2007

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

The world's local bank

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 10,000 offices in 83 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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Contents

Chairman's Statement

I am pleased to advise that 2007 was another record year for HSBC Bank Malta p.l.c.

Results

Profit before taxation increased by 19.0 per cent to Lm49.2 million, reflecting a strong performance right across our organisation.

Profit attributable to shareholders after tax increased by 22.3 per cent to Lm32.8 million. On the basis of these results the Board is recommending a final gross ordinary dividend of €0.148 (Lm0.064) per share. This follows on the interim ordinary gross dividend of Lm0.066 (€0.154) per share and a special gross dividend of Lm0.040 (€0.093) per share paid in August 2007. This brings the total dividend for the year to €0.395 (Lm0.170).

During 2007 the number of the bank's shareholders continued to grow and now numbers close to 10,000. HSBC also issued Lm25 million worth of subordinated bonds which attracted an overwhelming response. This shows the confidence the investment public continues to have in our organisation and its future performance.

HSBC Bank Malta p.l.c. remains the largest and most profitable company listed on the Malta Stock Exchange.

Strategy

During 2007, HSBC continued its strategy of building sustainable growth by focusing on its main customer groups.

In 2007 we were fortunate to have HSBC's Global Group Chief Executive, Mr Michael Geoghegan, visit us again as part of his global roadshow and update us on the progress of the Group's strategy of 'Joining Up the Company' worldwide. HSBC Malta has also focused on 'Joining Up' both internally and with the rest of the HSBC Group to improve our business.

Our organisation aims to build strong and sustainable relationships with our ever-growing number of personal, corporate and institutional clients. We pride ourselves in communicating directly with our customers to understand their needs and provide them with appropriate products and service solutions. Delivering excellent customer service is paramount. We monitor and measure levels of customer satisfaction to ensure we maintain the excellent standards HSBC is renowned for.

Board

During 2007 there were no changes to the Board of Directors.

The Board has a distinctive mix of members who through their collective skills, local and global knowledge and experience provided the necessary stewardship in steering our organisation to such a successful year.

Besides myself as Chairman, the Board is composed of two expatriate executive Directors, who are also Chief Executive Officer and Chief Operating Officer of the bank, two local executive Directors, three prominent non-executive Directors who are all Maltese and one overseas-based Director of our major shareholder HSBC Bank plc.

Corporate Social Responsibility (CSR)

HSBC continued to be the market leader in Malta in the area of CSR, which is a core value of our organisation around the world. HSBC firmly believes in contributing to the local community in which it lives and operates.

In Malta, HSBC's involvement in the community revolves primarily but not exclusively around the three purposely set up philanthropic funds:

- HSBC Cares For Children Fund
- HSBC Cares For The Environment Fund
- HSBC Cares For Malta's Heritage Fund

In 2007 HSBC made additional contributions to these Funds of over Lm200,000.

All Funds were very active and through their initiatives contributed to the betterment of Maltese society. For more details and the latest news on these funds you can visit our website at hsbc.com.mt.

Having fun during Children's Day 2007

The HSBC Cares For Children Fund continues to assist in the education, recreation and rehabilitation programmes for children, in particular those who are less fortunate. Initiatives include literacy projects, facilitating of counselling services and the provision of equipment to special needs schools.

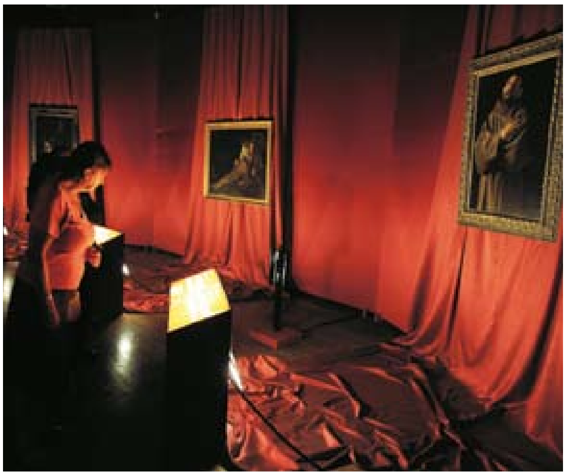
The Fund is also the main sponsor of Malta's Children's Day and CSR day which have both become well established annual events in Malta. The activities sponsored through this Fund have brought assistance to hundreds of children.

HSBC also continued to be a leader in the area of education by once again sponsoring the Young Enterprise HSBC Programme for post secondary students and the Scoops Programme aimed at fostering an entrepreneurial spirit amongst secondary school students. The bank also funds the main Students Council at the University of Malta.

In 2007 the HSBC Cares For The Environment Fund contributed to the improvement of the Maltese environment by contributing a further 7,000 trees towards its afforestation projects. The Fund was instrumental in the ecological restoring of the habitat of St Paul's islands and continued its sponsorship of the international environmental-education EkoSkola programme in Malta involving thousands of students. The Fund also participated in various environmental initiatives including Eco-fest during World Environment Day and Clean Up the World campaign.

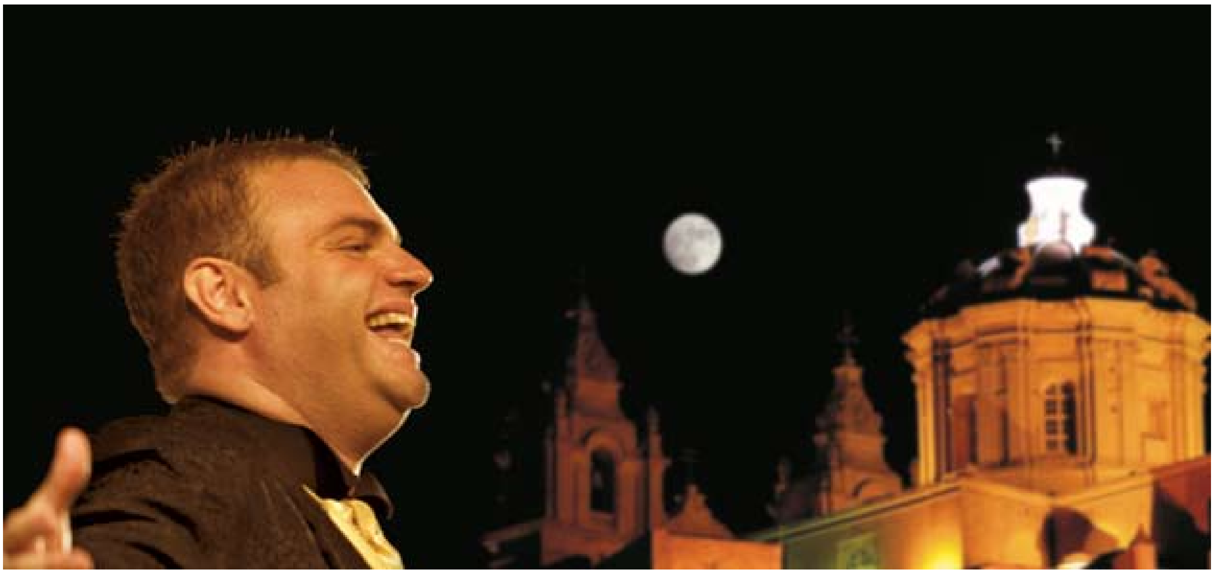
HSBC staff members and their families participating in Clean Up the World Day 2007

The HSBC Cares For Malta's Heritage Fund was also very active during the year. As patrons of Patrimonju Malti and the National Museum of Fine Arts more funds were contributed towards initiatives aimed at protecting Malta's rich cultural heritage. The Fund also supported the Caravaggio exhibition and sponsored the restoration of the Apostolato Statues at the Mdina Cathedral. The successful Malta Hotel Heritage Sponsorship Scheme was further extended during the year. This successful initiative saw more hotels involve their guests in making a contribution to assist Heritage Malta in the conservation of a number of unique cultural sites.



Caravaggio, *'L'immagine del divino'* exhibiton at the National Museum of Archaeology

Chairman's Statement (continued)



Joseph Calleja performing live at Mdina, Malta – sponsored by HSBC

HSBC also contributed over Lm250,000 to a range of charitable and philanthropic causes, various NGOs and sporting events. This also included the arts, music and culture through such high profile national events as *Notte Bianca* in Valletta, a performance by internationally renowned tenor Joseph Calleja, a concert by Lydia Caruana, the Summer Arts Festival and Jazz Festival.

We also strengthened our presence with many Local Councils by directly supporting community related projects in their respective locality. HSBC is truly 'The world's local bank'.

Outlook

With our present strategy, structure, ongoing investment and resources we are confident of the future in 2008.

My gratitude and appreciation goes to the Board of Directors, management and all staff of the bank for their work, dedication and commitment in making 2007 such a successful year.

I also thank our shareholders for their support and finally and most importantly thank our customers for their continued business and trust in our organisation.

Albert Mizzi, *Chairman*
18 February 2008

Chief Executive Officer's Review

2007 has been a transformational year for HSBC Bank Malta p.l.c. Record volumes of business activity across all customer groups and businesses led to excellent results, and at the same time, the successful implementation of major projects and structural changes mean that the bank is well-positioned for the future.

In 2007 we focused on the HSBC Group's seven global pillars which aim:

- To provide Service Excellence to our Customers putting them at the centre of everything we do
- To be the Best Financial Services Brand: The Best Place to Bank
- To make HSBC The Best Place to Work
- To use our Global Distribution Network to our Customers' Advantage
- To grow our business on a Sustainable basis
- To Join Up our company in terms of Technology and Processes to make it easier for customers to do business with us and us with them
- To guide our organisation forward with wisdom and delegating with confidence

Performance

Profit before taxation for 2007 amounted to Lm49.2 million, an increase of 19.0 per cent over the previous year. This result is not only a record for us but for Malta.

This result was underpinned by a strong and sustained performance from all our customer groups: Personal Financial Services, Commercial Banking and Global Banking and Markets. Professionally supported by our operational functions, these business drivers maintained a strong customer focus and sales and marketing culture.

Our cost-to-income ratio improved significantly to 42.1 per cent. This was achieved due to strong discipline to keep operating expenses flatter than growth in business revenues.

Total assets increased to Lm2.1 billion and our return on capital employed before tax improved to 41.4 per cent.

In light of these excellent financial results the Board is recommending a final gross ordinary dividend of €0.148 (Lm0.064) per share.

Personal Financial Services

The services we provide our personal customers account for a significant part of our business. During 2007 this important customer group experienced considerable growth in deposits and in consumer finance.

In consumer finance we continued to be market leaders through our product offerings and creative marketing campaigns. We had a good year in home loans which increased by a net Lm69 million. Although the residential property market in Malta has entered slower growth, I am pleased to advise that after a comprehensive and independent stress-testing exercise was undertaken, it was reaffirmed that the overall quality of our mortgage book is sound.

In the area of Wealth Management, we joined HSBC worldwide to relaunch the Group's flagship product 'Global Premier'. This proposition which is the only global proposition available locally, aims at enhancing the service we offer our top clients and is a cornerstone in our strategic objective of Joining Up the company globally for our customers. Through our retail shareshop activities we also remain market leaders in this area.

Chief Executive Officer's Review (continued)

Our Trust services had a very good year with assets under management increasing significantly. As market leaders, we introduced the innovative Trust Account which proved to be very popular with customers and filled a much needed gap in the local market. We are continuing to invest in this area.

Our Life Insurance business which is an integral part of our bancassurance proposition saw its profits grow substantially in 2007 due to growth in sales of our core range of regular premium business and in our innovative creditor insurance product which we introduced to Malta. The Insurance Management company established locally by the HSBC Group, also managed to bring new business to Malta.

All these initiatives have been complemented by our Customer Relationship Management System (CRMS) which provides the bank with the necessary information and market intelligence to identify and understand our customers' real financial needs and to discuss their requirements in a timely and appropriate manner.

In 2007 we 'Joined-Up' management of all our distribution channels. Our Internet Banking and Telephone Banking, Call Centre, ATMs and e-Commerce now all report into Head of Channel Management together with the Branch Network. Our Home Loans and Card Products sections also have dual reporting lines. This new collective management structure reflects the growing importance of our Direct Channels and ensures we are 'Joined Up' in all our customer sales and service activities.

Regular customer satisfaction surveys are carried out to gauge the level of service we offer. Recent results put customer satisfaction at 89 per cent, with 92 per cent of our customers stating they are satisfied or very satisfied with the service HSBC gives.

Commercial Banking

Our Commercial Banking business had another very active year through the provision of Business Finance, Payments and Cash Management, Invoice Finance, Trade Finance, Savings and Investments, and International Business Solutions.

During 2007 we centralised our Commercial Banking services into one new professional and customer friendly Business Banking Centre that has enabled us to respond far more efficiently to our customer needs, to segment our business, to share best practice and to enjoy economies of scale. This captures the spirit of making HSBC the 'Best Place to Work and to Bank'.

We have strengthened our focus on SMEs by appointing an experienced banker to lead our specialised team in this area and to be able to provide

HSBC's Business Banking Centre

a more professional and expert service. HSBC's global objective is to be the Best Bank for SMEs.

Overall quality of our commercial lending remains good, evidenced by a modest level of new provisions. The bank remains supportive of its lending to quality customers operating in key sectors, however, monitors market developments and maintains its normal prudent approach and stress-testing of business.

The innovative Invoice Finance (Factoring) service picked up considerably during the year, with more businesses realising the benefits of managing their cash flow and controlling costs through this comprehensive service.

Trade Services continued to provide specialist import/export services and advice, offering unrivalled opportunities to traders through its global reach and network. While the HSBC Global Links programme has made it easier for corporate customers to find business partners around the world.

Our International Banking Centre (IBC) has had a very good year and continued to expand our international clientele. HSBC's global objective is to be the World's Leading International Bank. We were also active internationally in promoting Malta as an attractive EU-based financial services centre.

Another important initiative has been a series of seminars for local companies on issues and opportunities associated with euro financing. This is assisting businesses in planning their requirements in a euro environment. This seminar was made possible with expert speakers from HSBC Group, the largest European based Banking Group.

Global Banking and Markets

Good profits were registered in our Treasury Capital Markets business. This resulted from higher foreign exchange turnover as a result of strong economic activity and trading profits.

In line with our strategic initiative to 'Join Up the Company', Global Banking and Markets was very active in the volatile markets in designing a range of deposit and investment products for our retail, private and corporate customers drawing upon global expertise and support of HSBC Group. These contributed to strong growth of more than Lm290 million for the bank's deposit base.

HSBC Stockbrokers had another record year of profits and retained the highest local stock market share by generating 28 per cent of the total turnover of the Malta Stock Exchange.

Our Stockbroking subsidiary remained at the forefront of the local stock market and was actively involved in a number of equity and bond issues, acting as sponsoring brokers, managers and registrars. During the year we also assisted a number of our customers on both local and international transactions through our Corporate Advisory services.

Our Fund Management business experienced a difficult year in 2007, similar to many other funds all over the world, as markets experienced turbulence affecting interest rates, bond and equity yields. Customers were assisted with our deposit products instead.

We strategically restructured this business to separate Investment Management and Fund Administration into two separate activities and companies.

HSBC Fund Management now handles the investment management side of business while HSBC Securities concentrates on fund administration services, handling a variety of funds across all asset classes; both work with HSBC Group's global business lines in these areas.

At the same time, our associated Securities Custody operation, which also forms part of the large HSBC Group global custody and clearing services business, continued to grow as Malta attracts more international businesses.

Human Resources

Above all else, the incredible teamwork across the bank, the huge effort over long hours and excellent customer service over the euro changeover period were truly remarkable and as shareholders we should be proud of our staff.

It is through our professional workforce that we have been able to deliver such a strong performance and have achieved record results. In 2007 we continued to invest in our people through training initiatives, career development programmes and talent management and a range of benefits and incentives.

In our endeavour to make HSBC the 'Best Place to Work', we communicate regularly with our employees. In 2007 over 97 per cent of our employees joined some 310,000 colleagues across the HSBC Group and participated in the Global People Survey. From this research we are introducing initiatives to improve HSBC and, in particular, work-life balance, career development and career opportunities. Key issues raised by our staff.

As an equal opportunities organisation we continued with our diversity strategy to ensure all individuals are recognised and valued for their contribution irrespective of gender, race, age, creed or culture. We continued our Springboard programme for female staff and Navigator programme for male employees to enhance career prospects and assist in career advancement.

In 2007 we moved some non-core processes to the HSBC Group Service Centre located overseas and transferred others to reputable third-party contractors. All staff affected were redeployed elsewhere and there were no job losses. This was done to take advantage of developments in technology and so that we can redeploy resources locally to higher value priorities.

Good relations exist with the unions and we are working together to improve conditions and opportunities for all our staff. We are presently working on a new Collective Agreement.

Outlook

Financial services continues to be a dynamic sector in the Maltese economy and an area of future growth. HSBC is contributing to this development through the activities of HSBC Bank Malta and through facilitating HSBC Group investment into the island.

2008 will be another challenging year, given the backdrop of current global markets conditions, Malta's fuller membership of the EU and Eurozone, and the resulting increase in competition.

In spite of all this, we have an excellent bank. We have a superb customer base and distribution network, a strong brand, and the backing of the HSBC Group. We are confident that we are well-positioned to grow our business further in the future.

It is our goal to be Malta's leading provider of financial services, to be the 'Best Place to Work', the Best Company for shareholders, the Best Company in the community and, above all, the 'Best Place to Bank'.

Shaun Wallis, *Chief Executive Officer*
18 February 2008

Chief Operating Officer's Review

2007 was a remarkable year. New advanced systems have been introduced, processes have been streamlined, major investment in technology has taken place, and a number of mandatory projects completed on time. The results achieved are tremendous and truly reflect the hard work and commitment of our employees.

Operations

In line with our global pillar of offering service excellence to our customers we have invested heavily in upgrading our IT infrastructure and re-engineered our systems to ensure the customer experience is efficient and pleasant at the same time.

To ensure our staff have more time to talk with customers and to see to their needs, we have centralised the more routine tasks and revised the number of customer facing processes.

During the year we rolled out the new 'Look and Feel' concept throughout our branch network to attract customers into our 'shop'. This is highly visible through the new external look, new signage and internal make-over of our branches. This was complemented by our sales floor management initiative, where the whole branch is involved in ensuring customers receive the quality service they deserve and that HSBC is committed to offer.

In line with making HSBC the 'Best Place to Work and to Bank' a new purpose-built Business Banking Centre has been opened in Qormi. This centre of excellence is a response to the needs of the Maltese business community, and brings the bank's full range of commercial services under one roof. The new building, located alongside HSBC's Operations Centre, boasts of impressive interiors, and comes complete with state-of-the-art facilities for conferences, interview rooms, facilities to host business hospitality and a car park for easy access.

We rearranged and relocated our Fund Management business to Valletta to benefit from improved synergies with our Investment Banking team and provide a more professional service.

We listen to what our customers say and undertake periodical surveys to ensure we are delivering a quality service at all times. All complaints are taken very seriously and I am pleased to state that we manage to resolve the vast majority within 48 hours.

Security in customer dealings is paramount for our organisation. In 2007, we have enhanced our card fraud monitoring, anti-money laundering systems, internet banking and most recently our branches.

Projects

2007 was a year of many large and important projects for HSBC.

One of the main projects that characterised 2007 was the euro changeover. This currency transition involved a lot of detailed planning, extensive staff training, major conversion of our systems, careful testing and meticulous execution and implementation.

Our changeover to the euro on 1 January 2008 was very smooth. All our ATMs were dispensing euro one minute into 2008 and all EPOS machines successfully transacted in euro with no service downtime. All 24x7 systems were also up and running in euro on the first day and during the initial period we provided extended services in branches to meet customer demand for the new currency.

HSBC worked with the authorities on this national project and also worked closely with other financial organisations through the Malta Bankers' Association.

Another mandatory project was to ensure we were prepared to fulfill the requirements of the Single Euro

Payments Area (SEPA) and Target 2. These aim at improving the efficiency of cross border payments in the euro area. Target 2 went live on 1 January 2008 and to meet this and in anticipation of the live date of 28 January for SEPA, HSBC upgraded its payments system onto an HSBC Group-wide platform and obtained certification and pilot rollout of Chip & PIN capable EPOS terminals.

Due to the early success of the Global Call Centre established in 2006 it was decided to double its operations in 2007. We now have over 500 full time employees working for the UK Bank from the Call Centre here in Malta. The expanded facilities include a conference centre and gym for staff use.

HSBC also announced the opening of a Service Centre in Gozo to support its Maltese operations. Opened in early 2008, this has increased job opportunities in Gozo whilst improving the work-life balance of some of our existing Gozitan employees who used to commute to and from work in Malta on a daily basis. We are hopeful that this move will also make a positive contribution to the social and economic development of Gozo.

The bank also achieved compliance in the Markets in Financial Instruments Directive (MiFID), a new mandatory framework which is designed to create a 'level playing field' for investment services across the European Economic Area. Another project the bank is greatly involved in is Basel 2 – a European Regulatory requirement providing the framework against which the banks weigh their risks for regulatory capital adequacy purposes.

All in all, a lot of project work successfully carried out by a great team while supporting 'Business as Usual'.

Automated Services

The bank has continued to focus on our automated channels and Express Banking to provide customers with the most efficient service possible.

During the year we upgraded our ATM software platform and installed and relocated a number of new machines to better service our customers. The bank also launched a new advanced platform for Personal and Business Internet Banking and HSBCnet for high value corporate customers.

Furthermore, as a result of this project the bank revamped its public web site and launched e-Commerce, which will continue to develop in popularity in the near future.

As a result of our eBanking initiatives, our increased efficiencies and the support of our Call Centre, we have experienced growth in all areas of business with more customers and increased usage. This has contributed in a positive way to our financial results.

The bank plans to invest further in this area as technology and processes are key drivers in achieving our strategic objective of joining up the company and leveraging our unique international franchise.

Human Resources

Our human resources are the true drivers of our initiatives and contributed remarkably to the success of our business.

In line with our strategy of making HSBC 'The Best Place to Work' we are always looking at ways of improving the work environment and conditions for our staff. We have offshored and outsourced certain non-core banking functions and re-deployed staff to other areas. We introduced a system of personal development to assist employees in identifying their training needs and better formulating their careers' structures.

We are always looking for ways of increasing job satisfaction through higher staff engagement. An improved childcare scheme and a new health care scheme for all staff also contributed to the bank achieving its goal.

We pride ourselves in having one of the best remuneration systems on the island and firmly believe in rewarding staff for their efforts.

While thanking all employees wholeheartedly for their excellent contribution in 2007, I would also like to mention our dear colleague Eric Vella who passed away, aged 29, whilst in the service of the bank. Eric was a loyal and committed employee who was greatly liked and respected by everyone and will be sadly missed.

Future Outlook

We have commenced in earnest on a number of projects which will see us integrate more departments in our Business Centre in Qormi, upgrade and expand certain branches, invest in more straight-through-processing, enhance our automated services, and ensure we have the functionality to introduce more innovative products and services.

2007 has been a very active and successful year which brought about a lot of changes in the way we operate. As we progress, we look forward to reaping the benefits of these investments and initiatives in the years to come.

Sally Robson, *Chief Operating Officer*
18 February 2008

Board of Directors

Albert Mizzi, NON-EXECUTIVE CHAIRMAN
Age 80. Non-Executive Chairman of HSBC Bank Malta p.l.c. since June 1999. In 1946, joined family business Alf. Mizzi & Sons Ltd. and was Chairman for several years. In the 1960s he was heavily involved in private banking and appointed director of Medport. Established a number of Malta's important parastatal businesses: Air Malta, Sea Malta, Medserv, Mediterranean Insurance Brokers and Middle Sea Insurance. Following the setting up of Air Malta in 1973, he served as its Chairman for 19 years.

Shaun Wallis, DIRECTOR AND CHIEF EXECUTIVE OFFICER
Age 52. Director of HSBC Bank Malta p.l.c. since acquisition of Mid-Med Bank p.l.c. in June 1999. He has occupied various senior managerial positions within the HSBC Group worldwide since 1978. Most recent appointment was General Manager International responsible for HSBC Bank plc's overseas operations in Europe. Chief Executive Officer of HSBC Bank Malta p.l.c. since September 2004.

Sally Robson, DIRECTOR AND CHIEF OPERATING OFFICER
Age 49. Director and Chief Operating Officer of HSBC Bank Malta p.l.c. since 31 March 2006. A professional banker and a fellow of the Chartered Institute of Bankers. Joined the then Midland Bank plc in 1979. Since 1983 she has held a number of key managerial positions within the HSBC Group in the UK, with the last post held being that of Area Director for Greater Manchester.

David Budd, NON-EXECUTIVE DIRECTOR
Age 54. Director of HSBC Bank Malta p.l.c. since September 2005. Has occupied various top managerial posts within the HSBC Group world-wide since 1975. President and Chief Executive Officer of HSBC Bank Argentina S.A. from 2003 to 2005. Held the post of Chief Operating Officer of HSBC Bank plc from 2005 until 2007 when he was appointed Head of International. Also a Group General Manager since 2005.

Philip Farrugia Randon, DIRECTOR
Age 58. 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 of the bank for several years. Also holds the post of Head of Group Legal Department of HSBC Bank Malta p.l.c.

Charles John Farrugia, DIRECTOR
Age 50. Director of HSBC Bank Malta p.l.c. since November 2004. Joined the bank in 1975. Was appointed Chief Dealer in 1995, Group Senior Treasury Manager in 1999 and Managing Director of HSBC Stockbrokers (Malta) Limited in 2001. Currently holds the post of Head of Global Banking and Markets of HSBC Bank Malta p.l.c.

Victor Scicluna, NON-EXECUTIVE DIRECTOR
Age 69. Director of HSBC Bank Malta p.l.c. since March 2001 and member of the Audit Committee since June of 2001. A Certified Public Accountant. Former Director/General Manager of Central Cigarettes Co Ltd, former Chairman of the Board of Governors of the Malta College of Arts, Science and Technology, former President of The Malta Employers Association and former Chairman of The Malta Council for Economic and Social Development.

Peter Paul Testaferrata Moroni Viani, NON-EXECUTIVE DIRECTOR
Age 47. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2001. Holds various executive positions and directorships within the Testaferrata Group of companies.

Saviour sive Sonny Portelli, NON-EXECUTIVE DIRECTOR
Age 63. Appointed Director of HSBC Bank Malta p.l.c. on 9 October 2006. A senior Maltese businessman who is currently the Chairman of GO p.l.c. Group and Chairman of The Malta Council for Economic and Social Development. Had an early career in the Malta Civil Service which he left to join the tourism sector. Besides being a marketing specialist he sits as non-executive director on the boards of various other Maltese companies.

George Brancaleone, COMPANY SECRETARY
Age 46. 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. Presently holds the post of Senior Manager at Group Legal Department of HSBC Bank Malta p.l.c.

Financial Review

Summary of Financial Performance

Group profit

During the year ended 31 December 2007, HSBC Bank Malta p.l.c. and its subsidiaries generated a profit on ordinary activities before tax of Lm49.2 million, an increase of Lm7.8 million, compared with the year ended 31 December 2006.

Profit attributable to shareholders was Lm32.8 million, an increase of Lm6.0 million over prior year figures.

Net operating income grew by Lm9.7 million over prior year. Net interest income grew by Lm7.2 million.

Operating expenses were Lm35.9 million, an increase of Lm1.5 million over prior year.

As a result, the group's cost to income ratio improved to 42.1 per cent in 2007, from 45.5 per cent in 2006.

Shareholder ratios

Earnings per share increased to 11.2 cents (€0.262) from a 2006 figure of 9.2 cents (€0.214), with the pre-tax return on average shareholders' funds increasing to 40.2 per cent from 32.1 per cent in 2006.

The Directors propose a final dividend of €0.148 (Lm0.064) per share. This follows on the gross interim dividend of Lm0.066 (€0.154) and the gross special dividend of Lm0.040 (€0.093) paid in August 2007.

Net interest income

Net interest income grew by Lm7.2 million or 15.4 per cent over prior year to Lm54.2 million.

Growth was driven by increased customer loans of 7.6 per cent and customer deposits of 17.5 per cent. Growth in customer loans resulted from increased residential mortgages and commercial lending.

There was a strong increase in deposits of Lm258.7 million to Lm1,734.2 million attributable both to increased local demand for savings products and international corporate deposit growth introduced through the HSBC International Banking Centre network.

Non-interest income

Non-interest income levels grew by Lm2.5 million or 8.7 per cent to Lm31.1 million driven by growth in business activity and volumes which were well-spread across the group's core products and service lines.

Revenues increased through growth in lending, Trust services, card issuance and usage fees, and retail brokerage.

Commission earned on account and transfer services reduced due to increased usage of automated services which are more efficient and less costly for our customers.

Life insurance activities were a significant contributor to group profits generating a 43.0 per cent increase in profitability over the prior year, reaching a profit before tax of Lm5.6 million. Strong customer demand was supported by new launches of regular premium products and increased volumes of single premium products. Other operating income benefited from the growth in new insurance business by Lm3.3 million.

During the year, revaluation gains on the group's investment properties generated Lm1.3 million in other operating income.

Operating expenses

Operating expenses grew by 4.5 per cent to Lm35.9 million from Lm34.3 million in 2006.

Employee compensation and benefits was unchanged at Lm21.4 million in spite of a 2.5 per cent increase in wages and salaries as higher staff turnover and lower voluntary retirement benefits costs offset the effect of the increase.

General and administrative expenses increased by Lm1.7 million to Lm11.5 million largely as a result of investment in a large number of mandatory projects including euro conversion and adoption of SEPA legislation, as well as the cost of increased business volumes and increased regulatory fees.

Depreciation and amortisation charges were flat at Lm3.0 million.

Net impairment reversals

There were no significant lending impairment issues during the year and no net impact on impairment charges to profit.

Impairment reversals contributed Lm3.5 million to profit. New impairment allowances of Lm2.5 million were raised and bad debt write-offs of Lm1.1 million were effected.

An overall improvement in the credit quality of the lending book reduced non-performing loans from Lm43.7 million to Lm35.0 million.

The aggregate amount of non-performing loans improved to 2.8 per cent of net loans (2006: 3.8 per cent).

Taxation

The 2007 effective rate of tax was 33.4 per cent. Tax on profit on ordinary activities for 2007 increased to Lm16.5 million.

Assets

Total assets increased by Lm208.4 million to Lm2,095.7 million.

Net loans and advances to customers increased by Lm85.5 million with growth spread across both personal and commercial sectors.

Advances to deposits ratio improved to 69.9 per cent from 76.3 per cent in 2006 as a result of strong deposits growth.

This surplus liquidity was placed with the Central Bank, interbank and money markets.

Balances with Central Bank of Malta, Cash and Treasury Bill holdings increased from a prior year end level of Lm130.6 million to a year end level of Lm202.7 million.

Short term liquid money market placements in the form of loans and advances to banks increased from Lm256.1 million to Lm270.9 million.

Financial investments increased from Lm168.1 million to Lm196.3 million.

Life insurance business assets, are primarily designated as financial assets at fair value through profit or loss. This portfolio grew to Lm118.4 million from a prior year end level of Lm112.5 million.

Liabilities

Total liabilities increased by Lm216.0 million to Lm1,976.9 million.

Amounts owed to customers increased by Lm258.7 million against a background of strong second half growth both in retail and professional deposits.

Amounts owed to banks was reduced from a year opening level of Lm126.3 million to a year end closing level of Lm37.4 million so reducing market dependency.

Funds under management by the group decreased to a year end closing level of Lm204.0 million, down from an opening year level of Lm287.0 million as customers switched to deposits in time of market volatility.

Liabilities under insurance contracts issued increased by Lm22.1 million during the year to reach a year end level of Lm124.9 million.

In January 2007, a tranche of Lm25 million in 10 year subordinated liabilities were issued as part of the group's debt capital funding.

Shareholders' funds

Equity totalled Lm118.8 million at year end following dividend payments of Lm40.2 million during 2007.

The number of shareholders increased from 9,417 to 9,946 as at 31 December.

The solvency ratio stands at 11.3 per cent and is in excess of regulatory and HSBC Group capital requirements.

Report of the Directors

Results for 2007

The group reported a profit on ordinary activities before tax of Lm49.2 million for the year under review. The group's profit attributable to shareholders of the bank was Lm32.8 million.

A gross interim ordinary dividend of Lm0.066 and a gross special dividend of Lm0.040 per ordinary share was paid on 22 August 2007. The Directors have proposed a gross final dividend of €0.148 (Lm0.064) per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 29 February 2008.

Further information about the results is provided in the group income statement on page 26.

Principal activities

Principal activities of parent company

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

The bank provides a comprehensive range of banking and investment services.

The bank had the following direct subsidiaries at 31 December 2007: HSBC Life Assurance (Malta) Limited, HSBC Fund Management (Malta) Limited and HSBC Stockbrokers (Malta) Limited.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Limited is authorised by the Malta Financial Services Authority to carry on business of insurance in Malta under the Insurance Business Act, 1998. HSBC Bank Malta p.l.c. is enrolled as a tied insurance intermediary for HSBC Life Assuarance (Malta) Limited under the Insurance Act, 2006.

HSBC Fund Management (Malta) Limited acts as a manager of collective investment schemes. The company owns 99.9% of HSBC Securities Services (Malta) Limited. HSBC Securities Services (Malta) Limited is licenced under the Investment Services Act, 1994 and its main business activity is the provision of fund administration services to third parties. It also provides back office support to HSBC Bank Malta p.l.c. in the distribution of third party funds through the bank network.

HSBC Stockbrokers (Malta) Limited is a member of the Malta Stock Exchange and is regulated under the Investment Services Act, 1994 by the Malta Financial Services Authority. The company is principally engaged in providing stockbroking business on the Malta Stock Exchange and to arrange/support the listing of stocks and shares on the Exchange.

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 5 to 7 and 'Chief Operating Officer's Review' on pages 8 to 9.

Transactions in own shares

The bank holds units in a collective investment scheme which invests in the bank's shares. Through its holding in this fund, the bank indirectly acquired an additional 48,847 of its own shares, bringing the total number of such shares indirectly held at 31 December 2007 to 78,404.

Standard licence conditions

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 in the Directors' Report breaches of standard licence conditions or other regulatory requirements. Accordingly, the Directors declare that on the 31 August 2007, an administrative penalty of Lm500 (€1,164.49) was imposed on HSBC Life Assurance (Malta) Limited for failing to provide a Statutory Notice and Cancellation Notice to policyholders.

Board of Directors

The Directors who served during the year are as follows:

Albert Mizzi (Chairman)
Shaun Wallis
Sally Robson
David Budd
Philip Farrugia Randon
Charles John Farrugia
Victor Scicluna
Peter Paul Testaferrata Moroni Viani
Saviour sive Sonny Portelli

Senior management

As at 31 December 2007, the senior management of the group was composed of the following:

Shaun Wallis	Chief Executive Officer
Sally Robson	Chief Operating Officer
Philip Farrugia Randon	Head of Group Legal
Charles John Farrugia	Head of Global Banking and Markets
James Dunbar Cousin	Head of Commercial Banking
Godfrey Swain	Head of Personal Financial Services
Alasdair Robertson	Head of Credit
Philip Farrugia	Head of Banking Services
Mark Sims	Head of Human Resources
Joseph Borg	Head of IT
David Demarco	Chief Financial Officer
Brian Tortell	Head of Marketing
Josef Camilleri	Head of Public Affairs and CSR
Richard Philip Jones	Head of Insurance Services
Martin Scicluna	Head of Wealth Management
Charles Azzopardi	Head of Funds Administration
Ray Briffa	Head of Branch Banking and Direct Channels
Kevin Rapinett	Head of Stockbroking Services
John Sammut	Senior Audit and Compliance Manager
Stephen Pandolfino	Head of Investment Management

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.

Approved by the Board of Directors on 18 February 2008 and signed on its behalf by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Statement by the Directors pursuant to Listing Rule 9.40.5

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 18 February 2008 by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Statement of Compliance with the Principles of Good Corporate Governance

As required by the Listing Rules of the Listing Authority, HSBC Bank Malta p.l.c. (the 'bank') hereby includes a Statement of Compliance which deals with the extent to which the bank has adopted the Code of Principles of Good Corporate Governance (the 'Principles') and the effective measures that the bank has taken to ensure compliance with these Principles.

Compliance with the Principles

Although the Principles are not mandatory, the Board of Directors (the 'Board') of the bank believes in their adoption, and has endorsed them except where there exist particular circumstances that warrant non-adherence thereto.

In line with the Principles, the Board's composition is a mixture of a non-executive Chairman, four executive Directors, one non-executive Director and three independent non-executive Directors. All the 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. Furthermore, the roles of the Chief Executive Officer and the Chairman are separate.

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.

– Authority to operate the bank is delegated to the Chief Executive Officer within the limits set by the Board of the bank. Functional, operating and financial reporting standards are applicable within all entities of the HSBC Group. These are supplemented by operating standards set by the bank's management, as required.

– Systems and procedures are in place in the bank to identify, control and to report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by the Asset and Liability Management Committee and by the Risk Management Committee.

– Comprehensive annual financial plans are prepared, reviewed and approved by the Board. Results are monitored and reports on progress compared with plan are prepared monthly. Financial accounting and reporting and certain management reporting standards have been established. Centralised functional control is exercised over all computer system developments and operations. Common systems are 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; market risk; operational risk; computer systems and operations; property management; and for certain HSBC Group business and product lines.

– The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures within the bank and its subsidiaries. The work of the internal audit function focuses on areas of greatest risk as determined by a risk management approach.

– The bank's Compliance Department ensures that HSBC Bank Malta group complies with all the local and international regulatory obligations and HSBC Group standards and regulations.

Through the Audit 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 Principles of Good Corporate Governance (continued)

Appointment/election of Directors

The Memorandum of Association of the bank specifically regulates the appointment of Directors. 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 company), is entitled to appoint a chairman from amongst the Directors appointed or elected to the Board. Every poll for the election of Directors is overseen by the bank's external auditors.

Responsibilities of the Board

The Board meets quarterly to review and evaluate corporate strategy, major operational and financial plans, risk policy, financial performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

The Board has delegated specific authority to the Chief Executive Officer to manage the activities of the bank within the limits set up by it. In line with the nature and demands of the bank's business, the Board meets at least every quarter unless further meetings are required. Under the present circumstances the board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role as the board's performance is always under the scrutiny of the shareholders and in line with Group standards.

Directors' Attendance at Board Meetings:

Members	*Attended*
Albert Mizzi	4
Shaun Wallis	4
Sally Robson	4
David Budd	4
Philip Farrugia Randon	4
Charles John Farrugia	4
Victor Scicluna	4
Peter Paul Testaferrata Moroni Viani	4
Saviour sive Sonny Portelli	4

Directors have access to independent legal advice at the bank's expense where the Board deems appropriate. The Board concentrates primarily on strategy, policy setting, business plans and financial information.

On joining the Board, a Director is provided with a handbook containing the main provisions of law, which regulate his office. The Director also attends a presentation made by the functional heads on the activities of their respective business units in the bank. The Directors also receive updates on changes, if any, to group's short term strategic and operational plans and quarterly updates by the Heads of Audit and Compliance, Credit and Marketing.

The Board considers appropriate schemes to recruit, retain and motivate high quality executive officers and management team. During 2005 the group established a talent pool with the aim of identifying personnel with potential and aptitude for senior management posts. The bank continues to value diversity within its workforce. Several initiatives are being taken to further progress staff's development, amongst them the Springboard and Navigator programmes.

Directors' dealings

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 advanced notices has been endorsed by the Board in line with the Principles, the Listing Rules and the internal code of dealing.

Committees

Executive committee (EXCO)

The executive committee meets on a monthly basis to oversee the overall management of the bank. The Chief Executive Officer chairs this committee which is composed of the Chief Operating Officer together with the top management of the bank.

Asset and liability management committee (ALCO)

This committee reviews the financial risks of the group in Malta and ensures their prudent management: interest rate risk, liquidity and funding risk, foreign exchange risk, capital solvency, 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.

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.

Credit risk management committee

This committee reviews the credit risk management issues of the group in Malta. It meets on a quarterly basis and is chaired by the Chief Executive Officer and deputised by the Chief Operating Officer. Membership consists of senior executives with responsibility for the following functions: credit and risk management, corporate banking, retail banking, treasury, consumer finance and audit and compliance.

Risk management committee

This committee reviews the operational risks of the group in Malta: the identification, measurement, monitoring and controlling operational business risks and determines and agrees strategies and policies to mitigate these risks.

This committee which meets at least four times a year is chaired by the Chief Operating Officer and is composed of the Chief Financial Officer, Senior Internal Audit Manager and the Heads of Credit, Banking Services, Commercial Banking, Personal Financial Services, Global Banking and Markets and Compliance.

Audit committee

This committee meets at least six times a year. Its terms of reference are modelled mainly on the recommendations in the Cadbury Report and the Principles noted in the Listing Rules. Additional terms of reference have been adopted by this committee to align with Group's requirements. The audit committee, having been approved by the Listing Authority in terms of Listing Rule 8.72, scrutinises and monitors related party transactions. It considers the materiality and the nature of the related party transaction carried out by the bank to ensure that the arms' length principle is adhered to at all times. Its members are Messrs Victor Scicluna (Chairman), Peter Paul Testaferrata Moroni Viani and Saviour sive Sonny Portelli, who are independent non-executive Directors. The Chief Executive Officer, the Chief Operating Officer and a representative of the external auditors attend the meetings. Executives of the bank are also available to attend as directed by the committee. In line with Listing Rule 8.61, the Head of Internal Audit is always present for its meetings and has a right of direct access to the Chairman of the committee at all times.

In terms of Listing Rule 8.62.8 the audit committee is responsible for developing and implementing a 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.

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

Remuneration committee (REMCO)

The remuneration committee established within HSBC Bank Malta p.l.c. is set up on a similar basis to its counterparts in the HSBC Group and hence is different in character from the 'remuneration committee' envisaged under the Code of Principles of Good Corporate Governance. Namely the Board does not appoint a committee to fix the remuneration packages of the individual Directors.

This remuneration committee meets primarily to review the compensation policy of HSBC Bank Malta p.l.c. and to make annual recommendations which are then sent to HSBC Bank plc for concurrence on pay review, salary increases and bonuses for key management personnel. It is chaired by Mr Albert Mizzi and comprises Messrs Peter Paul Testaferrata Moroni Viani and Saviour sive Sonny Portelli. During 2007 two meetings were held by this committee.

Shareholders

The principal contact with shareholders takes place via the annual and extraordinary general meetings. These meetings are called with sufficient notice and enable the use of proxies to attend, vote or abstain. Matters before an extraordinary general meeting are considered extraordinary business and sufficient explanation of the proposals is provided in advance of the meeting for proper evaluation by the shareholders.

Besides these meetings, the bank has each year for the past six years held shareholders meetings where senior executives of the bank hold a dialogue with shareholders explaining the strategy and performance of the bank both in a formal and informal manner. These meetings have proved to be very popular with shareholders.

Regular contact with shareholders is also maintained via company and media announcements.

In terms of the bank's Articles of Association the Directors shall on the requisition 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 company.

Corporate Social Responsibility

HSBC's Corporate Social Responsibility (CSR) activities take place within the context of the Group wide strategy. In Malta the bank fulfils the Group's CSR strategy primarily through the three charitable funds:

- The HSBC Cares For Children Fund;
- The HSBC Cares For The Environment Fund; and
- The HSBC Cares For Malta's Heritage Fund.

These charitable funds deal with issues that concern the public in general: children in need, the environment and Malta's national heritage. They have succeeded in having an impact on a large majority of Maltese citizens and show the bank's strong commitment towards social investment.

Going Concern

As required by Listing Rule 9.40.19, upon due consideration of the bank's profitability and balance sheet, capital adequacy and solvency, the Directors confirm the bank's ability to continue operating as a going concern for the foreseeable future.

Signed on behalf of the Board on 18 February 2008 by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Remuneration Report

None of the Directors are employed with the bank on a definite service contract. Those Directors who are employed with the bank are so employed on an indefinite basis.

Directors' remuneration for the financial year under review:

	Lm
– Directors' fees	47,500
– Directors' salaries and bonuses as full-time bank employees	416,534

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

	Lm
Albert Mizzi	15,000
Victor Scicluna	12,500
Peter Paul Testaferrata Moroni Viani	10,000
Saviour sive Sonny Portelli	10,000
Total	47,500

Directors' salaries and bonuses are being disclosed in aggregate rather than as separate figures for each Director as required by the Principles.

No Director is entitled to profit sharing, share options, pension benefits (other than performance-related bonus awards) or any other remuneration, directly from the bank.

Executive Directors may be entitled to HSBC Holdings share options as detailed in note 14 of the 'Notes on the Accounts' and certain pension and retirement benefits.

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

Report of the Independent Auditors to the Shareholders of the HSBC Bank Malta p.l.c. pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the bank's Directors to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as independent auditors of the bank, is laid down by Listing Rule 8.39, which requires us to include a report on this statement of compliance.

We read the statement of compliance 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 misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statement on internal control included in the statement of compliance covers all risks and controls, or form an opinion on the effectiveness of the bank's corporate governance procedures or its risk and control procedures, nor on the ability of the bank to continue in operational existence.

In our opinion, the statement of compliance set out on pages 17 to 20 provides the disclosures required by the Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Noel Mizzi (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

18 February 2008

Directors' responsibility for the Financial Statements

The Companies Act, 1995 (the 'Act') 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 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.

In preparing such financial statements, Article 14 of the Third Schedule to the Act, requires the Directors to:

- adopt the going concern basis unless it is inappropriate to presume that the bank and the group will continue in business;
- select suitable accounting policies and apply them consistently from one accounting period to another;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis; and
- value separately the components of asset and liability items on a prudent basis.

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 Act.

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 Act 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:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Report of the Independent Auditors to the Shareholders 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 (the 'financial statements') as set out on pages 26 to 84, which comprise the balance sheets as at 31 December 2007 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As described on page 23, the Directors are responsible for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU and of the bank in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Companies Act, 1995 and Article 31 of the Banking Act, 1994 enacted in Malta and may not be appropriate for any other purpose.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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 and fair presentation of the financial statements 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 principles 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view:

– of the consolidated financial position of the bank as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

– of the financial position of the bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

The Banking Act, 1994 requires us to report:

- whether 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;
- whether in our opinion, proper books of account have been kept by the bank so far as appears from our examination thereof;
- whether the financial statements are in agreement with the books; and
- whether these give the information required by any law in force in the manner so required and give a true and fair view.

We also report to you our opinion as to whether the financial statements are properly prepared in accordance with the Companies Act, 1995. In addition, we report to you if, in our opinion:

- the information given in the Report of the Directors is not consistent with the financial statements; or
- the bank has not kept proper accounting records; or
- the bank's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit, or if the information specified by Article 31(O) of the Third Schedule to the Act regarding Directors' emoluments is not disclosed, in which case we are required to include a statement in our report giving the required particulars.

We read the Report of the Directors and consider the implications for our report if we become aware of any material misstatements of fact within it.

Opinion

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the bank so far as appears from our examination thereof. The financial statements are in agreement with the books.

Also in our opinion, the financial statements have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.

Noel Mizzi (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

18 February 2008

Income Statements for the year 1 January 2007 to 31 December 2007

		Group		Bank	
		2007	2006	**2007**	2006
	Note	**Lm000**	Lm000	**Lm000**	Lm000
Interest receivable and similar income					
– on loans and advances, balances with Central Bank of Malta, Treasury Bills and derivatives	*6*	**93,410**	72,103	**93,446**	71,285
– on debt and other fixed income instruments	*6*	**8,583**	8,772	**8,583**	9,209
Interest payable	*7*	**(47,799)**	(33,913)	**(48,557)**	(34,378)
Net interest income		**54,194**	46,962	**53,472**	46,116
Fees and commissions receivable		**14,291**	13,848	**11,579**	10,831
Fees and commissions payable		**(985)**	(1,175)	**(776)**	(987)
Net fee and commission income	*8*	**13,306**	12,673	**10,803**	9,844
Dividend income	*9*	**141**	113	**4,145**	2,169
Trading profits	*10*	**7,206**	7,335	**7,206**	7,335
Net income from financial instruments designated at fair value through profit or loss		**15**	4,768	**–**	–
Net gains on sale of available-for-sale financial assets	*11*	**1,519**	2,719	**1,519**	2,719
Net earned insurance premiums	*12*	**31,446**	16,536	**–**	–
Other operating income		**6,802**	2,308	**1,837**	715
Total operating income		**114,629**	93,414	**78,982**	68,898
Net insurance claims incurred and movement in policyholders' liabilities	*13*	**(29,330)**	(17,846)	**–**	–
Net operating income		**85,299**	75,568	**78,982**	68,898
Employee compensation and benefits	*14*	**(21,371)**	(21,511)	**(20,381)**	(20,619)
General and administrative expenses		**(11,476)**	(9,774)	**(10,701)**	(9,281)
Depreciation		**(2,587)**	(2,406)	**(2,572)**	(2,388)
Amortisation of intangible assets		**(448)**	(547)	**(335)**	(464)
Other operating charges		**(13)**	(109)	**(13)**	(9)
Net operating income before impairment and provisions		**49,404**	41,221	**44,980**	36,137
Net impairment	*15*	**(18)**	181	**(18)**	141
Provisions for liabilities and other charges		**(146)**	(7)	**(131)**	(7)
Profit before tax	*16*	**49,240**	41,395	**44,831**	36,271
Tax expense	*17*	**(16,461)**	(14,572)	**(14,372)**	(12,366)
Profit for the year		**32,779**	26,823	**30,459**	23,905
Profit attributable to shareholders of the bank		**32,779**	26,810	**30,459**	23,905
Profit attributable to minority interest		**–**	13	**–**	–
Earnings per share	*18*	**11.2c**	9.2c	**10.4c**	8.2c

Balance Sheets at 31 December 2007

		Group		*Bank*	
		2007	2006	**2007**	2006
	Note	**Lm000**	Lm000	**Lm000**	Lm000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*19*	**202,688**	130,569	**202,688**	130,569
Cheques in course of collection		**1,332**	10,535	**1,332**	10,535
Financial assets held for trading	*20*	**6,860**	10,396	**6,860**	10,399
Financial assets designated at fair value through profit or loss	*21*	**118,356**	112,476	**–**	–
Financial investments	*22*	**196,305**	168,138	**194,345**	168,123
Loans and advances to banks	*23*	**270,896**	256,060	**270,861**	256,042
Loans and advances to customers	*24*	**1,211,620**	1,126,126	**1,211,620**	1,126,126
Shares in subsidiary companies	*25*	**–**	–	**12,682**	9,682
Intangible assets	*26*	**15,502**	10,899	**585**	794
Property and equipment	*27*	**33,408**	28,612	**33,424**	28,632
Investment property	*28*	**5,532**	3,417	**4,500**	2,456
Assets held for sale	*29*	**5,118**	3,978	**5,182**	4,042
Current tax recoverable		**–**	806	**–**	780
Deferred tax assets	*34*	**–**	–	**5,033**	724
Other assets	*30*	**11,099**	10,713	**3,837**	2,984
Prepayments and accrued income	*31*	**16,990**	14,589	**15,700**	13,630
Total assets		**2,095,706**	1,887,314	**1,968,649**	1,765,518
Liabilities					
Financial liabilities held for trading	*20*	**6,458**	10,643	**6,542**	10,693
Amounts owed to banks	*32*	**37,410**	126,328	**37,410**	126,328
Amounts owed to customers	*33*	**1,734,154**	1,475,450	**1,763,562**	1,487,906
Provision for current tax		**3,626**	–	**1,034**	–
Deferred tax liabilities	*34*	**266**	4,606	**–**	–
Liabilities to customers under investment contracts	*35*	**8,134**	9,153	**–**	–
Liabilities under insurance contracts issued	*36*	**124,902**	102,770	**–**	–
Other liabilities	*37*	**14,078**	13,816	**12,775**	13,003
Accruals and deferred income	*38*	**22,816**	18,147	**22,484**	17,936
Provisions for liabilities and other charges	*39*	**178**	32	**163**	32
Subordinated liabilities	*40*	**24,883**	–	**24,883**	–
Total liabilities		**1,976,905**	1,760,945	**1,868,853**	1,655,898
Equity					
Called up share capital	*41*	**36,480**	36,480	**36,480**	36,480
Revaluation reserves	*42*	**10,554**	10,629	**10,620**	10,629
Other reserve	*42*	**339**	242	**315**	227
Retained earnings		**71,428**	79,018	**52,381**	62,284
Total equity		**118,801**	126,369	**99,796**	109,620
Total liabilities and equity		**2,095,706**	1,887,314	**1,968,649**	1,765,518
Memorandum items					
Contingent liabilities	*43*	**55,797**	59,578	**55,807**	59,588
Commitments	*44*	**492,851**	456,899	**492,851**	456,899

The financial statements on pages 26 to 84 were approved by the Board of Directors on 18 February 2008 and signed on its behalf by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Statements of Changes in Equity for the year 1 January 2007 to 31 December 2007

	Attributable to shareholders of the bank						
	Called up share capital	*Revaluation reserves*	*Other reserve*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group							
At 1 January 2006	9,120	13,105	4,242	104,906	131,373	328	131,701
Release of net gains on available-for-sale assets transferred to the income statement on disposal	–	(796)	–	(973)	(1,769)	–	(1,769)
Net fair value adjustments on financial investments	–	(1,668)	–	–	(1,668)	–	(1,668)
Release of revaluation reserve on disposal of properties	–	(12)	–	18	6	–	6
Income and expenses recognised directly in equity	–	(2,476)	–	(955)	(3,431)	–	(3,431)
Share capital of subsidiary	–	–	–	–	–	91	91
Disposal of subsidiary company	–	–	–	–	–	(432)	(432)
Bonus share issue	27,360	–	(4,242)	(23,118)	–	–	–
Profit for the year	–	–	–	26,810	26,810	13	26,823
Share based payments	–	–	242	493	735	–	735
Dividends (note 46)	–	–	–	(29,118)	(29,118)	–	(29,118)
At 31 December 2006	36,480	10,629	242	79,018	126,369	–	126,369
At 1 January 2007	**36,480**	**10,629**	**242**	**79,018**	**126,369**	**–**	**126,369**
Release of net gains on available-for-sale assets transferred to the income statement on disposal	**–**	**(776)**	**–**	**(211)**	**(987)**	**–**	**(987)**
Net fair value adjustments on financial investments	**–**	**(2,997)**	**–**	**–**	**(2,997)**	**–**	**(2,997)**
Net surplus on revaluation of freehold and long leasehold properties	**–**	**3,698**	**–**	**–**	**3,698**	**–**	**3,698**
Income and expenses recognised directly in equity	**–**	**(75)**	**–**	**(211)**	**(286)**	**–**	**(286)**
Profit for the year	**–**	**–**	**–**	**32,779**	**32,779**	**–**	**32,779**
Share based payments	**–**	**–**	**97**	**57**	**154**	**–**	**154**
Dividends (note 46)	**–**	**–**	**–**	**(40,215)**	**(40,215)**	**–**	**(40,215)**
At 31 December 2007	**36,480**	**10,554**	**339**	**71,428**	**118,801**	**–**	**118,801**

	Called up share capital	Revaluation reserves	Other reserve	Retained earnings	Total equity
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Bank					
At 1 January 2006	9,120	13,041	4,242	93,103	119,506
Release of net gains on available-for-sale assets transferred to the income statement on disposal	–	(796)	–	(973)	(1,769)
Net fair value adjustments on financial investments	–	(1,604)	–	–	(1,604)
Release of revaluation reserve on disposal of properties	–	(12)	–	18	6
Income and expenses recognised directly in equity	–	(2,412)	–	(955)	(3,367)
Bonus share issue	27,360	–	(4,242)	(23,118)	–
Effect of amalgamation of subsidiary	–	–	–	(1,995)	(1,995)
Profit for the year	–	–	–	23,905	23,905
Share based payments	–	–	227	462	689
Dividends (note 46)	–	–	–	(29,118)	(29,118)
At 31 December 2006	36,480	10,629	227	62,284	109,620
At 1 January 2007	**36,480**	**10,629**	**227**	**62,284**	**109,620**
Release of net gains on available-for-sale assets transferred to the income statement on disposal	**–**	**(776)**	**–**	**(211)**	**(987)**
Net fair value adjustments on financial investments	**–**	**(2,931)**	**–**	**–**	**(2,931)**
Net surplus on revaluation of freehold and long leasehold properties	**–**	**3,698**	**–**	**–**	**3,698**
Income and expenses recognised directly in equity	**–**	**(9)**	**–**	**(211)**	**(220)**
Profit for the year	**–**	**–**	**–**	**30,459**	**30,459**
Share based payments	**–**	**–**	**88**	**64**	**152**
Dividends (note 46)	**–**	**–**	**–**	**(40,215)**	**(40,215)**
At 31 December 2007	**36,480**	**10,620**	**315**	**52,381**	**99,796**

Cash Flow Statements for the year 1 January 2007 to 31 December 2007

		Group		Bank	
		2007	2006	**2007**	2006
	Note	**Lm000**	Lm000	**Lm000**	Lm000
Cash flows from operating activities					
Interest and commission receipts		**144,854**	109,797	**109,992**	87,824
Interest and commission payments		**(52,604)**	(36,601)	**(45,162)**	(33,491)
Payments to employees and suppliers		**(32,815)**	(31,952)	**(31,168)**	(28,770)
Operating profit before changes in operating assets/liabilities		**59,435**	41,244	**33,662**	25,563
(Increase)/decrease in operating assets:					
Trading instruments		**(6,675)**	(16,832)	**(579)**	(724)
Reserve deposit with Central Bank of Malta		**(350)**	(6,618)	**(350)**	(6,618)
Loans and advances to customers and banks		**(48,370)**	(198,898)	**(48,370)**	(203,229)
Treasury Bills		**(23,567)**	(12,089)	**(23,567)**	(12,089)
Other receivables		**7,894**	(844)	**8,040**	(1,070)
Increase/(decrease) in operating liabilities:					
Customer accounts and amounts owed to banks		**173,919**	198,053	**190,955**	196,360
Other payables		**(516)**	(2,588)	**(500)**	(2,674)
Net cash from/(used in) operating activities before tax		**161,770**	1,428	**159,291**	(4,481)
Tax paid		**(14,518)**	(10,976)	**(14,319)**	(10,840)
Net cash from /(used in) operating activities		**147,252**	(9,548)	**144,972**	(15,321)
Cash flows from investing activities					
Dividends received		**98**	74	**3,248**	1,874
Interest received from financial investments		**9,020**	11,333	**9,020**	11,752
Proceeds from sale and maturity of financial investments		**83,747**	88,891	**83,747**	118,877
Proceeds on sale of property and equipment		**26**	80	**26**	80
Purchase of financial investments		**(119,675)**	(37,851)	**(117,673)**	(37,851)
Purchase of property and equipment, investment property and intangible assets		**(4,285)**	(2,311)	**(4,174)**	(2,289)
Proceeds on sale/(purchase) of shares in subsidiary company		**–**	450	**(3,000)**	450
Net cash (used in)/from investing activities		**(31,069)**	60,666	**(28,806)**	92,893
Cash flows from financing activities					
Dividends paid		**(40,215)**	(29,118)	**(40,215)**	(29,118)
Decrease in debt securities in issue		**–**	(12)	**–**	–
Issue of subordinated loan stock		**25,000**	–	**25,000**	–
Issue of units to minority interest		**–**	91	**–**	–
Subordinated loan stock issue costs		**(130)**	–	**(130)**	–
Net cash used in financing activities		**(15,345)**	(29,039)	**(15,345)**	(29,118)
Effect of amalgamation of subsidiary company on cash and cash equivalents		**–**	–	**–**	(65,840)
Increase/(decrease) in cash and cash equivalents		**100,838**	22,079	**100,821**	(17,386)
Effect of exchange rate changes on cash and cash equivalents		**(11,702)**	(7,014)	**(11,702)**	(7,014)
Net increase/(decrease) in cash and cash equivalents		**112,540**	29,093	**112,523**	(10,372)
		100,838	22,079	**100,821**	(17,386)
Cash and cash equivalents at beginning of year		**158,547**	136,468	**158,529**	175,915
Cash and cash equivalents at end of year	*47*	**259,385**	158,547	**259,350**	158,529

Notes on the Accounts

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 2007 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*

The consolidated and separate financial statements (the 'financial statements') have been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 enacted in Malta, which requires adherence to International Financial Reporting Standards ('IFRSs'). In the case of the group, Article 4 of Regulation 1606/2202/EC ('the Regulation') requires that, for each financial year, companies that at balance sheet date have their securities trading on a regulated market of any EU member state shall prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('EU-endorsed IFRSs'). The Regulation prevails over the relevant provisions of the Companies Act, 1995 to the extent that the said provisions are incompatible with the requirements of the Regulation.

EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board ('IASB') if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2007, there were no unendorsed standards effective for the year ended 31 December 2007 affecting these consolidated and separate financial statements, and there is no difference between IFRSs as endorsed by the EU and IFRSs as issued by the IASB in terms of their application to the group.

b *Basis of measurement*

The financial statements have been prepared on the historical cost basis except that the following are measured at fair value:

- Derivative financial instruments;
- Financial instruments at fair value through profit or loss;
- Available-for-sale financial assets;
- Property; and
- Liabilities for cash-settled share-based payment arrangements.

The methods used to measure fair value are discussed further in note 3(b).

c *Functional and presentation currency*

The financial statements are presented in Maltese Lira, which was the functional currency of the group at balance sheet date.

d *Use of estimates and assumptions*

The preparation of financial statements requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results may differ from these estimates.

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.

In particular, 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, 26 and 53.

Notes on the Accounts (continued)

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.

a *Basis of consolidation*

i Subsidiaries

Subsidiaries are entities controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b *Financial instruments*

i Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, 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 and deposits with contractual maturity of less than three months. 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 cash flow statement. Subsequent to initial recognition cash equivalents are measured at amortised cost.

Trading assets and trading liabilities

Treasury bills, debt securities, equity shares and short positions in securities are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets or financial liabilities are recognised on trade date when the group enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to profit or loss. Subsequently, their fair values are remeasured, and all gains and losses from changes therein are recognised in profit or loss in Trading profits as they arise.

Financial instruments designated at fair value

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 may designate 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 bases. Under this criterion, the only class of financial instruments designated by the group is financial assets and financial liabilities under investment contracts.

  Liabilities to customers under linked contracts are determined based on the fair value of the assets held in the linked funds, with changes recognised in profit or loss. Liabilities to customers 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 equity. 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.

3 Significant accounting policies *(continued)*

b *Financial instruments (continued)*

i Non-derivative financial instruments (continued)

Financial instruments designated at fair value (continued)

– 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. Fair value measurement is also consistent with the regulatory reporting requirements under the appropriate regulations for these insurance operations.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised when the group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken directly to the profit or loss. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in Net income from financial instruments designated at fair value. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities and loans and advances that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

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 or held-to-maturity.

Available-for-sale

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in equity in revaluation reserve until the securities are sold or impaired. When available-for-sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in profit or loss.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group positively intends, and is able, to hold until maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include loans and advances to banks and customers that are recognised on the day the cash is advanced to the borrowers. These are initially recognised at their fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment losses (see note 3(g)).

ii Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Notes on the Accounts (continued)

3 Significant accounting policies *(continued)*

b *Financial instruments (continued)*

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 balance sheet 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 balance sheet 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*

Investment in subsidiaries is shown in the separate balance sheet at cost less any impairment losses (see note 3(g)).

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d *Property and equipment*

i Owned assets

Property and equipment are initially measured at cost. Freehold and long leasehold properties are revalued 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 balance sheet date. Any surpluses arising on revaluation are credited to a revaluation reserve. 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 and equipment are stated net of accumulated depreciation (see note 3(d)(iv)) and any impairment losses (see note 3(g)).

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

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 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.

3 Significant accounting policies *(continued)*

d *Property and equipment (continued)*

ii Finance and operating leases (continued)

All other leases are classified as operating leases. When the group is the lessee, leased assets are not recognised on the balance sheet. 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 other operating income respectively.

iii Subsequent costs

The cost of replacing part of an item of property 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 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 part of an item of property 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 and fixtures and fittings	3 – 10 years

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

e *Intangible assets*

Intangible assets include software and the value of in-force long-term insurance business (see note 3(h)(iv)).

Software acquired by the group is initially measured at cost and subsequently stated net of accumulated amortisation and impairment losses (see note 3(g)). 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. The estimated useful life of software is 3 – 7 years.

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 balance sheet at fair value with changes therein recognised in profit or loss in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques.

g *Impairment*

i Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

i Financial assets (continued)

All impairment losses are recognised in the profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

There are two basic methods of calculating impairment losses, those calculated on individual loans and those losses assessed on a collective basis. Losses expected as a result of future events, no matter how likely, are not recognised in profit or loss.

ii Calculation of recoverable amount

At each balance sheet date, the group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining impairment losses on these loans, the following factors are considered:

- 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 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.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's carrying amount. Any loss is recognised to profit or loss. The carrying amount of impaired loans on the balance sheet is reduced through the use of an allowance account.

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 loss. This reflects impairment losses incurred at the balance sheet date which will only be individually identified in the future.

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 identified by local management for each identified portfolio.

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

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

ii Calculation of recoverable amount (continued)

- When appropriate empirical information is available, the group utilises roll rate methodology. This methodology employs a statistical analysis of historical trends 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.
- In other cases, when the portfolio size is small or when information is insufficient or not sufficiently reliable to adopt a roll rate methodology, the group adopts a formulaic approach which allocates progressively higher percentage loss rates the longer a customer's loan is overdue. Loss rates are calculated from the discounted expected future cash flows from a portfolio.

  In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic, regulatory or behavioural conditions, such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. In these circumstances, such risk factors 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 (note 3(f)) and deferred tax assets (note 3(o)), 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.

In respect of non-financial assets, 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 other assets is the greater of their net selling price and value in use. 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.

For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

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. The reversal is recognised in profit or loss.

An impairment loss on non-financial assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss 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.

Notes on the Accounts (continued)

3 Significant accounting policies *(continued)*

h *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 claim.

iii Liabilities under insurance contracts

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

Liabilities under non-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 balance sheet 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 other operating 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 financial instruments designated at fair value through profit or loss.

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)*

h *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.

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i *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 as a result of past events, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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j *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 guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within amounts owed to customers.

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k *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 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 income or interest expense over the relevant period.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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l *Non-interest income*

i Net fee and commission income

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the significant act has been completed; and
- income earned is recognised as revenue 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 fees 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.

3 Significant accounting policies *(continued)*

l *Non-interest income (continued)*

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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m *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 expense in profit or loss as they fall due.

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 encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

iii Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as employee compensation and benefits in profit or loss.

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n *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 balance sheet date. 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.

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o *Income tax*

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

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 using the balance sheet method, providing for 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 the 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 to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

3 Significant accounting policies *(continued)*

p *Non-current assets held for sale*

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. 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.

q *Segmental reporting*

A segment is a distinguishable component of the group that is engaged either in providing related products or services to a particular customer group (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

r *Future accounting developments*

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2007 and have not been applied in preparing these financial statements.

Standards and interpretations issued by the IASB

– IFRS 8 *Operating Segments* is effective for annual periods beginning on or after 1 January 2009. This standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that management uses to make operating decisions. The group currently presents one segment based on customer groups, which reflect the way the business of the group is managed. The group currently expects to adopt IFRS 8 with effect from 1 January 2009, and will accordingly present segmental information which reflects the operating segments used to make operating decisions at the time.

– IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the group's 2008 financial statements, with retrospective application required.

– IAS 1 Presentation of Financial Statements (as revised in 2007) requires all owner changes in equity to be presented in a statement of changes in equity and all non-owner changes in equity to be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when an entity applies an accounting policy retrospectively or makes a retrospective restatement, or when an entity reclassifies items in the financials statements. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, also requires the disclosure of reclassification adjustments and income tax relating to each component of other comprehensive income and the presentation of dividends recognised as distributions to owners and related amounts per share in the statement of changes in equity or in the notes.

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, debt 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 excluded from group figures disclosed in notes 4(b) to 4(d).

The group's accounting policies are directed towards the establishment of fair values for its assets and liabilities in light of these risks.

Notes on the Accounts (continued)

4 Financial instruments and risk management *(continued)*

b *Credit risk*

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 problematic 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.

At balance sheet date the principal type of collateral held consisted of immovable properties. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Financial investments are generally unsecured.

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 Credit exposure

Maximum exposure to credit risk

The group's maximum exposure to credit risk on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

– Financial assets recognised on balance sheet 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 endorsments. 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.

4 Financial instruments and risk management *(continued)*

b *Credit risk (continued)*

ii Credit exposure (continued)

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 loans and advances to customers:

	2007	2006
	Lm000	Lm000
Group/Bank		
Agriculture	**2,006**	1,937
Fishing	**738**	988
Mining and quarrying	**3,804**	3,261
Manufacturing	**65,947**	64,933
Electricity, gas and water supply	**24,173**	36,812
Construction	**175,966**	151,999
Wholesale and retail trade; repairs	**159,648**	163,343
Hotels and restaurants; excluding related construction activities	**85,966**	87,946
Transport, storage and communication	**35,214**	38,218
Financial intermediation	**8,025**	6,376
Real estate, renting and business activities	**40,845**	32,662
Public administration	**26,419**	27,626
Education	**1,355**	889
Health and social work	**11,195**	11,082
Community, recreational and personal service activities	**7,091**	8,543
Household and individuals	**583,210**	507,029
Gross loans and advances to customers	**1,231,602**	1,143,644

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

	Treasury bills	*Debt securities*	*Total*
	Lm000	**Lm000**	**Lm000**
Group/Bank			
At 31 December 2007			
AAA	–	**5,502**	**5,502**
AA- to AA+	–	**21,535**	**21,535**
A- to A+	**39,601**	**159,391**	**198,992**
Lower than A-	**–**	**1,800**	**1,800**
Unrated	**–**	**4,208**	**4,208**
	39,601	**192,436**	**232,037**
At 31 December 2006			
AAA	–	3,613	3,613
AA- to AA+	–	11,094	11,094
A- to A+	25,945	143,233	169,178
Lower than A	–	2,282	2,282
Unrated	–	5,637	5,637
	25,945	165,859	191,804

Notes on the Accounts (continued)

4 Financial instruments and risk management *(continued)*

b *Credit risk (continued)*

iii 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 loans and advances by credit quality

	2007		2006	
	Loans and advances to customers	*Loans and advances to banks*	*Loans and advances to customers*	*Loans and advances to banks*
	Lm000	**Lm000**	Lm000	Lm000
Group/Bank				
Gross loans and advances:				
– neither past due nor impaired	**1,135,198**	**270,861**	1,053,464	256,042
– past due but not impaired	**53,911**	**–**	42,588	–
– impaired	**42,493**	**–**	47,592	–
	1,231,602	**270,861**	1,143,644	256,042

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 31 December 2007 can be assessed by reference to group's standard credit grading system. The following information is based on that system:

	2007		2006	
	Loans and advances to customers	*Loans and advances to banks*	*Loans and advances to customers*	*Loans and advances to banks*
	Lm000	**Lm000**	Lm000	Lm000
Group/Bank				
Grade 1-3 – satisfactory risk	**999,403**	**270,861**	898,144	256,042
Grade 4 – watch list and special attention	**90,728**	**–**	106,077	–
Grade 5 – sub-standard but not impaired	**45,067**	**–**	49,243	–
	1,135,198	**270,861**	1,053,464	256,042

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. Related credit losses which may arise are partly covered by collective impairment allowances.

	Loans and advances to customers	
	2007	2006
	Lm000	Lm000
Group/Bank		
Past due up to 29 days	**44,650**	27,780
Past due 30 – 59 days	**6,651**	4,515
Past due 60 – 89 days	**2,032**	1,451
Past due 90 – 179 days	**463**	1,297
Past due over 180 days	**115**	7,545
	53,911	42,588

Renegotiated loans that would otherwise be past due or impaired totalled Lm32,061,000 (2006: Lm48,374,000).

4 Financial instruments and risk management *(continued)*

b *Credit risk (continued)*

iii Credit quality of financial assets (continued)

d Individually impaired gross loans by industry sector

	Loans and advances to customers	
	2007	2006
	Lm000	Lm000
Group/Bank		
Personal Banking	**8,020**	7,095
Commercial and corporate	**32,067**	36,336
Other	**2,406**	4,161
	42,493	47,592

iv Movement in allowance accounts for loans and advances to customers

	Group			
	Individually assessed allowances	*Collective allowances*	*Individually assessed allowances*	*Collective allowances*
	2007	**2007**	2006	2006
	Lm000	**Lm000**	Lm000	Lm000
Change in allowances for uncollectability:				
At 1 January	**12,039**	**5,479**	11,670	3,964
Additions	**5,724**	**361**	4,825	38
Reversals	**(3,435)**	**–**	(2,699)	–
Discount unwind	**(186)**	**–**	(280)	–
Transfer between allowances	**–**	**–**	(1,477)	1,477
At 31 December	**14,142**	**5,840**	12,039	5,479

	Bank			
	Individually assessed allowances	*Collective allowances*	*Individually assessed allowances*	*Collective allowances*
	2007	**2007**	2006	2006
	Lm000	**Lm000**	Lm000	Lm000
Change in allowances for uncollectability:				
At 1 January	**12,039**	**5,479**	11,595	3,896
Additions	**5,724**	**361**	4,825	71
Reversals	**(3,435)**	**–**	(2,691)	–
Discount unwind	**(186)**	**–**	(280)	–
Taken over on amalgamation of subsidiary company	**–**	**–**	67	35
Transfer between allowances	**–**	**–**	(1,477)	1,477
At 31 December	**14,142**	**5,840**	12,039	5,479

v 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 company 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 Accounts (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 balance sheet 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 must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises 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 contractual maturities

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group					
At 31 December 2007					
Amounts owed to banks	**36,879**	**622**	**37**	**286**	**37,824**
Amounts owed to customers	**1,198,238**	**431,862**	**137,716**	**213**	**1,768,029**
Subordinated liabilities	**572**	**565**	**3,972**	**30,696**	**35,805**
Other financial liabilities	**10,276**	**122**	**267**	**64**	**10,729**
	1,245,965	**433,171**	**141,992**	**31,259**	**1,852,387**
Loan commitments	**285,519**	**41,932**	**97,683**	**61,406**	**486,540**
At 31 December 2006					
Amounts owed to banks	125,732	1,598	33	277	127,640
Amounts owed to customers	1,034,214	348,072	114,942	752	1,497,980
Other financial liabilities	11,734	642	33	–	12,409
	1,171,680	350,312	115,008	1,029	1,638,029
Loan commitments	275,376	27,005	94,989	48,337	445,707

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
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Bank					
At 31 December 2007					
Amounts owed to banks	**36,879**	**622**	**37**	**286**	**37,824**
Amounts owed to customers	**1,227,227**	**432,592**	**137,716**	**213**	**1,797,748**
Subordinated liabilities	**572**	**565**	**3,972**	**30,696**	**35,805**
Other financial liabilities	**9,017**	**122**	**267**	**64**	**9,470**
	1,273,695	**433,901**	**141,992**	**31,259**	**1,880,847**
Loan commitments	**285,519**	**41,932**	**97,683**	**61,406**	**486,540**
At 31 December 2006					
Amounts owed to banks	125,732	1,598	33	277	127,640
Amounts owed to customers	1,038,559	356,581	114,953	752	1,510,845
Other financial liabilities	10,942	642	33	–	11,617
	1,175,233	358,281	115,019	1,029	1,650,102
Loan commitments	275,376	27,005	94,989	48,337	445,707

The balances in the above table will not agree directly to the balances in the balance sheet as the table incorporates 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 balance sheet.

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

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

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 the 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 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 Accounts (continued)

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

i Fair value and price verification control

Where certain financial instruments are carried on the group's balance sheet at fair values, 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 and not at fair value.

a Investments – Debt and other fixed income instruments held-to-maturity

This category of asset is carried at amortised cost and amounts to Lm20,190,000 as at 31 December 2007 (2006: Lm46,798,000). Fair value based on quoted market prices at the balance sheet date without deduction for transaction costs amounts to Lm20,117,000 as at 31 December 2007 (2006: Lm46,940,000).

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

Certain unlisted equity investments are carried at cost and amount to Lm197,000 (2006: Lm317,000). There is no market for these investments and there have not been any 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.

c 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 2007 the group's carrying amount was Lm1,482,481,000 (2006: Lm1,382,168,000).

The loans and advances to customers category of asset amounts to Lm1,211,620,000 (2006: Lm1,126,126,000). 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 Lm270,861,000 (2006: Lm256,042,000). For loans and advances to banks within the 'less than one year' maturity band, fair value is taken to be the amount carried at balance sheet date. As at 31 December 2007, 73 per cent 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.

d Assets held for sale

This category of asset is carried at lower of cost and fair value less cost to sell. Included in this category is an investment held in units of a collective investment scheme. The fair value of these units at the balance sheet date amounted to Lm1,054,000 (2006: Lm599,000).

e Amounts owed to banks and customers

This category of liability is carried at amortised cost and amounts to Lm1,771,564,000 as at 31 December 2007 (2006: Lm1,601,778,000). Of this liability, 69 per cent has contractual repricing within the 'less than three months' band, 24 per cent reprices within the 'between three months and one year' band whilst 7 per cent 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 balance sheet date.

f Subordinated liabilities

This category of liability is carried at amortised cost. Fair value based on quoted market prices at the balance sheet date without deduction for transaction costs amounts to Lm24,269,000 as at 31 December 2007 (2006: Nil).

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

ii 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 and commodity prices, interest rates, equity prices and the associated volatilities;
- VAR is calculated to a 99 per cent 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 per cent 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:

	2007	2006
	Lm000	Lm000
At 31 December	**122**	142
Average	**105**	91
Minimum	**51**	26
Maximum	**162**	135

Notes on the Accounts (continued)

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iii Sensitivity of net interest income

A principal part of all group'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, the business uses a combination of scenarios relevant to local businesses and local markets and standard scenarios which are required throughout the group.

The table below sets out the impact on future net income/net assets of an incremental 25 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:

	2007		2006	
	Impact on profit for the year	*Impact on net assets*	*Impact on profit for the year*	*Impact on net assets*
	Lm000	**Lm000**	Lm000	Lm000
Group				
+ 25 basis points	**391**	**(93)**	278	(352)
- 25 basis points	**(391)**	**93**	(278)	352

iv Currency concentration

	2007			2006		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Group						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**199,296**	**3,392**	**202,688**	128,204	2,365	130,569
Cheques in course of collection	**719**	**613**	**1,332**	9,800	735	10,535
Financial assets held for trading	**282**	**6,578**	**6,860**	357	10,039	10,396
Financial assets designated at fair value through profit or loss	**63,650**	**54,706**	**118,356**	63,846	48,630	112,476
Financial investments	**74,542**	**121,763**	**196,305**	79,268	88,870	168,138
Loans and advances to banks	**6,494**	**264,402**	**270,896**	4,051	252,009	256,060
Loans and advances to customers	**1,094,677**	**116,943**	**1,211,620**	1,024,563	101,563	1,126,126
Other assets	**85,729**	**1,920**	**87,649**	70,954	2,060	73,014
Total assets	**1,525,389**	**570,317**	**2,095,706**	1,381,043	506,271	1,887,314

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv *Currency concentration (continued)*

	2007			2006		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Liabilities and equity						
Financial liabilities held for trading	**–**	**6,458**	**6,458**	–	10,643	10,643
Amounts owed to banks	**9,540**	**27,870**	**37,410**	13,652	112,676	126,328
Amounts owed to customers	**1,251,936**	**482,218**	**1,734,154**	1,086,585	388,865	1,475,450
Liabilities to customers under investment contracts	**8,134**	**–**	**8,134**	9,153	–	9,153
Liabilities under insurance contracts issued	**124,902**	**–**	**124,902**	102,770	–	102,770
Subordinated liabilities	**15,650**	**9,233**	**24,883**	–	–	–
Other liabilities	**33,831**	**7,133**	**40,964**	30,704	5,897	36,601
Total equity	**118,801**	**–**	**118,801**	126,369	–	126,369
Total liabilities and equity	**1,562,794**	**532,912**	**2,095,706**	1,369,233	518,081	1,887,314

	2007			2006		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Bank						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**199,296**	**3,392**	**202,688**	128,204	2,365	130,569
Cheques in course of collection	**719**	**613**	**1,332**	9,800	735	10,535
Financial assets held for trading	**282**	**6,578**	**6,860**	357	10,042	10,399
Financial investments	**72,603**	**121,742**	**194,345**	79,268	88,855	168,123
Loans and advances to banks	**6,459**	**264,402**	**270,861**	4,033	252,009	256,042
Loans and advances to customers	**1,094,677**	**116,943**	**1,211,620**	1,024,563	101,563	1,126,126
Other assets	**79,023**	**1,920**	**80,943**	61,682	2,042	63,724
Total assets	**1,453,059**	**515,590**	**1,968,649**	1,307,907	457,611	1,765,518
Liabilities and equity						
Financial liabilities held for trading	**–**	**6,542**	**6,542**	–	10,693	10,693
Amounts owed to banks	**9,540**	**27,870**	**37,410**	13,652	112,676	126,328
Amounts owed to customers	**1,277,820**	**485,742**	**1,763,562**	1,096,781	391,125	1,487,906
Subordinated liabilities	**15,650**	**9,233**	**24,883**	–	–	–
Other liabilities	**29,408**	**7,048**	**36,456**	25,102	5,869	30,971
Total equity	**99,796**	**–**	**99,796**	109,620	–	109,620
Total liabilities and equity	**1,432,214**	**536,435**	**1,968,649**	1,245,155	520,363	1,765,518

Notes on the Accounts (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	
	2007	2006
	Lm000	Lm000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**91,140**	73,700
Term assurance and other long-term contracts	**2,838**	2,265
Total non-linked	**93,978**	75,965
Life (linked)	**30,924**	26,805
Investment contracts	**8,134**	9,153
Total insurance liabilities	**133,036**	111,923

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	
		2007	2006
		Lm000	Lm000
As published			
Risk free rate	+100basis points	**112**	393
Risk free rate	-100basis points	**(22)**	(428)
Risk adjusted discount rate	+100 basis points	**(243)**	(210)
Risk adjusted discount rate	-100 basis points	**266**	172
Expenses inflation	+100 basis points	**(72)**	(178)
Expenses inflation	-100 basis points	**77**	106
Lapse rate	+100 basis points	**(73)**	(81)
Lapse rate	-100 basis points	**83**	35

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.

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

i Market risk (continued)

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.

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

	2007		2006	
	Impact on profit for the year	*Impact on net assets*	*Impact on profit for the year*	*Impact on net assets*
	Lm000	**Lm000**	Lm000	Lm000
+100 basis points shift in yield curves	**135**	**135**	246	246
-100 basis points shift in yield curves	**(161)**	**(161)**	36	36
+10 per cent increase in equity prices	**31**	**31**	104	104
-10 per cent increase in equity prices	**(33)**	**(33)**	(104)	(104)

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) :

	Gross	*Gross*
	2007	2006
	Lm000	Lm000
At 31 December		
AAA	**7,668**	2,780
AA- to AA+	**1,896**	1,938
A- to A+	**49,699**	52,413
Lower than A-	**603**	–
Unrated	**4,622**	2,211
	64,488	59,342

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

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 balance sheet date.

The following table shows the expected maturity of insurance liabilities at 31 December 2007:

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
At 31 December 2007					
Liabilities to customers under investment contracts	**–**	**22**	**1,045**	**7,067**	**8,134**
Liabilities under insurance contracts issued	**729**	**–**	**5,344**	**118,829**	**124,902**
At 31 December 2006					
Liabilities to customers under investment contracts	–	25	1,176	7,952	9,153
Liabilities under insurance contracts issued	436	–	4,404	97,930	102,770

All sensitivity analysis disclosed in this note are illustrative only and employ simplified scenarios. Effects may not be linear and therefore the results cannot be extrapolated. They do not allow for the effect of management actions taken to mitigate these effects, nor do they take account of any other behavioural aspects.

5 Capital management and allocation

It is the group's policy to maintain a strong capital base to support the development of its business and to meet regulatory requirements at all times.

The group recognises the impact on shareholder returns of the level of equity capital employed within the group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

An annual group capital plan is prepared 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.

Capital measurement and allocation

The MFSA supervises the group on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the group as a whole.

In implementing the EU's Banking Consolidation Directive, the MFSA requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets taking into account both balance sheet assets and off-balance sheet transactions.

The group's capital is divided in line with Banking Directive BD/02 and is divided into two categories:

– Original own funds comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at original own funds calculations.

– Additional own funds comprise qualifying subordinated loan capital, collective impairment allowances, and unrealised gains arising on the fair valuation of financial instruments held as available-for-sale. Additional own funds also include reserves arising from the revaluation of properties.

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. Banking book off-balance sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate and equity position risks, and counterparty risk.

The table below summarises the composition of regulatory capital and the ratios of the group as at the balance sheet date. During these two years, the individual entities within the group and the group complied with all of the externally imposed capital requirements to which they are subject.

	Group			
	Face value	*Weighted amount*	*Face value*	*Weighted amount*
	2007	**2007**	2006	2006
	Lm000	**Lm000**	Lm000	Lm000
On-balance sheet assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**202,688**	**–**	130,569	–
Cheques in course of collection	**1,332**	**266**	10,535	2,107
Loans and advances to banks	**270,896**	**54,179**	256,060	51,212
Loans and advances to customers	**1,217,460**	**907,343**	1,131,605	845,020
Debt securities and equities	**314,661**	**105,357**	280,614	89,268
Property and equipment	**38,940**	**38,940**	32,029	32,029
Other assets	**37,555**	**37,555**	25,536	25,536
Prepayments and accrued income	**16,990**	**8,495**	14,589	7,295
	2,100,522	**1,152,135**	1,881,537	1,052,467
Off-balance sheet items				
Contingent liabilities and commitments	**548,648**	**42,938**	516,477	49,999
Total adjusted assets and off-balance sheet items		**1,195,073**		1,102,466
Own funds				
Original own funds				
Ordinary shares	**36,480**		36,480	
Profit and loss account	**57,980**		69,481	
Intangible assets	**(630)**		(784)	
	93,830		105,177	
Additional Own funds				
Revaluation reserves	**9,937**		9,878	
Collective impairment allowances	**5,840**		5,479	
Subordinated loan capital	**24,883**		–	
	40,660		15,357	
Total own funds	**134,490**		120,534	
Capital solvency ratio		**11.25%**		10.93%

Notes on the Accounts (continued)

5 Capital management and allocation *(continued)*

	Bank			
	Face value	*Weighted amount*	*Face value*	*Weighted amount*
	2007	**2007**	2006	2006
	Lm000	**Lm000**	Lm000	Lm000
On-balance sheet assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**202,688**	**–**	130,569	–
Cheques in course of collection	**1,332**	**266**	10,535	2,107
Loans and advances to banks	**270,861**	**54,172**	256,042	51,208
Loans and advances to customers	**1,217,460**	**907,343**	1,131,605	845,020
Debt securities and equities	**194,345**	**39,755**	168,123	32,904
Shares in subsidiaries	**12,682**	**12,682**	9,682	9,682
Property and equipment	**37,924**	**37,924**	31,088	31,088
Other assets	**20,630**	**20,630**	18,572	18,572
Prepayments and accrued income	**15,700**	**7,850**	13,630	6,815
	1,973,622	**1,080,622**	1,769,846	997,396
Off-balance sheet items				
Contingent liabilities and commitments	**548,658**	**42,943**	516,487	50,004
Total adjusted assets and off-balance sheet items		**1,123,565**		1,047,400
Own funds				
Original own funds				
Ordinary shares	**36,480**		36,480	
Profit and loss account	**52,381**		62,511	
Intangible assets	**(585)**		(794)	
	88,276		98,197	
Additional Own funds				
Revaluation reserves	**10,003**		9,878	
Collective impairment allowances	**5,840**		5,479	
Subordinated loan capital	**24,883**		–	
	40,726		15,357	
Total own funds	**129,002**		113,554	
Capital solvency ratio		**11.48%**		10.84%

6 Interest receivable and similar income

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
On loans and advances to banks	**12,201**	9,117	**12,201**	9,464
On loans and advances to customers	**74,464**	59,796	**74,500**	58,631
On balances with Central Bank of Malta	**4,679**	3,020	**4,679**	3,020
On Treasury Bills	**1,823**	170	**1,823**	170
On derivative financial instruments	**243**	–	**243**	–
	93,410	72,103	**93,446**	71,285
On debt and other fixed income instruments	**9,422**	9,627	**9,422**	10,082
Net amortisation of premiums	**(839)**	(855)	**(839)**	(873)
	8,583	8,772	**8,583**	9,209
	101,993	80,875	**102,029**	80,494
Interest receivable and similar income from:				
– Group companies	**9,034**	5,806	**9,034**	5,806
– subsidiary companies	**–**	–	**3**	788

Discount unwind on impaired loans and advances to customers included in interest receivable on loans and advances to customers amounted to Lm186,000 (2006: Lm280,000) (see note 24).

7 Interest payable

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
On amounts owed to banks	**4,007**	2,992	**4,007**	2,992
On amounts owed to customers	**42,699**	30,881	**43,457**	31,346
On subordinated liabilities	**1,083**	–	**1,083**	–
On finance leases	**10**	12	**10**	12
	47,799	33,885	**48,557**	34,350
On derivative financial instruments	**–**	28	**–**	28
	47,799	33,913	**48,557**	34,378
Interest payable to:				
– Group companies	**898**	224	**898**	224
– subsidiary companies	**–**	–	**758**	465

Notes on the Accounts (continued)

8 Net fee and commission income

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
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	**8,193**	7,530	**8,147**	7,468
– trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals and other institutions	**4,565**	4,817	**1,447**	1,419
– other	**548**	326	**1,209**	957
	13,306	12,673	**10,803**	9,844
Net fee and commission income from:				
– Group companies	**469**	524	**310**	125
– subsidiary companies	**–**	–	**1,599**	1,615

9 Dividend income

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Available-for-sale financial assets	**126**	102	**126**	102
Financial assets held for trading	**15**	11	**15**	11
Subsidiary companies	**–**	–	**4,004**	2,056
	141	113	**4,145**	2,169

10 Trading profits

	2007	2006
	Lm000	Lm000
Group/Bank		
Profit on foreign exchange activities	**7,166**	6,955
Net gains on financial instruments at fair value through profit or loss	**40**	380
	7,206	7,335

Included in trading profits are unrealised gains relating to trading financial instruments amounting to Lm255,000 (2006: Lm435,000) in respect of the group and the bank.

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

Net gains on sale of available-for-sale financial assets represent net revaluation gains transferred from equity.

12 Net earned insurance premiums

	Group	
	2007	2006
	Lm000	Lm000
Life insurance		
Gross earned premium	**32,740**	17,657
Reinsurance paid	**(1,294)**	(1,121)
	31,446	16,536

13 Net insurance claims incurred and movement in policyholders' liabilities

	Group					
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
	2007	**2007**	**2007**	2006	2006	2006
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Life insurance						
Claims paid	**6,938**	**(308)**	**6,630**	3,427	(320)	3,107
Change in technical provision	**21,837**	**602**	**22,439**	16,656	(2,022)	14,634
Change in claims provision	**459**	**(198)**	**261**	273	(168)	105
	29,234	**96**	**29,330**	20,356	(2,510)	17,846

14 Employee compensation and benefits

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Wages, salaries and allowances	**19,734**	19,255	**18,802**	18,422
Defined contribution social security costs	**1,076**	1,011	**1,029**	968
Retirement benefits	**372**	862	**372**	862
Share-based payments	**189**	383	**178**	367
	21,371	21,511	**20,381**	20,619
	Number	*Number*	***Number***	*Number*
Average number of employees				
– executive and senior managerial	**243**	227	**228**	213
– other managerial, supervisory and clerical	**1,325**	1,258	**1,274**	1,211
– others	**64**	72	**64**	72
	1,632	1,557	**1,566**	1,496

HSBC operates share option schemes (equity-settled share-based payments) and share awards schemes (cash-settled share-based payments).

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 middle management and above under discretionary incentive plans. Until 31 December 2004 share options in ordinary shares of the ultimate parent company were awarded to group employees under discretionary incentive plans.

Under the HSBC Holdings savings-related share option plans, options are offered at nil consideration at an exercise price equivalent to the average market value over the five business days immediately preceding the date of the award, and discounted at a rate of 20 per cent for options offered since 2001 and 15 per cent for options offered before 2001. The options are exercisable either on the first, third or fifth anniversary of the commencement of the relevant savings contract.

Notes on the Accounts (continued)

14 Employee compensation and benefits *(continued)*

Shares in HSBC Holdings plc awarded under the discretionary HSBC Holdings Group Achievement Share Scheme are offered at nil consideration. Shares are released to individuals after three years provided they remain employed by the Group. There is no performance condition attached to these awards. For those receiving share awards, additional awards will be made during the three year life of the award, representing equivalent value to dividends reinvested in shares. At the end of the three year period, the value of the award will have grown in line with HSBC's total shareholder return over the same period.

Options awarded up to 31 December 2004 under the discretionary HSBC Holdings Group Share Option Plan were offered for nil consideration at an exercise price which is the higher of the average market value over the five business days immediately preceding the date of the award and the closing price on the date of grant. Subject to the attainment of certain performance criteria the options are exercisable between the third and tenth anniversary of grant.

	Group			
	Options	*Weighted average exercise price (Lm)*	*Options*	*Weighted average exercise price (Lm)*
	2007	**2007**	2006	2006
Savings related Share Option Plans				
Outstanding at 1 January	**306,531**	**3.82**	412,996	3.52
Granted during the year	**106,351**	**4.46**	98,261	4.25
Exercised during the year	**(48,527)**	**3.88**	(197,416)	3.41
Closed during the year	**(34,078)**	**4.22**	(7,310)	3.99
Outstanding at 31 December	**330,277**	**3.68**	306,531	3.82
Exercisable at 31 December	**364**	**3.76**	682	3.41

	Group			
	Options	*Weighted average exercise price (Lm)*	*Options*	*Weighted average exercise price (Lm)*
	2007	**2007**	2006	2006
Group Share Option Plans				
Outstanding at 1 January	**628,378**	**4.94**	702,578	4.87
Exercised during the year	**(30,839)**	**4.02**	(74,200)	4.40
Outstanding at 31 December	**597,539**	**4.45**	628,378	4.94
Exercisable at 31 December	**275,989**	**4.02**	306,828	4.40

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

The weighted average share price and exercise price is denominated in pounds sterling and disclosed in Maltese lira equivalent using the exchange rates prevailing at balance sheet dates.

Fair value of share option scheme

Fair values of share options/awards, measured at the date of grant of the option/award, are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model. When modelling options/awards with vesting dependent on HSBC's Total Shareholder Return over a period, these performance targets are incorporated into the model using Monte-Carlo simulation. 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.

14 Employee compensation and benefits *(continued)*

The significant weighted average assumptions used to estimate the fair value of the options granted in 2007 are as follows:

	1 year savings-related share option schemes	*3 year savings-related share option schemes*	*5 year savings-related share option schemes*
Risk-free interest rate (%)	5.64	5.51	5.35
Expected volatility (%)	17.00	17.00	17.00
Expected life (years)	1	3	5

The risk-free rate was determined from the UK gilts yield curve. Expected life is not a single input parameter but a function of various behavioural assumptions. Expected volatility is estimated by considering both historic average share price volatility and implied volatility derived from traded options over HSBC Holdings plc shares of similar maturity to those of the employee options. Expected dividend yield was based on historic levels of dividend growth denominated in sterling.

Share awards

During the year, 46 (2006: 47) share awards with a weighted average fair value of Lm2,529 (2006: Lm2,709) were granted to employees of the group.

15 Net impairment

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Write-downs				
Loans and advances to customers				
– specific allowances	**(2,123)**	(964)	**(2,123)**	(964)
– collective allowances	**(361)**	(38)	**(361)**	(71)
– bad debts written off	**(1,075)**	(1,575)	**(1,075)**	(1,574)
	(3,559)	(2,577)	**(3,559)**	(2,609)
Reversals of write-downs				
Loans and advances to customers				
– specific allowances	**3,435**	2,699	**3,435**	2,691
– bad debts recovered	**106**	59	**106**	59
	3,541	2,758	**3,541**	2,750
Net impairment	**(18)**	181	**(18)**	141

16 Profit before tax

	2007	2006
	Lm000	Lm000
Group/Bank		
Profit before tax is stated after charging:		
Directors' emoluments		
– fees	**48**	43
– other emoluments	**417**	424
	465	467

Profit before tax is also stated after charging auditors' remuneration amounting to Lm52,000.

Notes on the Accounts (continued)

17 Tax expense

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:				
– current	**19,157**	12,242	**17,031**	11,836
– deferred	**(2,696)**	2,330	**(2,659)**	530
	16,461	14,572	**14,372**	12,366

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

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Profit on ordinary activities before tax	**49,240**	41,395	**44,831**	36,271
Tax at the applicable rate of 35%	**17,234**	14,488	**15,691**	12,695
Tax effect of non-taxable income	**–**	(142)	**–**	(142)
Tax effect of profits taxed at different rates	**(225)**	(28)	**(753)**	(378)
Tax effect of non-deductible expenses	**72**	96	**57**	56
Tax effect of depreciation charges not deductible by way of capital allowances	**146**	141	**146**	141
Tax effect of taxable temporary differences previously recognised	**(915)**	–	**(915)**	–
Tax effect of taxable temporary differences not previously recognised	**178**	142	**175**	(2)
Tax effect of additional deductions	**(29)**	(125)	**(29)**	(4)
Tax on profit on ordinary activities	**16,461**	14,572	**14,372**	12,366

18 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 the income statement, divided by the number of shares in issue as at 31 December 2007.

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

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Balances with Central Bank of Malta	**148,806**	90,586	**148,806**	90,586
Malta Government Treasury Bills	**39,601**	25,945	**39,601**	25,945
Cash	**14,281**	14,038	**14,281**	14,038
	202,688	130,569	**202,688**	130,569

Balances with Central Bank of Malta include a reserve deposit, required in terms of Article 37 of the Central Bank of Malta Act. The average reserve deposit requirement as at year end was Lm61,936,000 in respect of the group and bank (2006: Lm66,746,000).

20 Financial instruments held for trading

	Group 2007	Group 2006	Bank 2007	Bank 2006
	Lm000	Lm000	**Lm000**	Lm000
Financial assets held for trading				
Equity and other non-fixed income instruments	**282**	357	**282**	357
Derivative financial instruments	**6,578**	10,039	**6,578**	10,042
	6,860	10,396	**6,860**	10,399
Derivative financial instruments held with:				
– Group companies	**6,284**	4,095	**6,284**	4,095
– subsidiary companies	**–**	–	**–**	3
Financial liabilities held for trading				
Derivative financial instruments	**6,458**	10,643	**6,542**	10,693
Derivative financial instruments held with:				
– Group companies	**30**	5,550	**30**	5,550
– subsidiary companies	**–**	–	**84**	50

a *Equity and other non-fixed income instruments*

The equity and other non-fixed income instruments held for trading are listed on the Malta Stock Exchange and are analysed as follows:

	2007	2006
	Lm000	Lm000
Group/Bank		
Issued by other issuers		
– local banks	**–**	184
– local others	**282**	173
	282	357

b *Derivative financial instruments*

	Notional 2007	*Fair value assets* 2007	*Fair value liabilities* 2007	*Notional* 2006	*Fair value assets* 2006	*Fair value liabilities* 2006
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Group						
Interest rate derivatives						
Over the counter products						
– interest rate swaps purchased	**34,162**	**580**	**–**	12,250	183	–
– interest rate swaps written	**(34,162)**	**–**	**580**	–	–	–
Currency derivatives						
Over the counter products						
– foreign exchange contracts	**18,065**	**330**	**210**	74,229	518	1,305
– foreign exchange options purchased	**5,063**	**115**	**–**	86,204	5,445	–
– foreign exchange options written	**(5,063)**	**–**	**115**	(86,204)	–	5,445
Equity derivatives						
Over the counter products						
– equity index options purchased	**15,364**	**5,553**	**–**	11,198	3,893	–
– equity index options written	**(15,364)**	**–**	**5,553**	(11,198)	–	3,893
		6,578	**6,458**		10,039	10,643

Notes on the Accounts (continued)

20 Financial instruments held for trading *(continued)*

b *Derivative financial instruments (continued)*

	Notional	*Fair value assets*	*Fair value liabilities*	*Notional*	*Fair value assets*	*Fair value liabilities*
	2007	**2007**	**2007**	2006	2006	2006
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Bank						
Interest rate derivatives						
Over the counter products						
– interest rate swaps purchased	**34,162**	**580**	**–**	12,250	183	–
– interest rate swaps written	**(34,162)**	**–**	**580**	–	–	–
Currency derivatives						
Over the counter products						
– foreign exchange contracts	**19,888**	**330**	**294**	78,183	521	1,355
– foreign exchange options purchased	**5,063**	**115**	**–**	86,204	5,445	–
– foreign exchange options written	**(5,063)**	**–**	**115**	(86,204)	–	5,445
Equity derivatives						
Over the counter products						
– equity index options purchased	**15,364**	**5,553**	**–**	11,198	3,893	–
– equity index options written	**(15,364)**	**–**	**5,553**	(11,198)	–	3,893
		6,578	**6,542**		10,042	10,693

21 Financial assets designated at fair value through profit or loss

	Group	
	2007	2006
	Lm000	Lm000
Debt and other fixed income instruments	**64,488**	59,342
Equity and other non-fixed income instruments	**53,868**	53,134
	118,356	112,476

a *Debt and other fixed income instruments*

	Group	
	2007	2006
	Lm000	Lm000
Issued by public bodies		
– local government	**45,019**	50,006
– foreign government	**7,636**	963
Issued by other issuers		
– local banks	**147**	153
– foreign banks	**5,647**	2,787
– others local	**2,126**	1,805
– others foreign	**3,913**	3,628
	64,488	59,342
Listing status		
– listed on the Malta Stock Exchange	**48,048**	51,362
– listed elsewhere	**15,840**	7,378
– local unlisted	**600**	602
	64,488	59,342

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

a *Debt and other fixed income instruments (continued)*

	Group	
	2007	2006
	Lm000	Lm000
At 1 January	**59,342**	49,504
Exchange adjustments	**(26)**	(12)
Acquisitions	**18,176**	11,798
Disposals/Redemptions	**(10,183)**	(1,039)
Changes in fair value	**(2,821)**	(909)
At 31 December	**64,488**	59,342

b *Equity and other non-fixed income instruments*

	Group	
	2007	2006
	Lm000	Lm000
Issued by other issuers		
– local banks	**–**	2,517
– others local	**16,376**	12,771
– others foreign	**37,492**	37,846
	53,868	53,134
Listing status		
– listed on the Malta Stock Exchange	**16,299**	15,288
– listed elsewhere	**37,492**	37,846
– local unlisted	**77**	–
	53,868	53,134

	Group	
	2007	2006
	Lm000	Lm000
At 1 January	**53,134**	43,627
Exchange adjustments	**(2,187)**	(980)
Acquisitions	**17,968**	15,599
Disposals	**(16,356)**	(9,082)
Changes in fair value	**1,309**	3,970
At 31 December	**53,868**	53,134

22 Financial investments

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Debt and other fixed income instruments				
– available-for-sale	**172,246**	119,061	**172,246**	119,061
– held-to-maturity	**20,190**	46,798	**20,190**	46,798
Equity and other non-fixed income instruments				
– available-for-sale	**3,869**	2,279	**1,909**	2,264
	196,305	168,138	**194,345**	168,123

Notes on the Accounts (continued)

22 Financial investments *(continued)*

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

	2007	2006
	Lm000	Lm000
Group/Bank		
Issued by public bodies		
– local government	**66,198**	72,480
Issued by other issuers		
– foreign banks	**95,325**	40,288
– foreign others	**10,723**	6,293
	172,246	119,061
Amounts include:		
– issued by Group companies	**432**	3,735
Listing status		
– listed on the Malta Stock Exchange	**66,198**	72,480
– listed elsewhere	**104,416**	40,949
– foreign unlisted	**1,632**	5,632
	172,246	119,061
At 1 January	**119,061**	137,766
Exchange adjustments	**(1,714)**	156
Amortisation	**(350)**	(438)
Acquisitions	**117,673**	37,851
Disposals/Redemptions	**(56,880)**	(53,500)
Changes in fair value	**(5,544)**	(2,774)
At 31 December	**172,246**	119,061

Debt instruments with a carrying amount of Lm182,047,000 (2006: Lm37,477,000) have been pledged in favour of the Central Bank of Malta.

b *Debt and other fixed income instruments held-to-maturity*

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Issued by other issuers				
– local banks	**400**	400	**400**	400
– foreign banks	**12,762**	32,640	**12,762**	32,640
– local others	**3,808**	3,804	**3,808**	3,804
– foreign others	**3,220**	9,954	**3,220**	9,954
	20,190	46,798	**20,190**	46,798
Amounts include:				
– issued by Group companies	**–**	1,504	**–**	1,504

22 Financial investments *(continued)*

b *Debt and other fixed income instruments held-to-maturity (continued)*

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Listing status				
– listed on the Malta Stock Exchange	**4,408**	4,404	**4,408**	4,404
– listed elsewhere	**15,382**	41,994	**15,382**	41,994
– local unlisted	**400**	400	**400**	400
	20,190	46,798	**20,190**	46,798
At 1 January	**46,798**	82,837	**46,798**	112,807
Exchange adjustments	**(1,239)**	(2,835)	**(1,239)**	(2,835)
Amortisation	**7**	4	**7**	22
Redemptions	**(25,376)**	(33,208)	**(25,376)**	(63,196)
At 31 December	**20,190**	46,798	**20,190**	46,798

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

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Issued by other issuers				
– local banks	**1,400**	1,665	**1,400**	1,665
– local others	**2,136**	319	**197**	319
– foreign others	**333**	295	**312**	280
	3,869	2,279	**1,909**	2,264
Amounts include:				
– issued by Group companies	**319**	249	**298**	234
Listing status				
– listed on the Malta Stock Exchange	**2,415**	1,665	**1,400**	1,665
– listed elsewhere	**319**	249	**298**	234
– local unlisted	**1,121**	319	**197**	319
– foreign unlisted	**14**	46	**14**	46
	3,869	2,279	**1,909**	2,264
At 1 January	**2,279**	3,897	**2,264**	3,895
Acquisitions	**2,098**	244	**87**	229
Disposals	**(1,491)**	(2,183)	**(1,491)**	(2,181)
Changes in fair value	**983**	321	**1,049**	321
At 31 December	**3,869**	2,279	**1,909**	2,264

23 Loans and advances to banks

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Repayable on call and at short notice	**22,018**	12,476	**21,983**	12,458
Term loans and advances	**248,878**	243,584	**248,878**	243,584
	270,896	256,060	**270,861**	256,042
Amounts include:				
– due from Group companies	**250,271**	155,943	**250,271**	155,943

Notes on the Accounts (continued)

24 Loans and advances to customers

	2007	2006
	Lm000	Lm000
Group/Bank		
Repayable on call and at short notice	**216,287**	221,937
Term loans and advances	**1,015,315**	921,707
Gross loans and advances to customers	**1,231,602**	1,143,644
Allowances for uncollectability	**(19,982)**	(17,518)
Net loans and advances to customers	**1,211,620**	1,126,126
Amounts include:		
– due from Group companies	**–**	8
Allowances for uncollectability		
– individually assessed allowances	**14,142**	12,039
– collectively assessed allowances	**5,840**	5,479
	19,982	17,518

The balance of individually assessed allowances at balance sheet date includes Lm7,462,000 in respect of interest in suspense which has been netted of against interest receivable.

The aggregate amount of impaired loans and advances at balance sheet date amounted to Lm35,031,000 (2006: Lm43,731,000).

25 Shares in subsidiary companies

Bank *Name of company*	*Incorporated in*	*Nature of business*	*Current equity interest*	2007	2006
			%	**Lm000**	Lm000
HSBC Life Assurance (Malta) Limited	Malta	Life insurance	**99.99**	**10,122**	7,122
HSBC Fund Management (Malta) Limited	Malta	Management of collective investment schemes	**99.99**	**2,550**	2,550
HSBC Stockbrokers (Malta) Limited	Malta	Stockbroking services	**99.99**	**10**	10
				12,682	9,682

All subsidiary companies are unlisted.

HSBC Fund Management (Malta) Limited holds 99.99% of the equity interest in HSBC Securities Services (Malta) Limited (formerly HSBC Investment Services (Malta) Limited).

26 Intangible assets

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Software	**742**	972	**585**	794
Present value of in-force long-term insurance business	**14,760**	9,927	–	–
	15,502	10,899	**585**	794

a *Software*

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Cost				
At 1 January	**3,852**	4,607	**3,404**	3,987
Additions	**218**	462	**126**	449
Disposals	**–**	(1,217)	**–**	(1,217)
Taken over on amalgamation of subsidiary company	**–**	–	**–**	185
At 31 December	**4,070**	3,852	**3,530**	3,404
Depreciation				
At 1 January	**2,880**	3,530	**2,610**	3,158
Charge for the year	**448**	547	**335**	464
Disposals	**–**	(1,197)	**–**	(1,197)
Taken over on amalgamation of subsidiary company	**–**	–	**–**	185
At 31 December	**3,328**	2,880	**2,945**	2,610
Carrying amount at 1 January	**972**	1,077	**794**	829
Carrying amount at 31 December	**742**	972	**585**	794

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

	Group	
	2007	2006
	Lm000	Lm000
At 1 January	**9,927**	8,356
Addition from current year new business	**2,943**	1,221
Movement from in-force business	**1,890**	350
At 31 December	**14,760**	9,927

The following are the key assumptions used in the computation of PVIF:

	Group	
	2007	2006
	%	%
Risk free rate	**4.50**	4.50
Risk adjusted discount rate	**8.00**	8.00
Expenses inflation	**3.00**	3.00
Lapse rate	**10.00**	6.00

Notes on the Accounts (continued)

27 Property and equipment

	Land and buildings	*Computer equipment*	*Others*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Group				
Cost/revaluation				
At 1 January 2006	18,933	7,005	17,735	43,673
Acquisitions	10	320	1,009	1,339
Disposals	(28)	(1,025)	(265)	(1,318)
At 31 December 2006	18,915	6,300	18,479	43,694
Depreciation				
At 1 January 2006	894	4,979	8,054	13,927
Charge for the year	236	658	1,512	2,406
Disposals	–	(1,017)	(234)	(1,251)
At 31 December 2006	1,130	4,620	9,332	15,082
Carrying amount at 1 January 2006	18,039	2,026	9,681	29,746
Carrying amount at 31 December 2006	17,785	1,680	9,147	28,612
Cost/revaluation				
At 1 January 2007	**18,915**	**6,300**	**18,479**	**43,694**
Acquisitions	**42**	**1,413**	**1,840**	**3,295**
Revaluation	**3,529**	**–**	**–**	**3,529**
Disposals	**–**	**(61)**	**(207)**	**(268)**
At 31 December 2007	**22,486**	**7,652**	**20,112**	**50,250**
Depreciation				
At 1 January 2007	**1,130**	**4,620**	**9,332**	**15,082**
Charge for the year	**239**	**792**	**1,556**	**2,587**
Revaluation	**(598)**	**–**	**–**	**(598)**
Disposals	**–**	**(45)**	**(184)**	**(229)**
At 31 December 2007	**771**	**5,367**	**10,704**	**16,842**
Carrying amount at 1 January 2007	**17,785**	**1,680**	**9,147**	**28,612**
Carrying amount at 31 December 2007	**21,715**	**2,285**	**9,408**	**33,408**

	Group	
	2007	2006
	Lm000	Lm000
Carrying amount of land and buildings occupied for own activities	**21,715**	17,785

	Land and buildings	*Computer equipment*	*Others*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Bank				
Cost/revaluation				
At 1 January 2006	18,927	6,842	17,100	42,869
Acquisitions	10	316	1,006	1,332
Disposals	(28)	(1,025)	(265)	(1,318)
Taken over on amalgamation of subsidiary company	–	–	74	74
At 31 December 2006	18,909	6,133	17,915	42,957

27 Property and equipment *(continued)*

	Land and buildings	*Computer equipment*	*Others*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Depreciation				
At 1 January 2006	801	4,845	7,468	13,114
Charge for the year	236	650	1,502	2,388
Disposals	–	(1,017)	(234)	(1,251)
Taken over on amalgamation of subsidiary company	–	–	74	74
At 31 December 2006	1,037	4,478	8,810	14,325
Carrying amount at 1 January 2006	18,126	1,997	9,632	29,755
Carrying amount at 31 December 2006	17,872	1,655	9,105	28,632
Cost/revaluation				
At 1 January 2007	**18,909**	**6,133**	**17,915**	**42,957**
Acquisitions	**42**	**1,399**	**1,835**	**3,276**
Revaluation	**3,529**	**–**	**–**	**3,529**
Disposals	**–**	**(61)**	**(207)**	**(268)**
At 31 December 2007	**22,480**	**7,471**	**19,543**	**49,494**
Depreciation				
At 1 January 2007	**1,037**	**4,478**	**8,810**	**14,325**
Charge for the year	**239**	**785**	**1,548**	**2,572**
Revaluation	**(598)**	**–**	**–**	**(598)**
Disposals	**–**	**(45)**	**(184)**	**(229)**
At 31 December 2007	**678**	**5,218**	**10,174**	**16,070**
Carrying amount at 1 January 2007	**17,872**	**1,655**	**9,105**	**28,632**
Carrying amount at 31 December 2007	**21,802**	**2,253**	**9,369**	**33,424**

	Bank	
	2007	2006
	Lm000	Lm000
Carrying amount of land and buildings occupied for own activities	**21,802**	17,872

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 Lm8,637,000 (2006: Lm8,832,000) for the group and the bank.

28 Investment property

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2007	**2007**	2006	2006
	Lm000	**Lm000**	Lm000	Lm000
Group				
Freehold land and buildings				
As at 1 January	**3,417**	**2,900**	961	893
Additions	**772**	**772**	2,007	2,007
Fair value adjustments	**1,343**	**–**	449	–
At 31 December	**5,532**	**3,672**	3,417	2,900

Notes on the Accounts (continued)

28 Investment property *(continued)*

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2007	**2007**	2006	2006
	Lm000	**Lm000**	Lm000	Lm000
Bank				
Freehold land and buildings				
As at 1 January	**2,456**	**2,007**	–	–
Additions	**772**	**772**	2,007	2,007
Fair value adjustments	**1,272**	**–**	449	–
At 31 December	**4,500**	**2,779**	2,456	2,007

During the year ended 31 December 2007, Lm277,000 (2006: Lm123,000) was recognised as rental income in profit or loss relating to investment property for the group and Lm212,000 (2006: Lm56,000) for the bank. Lm212,000 (2006: Lm56,000) were received from a Group company.

29 Assets held for sale

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Assets acquired in satisfaction of debt	**4,071**	3,381	**4,135**	3,445
Other	**1,047**	597	**1,047**	597
	5,118	3,978	**5,182**	4,042

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 consisted of immovable property.

30 Other assets

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Acceptances and endorsements	**1,479**	1,338	**1,479**	1,338
Reinsurance assets	**7,071**	7,764	**–**	–
Other	**2,549**	1,611	**2,358**	1,646
	11,099	10,713	**3,837**	2,984

31 Prepayments and accrued income

	Group		*Bank*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Accrued income	**15,712**	13,799	**14,425**	12,841
Prepayments	**1,278**	790	**1,275**	789
	16,990	14,589	**15,700**	13,630
Amounts include:				
– due from Group companies	**872**	688	**863**	670
– due from subsidiary companies	**–**	–	**101**	190

32 Amounts owed to banks

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Term deposits	**23,342**	108,958	**23,342**	108,958
Repayable on demand	**14,068**	17,370	**14,068**	17,370
	37,410	126,328	**37,410**	126,328
Amounts include:				
– due to Group companies	**28,492**	25,872	**28,492**	25,872

33 Amounts owed to customers

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Term deposits	**1,029,108**	849,504	**1,046,437**	858,754
Repayable on demand	**705,046**	625,946	**717,125**	629,152
	1,734,154	1,475,450	**1,763,562**	1,487,906
Amounts include:				
– due to Group companies	**818**	94	**818**	94
– due to subsidiary companies	**–**	–	**29,408**	12,456

34 Deferred tax

	Group					
	Assets	*Liabilities*	*Net*	*Assets*	*Liabilities*	*Net*
	2007	**2007**	**2007**	2006	2006	2006
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Deferred tax (assets) and liabilities are attributable to the following:						
– excess of capital allowances over depreciation	**(6)**	**433**	**427**	(12)	567	555
– allowances for uncollectibility	**(6,797)**	**–**	**(6,797)**	(4,878)	–	(4,878)
– property sales tax consequences	**–**	**3,219**	**3,219**	–	2,540	2,540
– fair value movements on investments	**(933)**	**–**	**(933)**	–	1,182	1,182
– unrelieved tax losses	**–**	**–**	**–**	(64)	–	(64)
– value of in-force life insurance business	**–**	**5,166**	**5,166**	–	3,475	3,475
– fair value movement on policyholders' investments	**–**	**26**	**26**	–	1,785	1,785
– other	**(1,201)**	**359**	**(842)**	(1,215)	1,226	11
	(8,937)	**9,203**	**266**	(6,169)	10,775	4,606

Notes on the Accounts (continued)

34 Deferred tax *(continued)*

	Group			
	At 1 January 2007	*Recognised in income*	*Recognised in equity*	*At 31 December 2007*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	**555**	**(128)**	**–**	**427**
– allowances for uncollectibility	**(4,878)**	**(1,919)**	**–**	**(6,797)**
– property sales tax consequences	**2,540**	**254**	**425**	**3,219**
– fair value movements on investments	**1,182**	**(5)**	**(2,110)**	**(933)**
– unrelieved tax losses	**(64)**	**64**	**–**	**–**
– value of in-force life insurance business	**3,475**	**1,691**	**–**	**5,166**
– fair value movement on policyholders' investments	**1,785**	**(1,759)**	**–**	**26**
– other	**11**	**(894)**	**41**	**(842)**
	4,606	**(2,696)**	**(1,644)**	**266**

	Group			
	At 1 January 2006	*Recognised in income*	*Recognised in equity*	*At 31 December 2006*
	Lm000	Lm000	Lm000	Lm000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	586	(38)	7	555
– allowances for uncollectibility	(5,472)	600	(6)	(4,878)
– property sales tax consequences	2,237	295	8	2,540
– fair value movements on investments	3,038	(31)	(1,825)	1,182
– unrelieved tax losses	(1,925)	1,861	–	(64)
– value of in-force life insurance business	2,925	550	–	3,475
– fair value movement on policyholders' investments	2,413	(628)	–	1,785
– other	41	(279)	249	11
	3,843	2,330	(1,567)	4,606

	Bank					
	Assets	*Liabilities*	*Net*	*Assets*	*Liabilities*	*Net*
	2007	**2007**	**2007**	2006	2006	2006
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Deferred tax (assets) and liabilities are attributable to the following:						
– excess of capital allowances over depreciation	**–**	**428**	**428**	(12)	564	552
– allowances for uncollectibility	**(6,797)**	**–**	**(6,797)**	(4,878)	–	(4,878)
– property sales tax consequences	**–**	**3,095**	**3,095**	–	2,425	2,425
– fair value movements on investments	**(933)**	**–**	**(933)**	–	1,182	1,182
– unrelieved tax losses	**–**	**–**	**–**	(64)	–	(64)
– other	**(1,167)**	**341**	**(826)**	(1,167)	1,226	59
	(8,897)	**3,864**	**(5,033)**	(6,121)	5,397	(724)

34 Deferred tax *(continued)*

	Bank			
	At 1 January 2007	*Recognised in income*	*Recognised in equity*	*At 31 December 2007*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	**552**	**(124)**	**–**	**428**
– allowances for uncollectibility	**(4,878)**	**(1,919)**	**–**	**(6,797)**
– property sales tax consequences	**2,425**	**245**	**425**	**3,095**
– fair value movements on investments	**1,182**	**(5)**	**(2,110)**	**(933)**
– unrelieved tax losses	**(64)**	**64**	**–**	**–**
– other	**59**	**(920)**	**35**	**(826)**
	(724)	**(2,659)**	**(1,650)**	**(5,033)**

	Bank			
	At 1 January 2006	*Recognised in income*	*Recognised in equity*	*At 31 December 2006*
	Lm000	Lm000	Lm000	Lm000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	590	(38)	–	552
– allowances for uncollectibility	(5,422)	579	(35)	(4,878)
– property sales tax consequences	2,133	295	(3)	2,425
– fair value movements on investments	3,038	(43)	(1,813)	1,182
– unrelieved tax losses	(72)	8	–	(64)
– other	82	(271)	248	59
	349	530	(1,603)	(724)

35 Liabilities to customers under investment contracts

	Group	
	2007	2006
	Lm000	Lm000
At 1 January	**9,153**	8,297
Premiums received	**420**	519
Accounts balances paid on surrender and other termination during the year	**(1,295)**	(342)
Changes in unit prices and other movements	**(144)**	679
At 31 December	**8,134**	9,153

Notes on the Accounts (continued)

36 Liabilities under insurance contracts issued

	Group Gross 2007 Lm000	Group Gross 2006 Lm000
Life insurance (non-linked)		
Provisions for policyholders	**93,260**	75,542
Outstanding claims	**718**	423
Total non-linked	**93,978**	75,965
Life insurance (linked)		
Provisions for policyholders	**30,913**	26,792
Outstanding claims	**11**	13
Total linked	**30,924**	26,805
Total liabilities under insurance contracts	**124,902**	102,770

	Group				
	Non-linked business			*Linked Business*	*All Business*
	Provisions for policy-holders	*Outstanding claims*	*Total*	*Total*	*Total*
	2007	**2007**	**2007**	**2007**	**2007**
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
At 1 January	**75,542**	**423**	**75,965**	**26,805**	**102,770**
Claims in respect of new business	**–**	**1,144**	**1,144**	**132**	**1,276**
Movement for the year	**17,718**	**(630)**	**17,088**	**4,001**	**21,089**
Previous year claims paid	**–**	**(219)**	**(219)**	**(14)**	**(233)**
At 31 December	**93,260**	**718**	**93,978**	**30,924**	**124,902**

	Group				
	Non-linked business			*Linked Business*	*All Business*
	Provisions for policy-holders	*Outstanding claims*	*Total*	*Total*	*Total*
	2006	2006	2006	2006	2006
	Lm000	Lm000	Lm000	Lm000	Lm000
At 1 January	66,179	434	66,613	19,662	86,275
Claims in respect of new business	–	885	885	13	898
Movement for the year	9,363	(630)	8,733	7,130	15,863
Previous year claims paid	–	(266)	(266)	–	(266)
At 31 December	75,542	423	75,965	26,805	102,770

37 Other liabilities

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Bills payable	**4,622**	7,890	**4,622**	7,890
Cash collateral for commitments	**61**	70	**61**	70
Obligations under finance leases	**132**	180	**132**	180
Share-based payments liabilities	**211**	124	**199**	118
Acceptances and endorsements	**1,479**	1,338	**1,479**	1,338
Other	**7,573**	4,214	**6,282**	3,407
	14,078	13,816	**12,775**	13,003

38 Accruals and deferred income

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Accrued interest	**14,397**	10,123	**14,465**	10,307
Other	**8,419**	8,024	**8,019**	7,629
	22,816	18,147	**22,484**	17,936
Amounts include:				
– due to Group companies	**1,626**	1,684	**1,573**	1,656
– due to subsidiary companies	**–**	–	**68**	184

39 Provisions for liabilities and other charges

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
At 1 January	**32**	25	**32**	25
Provisions made during the year	**168**	133	**153**	33
Provisions reversed during the year	**(22)**	(126)	**(22)**	(26)
At 31 December	**178**	32	**163**	32

40 Subordinated liabilities

Subordinated liabilities represent the proceeds of Lm25,000,000 4.6% Subordinated Unsecured Bond issued on 18 January 2007 net of unamortised issue costs amounting to Lm117,000.

41 Share capital

	2007		2006	
	Shares of 12.5c each		*Shares of 12.5c each*	
	000s	**Lm000**	000s	Lm000
Authorised				
Ordinary shares	**320,000**	**40,000**	320,000	40,000
Issued and fully paid up				
Ordinary shares	**291,840**	**36,480**	291,840	36,480

Notes on the Accounts (continued)

42 Reserves

a *Revaluation reserves*

The revaluation reserves comprise 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 assets held by the group, net of deferred taxation. The revaluation reserves are not available for distribution.

b *Other reserve*

This reserve represents the recognition through equity of the fair value of shares in HSBC Holdings plc acquired to meet cash-settled share-based payments against which no financial liabilities arise.

43 Contingent liabilities

	Group Contract amount		*Bank Contract amount*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Guarantees and assets pledged as collateral security				
– guarantees	**42,967**	42,686	**42,977**	42,696
– standby letters of credit	**12,830**	16,892	**12,830**	16,892
	55,797	59,578	**55,807**	59,588
Amounts include:				
– in favour of Group companies	**5,355**	5,937	**5,355**	5,937
– in favour of subsidiary companies	**–**	–	**10**	10

44 Commitments

	Contract amount	
	2007	2006
	Lm000	Lm000
Group/Bank		
Documentary credits	**6,310**	11,191
Undrawn formal standby facilities, credit facilities and other commitments to lend	**486,540**	445,707
Uncalled share capital in other companies	**1**	1
	492,851	456,899
Amounts include:		
– in favour of Group companies	**30**	–

45 Capital and lease commitments

a *Capital Commitments*

Capital commitments are made up of:

	2007	2006
	Lm000	Lm000
Group/Bank		
Intangible assets	**117**	288
Property and equipment	**1,489**	1,571
Investment property	**–**	107
	1,606	1,966

45 Capital and lease commitments *(continued)*

b *Operating leases*

Total future minimum lease payments under operating leases not provided for:

	2007	2006
	Lm000	Lm000
Group/Bank		
Less than one year	**674**	522
Between one year and five years	**1,579**	933
More than five years	**3,148**	2,152
	5,401	3,607

c *Finance leases*

Finance lease payments, both principal and finance charge, are payable as follows:

	2007	2006
	Lm000	Lm000
Group/Bank		
Less than one year	**72**	74
Between one year and five years	**69**	123
Total minimum lease payments	**141**	197
Finance charges	**(9)**	(17)
Present value of minimum lease payments	**132**	180

46 Dividends

	Bank			
	2007	2006	**2007**	2006
	% per 12.5c share	% per 12.5c share	**Lm000**	Lm000
Gross of income tax				
– prior year's final	**42**	38	**15,468**	13,935
– special prior year's final	**42**	42	**15,468**	15,395
– interim	**53**	42	**19,261**	15,468
– special interim	**32**	–	**11,672**	–
	169	122	**61,869**	44,798
	Cents per 12.5c share	Cents per 12.5c share	**Lm000**	Lm000
Net of income tax				
– prior year's final	**3.45**	3.10	**10,054**	9,058
– special prior year's final	**3.45**	3.43	**10,054**	10,006
– interim	**4.29**	3.45	**12,520**	10,054
– special interim	**2.60**	–	**7,587**	–
	13.79	9.98	**40,215**	29,118

The Directors have proposed a final gross ordinary dividend of €0.148 (Lm0.064) per share. The final dividend will be payable to shareholders on the bank's register as at 29 February 2008.

Notes on the Accounts (continued)

47 Cash and cash equivalents

	Group		Bank	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Balances of cash and cash equivalents as shown in the balance sheet are analysed below:				
Cash	**14,281**	14,038	**14,281**	14,038
Malta Government Treasury Bills	**–**	11,735	**–**	11,735
Balances with Central Bank of Malta (excluding reserve deposit)	**86,870**	29,000	**86,870**	29,000
Loans and advances to banks	**195,047**	142,352	**195,012**	142,334
Amounts owed to banks	**(36,813)**	(38,578)	**(36,813)**	(38,578)
	259,385	158,547	**259,350**	158,529
Adjustment to reflect balances with contractual maturity of more than three months	**114,853**	40,168	**114,853**	40,168
Per balance sheet	**374,238**	198,715	**374,203**	198,697
Analysed as follows:				
Cash and balances with Central Bank of Malta (excluding reserve deposit)	**101,151**	43,038	**101,151**	43,038
Malta Government Treasury Bills	**39,601**	25,945	**39,601**	25,945
Loans and advances to banks	**270,896**	256,060	**270,861**	256,042
Amounts owed to banks	**(37,410)**	(126,328)	**(37,410)**	(126,328)
	374,238	198,715	**374,203**	198,697

48 Segmental information

a *Class of business*

	Personal Financial Services		*Commercial Banking*		*Global Banking and Markets*		*Total*	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000	**Lm000**	Lm000	**Lm000**	Lm000
Group								
Profit before tax								
Segment operating income	**40,149**	38,552	**30,012**	26,592	**15,138**	10,424	**85,299**	75,568
Segment impairment allowances	**(633)**	(144)	**615**	325	**–**	–	**(18)**	181
Common costs							**(36,041)**	(34,354)
Profit before tax							**49,240**	41,395
Assets								
Segment total assets	**767,424**	679,457	**659,961**	651,948	**668,321**	555,909	**2,095,706**	1,887,314
Average total assets	**723,440**	630,984	**655,955**	631,396	**612,115**	509,214	**1,991,510**	1,771,594
Total Equity	**44,774**	47,051	**63,308**	66,506	**10,719**	12,812	**118,801**	126,369

b *Geographical segments*

The group's activities are carried out within Malta. There are no identifiable geographical segments or other material concentrations.

49 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 (see note 14).

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*	
	2007	2006	**2007**	2006
	Balance at end of year	*Balance at end of year*	*Balance at end of year*	*Balance at end of year*
	Lm000	Lm000	**Lm000**	Lm000
Directors, connected persons and companies controlled by them				
Loans	**25,276**	24,860	**25,276**	24,860
Credit card transactions	**6**	5	**6**	5
Guarantees	**280**	231	**280**	231
Commitments to lend	**34,918**	35,897	**34,918**	35,897
Senior executive management				
Loans	**619**	418	**562**	356
Credit card transactions	**19**	19	**18**	17
Guarantees	**–**	4	**–**	4

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*	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Short-term employee benefits	**1,929**	1,780	**1,805**	1,708
Post-employment benefits	**87**	163	**87**	163
Other long-term benefits	**–**	2	**–**	2
Termination benefits	**–**	1	**–**	–
Share-based payments	**63**	80	**58**	74
	2,079	2,026	**1,950**	1,947

Details of Directors' fees and emoluments are stated in note 16.

49 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 Accounts' where the following are disclosed.

Note 6 – interest receivable and similar income
Note 7 – interest payable
Note 8 – net fee and commission income
Note 9 – dividend income
Note 14 – employee compensation and benefits
Note 20 – financial instruments held for trading
Note 22 – financial investments
Note 23 – loans and advances to banks
Note 24 – loans and advances to customers
Note 25 – shares in subsidiary companies
Note 28 – investment property
Note 31 – prepayments and accrued income
Note 32 – amounts owed to banks
Note 33 – amounts owed to customers
Note 38 – accruals and deferred income
Note 43 – contingent liabilities
Note 44 – commitments

Included in interest receivable and similar income (note 6), the group recognised interest amounting to Lm2,577,000 on deposits placed with an intermediate parent, having an average balance of Lm48,757,000. These deposits matured during the third quarter of the year.

Furthermore, expenditure relating to transactions with HSBC Holdings plc and its subsidiaries amounting to Lm2,004,000 (2006: Lm1,912,000) for the group and Lm1,843,000 (2006: Lm1,779,000) for the bank are included within general and administrative expenses.

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 consolidated balance sheet. The group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2007, the total assets held by the group on behalf of customers were Lm1,148,162,000 (2006: Lm588,242,000).

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 paragraph 23 of the Fourth Schedule to the Companies Act, 1995.

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, which is incorporated and registered in England. The registered address is 8 Canada Square, London E14 5HQ, United Kingdom. Copies of the HSBC Holdings plc *Annual Review 2007* and *Annual Report and Accounts 2007* may be obtained from its registered office from 3 April 2008.

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

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 (see note 3(g)(i)). 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.

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 standard industry and national 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, SARS, 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.

For long-term insurance contracts with fixed and guaranteed terms and with discretionary participation features, estimates of future deaths, voluntary terminations, investment returns and administrative 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 assumption 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.

53 Accounting estimates and judgements *(continued)*

Critical accounting judgement in applying accounting policies (continued)

v Held-to-maturity investments

The group follows the application guidance in IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the group evaluates its intention and ability to hold such investments to maturity. If the group fails to keep these investments to maturity other than for specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

54 Comparatives

Certain amounts have been reclassified to conform with the current year's presentation.

Group Income Statement: Five-Year Comparison

	2007	2006	2005	2004	2003
	Lm000	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income	**101,993**	80,875	71,884	68,807	69,360
Interest payable	**(47,799)**	(33,913)	(27,327)	(27,413)	(34,660)
Net interest income	**54,194**	46,962	44,557	41,394	34,700
Net non-interest income	**31,105**	28,606	24,071	18,706	18,668
Operating expenses	**(35,895)**	(34,347)	(32,065)	(31,560)	(30,581)
Net impairment	**(18)**	181	142	4,012	3,386
(Provisions)/reversals of provisions for liabilities and other charges	**(146)**	(7)	1	301	(9)
Profit before tax	**49,240**	41,395	36,706	32,853	26,164
Tax expense	**(16,461)**	(14,572)	(12,642)	(10,843)	(9,383)
Profit for the year	**32,779**	26,823	24,064	22,010	16,781
Profit attributable to shareholders of the bank	**32,779**	26,810	24,057	22,010	16,781
Profit attributable to minority interest	**–**	13	7	–	–
Earnings per share	**11.2c**	9.2c	8.2c	7.5c	5.8c

Earnings per share for comparative periods have been restated as a result of share split and bonus issue effected on 1 April 2005 and 18 April 2006 respectively.

Group Balance Sheet: Five-Year Comparison

	2007	2006	2005	2004	2003
	Lm000	Lm000	Lm000	Lm000	Lm000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**202,688**	130,569	77,121	106,806	133,574
Cheques in course of collection	**1,332**	10,535	9,727	4,458	5,637
Financial assets held for trading	**6,860**	10,396	3,907	4,826	2,444
Financial assets at fair value through profit and loss	**118,356**	112,476	93,131	72,533	–
Financial investments	**196,305**	168,138	224,500	238,446	235,059
Loans and advances to banks	**270,896**	256,060	162,882	131,283	130,700
Loans and advances to customers	**1,211,620**	1,126,126	1,016,084	976,296	922,526
Intangible assets	**15,502**	10,899	9,433	8,782	1,762
Property and equipment	**33,408**	28,612	29,746	30,647	30,511
Investment property	**5,532**	3,417	961	346	346
Assets held for sale	**5,118**	3,978	4,918	3,150	–
Current tax recoverable	**–**	806	1,895	1,372	–
Deferred tax assets	**–**	–	–	–	1,607
Other assets	**11,099**	10,713	8,701	6,692	58,756
Prepayments and accrued income	**16,990**	14,589	12,868	16,486	16,062
Total assets	**2,095,706**	1,887,314	1,655,874	1,602,123	1,538,984
Liabilities					
Financial liabilities held for trading	**6,458**	10,643	4,050	9,917	8,611
Amounts owed to banks	**37,410**	126,328	22,667	48,336	32,367
Amounts owed to customers	**1,734,154**	1,475,450	1,367,214	1,288,618	1,267,378
Debt securities in issue	**–**	–	12	12	12
Provision for current tax	**3,626**	–	–	–	–
Deferred tax liabilities	**266**	4,606	3,843	2,251	–
Liabilities to customers under investment contracts	**8,134**	9,153	8,297	–	–
Liabilities under insurance contracts issued	**124,902**	102,770	86,275	68,973	–
Other liabilities	**14,078**	13,816	16,755	14,522	62,080
Accruals and deferred income	**22,816**	18,147	15,035	15,101	15,676
Provisions for liabilities and other charges	**178**	32	25	26	1,698
Subordinated liabilities	**24,883**	–	–	19,914	20,000
Total liabilities	**1,976,905**	1,760,945	1,524,173	1,467,670	1,407,822
Equity attributable to shareholders	**118,801**	126,369	131,373	134,453	131,162
Minority interest	**–**	–	328	–	–
Total equity	**118,801**	126,369	131,701	134,453	131,162
Total liabilities and equity	**2,095,706**	1,887,314	1,655,874	1,602,123	1,538,984
Memorandum items					
Contingent liabilities	**55,797**	59,578	51,513	44,127	38,818
Commitments	**492,851**	456,899	401,216	330,584	297,631

Group Cash Flow Statement: Five-Year Comparison

	2007	2006	2005	2004	2003
	Lm000	Lm000	Lm000	Lm000	Lm000
Net cash from /(used in) operating activities	**147,252**	(9,548)	58,357	8,180	(51,991)
Cash flows from investing activities					
Dividends received	**98**	74	93	323	125
Interest received from financial investment	**9,020**	11,333	11,799	12,512	13,279
Proceeds from sale and maturity of financial investments	**83,747**	88,891	57,205	81,302	82,574
Proceeds on sale of property and equipment and intangible assets	**26**	80	264	57	26
Purchase of financial investments	**(119,675)**	(37,851)	(37,330)	(93,137)	(52,107)
Purchase of property and equipment, investment property and intangible assets	**(4,285)**	(2,311)	(2,855)	(1,376)	(5,352)
Proceeds on sale of shares in subsidiary company	**–**	450	–	–	–
Net cash (used in) / from investing activities	**(31,069)**	60,666	29,176	(319)	38,545
Cash flows from financing activities					
Dividends paid	**(40,215)**	(29,118)	(28,525)	(18,827)	(5,691)
Maturity of debt securities in issue and subordinated loan stock	**–**	(12)	(19,914)	–	–
Issue of subordinated loan stock	**25,000**	–	–	–	–
Issue of units to minority interest	**–**	91	321	–	–
Subordinated loan stock issue costs	**(130)**	–	–	–	–
Cash used in financing activities	**(15,345)**	(29,039)	(48,118)	(18,827)	(5,691)
Increase/(decrease) in cash and cash equivalents	**100,838**	22,079	39,415	(10,966)	(19,137)

Group Accounting Ratios: Five-Year Comparison

	2007	2006	2005	2004	2003
	%	%	%	%	%
Net interest income and other operating income to total assets	**4.1**	4.0	4.1	3.8	3.5
Operating expenses to total assets	**1.7**	1.8	1.9	2.0	2.0
Cost to income ratio	**42.1**	45.5	46.7	52.5	56.8
Profit before tax to total assets	**2.3**	2.2	2.2	2.1	1.7
Profit before tax on equity	**41.4**	32.8	27.9	24.4	19.1
Profit after tax to equity	**27.6**	21.2	18.3	16.4	12.8

	2007	2006	2005	2004	2003
Shares in issue (millions)	**291.8**	291.8	73.0	36.5	36.5
Net assets per 12.5 cents share (cents)*	**40.7**	43.3	45.1	46.1	44.9
Earnings per 12.5 cents share (cents)*	**11.2**	9.2	8.2	7.5	5.8
Dividend per 12.5 cents share (cents)*					
– gross	**21.2**	15.4	15.0	9.9	3.0
– net	**13.8**	10.0	9.8	6.5	2.0
Dividend cover	**0.8**	0.9	0.8	1.2	2.9

* Ratios for 2003 to 2005 have been restated to reflect the number of shares in issue.

Group Financial Highlights in Major Currencies

	2007	2006	2007	2006
	€000	€000	US$000	US$000
Income statement				
Net operating income	**198,693**	176,026	**292,922**	259,505
Operating expenses	**(83,613)**	(80,007)	**(123,266)**	(117,950)
Net impairment reversals	**(42)**	422	**(62)**	622
(Provisions)/reversals of provisions for liabilities and other charges	**(340)**	(16)	**(501)**	(24)
Profit before tax	**114,698**	96,425	**169,093**	142,153
Tax expense	**(38,343)**	(33,944)	**(56,528)**	(50,041)
Profit for the year	**76,355**	62,481	**112,565**	92,112
Profit attributable to shareholders of the bank	**76,355**	62,451	**112,565**	92,067
Profit attributable to minority interest	**–**	30	**–**	45
Balance sheet				
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**472,136**	304,144	**696,044**	448,383
Cheques in course of collection	**3,103**	24,540	**4,574**	36,178
Financial assets held for trading	**15,980**	24,216	**23,558**	35,701
Financial assets at fair value through profit or loss	**275,695**	261,999	**406,442**	386,250
Financial investments	**457,268**	391,656	**674,124**	577,397
Loans and advances to banks	**631,018**	596,459	**930,276**	879,327
Loans and advances to customers	**2,822,314**	2,623,169	**4,160,783**	3,867,191
Intangible assets	**36,110**	25,388	**53,235**	37,428
Property and equipment	**77,820**	66,648	**114,725**	98,255
Investment property	**12,886**	7,959	**18,997**	11,734
Assets held for sale	**11,922**	9,266	**17,576**	13,661
Current tax recoverable	**–**	1,877	**–**	2,768
Other assets	**25,854**	24,955	**38,114**	36,789
Prepayments and accrued income	**39,576**	33,983	**58,345**	50,100
Total assets	**4,881,682**	4,396,259	**7,196,793**	6,481,162
Liabilities and equity				
Financial liabilities held for trading	**15,043**	24,792	**22,177**	36,549
Amounts owed to banks	**87,142**	294,264	**128,468**	433,819
Amounts owed to customers	**4,039,492**	3,436,873	**5,955,200**	5,066,793
Provision for current tax	**8,446**	–	**12,452**	–
Deferred tax liabilities	**620**	10,729	**913**	15,817
Liabilities to customers under investment contracts	**18,947**	21,321	**27,933**	31,432
Liabilities under insurance contracts issued	**290,943**	239,390	**428,922**	352,919
Other liabilities	**32,793**	32,183	**48,345**	47,445
Accruals and deferred income	**53,147**	42,271	**78,352**	62,318
Provisions for liabilities and other charges	**415**	75	**611**	110
Subordinated liabilities	**57,962**	–	**85,450**	–
Called up share capital	**84,976**	84,976	**125,275**	125,275
Revaluation reserves	**24,584**	24,759	**36,243**	36,501
Other reserve	**790**	564	**1,164**	831
Retained earnings	**166,382**	184,062	**245,288**	271,353
Total liabilities and equity	**4,881,682**	4,396,259	**7,196,793**	6,481,162

The euro exchange rate ruling on 31 December 2007 was €1 = Lm0.4293. The US dollar exchange rate ruling on the same date was US$1 = Lm0.2912. Comparative results have also been translated at these rates.

Shareholder Register Information pursuant to Listing Rule 8.14

HSBC Bank Malta p.l.c. (the bank)'s authorised share capital is Lm40,000,000. The issued and fully paid up capital is Lm36,480,000 divided into 291,840,000 Ordinary Shares of a nominal value of Lm0.125 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 company, provided he holds at least thirty three per cent (33%) of the ordinary issued share capital of the company, shall be entitled to appoint the Chairman from amongst the Directors appointed or elected to the Board.

Every shareholder owning eleven per centum (11%) of the ordinary issued share capital, shall be entitled to appoint one Director for each and every eleven per centum (11%) of the ordinary issued share capital of the company 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 M95 grade and higher can be awarded shares in HSBC Bank Holdings plc, depending on their performance. Share awards will be released to the individual after 3 years provided participant remains continuously employed within the Group. During the 3-year period the employee has no voting rights whatsoever.

The rules governing the appointment of Board members are contained in the bank's Articles of Association, Articles 77 to 80. 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 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.

It is hereby declared that, as at 31 December 2007, the requirements pursuant to Listing Rules 8.14.7 and 8.14.10 did not apply to the bank.

Signed on behalf of the Board of Directors by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Shareholder Register Information

Directors' interest in the share capital of the company or in any related company at 31 December 2007

Albert Mizzi	8,000 shares
Shaun Wallis	2,000 shares
Saviour sive Sonny Portelli	4,700 shares
Philip Farrugia Randon	6,400 shares

Mr Albert Mizzi has a non-beneficial interest in the company of 177,480 ordinary shares through the shareholding held by Finco Control Co Limited in HSBC Bank Malta p.l.c. and a non-beneficial interest in the company of 339,680 ordinary shares through the shareholding of Finco Treasury Management Limited in HSBC Bank Malta p.l.c.

Mr Charles John Farrugia has a non-beneficial interest in the company of 7,342,267 ordinary shares through the shareholding held by Amalgamated Investments Sicav p.l.c. in HSBC Bank Malta p.l.c.

Mr Peter Paul Testaferrata Moroni Viani has a beneficial interest in the company of 58,800 ordinary shares through the shareholding of MacApps Limited and 40,000 ordinary shares through the shareholding of Capps Ltd in HSBC Bank Malta p.l.c. He also has a non-beneficial interest in the company of 300,000 ordinary shares through the shareholding of Santumas Shareholdings p.l.c., 40,000 ordinary shares through the shareholding of Viani Limited and 5,000 ordinary shares through the shareholding of Circles Limited in HSBC Bank Malta p.l.c.

There were no changes to Directors' interest from 31 December 2007 to 13 February 2008.

Shareholders holding 5% or more of the equity capital at 13 February 2008

HSBC Europe B.V.	70.03%

Number of shareholders at 13 February 2008

One class of shares (All shares have equal voting rights)	9,978 shareholders

Number of shareholders analysed by range

	31 December 2007		13 February 2008	
Range of shareholding	**Total shareholders**	**Shares**	**Total shareholders**	**Shares**
1 – 500	2,118	662,461	2,132	667,850
501 – 1,000	1,567	1,266,465	1,564	1,263,417
1,001 – 5,000	3,901	9,768,758	3,914	9,784,479
5,001 and over	2,360	280,142,316	2,368	280,124,254

Company Secretary

George Brancaleone
233 Republic Street
Valletta VLT 1116
Tel: 2597 2404

Branches and Offices

MALTA OFFICES

Registered Office / Head Office
233 Republic Street, Valletta VLT 1116
Tel: 2597 0000 Fax: 2380 4923

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 5983 Fax: 2380 4924

Direct Banking Centre
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380 Fax: 2149 0613
Freephone: 8007 4444

Information Technology
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 6380 Fax: 2380 6381

Legal Office
116 Archbishop Street
Valletta VLT 1114
Tel: 2597 2406 Fax: 2597 2418

Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2597 3384, 2597 3387
Fax: 2597 3306

Inheritance Unit
15 Republic Street, Valletta VLT 1111
Tel: 2125 1472, 2122 7415
Fax: 2123 1076

Payment Services Department
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 5900 Fax: 2380 4842

Premier Centre
Wealth Management Office
Personal Financial Services Centre
Mill Street, Qormi QRM 3101
Tel: 2380 2904 Fax: 2380 2219

Credit Operations Support Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 3802 Fax: 2380 3815

Trade Services
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 8897 Fax: 2380 8890

Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1895 Fax: 2380 4532

Wealth Management Office
Personal Financial Services Centre
Mill Street, Qormi QRM 3101
Tel: 2380 2900 Fax: 2380 2926

Attard
34 Mosta Road ATD 1434
Tel: 2380 2380 Fax: 2141 6786

Balzan
Bertu Fenech Square BZN 1032
Tel: 2380 2380 Fax: 2380 1190

Birkirkara
1 Naxxar Road BKR 9049
Tel: 2380 2380 Fax: 2334 1690

Birkirkara *(Agency)*
Sanctuary Street BKR 2304
Tel: 2144 0406, 2144 0585
Fax: 2144 0406

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

Floriana
Development House FRN 9010
Tel: 2380 2380 Fax: 2597 8990

Gudja *(Agency)*
1 Main Street GDJ 1201
Tel: 2182 1385 Fax: 2169 5607

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

Luqa
143 Carmel Street LQA 1319
Tel: 2380 2380 Fax: 2361 5090

Luqa *(Bureau)*
Malta International Airport, LQA 9400
Arrivals Area - Tel: 2180 1957/8
Fax: 2180 1938
Customs Area - Tel: 2180 1912

Marsascala
St. Anthony Street MSK 9057
Tel: 2380 2380 Fax: 2163 6860

Marsaxlokk *(Automated Office)*
55 Xatt is-Sajjieda MXK 1302

Mellieha
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
52 Msida Seafront MSD 9043
Tel: 2380 2380 Fax: 2597 8590

Msida, University of Malta
Room 6, Ground Floor
Humanities Building MSD 2080
Tel: 2134 5051
Fax: 2133 1377

Naxxar
Victory Square NXR 1705
Tel: 2380 2380 Fax: 2334 5990

Paceville *(Automated Office)*
Eden Super Bowl STJ 3312

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. Andrews
St. Andrews Road SWQ 9020
Tel: 2380 2380 Fax: 2324 8894

St. Julians
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

Santa Venera
Fleur-de-Lys Junction SVR 1587
Tel: 2380 2380 Fax: 2380 2790

Sliema
High Street SLM 1549
Tel: 2380 2380 Fax: 2324 6090

Sliema
112 Manwel Dimech Street SLM 1055
Tel: 2380 2380 Fax: 2324 8090

Sliema – The Plaza *(Automated Office)*
Bisazza Street SLM 1608

Sliema ShareShop
High Street SLM 1549
Tel: 2324 6041 Fax: 2324 6046

Tarxien
Main Street TXN 2556
Tel: 2380 2380 Fax: 2293 1290

Valletta
32 Merchants Street VLT 1173
Tel: 2380 2380 Fax: 2597 3320

Valletta
17 Lascaris Wharf VLT 1921
Tel: 2380 2380 Fax: 2597 2590

Valletta Exchange Bureau
15 Republic Street VLT 1111
Tel: 2123 9973

Valletta International Banking Centre
233 Republic Street VLT 1116
Tel: 2597 2687 Fax: 2597 2465

Valletta ShareShop
241/242 Republic Street VLT 1116
Tel: 2597 2231 Fax: 2597 2475

Żabbar
19 Sanctuary Street ZBR 1010
Tel: 2380 2380 Fax: 2361 4290

Żebbug
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
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Victoria
Wealth Management Centre
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