December	**3,413**	**6.43**	27,683	5.12

13 Employee compensation and benefits *(continued)*

	Group			
	Options	*Weighted average exercise price (€)*	*Options*	*Weighted average exercise price (€)*
	2013	**2013**	2012	2012
Group Share Option Plans				
Outstanding at 1 January	**479,663**	**8.35**	482,992	8.15
Exercised during the year	**(126,230)**	**7.66**	–	–
Released during the year	**(65,395)**	**7.23**	(3,329)	7.38
Outstanding at 31 December	**288,038**	**9.11**	479,663	8.35
Exercisable at 31 December	**288,038**	**9.11**	479,663	8.35

The options outstanding at the reporting date had a contractual life of between one and five years.

The weighted average share price and exercise price are denominated in pounds sterling and disclosed in euro equivalent using the exchange rates prevailing at the reporting dates.

Fair value of share option schemes

Fair values of share options awarded under all-employee share option plans, measured at the date of grant of the option, are calculated using a Black-Scholes model.

The expected life of options depends on the behaviour of option holders, which is incorporated into the option model consistent with historic observable data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

The risk-free interest rate is determined from the UK gilts zero-coupon yield curve. Expected volatility is estimated by considering both historic average share price volatility and implied volatility for traded options over HSBC shares of similar maturity to those of the employee options. Expected life is not a single input parameter but a function of various behavioural assumptions.

The group also grants the following types of awards to its employees:

Award	**Policy**	**Purpose**
Restricted share awards (including Group Performance Share Plans 'GSPS')	• Vesting of awards generally subject to continued employment with the group • Vesting often staggered over three years. GPSP awards vest after five years • Certain shares subject to a retention requirement postvesting • In the case of GPSP awards retention applies until cessation of employment • Awards generally not subject to performance conditions • Awards granted from 2010 onwards are subject to clawback provision prior to vesting	• Rewards employee performance and potential and retention of key employees • To defer variable pay

These awards are generally granted to employees early in the year following the year to which the award relates. The charge for these awards is recognised from the start of the period to which the service relates to the end of the vesting period. The vesting period is the period over which the employee satisfies certain service conditions in order to become entitled to the award. Due to the staggered vesting profile of certain deferred share awards, the employee becomes entitled to a portion of the award at the end of each year during the vesting period.

Notes on the Financial Statements (continued)

14 Net impairment on financial assets

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Write-downs				
Investments				
– available-for-sale equity instruments	**–**	(300)	**–**	(300)
	–	(300)	**–**	(300)
Loans and advances to customers				
– specific allowances	**(5,864)**	(6,811)	**(5,864)**	(6,811)
– collective allowances	**–**	(676)	**–**	(676)
– bad debts written off	**(883)**	(1,275)	**(883)**	(1,275)
	(6,747)	(8,762)	**(6,747)**	(8,762)
Reversals of write-downs				
Loans and advances to customers				
– specific allowances	**3,321**	3,605	**3,321**	3,605
– collective allowances	**57**	–	**57**	–
– bad debts recovered	**97**	342	**97**	342
	3,475	3,947	**3,475**	3,947
Net impairment	**(3,272)**	(5,115)	**(3,272)**	(5,115)

15 Profit before tax

	2013	2012
	€000	€000
Group/Bank		
Profit before tax is stated after charging:		
Directors' emoluments		
– fees	**169**	169
– other emoluments	**1,475**	1,260
	1,644	1,429

Profit before tax for the group is also stated after charging the following fees (excluding VAT) in relation to services provided by the external auditors of the group:

– auditors' fees of €172,000;

– other assurance services fees of €33,000;

– tax advisory services fees of €23,000; and

– other non-audit services fees of €13,000.

16 Tax expense

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:				
– current	**30,869**	28,679	**30,761**	35,107
– deferred	**891**	5,054	**(57)**	(1,465)
	31,760	33,733	**30,704**	33,642

The tax on profit and the result of accounting profit multiplied by the applicable tax rate are reconciled as follows:

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Profit before tax	**90,477**	95,335	**87,119**	95,198
Tax at the applicable rate of 35%	**31,667**	33,367	**30,492**	33,319
Tax effect of profits taxed at different rates	**(11)**	–	**–**	–
Tax effect of non-deductible expenses	**61**	70	**60**	68
Tax effect of depreciation charges not deductible by way of capital allowances	**221**	275	**221**	275
Tax effects of property sales tax consequences	**(13)**	38	**–**	–
Tax effect of additional deductions	**(53)**	(45)	**(55)**	(43)
Tax effect of taxable temporary differences not previously recognised	**(112)**	28	**(14)**	23
Tax on profit on ordinary activities	**31,760**	33,733	**30,704**	33,642

17 Earnings per share

The calculation of earnings per share of the group and the bank is based on the profit attributable to shareholders of the bank as shown in profit or loss, divided by the number of shares in issue as at 31 December 2013.

18 Balances with Central Bank of Malta, Treasury Bills and cash

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Balances with Central Bank of Malta	**71,998**	75,279	**71,998**	75,279
Malta Government Treasury Bills	**48,937**	–	**48,937**	–
Cash	**30,523**	31,712	**30,522**	31,711
	151,458	106,991	**151,457**	106,990

Balances with Central Bank of Malta include a reserve deposit requirement in terms of Regulation (EC)No. 1745/2003 of the European Central Bank. The average reserve deposit requirement as at year end was €43,854,000 (2012: €44,377,000) in respect of the group and the bank. Balances with Central Bank of Malta amounting to €8,000,000 (2012: €6,200,000) have been pledged in favour of the Depositor Compensation Scheme (refer to note 41).

Notes on the Financial Statements (continued)

19 Derivatives

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Derivative assets				
Held for trading	**12,666**	17,615	**12,666**	17,615
Held for trading instruments held with:				
– Group companies	**3,259**	3,623	**3,259**	3,623
Derivative liabilities				
Held for trading	**12,929**	17,857	**12,929**	18,172
Held for trading instruments held with:				
– Group companies	**9,206**	14,584	**9,206**	14,584
– subsidiary companies	**–**	–	**–**	315

Derivatives held for trading

	Notional	*Fair value assets*	*Fair value liabilities*	*Notional*	*Fair value assets*	*Fair value liabilities*
	2013	**2013**	**2013**	2012	2012	2012
	€000	**€000**	**€000**	€000	€000	€000
Group						
Interest rate derivatives						
– interest rate swaps purchased	**158,736**	**7,242**	**–**	187,146	13,150	–
– interest rate swaps written	**158,736**	**–**	**7,561**	187,146	–	13,624
Currency derivatives						
– foreign exchange contracts	**162,208**	**2,448**	**2,390**	197,466	1,839	1,491
– foreign exchange options purchased	**13,303**	**353**	**249**	3,923	4	162
– foreign exchange options written	**13,303**	**247**	**353**	3,923	46	4
Equity derivatives						
– equity index options purchased	**64,657**	**2,376**	**–**	59,534	2,576	–
– equity index options written	**64,657**	**–**	**2,376**	59,534	–	2,576
		12,666	**12,929**		17,615	17,857
Bank						
Interest rate derivatives						
– interest rate swaps purchased	**158,736**	**7,242**	**–**	187,146	13,150	–
– interest rate swaps written	**158,736**	**–**	**7,561**	187,146	–	13,624
Currency derivatives						
– foreign exchange contracts	**162,208**	**2,448**	**2,390**	213,241	1,839	1,806
– foreign exchange options purchased	**13,303**	**353**	**249**	3,923	4	162
– foreign exchange options written	**13,303**	**247**	**353**	3,923	46	4

19 Derivatives *(continued)*

Derivatives held for trading (continued)

	Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
	2013	**2013**	**2013**	2012	2012	2012
	€000	**€000**	**€000**	€000	€000	€000
Bank						
Equity derivatives						
– equity index options purchased	**64,657**	**2,376**	**–**	59,534	2,576	–
– equity index options written	**64,657**	**–**	**2,376**	59,534	–	2,576
		12,666	**12,929**		17,615	18,172

All derivatives are over the counter products.

20 Financial assets designated at fair value through profit or loss

	Group	
	2013	2012
	€000	€000
Debt, Treasury Bills and other fixed income instruments	**251,305**	255,183
Equity and other non-fixed income instruments	**226,040**	199,408
	477,345	454,591

a *Debt, Treasury Bills and other fixed income instruments*

	Group	
	2013	2012
	€000	€000
Issued by public bodies		
– local government	**80,255**	72,320
– foreign government	**101,272**	99,956
Issued by other issuers		
– local banks	**3,448**	3,042
– foreign banks	**6,993**	33,216
– others local	**3,377**	2,498
– others foreign	**55,960**	44,151
	251,305	255,183
Listing status		
– listed on the Malta Stock Exchange	**87,080**	77,860
– listed elsewhere	**164,225**	177,323
	251,305	255,183
At 1 January	**255,183**	216,172
Exchange adjustments	**(351)**	(236)
Acquisitions	**36,485**	149,389
Disposals/Redemptions	**(36,403)**	(123,036)
Changes in fair value	**(3,609)**	12,894
At 31 December	**251,305**	255,183

Notes on the Financial Statements (continued)

20 Financial assets designated at fair value through profit or loss *(continued)*

b *Equity and other non-fixed income instruments*

	Group	
	2013	2012
	€000	€000
Issued by issuers other than public bodies and banks		
– others local	**43,155**	49,116
– others foreign	**182,885**	150,292
	226,040	199,408
Listing status		
– listed on the Malta Stock Exchange	**43,155**	49,116
– listed elsewhere	**182,885**	150,292
	226,040	199,408
At 1 January	**199,408**	153,908
Exchange adjustments	**(519)**	(554)
Acquisitions	**23,866**	53,804
Disposals	**(16,095)**	(27,963)
Changes in fair value	**19,380**	20,213
At 31 December	**226,040**	199,408

The bank has no assets designated as at fair value through profit or loss.

21 Financial investments

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Debt and other fixed income instruments				
– available-for-sale	**918,219**	987,398	**897,724**	962,651
Equity and other non-fixed income instruments				
– available-for-sale	**73**	73	**70**	70
	918,292	987,471	**897,794**	962,721

a *Debt and other fixed income instruments available-for-sale*

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Issued by public bodies				
– local government	**539,424**	679,720	**524,510**	661,513
– foreign government	**96,520**	108,449	**94,046**	103,196
Issued by other issuers				
– foreign banks	**49,115**	7,789	**46,503**	7,001
– local others	**495**	499	**–**	–
– foreign others	**232,665**	190,941	**232,665**	190,941
	918,219	987,398	**897,724**	962,651
Amounts include:				
– issued by Group companies	**32**	36	**–**	–
Listing status				
– listed on the Malta Stock Exchange	**539,919**	680,219	**524,510**	661,513
– listed elsewhere	**378,300**	307,179	**373,214**	301,138
	918,219	987,398	**897,724**	962,651

21 Financial investments *(continued)*

a *Debt and other fixed income instruments available-for-sale (continued)*

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
At 1 January	**987,398**	934,837	**962,651**	883,378
Exchange adjustments	**(5,148)**	984	**(5,117)**	914
Amortisation	**(7,641)**	(7,411)	**(7,590)**	(7,292)
Additions	**277,694**	375,638	**275,655**	375,638
Disposals/Redemptions	**(334,396)**	(333,394)	**(328,537)**	(306,239)
Changes in fair value	**312**	16,744	**662**	16,252
At 31 December	**918,219**	987,398	**897,724**	962,651

Debt instruments with a carrying amount of €89,150,000 (2012: €126,438,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2013, no balances were outstanding against these credit lines. In addition debt securities with a carrying amount of €20,794,000 (2012: €19,004,000) have been pledged in favour of the Depositors' Compensation Scheme (refer to note 41).

b *Equity and other non-fixed income instruments available-for-sale*

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks				
– local others	**59**	59	**56**	56
– foreign others	**14**	14	**14**	14
	73	73	**70**	70
Listing status				
– local unlisted	**59**	59	**56**	56
– foreign unlisted	**14**	14	**14**	14
	73	73	**70**	70
At 1 January	**73**	1,993	**70**	369
Disposals	**–**	(1,665)	**–**	–
Impairment	**–**	(300)	**–**	(300)
Changes in fair value	**–**	45	**–**	1
At 31 December	**73**	73	**70**	70

As at the reporting date, total impairment loss on the group's equity and other non-fixed income instruments available-for-sale amounted to €347,000 (2012: €347,000).

22 Loans and advances to banks

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Repayable on call and at short notice	**467,192**	430,129	**467,077**	427,542
Term loans and advances	**97,598**	251,223	**97,598**	251,223
	564,790	681,352	**564,675**	678,765
Amounts include:				
– due from Group companies	**562,066**	667,464	**562,066**	667,464

Notes on the Financial Statements (continued)

23 Loans and advances to customers

	2013	2012
	€000	€000
Group/Bank		
Repayable on call and at short notice	**384,340**	425,387
Term loans and advances	**2,990,041**	2,995,206
Gross loans and advances to customers	**3,374,381**	3,420,593
Allowances for uncollectability	**(73,399)**	(66,180)
Net loans and advances to customers	**3,300,982**	3,354,413
Allowances for uncollectability		
– individually assessed allowances	**60,180**	52,904
– collectively assessed allowances	**13,219**	13,276
	73,399	66,180

The balance of individually assessed allowances at the reporting date includes €38,603,000 (2012: €31,676,000) in respect of interest in suspense which has been netted off against interest receivable. Loans with a carrying amount of €106,379,000 have been pledged against the provision of credit lines by Central Bank of Malta. At 31 December 2013, no balances were outstanding against these credit lines.

24 Shares in subsidiary companies

Bank *Name of company*	*Nature of business*	*Equity interest*	2013	2012
		%	€000	€000
HSBC Life Assurance (Malta) Ltd.	Life insurance	**99.99**	**28,578**	28,578
HSBC Global Asset Management (Malta) Limited	Portfolio management services	**99.99**	**5,940**	5,940
HSBC Securities Services (Malta) Limited	Fund administration services	**99.99**	**1,166**	1,166
HSBC Stockbrokers (Malta) Limited	Stockbroking services	**99.99**	**23**	23
			35,707	35,707

HSBC Life Assurance (Malta) Ltd. holds investment in the following subsidiary:

Name of company	*Nature of business*	*Equity interest*	2013	2012
		%	€000	€000
HSBC Insurance Management Services (Europe) Limited	Insurance Management Services	**99.99**	**25**	25

All subsidiaries are incorporated in Malta.

25 Intangible assets

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Software	**10,255**	12,044	**10,093**	11,943
Present value of in-force long-term insurance business	**76,363**	79,166	**–**	–
	86,618	91,210	**10,093**	11,943

a *Software*

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Cost				
At 1 January	**26,056**	23,840	**24,719**	22,558
Additions	**1,358**	3,089	**1,277**	3,034
Disposals	**(1,589)**	(873)	**(1,589)**	(873)
At 31 December	**25,825**	26,056	**24,407**	24,719
Amortisation and impairment losses				
At 1 January	**14,012**	11,272	**12,776**	10,061
Charge for the year	**2,844**	2,566	**2,824**	2,541
Impairments losses	**–**	622	**–**	622
Reversal of impairment losses	**(622)**	–	**(622)**	–
Write-offs	**597**	–	**597**	–
Disposals	**(1,261)**	(448)	**(1,261)**	(448)
At 31 December	**15,570**	14,012	**14,314**	12,776
Carrying amount at 1 January	**12,044**	12,568	**11,943**	12,497
Carrying amount at 31 December	**10,255**	12,044	**10,093**	11,943

Impairment losses, reversal of impairment losses and write-offs are recognised in General and administrative expenses.

b *Present value of in-force long-term insurance business*

	Group	
	2013	2012
	€000	€000
At 1 January	**79,166**	76,443
Addition from current year new business	**5,459**	8,344
Movement from in-force business	**(8,262)**	(5,621)
At 31 December	**76,363**	79,166

The following are the key assumptions used in the computation of the group's PVIF in the current and comparative periods:

Risk free rate	Euro swap curve
Expenses inflation	French inflation swap curve modified for Malta
Lapse rate	Different rates for different products and durations

Notes on the Financial Statements (continued)

26 Property, plant and equipment

	Land and buildings	*Computer equipment*	*Others*	*Total*
	€000	**€000**	**€000**	**€000**
Group				
Cost/revaluation				
At 1 January 2013	**39,372**	**17,613**	**44,108**	**101,093**
Acquisitions	**148**	**3,386**	**7,195**	**10,729**
Revaluation	**81**	**–**	**–**	**81**
Transfer to Non-current assets held for sale (note 28)	**(436)**	**–**	**–**	**(436)**
Disposals	**–**	**(1,299)**	**(1,151)**	**(2,450)**
At 31 December 2013	**39,165**	**19,700**	**50,152**	**109,017**
Depreciation and impairment losses				
At 1 January 2013	**525**	**14,390**	**31,306**	**46,221**
Charge for the year	**396**	**900**	**2,153**	**3,449**
Revaluation	**(3)**	**–**	**–**	**(3)**
Disposals	**–**	**(1,072)**	**(1,069)**	**(2,141)**
At 31 December 2013	**918**	**14,218**	**32,390**	**47,526**
Carrying amount at 1 January 2013	**38,847**	**3,223**	**12,802**	**54,872**
Carrying amount at 31 December 2013	**38,247**	**5,482**	**17,762**	**61,491**
Cost/revaluation				
At 1 January 2012	44,233	17,194	45,019	106,446
Acquisitions	282	899	1,829	3,010
Revaluation	(5,120)	–	–	(5,120)
Disposals	(23)	(480)	(2,740)	(3,243)
At 31 December 2012	39,372	17,613	44,108	101,093
Depreciation and impairment losses				
At 1 January 2012	1,115	13,915	31,303	46,333
Charge for the year	526	939	2,594	4,059
Revaluation	(1,098)	–	–	(1,098)
Reversal of impairment losses	–	–	(99)	(99)
Disposals	(18)	(464)	(2,492)	(2,974)
At 31 December 2012	525	14,390	31,306	46,221
Carrying amount at 1 January 2012	43,118	3,279	13,716	60,113
Carrying amount at 31 December 2012	38,847	3,223	12,802	54,872

	Group	
	2013	2012
	€000	€000
Carrying amount of land and buildings occupied for own activities	**38,247**	38,847

26 Property, plant and equipment *(continued)*

	Land and buildings	*Computer equipment*	*Others*	*Total*
	€000	**€000**	**€000**	**€000**
Bank				
Cost/revaluation				
At 1 January 2013	**39,477**	**17,364**	**43,887**	**100,728**
Acquisitions	**148**	**3,381**	**7,194**	**10,723**
Revaluation	**81**	**–**	**–**	**81**
Transfer to Non-current assets held for sale (note 28)	**(436)**	**–**	**–**	**(436)**
Disposals	**–**	**(1,299)**	**(1,151)**	**(2,450)**
At 31 December 2013	**39,270**	**19,446**	**49,930**	**108,646**
Depreciation and impairment losses				
At 1 January 2013	**525**	**14,141**	**31,109**	**45,775**
Charge for the year	**396**	**898**	**2,146**	**3,440**
Revaluation	**(3)**	**–**	**–**	**(3)**
Disposals	**–**	**(1,072)**	**(1,069)**	**(2,141)**
At 31 December 2013	**918**	**13,967**	**32,186**	**47,071**
Carrying amount at 1 January 2013	**38,952**	**3,223**	**12,778**	**54,953**
Carrying amount at 31 December 2013	**38,352**	**5,479**	**17,744**	**61,575**
Cost/revaluation				
At 1 January 2012	44,338	16,947	44,803	106,088
Acquisitions	282	897	1,824	3,003
Revaluation	(5,120)	–	–	(5,120)
Disposals	(23)	(480)	(2,740)	(3,243)
At 31 December 2012	39,477	17,364	43,887	100,728
Depreciation and impairment losses				
At 1 January 2012	1,115	13,668	31,110	45,893
Charge for the year	526	937	2,589	4,052
Revaluation	(1,098)	–	–	(1,098)
Reversal of impairment losses	–	–	(99)	(99)
Disposals	(18)	(464)	(2,491)	(2,973)
At 31 December 2012	525	14,141	31,109	45,775
Carrying amount at 1 January 2012	43,223	3,279	13,693	60,195
Carrying amount at 31 December 2012	38,952	3,223	12,778	54,953

	Bank	
	2013	2012
	€000	€000
Carrying amount of land and buildings occupied for own activities	**38,352**	38,952

The carrying amount of land and buildings that would have been included in the financial statements had these assets been carried at cost less depreciation is €14,175,000 (2012: €14,423,000) for the group and the bank.

Notes on the Financial Statements (continued)

27 Investment property

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2013	**2013**	2012	2012
	€000	**€000**	€000	€000
Group				
Freehold land and buildings				
As at 1 January	**14,471**	**8,615**	14,598	8,593
Additions	**–**	**–**	34	34
Fair value adjustments	**58**	**–**	(149)	–
Disposals	**–**	**–**	(12)	(12)
At 31 December	**14,529**	**8,615**	14,471	8,615

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2013	**2013**	2012	2012
	€000	**€000**	€000	€000
Bank				
Freehold land and buildings				
As at 1 January	**11,660**	**6,498**	11,663	6,501
Additions	**–**	**–**	9	9
Disposals	**–**	**–**	(12)	(12)
At 31 December	**11,660**	**6,498**	11,660	6,498

During the year ended 31 December 2013, €891,000 (2012: €884,000) was recognised as rental income in profit or loss relating to investment property for the group. The bank recognised €765,000 (2012: €687,000) as rental income, which was received from a Group company.

28 Non-current assets held for sale

	Group/Bank	
	2013	2012
	€000	€000
Assets acquired in satisfaction of debt	**11,347**	11,240
Other – transfer from Property, plant and equipment (note 26)	**436**	–
	11,783	11,240

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The group does not generally occupy repossessed properties for its business use. In the main, repossessed property consists of immovable property.

29 Other assets

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Acceptances and endorsements	**1,796**	1,939	**1,796**	1,939
Reinsurance assets	**41,102**	35,816	**–**	–
Other	**9,837**	8,754	**7,636**	7,043
	52,735	46,509	**9,432**	8,982
Amounts include:				
– due from Group companies	**1,442**	1,415	**1,442**	1,415

30 Prepayments and accrued income

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Accrued income	**37,313**	39,887	**32,564**	34,540
Prepayments	**1,364**	1,234	**1,109**	1,159
	38,677	41,121	**33,673**	35,699
Amounts include:				
– due from Group companies	**204**	399	**61**	288
– due from subsidiary companies	**–**	–	**303**	366

31 Deposits by banks

	2013	2012
	€000	€000
Group/Bank		
Term deposits	**766**	219,518
Repayable on demand	**41,028**	39,093
	41,794	258,611
Amounts include:		
– due to Group companies	**9,498**	237,425

32 Customer accounts

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Term deposits	**1,686,355**	1,753,256	**1,687,390**	1,756,003
Repayable on demand	**2,831,507**	2,763,743	**2,866,714**	2,781,124
	4,517,862	4,516,999	**4,554,104**	4,537,127
Amounts include:				
– due to subsidiary companies	**–**	–	**36,242**	20,128

33 Deferred tax

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Deferred tax (liabilities)/assets are attributable to the following:				
– excess of capital allowances over depreciation	**(1,664)**	(1,410)	**(1,659)**	(1,413)
– allowances for uncollectibility	**24,112**	22,110	**24,112**	22,110
– property sales tax consequences	**(6,371)**	(6,347)	**(6,027)**	(6,007)
– fair value movements on investments	**(5,970)**	(7,366)	**(5,721)**	(7,015)
– value of in-force life insurance business	**(26,727)**	(27,708)	**–**	–
– fair value movement on policyholders' investments	**2,303**	2,086	**–**	–
– retirement benefits	**696**	2,115	**674**	2,092
– unutilised tax losses	**–**	2,039	**–**	–
– other	**948**	1,391	**1,125**	1,486
	(12,673)	(13,090)	**12,504**	11,253

Notes on the Financial Statements (continued)

33 Deferred tax *(continued)*

	Group			
	At 1 January 2013	*Recognised in profit or loss*	*Recognised in equity*	*At 31 December 2013*
	€000	**€000**	**€000**	**€000**
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	**(1,410)**	**(254)**	**–**	**(1,664)**
– allowances for uncollectibility	**22,110**	**2,002**	**–**	**24,112**
– property sales tax consequences	**(6,347)**	**(4)**	**(20)**	**(6,371)**
– fair value movements on investments	**(7,366)**	**–**	**1,396**	**(5,970)**
– value of in-force life insurance business	**(27,708)**	**981**	**–**	**(26,727)**
– fair value movement on policyholders’ investments	**2,086**	**217**	**–**	**2,303**
– retirement benefits	**2,115**	**(1,419)**	**–**	**696**
– unutilised tax losses	**2,039**	**(2,039)**	**–**	**–**
– other	**1,391**	**(375)**	**(68)**	**948**
	(13,090)	**(891)**	**1,308**	**(12,673)**

	Group			
	At 1 January 2012	*Recognised in profit or loss*	*Recognised in equity*	*At 31 December 2012*
	€000	€000	€000	€000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	(1,354)	(56)	–	(1,410)
– allowances for uncollectibility	19,716	2,394	–	22,110
– property sales tax consequences	(6,944)	14	583	(6,347)
– fair value movements on investments	(2,948)	–	(4,418)	(7,366)
– value of in-force life insurance business	(26,755)	(953)	–	(27,708)
– fair value movement on policyholders’ investments	9,431	(7,345)	–	2,086
– retirement benefits	3,927	(1,812)	–	2,115
– unutilised tax losses	–	2,039	–	2,039
– other	972	665	(246)	1,391
	(3,955)	(5,054)	(4,081)	(13,090)

	Bank			
	At 1 January 2013	*Recognised in profit or loss*	*Recognised in equity*	*At 31 December 2013*
	€000	**€000**	**€000**	**€000**
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	**(1,413)**	**(246)**	**–**	**(1,659)**
– allowances for uncollectibility	**22,110**	**2,002**	**–**	**24,112**
– property sales tax consequences	**(6,007)**	**–**	**(20)**	**(6,027)**
– fair value movements on investments	**(7,015)**	**–**	**1,294**	**(5,721)**
– retirement benefits	**2,092**	**(1,418)**	**–**	**674**
– other	**1,486**	**(281)**	**(80)**	**1,125**
	11,253	**57**	**1,194**	**12,504**

33 Deferred tax *(continued)*

	Bank			
	At 1 January 2012	*Recognised in profit or loss*	*Recognised in equity*	*At 31 December 2012*
	€000	€000	€000	€000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	(1,353)	(60)	–	(1,413)
– allowances for uncollectibility	19,509	2,601	–	22,110
– property sales tax consequences	(6,590)	–	583	(6,007)
– fair value movements on investments	(2,538)	–	(4,477)	(7,015)
– retirement benefits	3,859	(1,767)	–	2,092
– other	1,010	691	(215)	1,486
	13,897	1,465	(4,109)	11,253

The group's deferred tax assets and liabilities on the statement of financial position have not been off-set to the extent that there is no legally enforceable right of set-off with the tax authorities.

34 Liabilities under investment contracts

	Group	
	2013	2012
	€000	€000
At 1 January	**17,254**	16,920
Premiums received	**285**	89
Amounts paid on surrender and other termination during the year	**(2,413)**	(1,500)
Changes in unit prices and other movements	**1,637**	1,745
At 31 December	**16,763**	17,254

35 Liabilities under insurance contracts

	Group	
	Gross	*Gross*
	2013	2012
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**348,206**	341,956
Outstanding claims	**2,568**	2,489
Total non-linked	**350,774**	344,445
Life insurance (linked)		
Provisions for policyholders	**174,035**	148,609
Outstanding claims	**190**	200
Total linked	**174,225**	148,809
Total liabilities under insurance contracts	**524,999**	493,254

Notes on the Financial Statements (continued)

35 Liabilities under insurance contracts *(continued)*

	Group			
	Non-linked business	*Linked business*	*All business*	
	Provisions for policy-holders	*Provisions for policy-holders*	*Outstanding claims*	*Total*
	2013	**2013**	**2013**	**2013**
	€000	**€000**	**€000**	**€000**
At 1 January	**341,956**	**148,609**	**2,689**	**493,254**
Claims in respect of new business	**–**	**29,472**	**4,347**	**33,819**
Movement for the year	**6,250**	**(4,046)**	**(2,102)**	**102**
Previous year claims paid	**–**	**–**	**(2,176)**	**(2,176)**
At 31 December	**348,206**	**174,035**	**2,758**	**524,999**

	2012	2012	2012	2012
	€000	€000	€000	€000
At 1 January	317,835	116,561	2,276	436,672
Claims in respect of new business	–	30,782	4,464	35,246
Movement for the year	24,121	1,266	(2,858)	22,529
Previous year claims paid	–	–	(1,193)	(1,193)
At 31 December	341,956	148,609	2,689	493,254

36 Other liabilities

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Bills payable	**11,718**	10,346	**11,718**	10,346
Cash collateral for commitments	**225**	255	**225**	255
Acceptances and endorsements	**1,796**	1,939	**1,796**	1,939
Other	**24,535**	16,682	**16,968**	11,855
	38,274	29,222	**30,707**	24,395

37 Accruals and deferred income

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Accrued interest	**13,635**	17,186	**13,662**	17,258
Other	**16,595**	16,373	**15,757**	14,885
	30,230	33,559	**29,419**	32,143
Amounts include:				
– due to Group companies	**3,445**	3,997	**3,110**	2,951
– due to subsidiary companies	**–**	–	**27**	72

38 Provisions for liabilities and other charges

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
At 1 January	**7,493**	11,251	**7,423**	11,031
Provisions made during the year	**552**	6,575	**552**	6,543
Provisions reversed during the year	**(52)**	–	**(52)**	–
Provisions utilised during the year	**(4,782)**	(10,333)	**(4,774)**	(10,151)
At 31 December	**3,211**	7,493	**3,149**	7,423

Provisions for liabilities and other charges include amounts raised in relation to litigations and staff early voluntary retirement scheme.

The bank is a party to legal actions arising from normal business operations. Management believes that adequate provisions have been made against these litigations, based on legal advice, on the timing and amount of the probable economic outflows.

Refer to note 13 for details of the staff early voluntary retirement scheme provision.

39 Subordinated liabilities

	Group		Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
4.60% subordinated unsecured loan stock 2017	**58,143**	58,113	**58,143**	58,113
5.90% subordinated unsecured loan stock 2018	**29,130**	29,127	**29,897**	29,874
	87,273	87,240	**88,040**	87,987
Subordinated loan liabilities held by:				
– subsidiary companies	**–**	–	**767**	747

These liabilities will, in the event of the winding up of the bank, be subordinated to the claims of depositors and all other creditors. The bank did not have any defaults of interest or other breaches with respect to its subordinated liabilities during the current and comparative periods.

40 Share capital

	2013	2012
	€000	€000
Authorised		
470,000,000 Ordinary shares of 30 cent each	**141,000**	141,000
Issued and fully paid up		
291,840,000 Ordinary shares of 30 cent each	**87,552**	87,552

41 Reserves

Revaluation reserve

The revaluation reserve comprises the surplus arising on the revaluation of the group's freehold and long leasehold properties and the cumulative net change in fair values of available-for-sale financial investments held by the group, net of deferred taxation. The revaluation reserve is not available for distribution.

Depositor Compensation Scheme reserve

Retained earnings is inclusive of Depositor Compensation Scheme reserve amounting to €28,542,000. This reserve is excluded from the Own Funds calculation (refer to note 5).

As at 31 December 2013, debt securities with a carrying amount of €20,794,000 had been pledged in terms of the Depositor Compensation Scheme (refer to note 21a). Central Bank balances amounting to €8,000,000 have also been pledged in favour of the scheme (refer to note 18).

41 Reserves *(continued)*

General Banking Risk reserve

The revised Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is required to be funded from planned dividend. As at the reporting date, under the 3 year transitionary rules, this reserve amounted to €3,519,000 (40% of the annual estimated result).

42 Contingent liabilities

	Group Contract amount		*Bank Contract amount*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Guarantees and assets pledged as collateral security				
– guarantees	**81,432**	82,230	**83,135**	83,933
– standby letters of credit	**29,735**	21,415	**29,735**	21,415
– other	**685**	924	**685**	924
	111,852	104,569	**113,555**	106,272
Amounts include:				
– in favour of Group companies	**1,849**	1,798	**1,849**	1,798
– in favour of subsidiary companies	**–**	–	**1,703**	1,703

Other contingent liabilities relate to legal claims against the banks. The timing and amount of the possible economic outflow was based on legal advice relating to these claims.

43 Commitments

	Group Contract amount		*Bank Contract amount*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Documentary credits	**22,151**	17,160	**22,151**	17,160
Undrawn formal standby facilities, credit facilities and other commitments to lend	**1,247,071**	1,056,671	**1,251,045**	1,064,034
	1,269,222	1,073,831	**1,273,196**	1,081,194
Amounts include:				
– in favour of Group companies	**185,194**	25,332	**185,194**	25,332
– in favour of subsidiary companies	**–**	–	**3,974**	7,363

44 Capital and lease commitments

a *Capital commitments*

Capital commitments are made up of:

	2013	2012
	€000	€000
Group/Bank		
Intangible assets	**152**	187
Property, plant and equipment	**2,733**	973
Investment property	**–**	14
	2,885	1,174

44 Capital and lease commitments *(continued)*

b *Operating leases*

Total future minimum lease payments under non-cancellable operating leases not provided for:

	2013	2012
	€000	€000
Group/Bank		
Less than one year	**1,256**	1,389
Between one year and five years	**1,288**	875
More than five years	**2,080**	2,107
	4,624	4,371

45 Dividends

	Bank			
	2013	2012	**2013**	2012
	% per share	% per share	**€000**	€000
Gross of income tax				
% per 30 cent share				
– prior year's final	**26**	24	**23,055**	21,012
– interim	**33**	33	**29,184**	29,184
	59	57	**52,239**	50,196
	Cent per share	Cent per share	**€000**	€000
Net of income tax				
cent per 30 cent share				
– prior year's final	**5.13**	4.68	**14,986**	13,658
– interim	**6.50**	6.50	**18,970**	18,970
	11.63	11.18	**33,956**	32,628

The Directors propose a final gross ordinary dividend of 5.2 cent (2012: 7.9 cent) per share. The final dividend will be payable to shareholders on the bank's register as at 17 March 2014.

46 Cash and cash equivalents

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**30,523**	31,712	**30,522**	31,711
Balances with Central Bank of Malta (excluding reserve deposit)	**28,863**	30,902	**28,863**	30,902
Treasury Bills	**2,000**	–	**2,000**	–
Loans and advances to banks	**499,866**	623,580	**499,751**	620,993
Deposits by banks	**(39,841)**	(257,533)	**(39,841)**	(257,533)
Per Statements of Cash Flows	**521,411**	428,661	**521,295**	426,073
Adjustment to reflect balances with contractual maturity of more than three months	**153,043**	56,694	**153,043**	56,694
Per Statements of Financial Position	**674,454**	485,355	**674,338**	482,767

Notes on the Financial Statements (continued)

46 Cash and cash equivalents *(continued)*

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Analysed as follows:				
Cash and balances with Central Bank of Malta (excluding reserve deposit)	**102,521**	62,614	**102,520**	62,613
Malta Government Treasury Bills	**48,937**	–	**48,937**	–
Loans and advances to banks	**564,790**	681,352	**564,675**	678,765
Deposits by banks	**(41,794)**	(258,611)	**(41,794)**	(258,611)
	674,454	485,355	**674,338**	482,767

47 Segmental analysis

a *Class of business*

The group's segments are organised into three global businesses; Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets. The global businesses reflect the way the Chief Executive Officer, as chief operating decision-maker, reviews financial information in order to make decisions about allocating resources and assessing performance. Information provided to the chief operating decision-maker is measured in accordance with IFRSs.

	Retail Banking and Wealth Management	*Commercial Banking*	*Global Banking and Markets*	*Intersegment*	*Group Total*
	2013	**2013**	**2013**	**2013**	**2013**
	€000	**€000**	**€000**	**€000**	**€000**
Group					
Net interest income					
– External	**42,444**	**66,560**	**15,707**	**–**	**124,711**
– Inter-segment	**15,731**	**(18,489)**	**2,758**	**–**	**–**
	58,175	**48,071**	**18,465**	**–**	**124,711**
Net non-interest income					
– External	**36,554**	**13,888**	**11,859**	**–**	**62,301**
– Inter-segment	**(822)**	**460**	**956**	**(594)**	**–**
	35,732	**14,348**	**12,815**	**(594)**	**62,301**
External employee compensation and benefits	**(32,594)**	**(12,669)**	**(3,276)**	**–**	**(48,539)**
General and administrative expenses					
– External	**(28,401)**	**(8,333)**	**(1,749)**	**–**	**(38,483)**
– Inter-segment	**(594)**	**–**	**–**	**594**	**–**
	(28,995)	**(8,333)**	**(1,749)**	**594**	**(38,483)**
External Depreciation	**(2,724)**	**(623)**	**(102)**	**–**	**(3,449)**
External Amortisation	**(1,852)**	**(909)**	**(83)**	**–**	**(2,844)**
External Net impairment	**(2,050)**	**(1,222)**	**–**	**–**	**(3,272)**
External Net provisions for liabilities and other charges	**–**	**52**	**–**	**–**	**52**
Profit before tax	**25,692**	**38,715**	**26,070**	**–**	**90,477**
Assets					
Segment total assets	**2,589,326**	**1,525,675**	**1,606,529**	**–**	**5,721,530**
Average total assets	**2,592,545**	**1,545,274**	**1,666,058**	**–**	**5,803,877**
Total Equity	**212,422**	**168,950**	**41,612**	**–**	**422,984**

47 Segmental analysis *(continued)*

a *Class of business (continued)*

	Retail Banking and Wealth Management	*Commercial Banking*	*Global Banking and Markets*	*Intersegment*	*Group Total*
	2012	2012	2012	2012	2012
	€000	€000	€000	€000	€000
Group					
Net interest income					
– External	45,419	67,320	20,361	–	133,100
– Inter-segment	15,866	(13,800)	(2,066)	–	–
	61,285	53,520	18,295	–	133,100
Net non-interest income					
– External	39,633	12,618	12,325	–	64,576
– Inter-segment	(686)	658	927	(899)	–
	38,947	13,276	13,252	(899)	64,576
External employee compensation and benefits	(36,722)	(12,762)	(5,196)	–	(54,680)
General and administrative expenses					
– External	(25,110)	(8,560)	(1,804)	–	(35,474)
– Inter-segment	(899)	–	–	899	–
	(26,009)	(8,560)	(1,804)	899	(35,474)
External Depreciation	(3,224)	(677)	(158)	–	(4,059)
External Amortisation	(1,724)	(757)	(85)	–	(2,566)
External Net impairment	(2,080)	(3,019)	(16)	–	(5,115)
External Net provisions for liabilities and other charges	(215)	(79)	(153)	–	(447)
Profit before tax	30,258	40,942	24,135	–	95,335
Assets					
Segment total assets	2,595,765	1,564,874	1,725,835	–	5,886,474
Average total assets	2,511,192	1,627,247	1,717,219	–	5,855,657
Total Equity	204,125	158,884	37,589	–	400,598

b *Geographical segments*

The group's activities are carried out within Malta. There are no identifiable geographical segments or other material concentrations.

c *Products and services*

HSBC Bank Malta p.l.c. provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by global business.

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products, global asset management services and financial planning services).
- Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small and medium sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards) and commercial insurance. We also offer our customers access to products and services offered by other global businesses, for example Global Banking & Markets ('GB&M') which include foreign exchange products, raising capital on debt and equity markets and advisory services.

Notes on the Financial Statements (continued)

47 Segmental analysis *(continued)*

c *Products and services (continued)*

– GB&M provides tailored financial solutions to corporate and institutional clients. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services, a markets business that provides services in rates, foreign exchange, money markets and securities services, and principal investment activities.

48 Related party transactions

During the course of banking operations, the group conducted business transactions with entities owned by the ultimate parent and its subsidiaries on an arm's length basis.

Executive Directors participate in the HSBC Group share option plans (refer to note 13).

a *Transactions, arrangements and agreements involving Directors and others*

Particulars of transactions, arrangements and agreements entered into with Directors, connected persons and companies controlled by them and with key management personnel of HSBC Bank Malta p.l.c.:

	Group		*Bank*	
	Balance at end of year	*Balance at end of year*	*Balance at end of year*	*Balance at end of year*
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Directors, connected persons and companies controlled by them				
Loans	**391**	35,962	**391**	35,962
Credit card transactions	**8**	8	**8**	8
Guarantees	**34**	926	**34**	926
Commitments to lend	**261**	36,114	**261**	36,114
Senior executive management				
Loans	**264**	473	**264**	473
Credit card transactions	**16**	28	**15**	23

The above banking facilities are part of long-term commercial relationships and were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

b *Compensation to Directors and key management personnel*

	Group		*Bank*	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Short-term employee benefits	**3,378**	2,692	**3,055**	2,752
Retirement benefits	**594**	302	**594**	302
Other long-term benefits	**–**	5	**–**	5
Share-based payments	**232**	113	**220**	113
	4,204	3,112	**3,869**	3,172

Details of Directors' fees and emoluments are stated in note 15.

48 Related party transactions *(continued)*

c *Transactions with other related parties*

Information relating both to transactions with HSBC Holdings plc and its subsidiaries as well as with subsidiary companies of HSBC Bank Malta p.l.c. are stated in the 'Notes on the Financial Statements' where the following are disclosed.

Note 6 – Interest and similar income
Note 7 – Interest expense
Note 8 – Net fee and commission income
Note 9 – Dividend income
Note 13 – Employee compensation and benefits
Note 19 – Derivatives
Note 22 – Loans and advances to banks
Note 27 – Investment property
Note 29 – Other assets
Note 30 – Prepayments and accrued income
Note 31 – Deposits by banks
Note 32 – Customer accounts
Note 37 – Accruals and deferred income
Note 39 – Subordinated liabilities
Note 42 – Contingent liabilities
Note 43 – Commitments

Included in Interest and similar income (refer to note 6) and in Interest expense (refer to note 7), the group recognised interest amounting to €976,000 (2012: €2,186,000) and €5,000 (2012: €16,000) respectively, on advances and deposits placed with an intermediate parent.

Included in Net fee and commission income (refer to note 8), the group recognised commission amounting to €588,000 (2012: €677,000) received from an intermediate parent.

Furthermore, expenditure relating to transactions with HSBC Holdings plc and its subsidiaries amounting to €3,885,000 (2012: €3,197,000) for the group and €2,915,000 (2012: €2,869,000) for the bank is included in Employee compensation and benefits and €12,966,000 (2012: €12,350,000) for the group and €11,652,000 (2012: €11,273,000) for the bank is included within General and administrative expenses.

49 Unconsolidated structured entities

HSBC Bank Malta p.l.c. has established and manages investment funds to provide customers with investment opportunities. The table below describes the types of structured entities that the group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	To generate fees from managing assets on behalf of third party investors.	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors.	Management fees

The group, as fund manager, may be entitled to receive a management fee based on the assets under management. The total management fees earned during the year were €3,979,000.

The carrying amounts of interests held by the Group in unconsolidated structured entities at 31 December 2013 was as follows:

	Carrying Amount
	€000
Investment funds	**46,100**

The maximum exposure to loss is the carrying amount of the assets held.

50 Trust and custody activities

The group provides trust and custody services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the group and are not recognised in the statements of financial position. The group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2013, the total assets held by the group on behalf of customers were €3,476,136,000 (2012: €3,801,190,000).

51 Registered office and ultimate parent company

The addresses of the registered and principal offices of the bank and its subsidiary companies included in the consolidated financial statements can be found in a separate statement which is filed at the Registrar of Companies in accordance with the provisions of the Fourth Schedule to the Companies Act, 1995.

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, and the immediate parent company is HSBC Europe B.V., which are incorporated and registered in the United Kingdom and the Netherlands respectively. The registered address of both companies is 8 Canada Square, London E14 5HQ, United Kingdom. Copies of the HSBC Holdings plc *Annual Review 2013* and *Annual Report and Accounts 2013* may be obtained from its registered office, from 25 March 2014 or viewed on www.hsbc.com from 24 February 2014.

52 Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme.

HSBC Bank Malta p.l.c. and HSBC Stockbrokers (Malta) Limited have elected to pay the amount of the variable contribution directly to the Scheme.

53 Accounting estimates and judgements

In addition to disclosures set out in notes 4 and 25, the Directors considered the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting judgement in applying accounting policies

i Impairment losses on loans and advances

The group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics (refer to note 3(g)(ii)). As a result, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease is actually identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the relative economic situation of an asset group or in the credit status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

53 Accounting estimates and judgements *(continued)*

Critical accounting judgement in applying accounting policies (continued)

ii Policyholder claims and benefits

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the group. Estimates are made as to the expected number of deaths for each of the years in which the group is exposed to risk. The group bases these estimates on Industry standard mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the group's own experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, pandemic flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the group has significant exposure to mortality risk.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rate assumptions on liabilities as at reporting date are based on the euro swap rates curve. Appropriate margins were taken for bond portfolio and equities/property portfolio.

If the average future investment returns differs by +/-1% from management's estimates, the insurance liability would decrease by €2,678,000 or increase by €4,251,000. In this case there is no relief arising from reinsurance contracts held.

If the number of deaths in future years differs by +/-10% from management's estimate, the liability would increase by €724,000 or decrease by €661,000.

For long-term insurance contracts with fixed and guaranteed terms and with discretionary participation features, estimates of future deaths, investment returns and administration expenses form the assumptions used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. New estimates are made each subsequent year to reflect the current long-term outlook.

iii Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

iv Impairment of available-for-sale equity instruments

The group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financial cash flows.

Independent Auditors' Report to the Members of HSBC Bank Malta p.l.c.

Report on the financial statements

We have audited the financial statements of HSBC Bank Malta p.l.c. (the 'bank') and of the group of which the bank is the parent, as set out on pages 39 to 107, which comprise the statements of financial position as at 31 December 2013 and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the group, Article 4 of the IAS Regulation. They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the bank's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2013 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the group's and the bank's financial position as at 31 December 2013, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the group, Article 4 of the IAS Regulation.

Report on other legal and regulatory requirements

Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

– we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;

– proper books of account have been kept by the bank so far as appears from our examination thereof;

– the bank's financial statements are in agreement with the books of account; and

– to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the 'Act'), other than those reported upon above

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

– the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

– certain disclosures of directors' remuneration specified by the Act are not made.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the 'Principles') outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the 'Appendix')

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 26 to 34.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the bank's corporate governance procedures or its risks and control procedures, nor on the ability of the bank to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 26 to 34 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

24 February 2014

Statements of Profit or Loss and Statements of Other Comprehensive Income: Five-Year Comparison

Group Statements of Profit or Loss

	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Interest receivable and similar income	**162,106**	174,637	175,962	169,012	169,038
Interest expense	**(37,395)**	(41,537)	(46,703)	(46,170)	(64,068)
Net interest income	**124,711**	133,100	129,259	122,842	104,970
Net non-interest income	**62,301**	64,576	65,606	53,346	54,689
Operating expenses	**(93,315)**	(96,779)	(98,200)	(87,605)	(83,769)
Net impairment on financial assets	**(3,272)**	(5,115)	(8,250)	(5,496)	(4,429)
Net provisions for liabilities and other charges	**52**	(447)	(110)	1	(265)
Profit before tax	**90,477**	95,335	88,305	83,088	71,196
Tax expense	**(31,760)**	(33,733)	(30,738)	(29,327)	(25,329)
Profit for the year	**58,717**	61,602	57,567	53,761	45,867
Profit attributable to shareholders	**58,717**	61,602	57,567	53,761	45,867
Earnings per share	**20.1c**	21.1c	19.7c	18.4c	15.7c

Group Statements of Other Comprehensive Income

	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Items that may be reclassified to Profit or Loss:					
Available-for-sale investments:					
– fair value gains	**305**	16,671	1,193	1,178	17,693
– fair value (gains)/losses transferred to profit or loss on disposal	**(4,295)**	(4,049)	2,107	369	(1,268)
– amounts transferred to profit or loss on impairment	**–**	–	4,179	198	–
– income taxes	**1,396**	(4,418)	(2,580)	(610)	(5,749)
	(2,594)	8,204	4,899	1,135	10,676
Items that will not be reclassified to Profit or Loss:					
Properties:					
– revaluation	**84**	(4,022)	–	2,117	–
– income taxes	**(20)**	583	–	(89)	–
	64	(3,439)	–	2,028	–
Other comprehensive income for the year, net of tax	**(2,530)**	4,765	4,899	3,163	10,676

Statements of Financial Position: Five-Year Comparison

	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**151,458**	106,991	233,388	379,985	172,671
Cheques in course of collection	**9,703**	7,211	22,685	9,011	10,764
Derivatives	**12,666**	17,615	17,136	11,489	11,746
Financial assets designated at fair value	**477,345**	454,591	370,080	305,569	248,553
Financial investments	**918,292**	987,471	936,830	690,606	478,975
Loans and advances to banks	**564,790**	681,352	637,956	714,901	747,657
Loans and advances to customers	**3,300,982**	3,354,413	3,344,290	3,290,435	3,226,477
Intangible assets	**86,618**	91,210	89,011	70,655	60,691
Property, plant and equipment	**61,491**	54,872	60,113	65,487	65,397
Investment property	**14,529**	14,471	14,598	14,591	14,588
Non-current assets held for sale	**11,783**	11,240	12,978	9,674	10,604
Current tax assets	**7,939**	6,134	–	4,712	6,164
Deferred tax assets	**12,522**	11,273	14,158	10,181	9,053
Other assets	**52,735**	46,509	31,209	34,425	20,712
Prepayments and accrued income	**38,677**	41,121	40,629	38,710	33,748
Total assets	**5,721,530**	5,886,474	5,825,061	5,650,431	5,117,800
Liabilities					
Derivatives	**12,929**	17,857	17,810	12,311	11,044
Deposits by banks	**41,794**	258,611	389,170	232,790	168,771
Customer accounts	**4,517,862**	4,516,999	4,402,975	4,462,861	4,086,669
Current tax liabilities	**16**	24	4,287	2,603	207
Deferred tax liabilities	**25,195**	24,363	18,113	19,604	18,851
Liabilities under investment contracts	**16,763**	17,254	16,920	18,962	16,853
Liabilities under insurance contracts	**524,999**	493,254	436,672	410,461	351,513
Other liabilities	**38,274**	29,222	38,145	33,024	35,479
Accruals and deferred income	**30,230**	33,559	36,045	34,287	33,422
Provisions for liabilities and other charges	**3,211**	7,493	11,251	2,548	577
Subordinated liabilities	**87,273**	87,240	87,208	87,150	87,827
Total liabilities	**5,298,546**	5,485,876	5,458,596	5,316,601	4,811,213
Total equity	**422,984**	400,598	366,465	333,830	306,587
Total liabilities and equity	**5,721,530**	5,886,474	5,825,061	5,650,431	5,117,800
Memorandum items					
Contingent liabilities	**111,852**	104,569	130,763	128,947	119,449
Commitments	**1,269,222**	1,073,831	1,118,779	977,718	923,900

Statements of Cash Flows: Five-Year Comparison

	2013	2012	2011	2010	2009
	€000	€000	€000	€000	€000
Net cash from operating activities	**51,339**	258,354	29,772	103,151	293,498
Cash flows from investing activities					
Dividends received	**21**	26	785	281	387
Interest received from financial investments	**30,255**	41,356	34,624	25,575	16,115
Purchase of financial investments	**(277,694)**	(375,638)	(599,079)	(307,715)	(218,285)
Proceeds from sale and maturity of financial investments	**334,396**	335,059	344,079	94,246	187,399
Purchase of property, plant and equipment, investment property and intangible assets	**(12,087)**	(6,133)	(9,031)	(11,038)	(4,174)
Proceeds on sale of property, plant and equipment and intangible assets	**476**	502	2,094	453	2,097
Proceeds on disposal of card acquiring business	**–**	–	11,075	–	–
Net cash flows from/(used in) investing activities	**75,367**	(4,828)	(215,453)	(198,198)	(16,461)
Cash flows from financing activities					
Dividends paid	**(33,956)**	(32,628)	(30,162)	(30,162)	(32,817)
Net cash used in financing activities	**(33,956)**	(32,628)	(30,162)	(30,162)	(32,817)
Increase/(decrease) in cash and cash equivalents	**92,750**	220,898	(215,843)	(125,209)	244,220

Accounting Ratios: Five-Year Comparison

	2013	2012	2011	2010	2009
	%	%	%	%	%
Net operating income to total assets	**3.3**	3.4	3.3	3.1	3.1
Operating expenses to total assets	**1.6**	1.6	1.7	1.5	1.6
Cost efficiency ratio	**49.9**	49.0	50.4	49.7	52.5
Profit before tax to total assets	**1.6**	1.6	1.5	1.5	1.4
Profit before tax on equity	**21.4**	23.8	24.1	24.9	23.2
Profit after tax to equity	**13.9**	15.4	15.7	16.1	15.0

	2013	2012	2011	2010	2009
Shares in issue (millions)	**291.8**	291.8	291.8	291.8	291.8
Net assets per 30 cent share (cent)	**145.0**	137.3	125.6	114.4	105.1
Earnings per 30 cent share (cent)	**20.1**	21.1	19.7	18.4	15.7
Dividend per 30 cent share (cent)					
– gross	**17.8**	17.2	15.9	15.9	17.3
– net	**11.6**	11.2	10.3	10.3	11.2
Dividend cover	**1.7**	1.9	1.9	1.8	1.4

Financial Highlights in US dollars

	2013	2012
	US$000	US$000
Income statements		
Net operating income	**257,553**	272,239
Operating expenses	**(128,513)**	(133,284)
Net impairment	**(4,506)**	(7,044)
Net provisions for liabilities and other charges	**72**	(616)
Profit before tax	**124,606**	131,295
Tax expense	**(43,740)**	(46,457)
Profit for the year	**80,866**	84,838
Profit attributable to shareholders	**80,866**	84,838
Statements of Financial Position		
Assets		
Balances with Central Bank of Malta, Treasury Bills and cash	**208,588**	147,348
Cheques in course of collection	**13,363**	9,932
Derivatives	**17,444**	24,260
Financial assets designated at fair value through profit or loss	**657,400**	626,063
Financial investments	**1,264,672**	1,359,945
Loans and advances to banks	**777,830**	938,358
Loans and advances to customers	**4,546,112**	4,619,698
Intangible assets	**119,290**	125,614
Property, plant and equipment	**84,685**	75,569
Investment property	**20,009**	19,930
Non-current assets held for sale	**16,228**	15,480
Current tax assets	**10,934**	8,448
Deferred tax assets	**17,245**	15,525
Other assets	**72,627**	64,052
Prepayments and accrued income	**53,266**	56,632
Total assets	**7,879,693**	8,106,854
Liabilities and equity		
Derivatives	**17,805**	24,593
Deposits by banks	**57,559**	356,159
Customer accounts	**6,222,000**	6,220,811
Current tax liabilities	**22**	33
Deferred tax liabilities	**34,699**	33,553
Liabilities under investment contracts	**23,086**	23,763
Liabilities under insurance contracts	**723,029**	679,310
Other liabilities	**52,711**	40,245
Accruals and deferred income	**41,633**	46,218
Provisions for liabilities and other charges	**4,422**	10,319
Subordinated liabilities	**120,192**	120,147
Called up share capital	**120,577**	120,576
Revaluation reserve	**48,349**	51,834
Retained earnings	**413,608**	379,293
Total liabilities and equity	**7,879,692**	8,106,854

The US Dollar Exchange as at 31 December 2013 was €1 = US$1.3772. Comparative results have also been translated at these rates.

Branches and Offices

MALTA OFFICES

Registered Office/Head Office
116 Archbishop Street
Valletta VLT 1444
Tel: 2597 0000 Fax: 2380 4923

Retail Banking and Wealth Management
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1895 Fax: 2380 4537

Premier Centre
Wealth Management Office
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2148 9100 Fax: 2380 2219

Commercial Banking
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1895 Fax: 2380 4532

International Banking Centre
Business Banking Centre
80 Mill Street Qormi
Tel: 2380 1895 Fax: 2380 2676

Trade Services
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1828 Fax: 2380 4535

Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 0000 Fax: 2380 4923

Card Products Division
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380 Fax: 2380 4924

Contact Centre
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380 Fax: 2149 0613

Legal Office
32 Merchants Street
Valletta VLT 1173
Tel: 2597 2406 Fax: 2597 2417

Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2597 3382 Fax: 2597 3306

Inheritance Unit
1st Floor, 32 Merchants Street
Valletta VLT 1173
Tel: 2380 3360/1/2/3/4
Fax: 2380 3365

BRANCHES

Balzan
Bertu Fenech Square BZN 1032
Tel: 2380 2380 Fax: 2380 1190

Birkirkara
1 Naxxar Road BKR 9049
Tel: 2380 2380 Fax: 2334 1690

Birżebbuġa
2 Birżebbuġa Road BBG 1508
Tel: 2380 2380 Fax: 2361 4790

Buġibba
Bay Square SPB 2511
Tel: 2380 2380 Fax: 2334 7390

Cospicua
50 Pilgrimage Street BML 1580
Tel: 2380 2380 Fax: 2293 4090

Fgura
Council of Europe Square FGR 1254
Tel: 2380 2380 Fax: 2361 8790

Gżira
196 The Strand GZR 1023
Tel: 2380 2380 Fax: 2324 3990

Hamrun
121 St Joseph Road HMR 1017
Tel: 2380 2380 Fax: 2597 2390

Marsascala
St Anthony Street MSK 9057
Tel: 2380 2380 Fax: 2163 6860

Mellieħa
6 Gorg Borg Olivier Street MLH 1027
Tel: 2380 2380 Fax: 2334 6890

Mosta
63 Constitution Street MST 9058
Tel: 2380 2380 Fax: 2334 6190

Msida, University of Malta *(Agency)*
Room 6, Ground Floor
Humanities Building MSD 2080
Tel: 2380 2380 Fax: 2133 1377

Paola
12 Antoine De Paule Square PLA 1261
Tel: 2380 2380 Fax: 2361 1390

Qormi
38 St Sebastian Street QRM 2331
Tel: 2380 2380 Fax: 2380 5490

Rabat
12 Saqqajja Square RBT 1190
Tel: 2380 2380 Fax: 2334 5890

San Ġwann
198 Naxxar Road SGN 9030
Tel: 2380 2380 Fax: 2324 7590

St Julian's
St George's Road STJ 3202
Tel: 2380 2380 Fax: 2324 2090

St Paul's Bay
St Paul's Street SPB 3419
Tel: 2380 2380 Fax: 2334 6490

Sliema
High Street SLM 1549
Tel: 2380 2380 Fax: 2324 6090

Swieqi
St Andrews Road SWQ 9020
Tel: 2380 2380 Fax: 2324 8894

Valletta
32 Merchants Street VLT 1173
Tel: 2380 2380 Fax: 2597 3320

Żabbar
19 Sanctuary Street ZBR 1010
Tel: 2380 2380 Fax: 2361 4290

Żebbuġ
254 Main Street ZBG 1304
Tel: 2380 2380 Fax: 2293 4490

Żejtun
25th November Avenue ZTN 2018
Tel: 2380 2380 Fax: 2361 5690

Żurrieq
38 High Street ZRQ 1318
Tel: 2380 2380 Fax: 2361 7890

GOZO OFFICES

Victoria
90 Republic Street VCT 1017
Tel: 2380 2380 Fax: 2293 7192

Victoria ShareShop
90 Republic Street VCT 1016
Tel: 2293 7103 Fax: 2293 7192

Nadur *(Agency)*
18 St Peter & St Paul Square
NDR 1010
Tel: 2380 2380 Fax: 2155 0952

Xagħra *(Agency)*
8th September Avenue XRA 1011
(Corner with Victory Street)
Tel: 2380 2380 Fax: 2155 6313

SUBSIDIARY COMPANIES

HSBC Global Asset Management (Malta) Ltd
Operations Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 5128 Fax: 2380 5191

HSBC Life Assurance (Malta) Ltd
Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 8699 Fax: 2380 8690

HSBC Securities Services (Malta) Ltd
Operations Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 5157 Fax: 2380 5190

HSBC Insurance Management Services (Europe) Limited
Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 8699 Fax: 2380 8690

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HSBC Bank Malta p.l.c.
116 Archbishop Street
Valletta VLT 1444
Malta
Telephone: 356 2597 0000
www.hsbc.com.mt