2008
HSBC Bank Malta p.l.c. Annual Report and Accounts

HSBC
The world's local bank

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

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Chairman's Statement

I am pleased to advise that 2008 was a satisfactory year for HSBC Bank Malta p.l.c. in spite of the challenging world economy.

Results

Profit before taxation was €96.1 million. This represents a decrease of 16.2 per cent over prior year but is satisfactory taking into account a number of exceptional items in both 2007 and 2008.

During the first half of 2008 we had the changeover of our national currency to the euro and soon after the general elections. Both these events had a negative impact on our business operations. The latter part of the year was characterised by the worst international financial crisis in over 50 years.

While HSBC Bank Malta p.l.c. was in no way exposed to sub-prime loans or toxic asset-backed securities which brought about much of the financial turmoil, the bank cannot escape the resultant economic consequences of the slowdown.

The low interest rate environment aimed at stimulating economic growth has impacted margins and hence profits. In preparing for 2009 it is also pertinent to point out that a one-off charge of €5.7 million was also made towards an early voluntary redundancy scheme.

In line with the above, profit attributable to shareholders decreased by 17.3 per cent to €63.1 million. On the basis of these results the Board is recommending a final gross ordinary dividend of 9.6 euro cent per share. This follows on the interim gross dividend per share of 11.9 euro cent per share (7.7 euro cent net of tax) paid in August 2008. This brings the total dividend for the year to 21.5 euro cent.

During 2008 the number of the bank's shareholders continued to grow and now exceeds 10,000. During the year the bank also issued €30.0 million worth of subordinated bonds which attracted an overwhelming response and were oversubscribed on the first day. This shows the confidence the investment public has in our organisation and its future performance.

HSBC Bank Malta p.l.c., a subsidiary of London-based HSBC Holdings plc, remains the largest and most profitable company listed on the Malta Stock Exchange.

Strategy

During the year under review the bank continued with its strategy of building sustainable growth by focusing on its main customer groups. The bank aims to grow its business by providing excellent customer service, using our Global Distribution Network to our customers' advantage, and joining up our company in terms of technology and processes to make it easier for customers to do business with us.

In 2008 we were fortunate to have HSBC's Global Group Chief Executive, Mr Michael Geoghegan, visit us again as part of his worldwide roadshow and update us on the progress of the Group's strategy and position of strength amidst the ongoing crisis affecting so many financial institutions around the world.

HSBC is one of the most strongly capitalised and liquid banks in the world. Over 100 million customers worldwide entrust HSBC with US$1.2 trillion in deposits. HSBC has more deposits than loans and operates in 85 countries and territories worldwide.

HSBC Group has no intention of using government funding. A reflection of HSBC's strength in these challenging times is the setting up of a US$5.0 billion global working capital fund to ensure that business customers continue to have access to appropriate credit through the current financial and economic crisis. This global initiative was transposed locally through the creation of a €100.0 million fund to support Maltese businesses.

The HSBC Group has a strategic vision founded on seven global pillars which aim to make the bank the Best Financial Services Brand Globally and here in Malta, the Best Place to Work, Best Bank for Shareholders, and Best Bank in the Community.

Our organisation always puts the customer first. We firmly believe in building strong relationships with our customers in a sustainable manner and communicating with them directly. We continue to invest in the latest technology and systems to be able to develop innovative products and services solutions and deliver them in a more efficient manner. Customer convenience and standards of excellence for our service is paramount. That is why we undertake continuous research to monitor and measure levels of customer satisfaction and we deliver a high quality service that HSBC is renowned for.

Corporate Social Responsibility (CSR)

CSR is a core value for HSBC irrespective of which country it operates in. In Malta, we pride ourselves in being proactive in this area and at the forefront of contributing to the local community, primarily through three philanthropic funds.

In 2008, the bank made additional contributions to these funds of over €240,000.

The HSBC Cares For Children Fund continues to assist underprivileged children through educational projects and has renewed its commitment to Caritas Malta's Focus Schools Project by extending its sponsorship until 2010. It has also facilitated a number of recreation and rehabilitation programmes, literacy projects and counselling services for those less fortunate.

The Fund has also retained the main sponsorship of the annual Malta's Children's Day and CSR day. In the latter event, it is worthy to note that a number of staff members undertook voluntary work in their own time at a children's home.

The HSBC Cares For Children Fund was the first Fund set up by HSBC when it came to Malta, and through its intervention hundreds of children have benefitted.

HSBC continued to be active in the area of education by sponsoring the Young Enterprise HSBC Programme for post secondary students and the Scoops Programme for secondary school students. These programmes are intended to complement academic studies with a taste of the real business environment. The bank also funds the main Students Council at the University of Malta and Junior Chamber International and its Best Business Plan competition.

HSBC Cares For The Environment Fund maintained its contribution to protecting the Maltese environment through contributing further trees towards its afforestation projects and the Early Landscaping Intervention Project.

The Fund renewed its support to the EkoSkola Programme for the next three years, and committed €40,000 with Nature Trust (Malta), coordinators of the programme, and the Ministry for Rural Affairs and the Environment.

The Fund also participated in various environmental initiatives including Ecofest during World Environment Day and the Clean Up the World campaign.

Through our own Maltese Climate Champions we also took part in the Climate Change Partnership Programme which the HSBC Group is funding worldwide, at a cost of US$100.0 million over five years. Furthermore, as part of the HSBC Global

HSBC staff members helping out during CSR day held annually on 19 March.

Chairman's Statement (continued)

Environmental Efficiency Programme, HSBC has commissioned a Photo Voltaic System at its new branch opened in Attard.

In 2008, the HSBC Cares For Malta's Heritage Fund fulfilled its role by undertaking a number of intiatives aimed at protecting Malta's cultural treasures.

HSBC is supporting the setting up of a reference library at the National Museum of Fine Arts.

As the official patron of the National Museum of Fine Arts, which is run by Heritage Malta, the Fund has contributed over €70,000 for ongoing refurbishment projects and the setting up of the HSBC Vincenzo Bonello reference library.

The Malta Hotel Heritage Sponsorship Scheme continued during the year. This initiative involves hotels encouraging their guests to make a contribution to assist in the conservation of a number of unique cultural sites.

During the year the bank also contributed over €200,000 to numerous charitable and philanthropic causes, NGOs and sporting events. This actively demonstrates HSBC's commitment to the local community in Malta.

Board

During 2008 there were two changes to the Board of Directors. Mr David Budd who was appointed Chairman of Household Finance Corporation, was replaced by Mr Anthony Mahoney, who is currently Head of International of HSBC Bank plc. Mr Mahoney is not new to Malta as he was in charge of the local office of Midland Bank and instrumental in the acquisition of Mid-Med Bank in 1999.

Former Chief Executive Officer, Mr Shaun Wallis, also resigned as a Director after being appointed Chief Executive Officer of HSBC Brazil. Mr Wallis served as a Director for nine years and CEO of the organisation for four years. During his time at the helm he greatly contributed to the development of our organisation and the financial services sector and Maltese community in general. He is replaced by Mr Alan Richards who has been appointed the new Chief Executive Officer of our organisation. Mr Richards has been at HSBC for 24 years and his most recent appointment was Director and Deputy Chief Executive Officer at HSBC Australia.

I would like to convey my gratitude to Mr Budd and Mr Wallis for their excellent contribution to our organisation during these past years. I also warmly welcome Mr Mahoney and Mr Richards. I am certain that with their knowledge and experience they will also contribute to the future success of the bank.

The Board is made up of a distinctive mix of members who have a unique skills set and wealth of experience. 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, one local executive, four prominent non-executive Directors who are all Maltese and one overseas-based Director who is Head of International of HSBC Bank plc.

Collectively the Board has managed to provide the necessary leadership and vision to guide our bank through exceptionally challenging times. I look forward to seeing the Board continue to build on its achievements and through the invaluable contributions of its members, lead our bank forward in the future.

Outlook

While conscious of the difficult economic climate that prevails and the somewhat bleak outlook, I am confident that we can adapt our strategy and resources to face the challenges ahead. For the benefit of our shareholders we will continue to invest in our systems, delivery channels, products and our people with the objective of putting in another strong performance in 2009.

I take this opportunity to express my gratitude and appreciation to the Board of Directors, management and all staff of the bank for their relentless contribution, hard work, dedication and commitment in making 2008 such a good year.

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

Albert Mizzi, *Chairman*
20 February 2009

Chief Executive Officer's Review

2008 was clearly a challenging year for the Financial Service Industry. That HSBC performed relatively well in overall terms in what can only be described as the most challenging and complex financial crisis in living memory, is a measure of the resilience of HSBC's business both in Malta and around the world. HSBC's enduring commitment to strong liquidity, capital and a conservative approach to risk management has served the bank and its shareholders well in these challenging times.

The bank in Malta achieved satisfactory results in 2008 given the exceptionally challenging nature of the financial markets. The results are a testimony to the hard work and professionalism of our staff during these trying times.

Performance

The results are our first full year publication in euro following adoption of the single European currency by Malta in January 2008. Profit before taxation for 2008 amounted to €96.1 million, a satisfactory result given the exceptional market circumstances, although a decrease of 16.2 per cent over the previous year.

Whilst our 2008 figures are lower than prior year, 2007 results included a number of one-off elements which were not repeated in 2008 such as suspended interest releases of €7.0 million. Foreign exchange earnings of €7.9 million were also down significantly year on year following Malta's conversion to the euro on 1 January 2008.

2008 results also included significant one-off costs associated with euro conversion and an exceptional €5.7 million charge to support a voluntary retirement scheme.

The results were underpinned by a strong performance from all of our principal customer groups: Personal Financial Services; Commercial Banking; and Global Banking and Markets. These businesses maintained a strong focus on customers and on sales and service. Our subsidiary companies also delivered strong performances and made a significant contribution to profits.

Our cost to income ratio increased to 48.0 per cent. This was a result of a 5.2 per cent drop in income primarily reflecting lost foreign exchange revenue and the impact of one-offs in 2007 and an increase in operating expenses of 8.1 per cent. Stripping out one-off euro conversion costs and the €5.7 million voluntary early retirement scheme, shows flat operating expenses year on year.

Profit attributable to shareholders was a respectable €63.1 million, although a 17.3 per cent decrease from prior year. Total assets increased to €5,296.1 million with an increase of €289.9 million in our loan book. Our return on capital employed stood at an attractive 22.3 per cent. Our capital adequacy ratio is 11.0 per cent which is well in excess of the Regulatory requirement of 8.0 per cent. In September 2008 the bank issued a €30.0 million 5.9 per cent subordinated bond, further strengthening our funding base.

In light of these commendable financial results the Board is recommending a final gross ordinary dividend of 9.6 euro cent per share.

Personal Financial Services

Personal Financial Services provides a wide range of financial services to over 250,000 personal customers and small businesses in Malta and is a significant part of our business. During 2008 this important customer group experienced good growth in a number of areas

Chief Executive Officer's Review (continued)

particularly in consumer finance with Home Loans recording a net increase of €147.0 million. We continue to be market leaders through our innovative product offers and creative marketing campaigns.

We have continued to invest in the area of Wealth Management and our Financial Planning Advisors have had a challenging time working with customers on their investment portfolios given the volatile nature of markets in the latter half of 2008. Our unique "Global Premier" remains our flagship service. This seamless proposition aims at enhancing the service we offer our top customers and is a cornerstone in our strategic objective of using HSBC's global reach as a competitive advantage.

Further improvements to Premier's International services, online capability and the extension of the service to Premier customers' family members were all introduced during the year.

Our Trust services had a good year with assets under management and the number of relationships continuing to increase. There is good potential for further growth in this area, now that Malta is gaining familiarity and understanding of the benefits of the Trusts proposition.

2008 was another record year for our Insurance business. Profits before tax were 25.0 per cent up on last year, thanks to strong organic growth in sales of our core range of regular premium Term Life and Investment business with no growth in costs.

Sales of creditor insurance grew strongly and we are established as the market leader in this business line in Malta, with over 7,000 policies in force.

Insurance met the main elements of HSBC's Global 1000 Day Insurance strategy a year ahead of target – contributing 20.0 per cent of profit before tax and exceeding cross sales targets. In addition operational efficiency also improved materially through the use of technology.

With a well spread branch network and effective delivery channels such as Internet Banking, Self Service Machines, Call Centre and Mobile Services, the bank is well placed to continue to deliver a high standard of service and to meet the various personal financial needs of our customers.

With the increasing global economic upheaval from which Malta will not be immune, there was considerable credit focus in 2008 on stress testing and scenario planning for all of our lending portfolios.

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 manage customer relationships with greater efficiency and effectiveness.

Commercial Banking

Our Commercial Banking business had a very active and successful year through the provision of business lending and finance, cash management, trade finance, savings and investments, international business solutions and insurance and protection.

During 2008 an assessment of all commercial relationships was effected to ensure that they were priced based on appropriate risk. An important consideration in this uncertain and volatile business environment.

Overall impairments have increased in 2008 though primarily as a result of reduced recovery levels from previous years where new impairments in 2008 were actually below previous year levels, reflecting the continued prudent approach to lending within the bank.

By leveraging the Group's strength on international business we managed to make progress in increasing our cross border business and promoting Malta as a financial services centre.

In this area we also introduced an innovative High Interest Business Account and launched Business Direct for improved customer convenience.

We have strengthened our focus on SMEs and participated in a Group initiative by allocating a €100.0 million in new funding to assist this segment further and ensure there is liquidity available in the increasingly challenging economic environment.

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

In the future, we hope to promote interest and currency exchange hedging instruments to take advantage of current low rates and focus on more structured products such as Invoice Finance.

Responding to the needs of the business community in these challenging times is of paramount importance and we are fortunate we have such an able and professional team in our commercial banking business.

Global Banking and Markets

In line with our strategic initiative to join up the company, Treasury was active in designing a range of structured products for HSBC's retail, private and corporate customers drawing upon global expertise and the support of the HSBC Group.

Our Custody business which forms part of the HSBC Group Global Custody and Clearing Services, continued to grow as Malta continues to attract more international businesses. Retail and institutional funds under custody continued to grow during 2008 and now are in excess of €3.0 billion.

Our Stockbroking subsidiary remained at the forefront of supporting the development of the local capital 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.

HSBC Securities Services (Malta) Limited, the Group's fund administration arm, focused on the provision of fund administration services to both proprietary and third party funds. It has also entered into fund distribution agreements with two reputable fund management houses (JP Morgan and Fidelity) so that HSBC Bank Malta p.l.c. could offer its investors the best of breed in investment funds. On the technology front, HSBC Securities Services (Malta) Limited continues to invest in cutting edge technology and it is the first company within the HSBC Group worldwide to implement Multifonds, a state of the art fund accounting system.

Despite the turmoil which has adversely impacted financial markets, HSBC Global Asset Management (Malta) Limited has had a successful year. A number of capital-protected medium term notes have been issued which have addressed clients' needs for additional protection in volatile financial markets. At the same time the company has again played an active role in managing the range of proprietary funds and in providing new investment services to a number of institutional clients.

People

Our staff, of course, remain our greatest asset. It is only through our talented and professional workforce that we can continue to deliver a strong performance. During 2008 we continued to invest in our people through a number of training initiatives, career development programmes and talent management.

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. To assist our employees in their career development prospects we continued our Springboard programme for female staff and Navigator programme for male employees. We have also introduced family friendly practices that include flexible working, home working and job sharing.

We also have a number of employees seconded on overseas assignments. I am pleased to report that for the first time we have more Maltese posted overseas than we have expatriates in Malta.

Good relations exist with the trade unions. During 2008 we signed two collective agreements which brought about improved conditions and opportunities for our staff.

2008 also saw the retirement of two senior members of the Executive Team. Philip Farrugia Randon and James Dunbar Cousin who retired after 34 and 41 years distinguished service respectively. We thank both Philip and James for their outstanding contribution as Executives of the bank and I am delighted that Philip has agreed to continue as a non-executive Director.

Our performance in 2008 is testament to the talent and dedication of the teams that work for HSBC and I would like to thank all of them for their contribution during such a challenging year.

Outlook

2009 will be a particularly challenging year as many parts of the world head into a recession that will leave its mark on Malta. Profitability will be under pressure as the economy slows, margins contract in a low interest rate environment and impairments are likely to increase as the credit cycle turns. The implications of new regulatory requirements and the introduction of new systems and technology will be challenging. Strong competition in the local market is also set to continue.

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

It is our goal to remain Malta's leading provider of financial services.

Alan Richards, *Chief Executive Officer*
20 February 2009

Chief Operating Officer's Review

2008 was a landmark year for HSBC Bank Malta p.l.c.; from euro changeover and the introduction of the Single European Payments Area (SEPA), through to the new Capital Adequacy Requirements under Basel II and the current global economic crisis, all areas of our business have been touched by unprecedented levels of change.

Amidst all this, we did not deviate from HSBC's global pillar of leading through Technology. We invested in systems that enabled us to improve customer experience, streamline and automate our processes and enhance our risk control mechanisms so that we delivered sustainable productivity improvements and cost efficiencies.

Operations – Technology and Service Delivery

Joining up our Group systems for the benefit of our customers is a differentiating strength for HSBC Bank Malta p.l.c. and in 2008 we continued to invest in Group technology under the banner of One HSBC. One such example is our launch of Global Accounts View and Me2Me for our Premier customers. This gives our Premier customers the ability on internet banking to view their accounts held with HSBC across the world and to transfer funds between their accounts cross border in real time and at wholesale rates of exchange.

Leveraging the benefits of being part of a global Group is a key strategic imperative and in 2008 we took the opportunity to migrate some of our standard processes to HSBC Group Service Centres. This brings to Malta the benefits of size, lower costs of production and global best in class processes. We will continue to take opportunities to migrate processes where we can achieve improved productivity, retain robust controls and deliver continued customer service excellence.

Similarly, Malta is recognised as a Regional Service Centre providing value added financial servicing work for other HSBC entities. The number of jobs that HSBC has brought to Malta far outstrips the jobs we have migrated offshore. In 2008 we completed Phase 2 of the Global Call Centre here in Malta, doubling the size of its operations. We now have over 500 employees working for the UK Bank here in Swatar.

We continued to invest in our 24x7 service delivery for our customers' convenience. A number of our core products can now be applied for and opened online: providing customers with the fastest and most convenient service possible – whenever, however and wherever they want – whilst delivering enhanced automation and operational efficiency for the bank. We will continue to invest in systems and re-engineer our processes in our journey to deliver full automation and straight-through-processing on our core products.

Telephone Banking continues as a key delivery channel for the bank and in 2008 we launched Business Direct, offering a dedicated Call Centre number to our Business customers for their "run of the mill" banking requirements. We also opened a dedicated Call Centre service for our Premier customers.

Throughout the year we continued to invest in our branch network. We opened our branch in Attard, expanded our Campus University branch, nearly doubled the size of our Victoria Gozo branch, including a state of the art Premier Centre and completely redesigned our St Julians branch to offer an enhanced customer experience and a better work environment for our people.

Making HSBC the best place to work for our employees is important to us. We listened to what our people were asking and we centralised all our Personal

Financial Services departments into a new Banking Centre in Qormi with leading edge office facilities. This co-locates them with our Business Banking Centre and Operations Centre, providing greater synergies across the various functions, which in turn facilitates the provision of a better service to customers. We also took the opportunity to open a gym for our staff at Qormi to give all members of staff the opportunity to keep fit.

HSBC's Gozo Service Centre

Early in 2008 we opened our Gozo Service Centre which provides support to our Maltese banking operations. With a headcount of 50 employees, this brought new employment to Gozo whilst also significantly improving the travel time for Gozitan staff who had hitherto been commuting to Malta on a daily basis.

Security in customer dealings is paramount for our organisation and we have continued to invest successfully in card fraud monitoring, anti-money laundering systems, internet banking and branch security. It is of note that we were the first bank in Malta to launch Chip & Pin technology, which also involved upgrading our ATMs and Point of Sale machines.

Projects

Year after year the bank is always involved in a number of projects, some of which are mandatory, and 2008 was no different.

One mandatory project that had a tight deadline and which coincided with euro changeover, was to ensure that the bank was able to fulfill the requirements of the SEPA, which aims at improving the efficiency of cross border payments in the euro area. The initial phase of this multi-faceted project was successfully launched on time and we are currently on track to deliver systems under the next phase of the Payment Services Directive which comes into force on 1 November 2009.

Similarly, another major project the bank delivered at the start of the year was to ensure that we had robust systems in place to comply with Basel II, the new European Regulatory framework for banks to weigh their risks and calculate their regulatory capital. The need to ensure rigour is self evident in the prevailing financial crisis and HSBC Bank Malta p.l.c. continues to be a strong well capitalised bank.

2008 was a transformational year: every area of the bank was touched by significant change and demanding workloads. What the bank achieved could not have been done without the unrelenting effort, loyalty, professionalism and determination of our staff and I thank all our staff wholeheartedly for their efforts and strong contributions.

Unfortunately, during the year we lost two colleagues, Charles Agius and Emanuel Bezzina, who passed away suddenly. Both Charles and Emanuel were dedicated employees who were well liked and respected by everyone. While both will be sadly missed, the fond memories of their presence will always be with us.

Future Outlook

We have started 2009 where we left the previous year: continuing our journey towards One HSBC – investing in Group systems to ensure we deliver competitive services and financial solutions for our customers. We have in place a number of projects that will harness this technology to re-engineer and automate our processes, improve productivity and reduce our costs.

2009 will be the year of One HSBC, not just in terms of our new Group systems but also for our employees who will work together across functions to deliver joined up solutions and customer service excellence. One HSBC will engender a pride amongst our people that they are playing their full part in delivering sustainable success for HSBC Bank Malta p.l.c.

Whilst the year ahead will not be without its challenges, I firmly believe that we are well placed to continue to be the Best Bank in Malta.

Sally Robson, *Chief Operating Officer*
20 February 2009

Board of Directors

Albert Mizzi, NON-EXECUTIVE CHAIRMAN
Age 81. 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.

Alan Richards, DIRECTOR AND CHIEF EXECUTIVE OFFICER
Age 49. Director and Chief Executive of HSBC Bank Malta p.l.c. since May 2008. Chairman of HSBC's Life Company, Stockbroking and Fund Management businesses in Malta. Prior to moving to Malta, he was Deputy Chief Executive Officer for HSBC Australia based in Sydney. Joined HSBC in 1984 as a graduate entrant and has also worked for HSBC in the UK, Hong Kong, Malaysia and Turkey.

Sally Robson, DIRECTOR AND CHIEF OPERATING OFFICER
Age 50. 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.

Anthony Mahoney, NON-EXECUTIVE DIRECTOR
Age 46. Group General Manager, Head of International, HSBC Bank plc since June 2008. Joined Midland Bank (now HSBC Bank plc) in 1983 and has occupied various roles in the UK Bank and European organisation. He was appointed Chief Executive Officer, HSBC Bank plc, Malta branch in July 1997. In June 1999 he was promoted to Director and Chief Operating Officer, HSBC Bank Malta p.l.c. During this time he was Chairman of HSBC Home Loans (Malta) Limited, HSBC Fund Management (Malta) Limited, HSBC Life Assurance (Malta) Limited, HSBC Finance (Malta) Limited and HSBC Overseas Bank (Malta) Limited.

Philip Farrugia Randon, NON-EXECUTIVE DIRECTOR
Age 59. Director of HSBC Bank Malta p.l.c. since June 2004. Graduated LL.D. in 1973 and joined the bank in 1974 as a legal adviser. Held the post of Company Secretary and the post of Head of Group Legal Department of HSBC Bank Malta p.l.c. for several years. Retired from the bank in May 2008.

Charles John Farrugia, EXECUTIVE DIRECTOR
Age 51. 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 70. 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 48. 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 64. 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 47. 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 Audit, Compliance and Legal Department of HSBC Bank Malta p.l.c.

Financial Review

Summary of Financial Performance

Group profit

During 2008, a year marked by significant declines in profitability throughout much of the banking industry in difficult financial markets, HSBC Bank Malta p.l.c. and its subsidiaries generated a profit before tax of €96.1 million, 16.2 per cent lower than last year.

Profit attributable to shareholders was €63.1 million, a decrease of €13.2 million over prior year figures.

Net operating income of €188.3 million represents a decline of €10.4 million over prior year. Net interest income declined by €3.2 million to €123.0 million.

Operating expenses were €90.4 million, an increase of €6.7 million over prior year.

The group's cost to income ratio is 48.0 per cent from a prior year ratio of 42.1 per cent.

Shareholder ratios

Earnings per share at 21.6 euro cent compare to 26.1 euro cent for the same period in 2007, with the pre-tax return on shareholders' funds at 34.0 per cent down from a prior year of 41.5 per cent.

The Directors propose a final gross dividend of 9.6 euro cent per share. This follows on the gross interim dividend of 11.9 euro cent paid in August 2008.

Net interest income

Net interest income of €123.0 million represents a decline of 2.5 per cent compared to €126.2 million in the prior year.

Growth in Loans and advances to customers of 10.3 per cent or €289.9 million generated a steady growth of €9.3 million in interest receivable. Growth in customer loans resulted from increased residential mortgages and commercial lending.

This growth in interest receivable was off-set by the increase in interest payable on retail deposits. Margin pressures were also evident from heightened competition as well as a decline in interest rates in the latter part of the year.

Non-interest income

Non-interest income of €65.3 million represents a decline of 9.9 per cent or €7.2 million compared to €72.5 million in prior year affected significantly by foreign exchange dealing income which at €7.9 million was much lower, due to Malta's adoption of the euro on 1 January 2008, than the €16.7 million earned over the prior year.

Net fee and commission income at €31.8 million was slightly above 2007 levels of €31.0 million, despite reduced levels of business activity during the first quarter of 2008 due to Malta's adoption of the euro and the general elections.

Business activity and volumes are well-spread across the group's core products and service lines. Revenues increased through growth in lending, trust services, card issuance and usage fees, global custody and retail brokerage.

The group uses the fair value designation for financial assets held by Life insurance operations amounting to €279.7 million. These are managed at fair value to meet liabilities under insurance contracts, unit-linked and other investment contracts. Net income from financial assets designated at fair value which are held to support liabilities for both insurance and investment contracts, is presented as Net income from insurance financial instruments designated at fair value through profit or loss. The change in the value of the insurance contract liabilities is included within Net insurance claims incurred and movement in policyholders' liabilities. The negative movement of €29.4 million in Net income from insurance financial instruments designated at fair value is offset by a corresponding increase in Other operating income and a reduction in Net insurance claims incurred and movement in policyholders' liabilities.

Life insurance activities generated a 25.0 per cent increase in profitability over the prior year, reaching a profit before tax of €16.4 million. Other operating income benefited from a non-recurring increase in Present value of in-force long-term insurance business following actuarial basis review of €3.8 million.

During the year, revaluation gains on the group's investment property and gains from property disposals generated €3.5 million in Other operating income.

Operating expenses

Operating expenses of €90.4 million are 8.1 per cent higher compared to the previous year with a cost to income ratio of 48.0 per cent compared to 42.1 per cent in 2007.

Employee compensation and benefits increased by €5.6 million primarily due to voluntary redundancy provisions relating to voluntary early retirement schemes which will be in force during 2009.

General and administrative expenses increased by €1.0 million to €27.7 million driven primarily by non-recurring costs related to the euro conversion and information technology investment as well as utility and communications expenditure.

Depreciation and amortisation charges were stable on prior year at €7.2 million.

Net impairment

Impairment reversals contributed €4.5 million to profitability. New impairment allowances of €3.9 million were raised and bad debt write-offs of €2.5 million were effected.

The quality of the overall loan book remains good with non-performing loans at 2.3 per cent of net loans (2007: 2.7 per cent).

Taxation

The 2008 effective rate of tax was 34.3 per cent. Tax expense for 2008 amounted to €33.0 million.

Assets

Total assets increased by €401.0 million to €5,296.1 million.

The proportion of assets deployed in Loans and advances to customers was broadly stable at 58.8 per cent, while Loans and advances to banks increased to 20.2 per cent and Financial investments declined to 8.1 per cent of Total assets.

Net loans and advances to customers increased by €289.9 million supported by growth in both the personal and commercial sectors.

Advances to deposits ratio climbed to 77.5 per cent from a prior year end level of 69.9 per cent.

Short term liquid money market placements in the form of Loans and advances to banks increased by €441.3 million to €1,072.3 million as surplus funds were increasingly placed with Group. As a result, Balances with Central Bank of Malta, Treasury Bills and Cash holdings decreased from a prior year end level of €472.1 million to a year end level of €130.7 million.

The available-for-sale investment portfolio decreased by €4.8 million to €404.7 million. This portfolio was marked-down by €9.7 million as at 31 December 2008. The mark-down was charged to revaluation reserve, net of tax effect.

Life insurance business assets, are primarily designated as financial assets at fair value through profit or loss. This portfolio grew to €279.7 million from a prior year end level of €275.7 million.

Liabilities

Total liabilities increased by €394.8 million to €5,013.6 million.

Whilst Amounts owed to customers reduced by €22.9 million, core customer deposits increased by €33.7 million to €3,407.5 million compared to €3,373.8 million during the prior year.

Amounts owed to banks increased from a year opening level of €87.1 million to a year end closing level of €462.2 million. Within this level amounts due to Group companies increased from €66.4 million to €342.4 million as the bank sought to optimise interbank market funding to manage its daily cashflow.

Funds under management by the group declined to a year end closing level of €407.0 million, down from an opening year level of €475.0 million as investment sentiment was adversely impacted by the financial market turmoil.

Liabilities under insurance contracts issued increased by €20.3 million during the year to reach a year end level of €311.3 million.

In September 2008, a tranche of €30.0 million 5.9 per cent subordinated bond was issued to support future business growth.

Shareholders' funds

Equity totaled €282.5 million at year end following dividend payments of €50.6 million during 2008.

The number of shareholders increased from 9,946 to 10,143 as at 31 December.

The solvency ratio, on a Basel II basis, remained strong at 11.0 per cent and is in excess of regulatory capital requirements.

Report of the Directors

Results for 2008

The group reported a profit on ordinary activities before tax of €96.1 million for the year under review. The group's profit attributable to shareholders of the bank was €63.1 million.

A gross interim ordinary dividend of 11.9 euro cent was paid on 22 August 2008. The Directors have proposed a gross final dividend of 9.6 euro cent per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 4 March 2009.

Further information about the results is provided in the group income statement on page 25.

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 financial related services.

The bank had the following subsidiaries at 31 December 2008: HSBC Life Assurance (Malta) Limited, HSBC Global Asset Management (Malta) Limited, HSBC Securities Services (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 Assurance (Malta) Limited under the Insurance Intermediaries Act, 2006.

HSBC Global Asset Management (Malta) Limited is the investment management arm of the bank. It manages a range of domestic and international funds, specialising in the development of structured capital secured investment products, and in the provision of tailor-made discretionary portfolio management services. The company offers both open and close ended types of funds and investments.

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 proprietary and third party investment funds. It also provides back office support to HSBC Bank Malta p.l.c. in the distribution of third party investment funds through the bank's 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 current year 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. During the year, the bank indirectly disposed 16,829 own shares bringing the total number of shares indirectly held at 31 December 2008 to 61,575.

Shareholder Register Information pursuant to Listing Rule 9.43

HSBC Bank Malta p.l.c. (the 'bank')'s authorised share capital is €141,000,000. The issued and fully paid up capital is €87,552,000 divided into 291,840,000 Ordinary Shares of a nominal value of €0.30 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 cent (11%) of the ordinary issued share capital, shall be entitled to appoint one Director for each and every eleven per cent (11%) of the ordinary issued share capital of the 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 GCB4 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 2008, the requirements pursuant to Listing Rules 9.43.7 and 9.43.10 did not apply to the bank.

Shareholder Register Information

Directors' interest in the share capital of the company or in any related company at 31 December 2008

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

Mr Charles John Farrugia has a non-beneficial interest in the company of 7,511,587 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, 40,000 ordinary shares through the shareholding of Capps Ltd, 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. He also has a non-beneficial interest in the company of 130,680 ordinary shares through the shareholding of Santumas Shareholdings p.l.c. in HSBC Bank Malta p.l.c.

There were no changes to Directors' interest from 31 December 2008 to 16 February 2009.

Shareholders holding 5% or more of the equity capital at 16 February 2009

HSBC Europe B.V.	70.03%

Number of shareholders at 16 February 2009

One class of shares (All shares have equal voting rights)	10,160 shareholders

Report of the Directors (continued)

Number of shareholders analysed by range

	31 December 2008		16 February 2009	
Range of shareholding	Total shareholders	Shares	Total shareholders	Shares
1 – 500	2,135	666,432	2,134	665,621
501 – 1,000	1,599	1,292,311	1,603	1,296,114
1,001 – 5,000	4,004	10,065,510	4,008	10,044,164
5,001 and over	2,405	279,815,747	2,415	279,834,101

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. Accordingly, the Directors confirm that no breaches of the standard licence conditions and no other breach of regulatory requirements, which were subject to administrative penalty or regulatory sanction were reported.

Board of Directors

The Directors who served during the year are as follows:

Albert Mizzi (Chairman)
Shaun Wallis (resigned 5 May 2008)
Alan Richards (appointed 7 May 2008)
Sally Robson
David Budd (resigned 26 July 2008)
Anthony Mahoney (appointed 1 September 2008)
Philip Farrugia Randon
Charles John Farrugia
Victor Scicluna
Peter Paul Testaferrata Moroni Viani
Saviour sive Sonny Portelli

Senior management

As at 31 December 2008, the senior management of the group was composed of the following:

Alan Richards	Chief Executive Officer
Sally Robson	Chief Operating Officer
Charles John Farrugia	Head of Global Banking and Markets
Richard Cottell	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
John Sammut	Head of Audit, Compliance and Legal
Joseph Borg	Head of IT
David Demarco	Chief Financial Officer
Brian Tortell	Head of Marketing
Peter Calleya	Head of Strategic Planning
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 Markets and Investment Banking
Stephen Pandolfino	Head of Asset Management
Michel Cordina	Deputy Head of Commercial Banking

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.

Statement by the Directors pursuant to Listing Rule 9.44c

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 20 February 2009 by:

Albert Mizzi, *Chairman*

Alan Richards, *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 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.

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 monitor 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	5
Alan Richards	3 (out of 3) (appointed 7 May 2008)
Shaun Wallis	2 (out of 2) (resigned 5 May 2008)
Anthony Mahoney	1 (out of 1) (appointed 1 September 2008)
David Budd	3 (out of 4) (resigned 26 July 2008)
Sally Robson	5
Philip Farrugia Randon	5
Charles J. Farrugia	5
Victor Scicluna	5
Peter Paul Testaferrata Moroni Viani	5
Saviour sive Sonny Portelli	5

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 Director also receives 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 Springboard and Navigator programmes are other initiatives introduced by the bank as part of its focus to continue promoting diversity within its workforce.

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.

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

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 met five times during this year. Its terms of reference are modelled mainly on the recommendations in the Cadbury Report and are compliant with the recent amendments to the Listing Rules. Additional terms of reference have been adopted by this committee to align with HSBC Group's requirements. The primary purpose of this committee is to protect the interests of the company's shareholders and assist the directors in conducting their role effectively so that the company's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.

The Audit committee scrutinises and monitors related party transactions. It considers the materiality and the nature of the related party transaction carried out by the Issuer 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, Saviour sive Sonny Portelli and Dr Philip Farrugia Randon LL.D. who are independent non-executive directors. Executives of the Issuer are available to attend any of the meetings as directed by the committee. The Chief Executive Officer, the Chief Operating Officer and a representative of the external auditors also attend the meetings. In line with Listing Rule 8.62, 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.

Mr Victor Scicluna was appointed by the Board in terms of Listing Rule 8.56a on the basis that Mr Scicluna is a Certified Public Accountant.

In terms of Listing Rule 8.58.7, 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.

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. The Terms of Reference of this Committee have been recently amended to extend membership to more than two non-executive Directors. It is presently chaired by Mr Albert Mizzi (independent non-executive Director) and comprises Messrs Peter Paul Testaferrata Moroni Viani, Saviour sive Sonny Portelli and newly-appointed Dr Philip Farrugia Randon LL.D. During 2008 one meeting was 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 seven 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 announcements and media.

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 9.44e.13, 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 20 February 2009 by:

Albert Mizzi, *Chairman*

Alan Richards, *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:

	€
– Directors' fees	128,125
– Directors' salaries and bonuses as full-time bank employees	771,741

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

	€
Albert Mizzi	37,272
Victor Scicluna	29,120
Peter Paul Testaferrata Moroni Viani	24,460
Saviour sive Sonny Portelli	24,460
Philip Farrugia Randon	12,813
Total	128,125

Executive 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 13 of the "Notes on the Accounts" and certain pension and early 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 18 to 21 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

20 February 2009

Directors' responsibility for the Financial Statements

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

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

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

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

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

Signed on behalf of the Board of Directors by:

Albert Mizzi, *Chairman*

Alan Richards, *Chief Executive Officer*

Income Statements for the year 1 January 2008 to 31 December 2008

		Group		Bank	
		2008	2007	**2008**	2007
	Note	**€000**	€000	**€000**	€000
Interest receivable and similar income					
– on loans and advances, balances with Central Bank of Malta, Treasury Bills and other instruments	*6*	**224,031**	217,587	**223,907**	217,671
– on debt and other fixed income instruments	*6*	**21,479**	19,993	**21,376**	19,993
Interest payable	*7*	**(122,466)**	(111,342)	**(124,623)**	(113,107)
Net interest income		**123,044**	126,238	**120,660**	124,557
Fees and commissions receivable	*8*	**34,332**	33,289	**28,498**	26,972
Fees and commissions payable	*8*	**(2,567)**	(2,294)	**(1,955)**	(1,808)
Net fee and commission income	*12*	**31,765**	30,995	**26,543**	25,164
Dividend income	*9*	**69**	328	**1,504**	9,655
Trading profits	*10*	**7,802**	16,785	**7,802**	16,785
Net income from insurance financial instruments designated at fair value through profit or loss	*12*	**(29,407)**	35	**–**	–
Net gains on sale of available-for-sale financial assets	*11*	**2,787**	3,538	**2,725**	3,538
Net earned insurance premiums	*12*	**58,032**	73,249	**–**	–
Other operating income	*12*	**31,779**	15,844	**3,749**	4,279
Total operating income		**225,871**	267,012	**162,983**	183,978
Net insurance claims incurred and movement in policyholders' liabilities	*12*	**(37,570)**	(68,321)	**–**	–
Net operating income	*12*	**188,301**	198,691	**162,983**	183,978
Employee compensation and benefits	*13*	**(55,477)**	(49,840)	**(52,991)**	(47,533)
General and administrative expenses		**(27,743)**	(26,732)	**(26,168)**	(24,927)
Depreciation		**(5,951)**	(6,026)	**(5,920)**	(5,991)
Amortisation of intangible assets		**(1,238)**	(1,044)	**(1,011)**	(780)
Other operating charges		**–**	(30)	**–**	(30)
Net operating income before impairment charges and provisions		**97,892**	115,019	**76,893**	104,717
Net impairment	*14*	**(1,907)**	(42)	**(1,907)**	(42)
Reversals/(provisions) for liabilities and other charges		**102**	(340)	**103**	(305)
Profit before tax	*15*	**96,087**	114,637	**75,089**	104,370
Tax expense	*16*	**(32,972)**	(38,322)	**(25,706)**	(33,458)
Profit for the year		**63,115**	76,315	**49,383**	70,912
Profit attributable to shareholders of the bank		**63,115**	76,315	**49,383**	70,912
Earnings per share	*17*	**21.6c**	26.1c	**16.9c**	24.3c

Balance Sheets at 31 December 2008

		Group		Bank	
		2008	2007	**2008**	2007
	Note	**€000**	€000	**€000**	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*18*	**130,682**	472,136	**130,681**	472,136
Cheques in course of collection		**9,308**	3,103	**9,308**	3,103
Financial assets held for trading	*19*	**11,823**	15,980	**12,057**	15,980
Financial assets designated at fair value through profit or loss	*20*	**279,714**	275,695	**–**	–
Financial investments	*21*	**429,912**	456,525	**412,016**	452,008
Loans and advances to banks	*22*	**1,072,306**	631,018	**1,072,269**	630,936
Loans and advances to customers	*23*	**3,112,240**	2,822,315	**3,112,240**	2,822,315
Shares in subsidiary companies	*24*	**–**	–	**35,707**	29,541
Intangible assets	*25*	**64,256**	36,110	**1,797**	1,363
Property and equipment	*26*	**70,684**	77,820	**70,731**	77,857
Investment property	*27*	**14,050**	12,885	**11,647**	10,482
Assets held for sale	*28*	**9,168**	11,922	**9,317**	12,071
Current tax recoverable		**2,966**	2,596	**2,164**	1,887
Deferred tax assets	*33*	**15,916**	11,553	**15,726**	11,548
Other assets	*29*	**25,824**	25,855	**8,425**	8,938
Prepayments and accrued income	*30*	**47,239**	39,576	**44,598**	36,571
Total assets		**5,296,088**	4,895,089	**4,948,683**	4,586,736
Liabilities					
Financial liabilities held for trading	*19*	**11,381**	15,043	**12,375**	15,239
Amounts owed to banks	*31*	**462,185**	87,142	**462,185**	87,142
Amounts owed to customers	*32*	**4,016,632**	4,039,492	**4,073,875**	4,107,994
Provision for current tax		**688**	11,043	**–**	4,294
Deferred tax liabilities	*33*	**17,600**	12,361	**–**	–
Liabilities to customers under investment contracts	*34*	**15,122**	18,947	**–**	–
Liabilities under insurance contracts issued	*35*	**311,250**	290,943	**–**	–
Other liabilities	*36*	**36,734**	32,303	**33,883**	29,294
Accruals and deferred income	*37*	**53,930**	53,147	**53,839**	52,374
Provisions for liabilities and other charges	*38*	**312**	414	**277**	380
Subordinated liabilities	*39*	**87,777**	57,962	**87,777**	57,962
Total liabilities		**5,013,611**	4,618,797	**4,724,211**	4,354,679
Equity					
Called up share capital	*40*	**87,552**	84,976	**87,552**	84,976
Revaluation and other reserves	*41*	**15,149**	24,614	**15,314**	24,764
Retained earnings		**179,776**	166,702	**121,606**	122,317
Total equity		**282,477**	276,292	**224,472**	232,057
Total liabilities and equity		**5,296,088**	4,895,089	**4,948,683**	4,586,736
Memorandum items					
Contingent liabilities	*42*	**129,925**	129,972	**129,948**	129,995
Commitments	*43*	**1,110,572**	1,148,034	**1,110,572**	1,148,034

The financial statements on pages 25 to 83 were approved by the Board of Directors on 20 February 2009 and signed on its behalf by:

Albert Mizzi, *Chairman*

Alan Richards, *Chief Executive Officer*

Statements of Changes in Equity for the year 1 January 2008 to 31 December 2008

	Note	*Called up share capital* €000	*Revaluation and other reserves* €000	*Retained earnings* €000	*Total equity* €000
Group					
At 1 January 2008		**84,976**	**24,614**	**166,702**	**276,292**
Release of net gains on available-for-sale assets transferred to the income statement on disposal		**–**	**(876)**	**–**	**(876)**
Net fair value adjustments on financial investments		**–**	**(6,263)**	**–**	**(6,263)**
Release of revaluation reserve on disposal of properties		**–**	**(2,326)**	**2,326**	**–**
Income and expenses recognised directly in equity		**–**	**(9,465)**	**2,326**	**(7,139)**
Increase in paid-up value		**2,576**	**–**	**(2,576)**	**–**
Profit for the year		**–**	**–**	**63,115**	**63,115**
Share-based payments		**–**	**–**	**858**	**858**
Dividends	*45*	**–**	**–**	**(50,649)**	**(50,649)**
At 31 December 2008		**87,552**	**15,149**	**179,776**	**282,477**
At 1 January 2007 as previously stated		84,976	25,323	184,062	294,361
Impact of adoption of IFRIC 11	*46*	–	(575)	189	(386)
At 1 January 2007 as restated		84,976	24,748	184,251	293,975
Release of net gains on available-for-sale assets transferred to the income statement on disposal		–	(1,808)	(491)	(2,299)
Net fair value adjustments on financial investments		–	(6,940)	–	(6,940)
Net surplus on revaluation of freehold and long leasehold properties		–	8,614	–	8,614
Income and expenses recognised directly in equity		–	(134)	(491)	(625)
Profit for the year		–	–	76,315	76,315
Share-based payments		–	–	304	304
Dividends	*45*	–	–	(93,677)	(93,677)
At 31 December 2007 as restated		84,976	24,614	166,702	276,292

Statements of Changes in Equity for the year 1 January 2008 to 31 December 2008 (continued)

	Note	*Called up share capital* €000	*Revaluation and other reserves* €000	*Retained earnings* €000	*Total equity* €000
Bank					
At 1 January 2008		**84,976**	**24,764**	**122,317**	**232,057**
Release of net gains on available-for-sale assets transferred to the income statement on disposal		**–**	**(836)**	**–**	**(836)**
Net fair value adjustments on financial investments		**–**	**(6,288)**	**–**	**(6,288)**
Release of revaluation reserve on disposal of properties		**–**	**(2,326)**	**2,326**	**–**
Income and expenses recognised directly in equity		**–**	**(9,450)**	**2,326**	**(7,124)**
Increase in paid-up value		**2,576**	**–**	**(2,576)**	**–**
Profit for the year		**–**	**–**	**49,383**	**49,383**
Share-based payments		**–**	**–**	**805**	**805**
Dividends	*45*	**–**	**–**	**(50,649)**	**(50,649)**
At 31 December 2008		**87,552**	**15,314**	**121,606**	**224,472**
At 1 January 2007 as previously stated		84,976	25,288	145,083	255,347
Impact of adoption of IFRIC 11	*46*	–	(540)	179	(361)
At 1 January 2007 as restated		84,976	24,748	145,262	254,986
Release of net gains on available-for-sale assets transferred to the income statement on disposal		–	(1,808)	(491)	(2,299)
Net fair value adjustments on financial investments		–	(6,790)	–	(6,790)
Net surplus on revaluation of freehold and long leasehold properties		–	8,614	–	8,614
Income and expenses recognised directly in equity		–	16	(491)	(475)
Profit for the year		–	–	70,912	70,912
Share-based payments		–	–	311	311
Dividends	*45*	–	–	(93,677)	(93,677)
At 31 December 2007 as restated		84,976	24,764	122,317	232,057

Cash Flow Statements for the year 1 January 2008 to 31 December 2008

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

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 2008 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*

By virtue of Regulation 3 of Legal Notice 19 of 2009, Accountancy Profession: (Accounting and Auditing Standards) Regulations, 2009 published under the Accountancy Profession Act, compliance with generally accepted accounting principles and practice has been defined as adherence to International Accounting Standards as adopted by the EU. The legal notice has been deemed to come into force on 1 October 2008 and accordingly these financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU ('the applicable framework'). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

The change in the applicable framework from IFRS issued by the International Accounting Standards Board, in use for the comparative period, did not result in any changes in the Company's accounting policies and, accordingly, no adjustment was required for the corresponding figures included in the current year's financial statements. In addition, this change did not impact the year end financial position and the current year's financial performance and cash flows.

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

b *Basis of measurement*

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

– Derivative financial instruments;

– Financial instruments at fair value through profit or loss;

– Available-for-sale financial assets; and

– Property.

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 euro (€), which is the group's functional currency.

d *Use of estimates and assumptions*

The preparation of financial statements in conformity with the applicable framework 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, 25 and 53.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by group entities, except for the impact of adopting IFRIC 11 IFRS 2 Group and Treasury Share Transactions.

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 designates financial instruments at fair value when the designation:

- eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different 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 insurance financial instruments designated at fair value through profit or loss. 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.

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.

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.

c *Investment in subsidiaries*

Investment in subsidiaries is shown in the separate balance sheet at cost less any impairment losses.

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 and any impairment losses.

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 present value of in-force long-term insurance business.

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of software, from the date it is available for use. The estimated useful life of software ranges between 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.

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

ii Calculation of recoverable amount (continued)

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

– When appropriate empirical information is available, the group utilises roll rate methodology. This methodology employs 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 and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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.

3 Significant accounting policies *(continued)*

g *Impairment (continued)*

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.

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

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

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

The value placed on insurance contracts that are classified as long-term insurance business, and are in force at the 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 insurance financial instruments designated at fair value through profit or loss.

Notes on the Accounts (continued)

3 Significant accounting policies *(continued)*

h *Insurance and investment contracts (continued)*

v Investment contracts (continued)

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.

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.

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.

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.

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.

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.

3 Significant accounting policies *(continued)*

l *Non-interest income (continued)*

ii Dividend income

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

iii Net income from insurance financial instruments designated at fair value

Net income from financial instruments designated at fair value includes:

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

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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 cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an employee expense on a straight-line basis, with a corresponding increase in equity, over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of equity instruments that eventually vest.

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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 at 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 2008 and have not been applied in preparing these financial statements.

– 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.

– 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 financial 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.

The Directors also anticipate that the adoption of other IFRS that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements of the Company in the period of initial application.

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.

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.

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.

Notes on the Accounts (continued)

4 Financial instruments and risk management *(continued)*

b *Credit risk (continued)*

ii Credit exposure (continued)

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

	2008	2007
	€000	€000
Group/Bank		
Agriculture	**4,440**	4,673
Fishing	**1,890**	1,719
Mining and quarrying	**8,849**	8,861
Manufacturing	**156,693**	153,615
Electricity, gas and water supply	**65,524**	53,627
Construction	**419,090**	407,277
Wholesale and retail trade; repairs	**351,282**	356,619
Hotels and restaurants; excluding related construction activities	**196,571**	200,247
Transport, storage and communication	**138,241**	82,027
Financial intermediation	**8,582**	7,966
Real estate, renting and business activities	**180,081**	126,426
Public administration	**57,842**	61,540
Education	**3,044**	3,156
Health and social work	**26,321**	26,077
Community, recreational and personal service activities	**16,173**	16,518
Household and individuals	**1,519,738**	1,358,513
Gross loans and advances to customers	**3,154,361**	2,868,861

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

	Treasury bills	*Debt securities*	*Total*
	€000	**€000**	**€000**
Group/Bank			
At 31 December 2008			
AAA	**–**	**22,740**	**22,740**
AA- to AA+	**–**	**39,895**	**39,895**
A- to A+	**14,895**	**329,494**	**344,389**
Lower than A-	**–**	**10,054**	**10,054**
Unrated	**–**	**8,880**	**8,880**
	14,895	**411,063**	**425,958**
At 31 December 2007			
AAA	–	12,816	12,816
AA- to AA+	–	50,163	50,163
A- to A+	92,246	371,281	463,527
Lower than A-	–	4,193	4,193
Unrated	–	9,802	9,802
	92,246	448,255	540,501

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

	2008		2007	
	Loans and advances to customers	*Loans and advances to banks*	*Loans and advances to customers*	*Loans and advances to banks*
	€000	**€000**	€000	€000
Group/Bank				
Gross loans and advances:				
– neither past due nor impaired	**2,908,856**	**1,072,269**	2,644,300	630,936
– past due but not impaired	**157,621**	**–**	129,953	–
– impaired	**87,884**	**–**	94,608	–
	3,154,361	**1,072,269**	2,868,861	630,936

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 2008 can be assessed by reference to group's standard credit grading system. The following information is based on that system:

	2008		2007	
	Loans and advances to customers	*Loans and advances to banks*	*Loans and advances to customers*	*Loans and advances to banks*
	€000	**€000**	€000	€000
Group/Bank				
Satisfactory risk	**2,606,749**	**1,072,269**	2,327,983	630,936
Watch list and special attention	**185,242**	**–**	211,339	–
Sub-standard but not impaired	**116,865**	**–**	104,978	–
	2,908,856	**1,072,269**	2,644,300	630,936

c Loans and advances which were past due but not impaired

The past due ageing analysis includes loans and advances on which collective impairment allowances have been assessed.

	Loans and advances to customers	
	2008	2007
	€000	€000
Group/Bank		
Past due up to 29 days	**98,451**	104,611
Past due 30 – 59 days	**36,182**	15,643
Past due 60 – 89 days	**11,419**	4,829
Past due 90 – 179 days	**3,488**	1,722
Past due over 179 days	**8,081**	3,148
	157,621	129,953

Renegotiated loans that would otherwise be past due or impaired totalled €75,858,000 (2007: €74,682,000).

Notes on the Accounts (continued)

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	
	2008	2007
	€000	€000
Group/Bank		
Personal Banking	**16,944**	14,308
Commercial and corporate	**61,633**	74,696
Other	**9,307**	5,604
	87,884	94,608

iv Movement in allowance accounts for loans and advances to customers

	Individually assessed allowances	*Collective allowances*	*Individually assessed allowances*	*Collective allowances*
	2008	**2008**	2007	2007
	€000	**€000**	€000	€000
Group/Bank				
At 1 January	**32,942**	**13,604**	28,043	12,763
Additions	**3,742**	**152**	13,333	841
Reversals	**(6,778)**	**–**	(8,001)	–
Discount unwind	**(1,539)**	**–**	(433)	–
Exchange	**(2)**	**–**	–	–
At 31 December	**28,365**	**13,756**	32,942	13,604

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.

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.

4 Financial instruments and risk management *(continued)*

c *Liquidity risk (continued)*

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*
	€000	**€000**	**€000**	**€000**	**€000**
Group					
At 31 December 2008					
Amounts owed to banks	**450,947**	**15,501**	**60**	**606**	**467,114**
Amounts owed to customers	**2,728,795**	**1,123,587**	**233,048**	**–**	**4,085,430**
Subordinated liabilities	**2,224**	**2,224**	**17,795**	**106,460**	**128,703**
Other financial liabilities	**29,303**	**2,527**	**1,464**	**–**	**33,294**
	3,211,269	**1,143,839**	**252,367**	**107,066**	**4,714,541**
Loan commitments	**765,899**	**23,067**	**201,005**	**104,188**	**1,094,159**
At 31 December 2007					
Amounts owed to banks	85,905	1,449	86	666	88,106
Amounts owed to customers	2,791,144	1,005,968	320,792	496	4,118,400
Subordinated liabilities	1,339	1,339	10,715	70,290	83,683
Other financial liabilities	23,937	284	622	149	24,992
	2,902,325	1,009,040	332,215	71,601	4,315,181
Loan commitments	665,080	97,675	227,540	143,038	1,133,333

Notes on the Accounts (continued)

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*
	€000	**€000**	**€000**	**€000**	**€000**
Bank					
At 31 December 2008					
Amounts owed to banks	**450,947**	**15,501**	**60**	**606**	**467,114**
Amounts owed to customers	**2,784,702**	**1,126,162**	**233,048**	**–**	**4,143,912**
Subordinated liabilities	**2,224**	**2,224**	**17,795**	**106,460**	**128,703**
Other financial liabilities	**26,452**	**2,527**	**1,464**	**–**	**30,443**
	3,264,325	**1,146,414**	**252,367**	**107,066**	**4,770,172**
Loan commitments	**765,899**	**23,067**	**201,005**	**104,188**	**1,094,159**
At 31 December 2007					
Amounts owed to banks	85,905	1,449	86	666	88,106
Amounts owed to customers	2,858,670	1,007,668	320,792	496	4,187,626
Subordinated liabilities	1,339	1,339	10,715	70,290	83,683
Other financial liabilities	21,004	284	622	149	22,059
	2,966,918	1,010,740	332,215	71,601	4,381,474
Loan commitments	665,080	97,675	227,540	143,038	1,133,333

The balances in the above table will not agree directly to the amounts 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.

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 €25,240,000 as at 31 December 2008 (2007: €47,030,000). Fair value based on quoted market prices at the balance sheet date without deduction for transaction costs amounts to €25,160,000 as at 31 December 2008 (2007: €46,860,000).

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

Certain unlisted equity investments are carried at cost and amount to €459,000 as at 31 December 2008 (2007: €459,000). 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 2008 the group's carrying amount was €4,184,509,000 (2007: €3,453,251,000).

The loans and advances to customers category of asset amounts to €3,112,240,000 (2007: €2,822,315,000). 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 €1,072,269,000 (2007: €630,936,000). 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 2008, 67.0 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. 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 €1,649,000 (2007: €2,455,000).

e Amounts owed to banks and customers

This category of liability is carried at amortised cost and amounts to €4,478,817,000 as at 31 December 2008 (2007: €4,126,634,000). Of this liability, 61.0 per cent has contractual repricing within the 'less than three months' band, 32.0 per cent reprices within the 'between three months and one year' band whilst 7.0 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 €89,800,000 as at 31 December 2008 (2007: €56,532,000).

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:

	2008	2007
	€000	€000
At 31 December	**1,214**	284
Average	**578**	245
Minimum	**338**	119
Maximum	**1,214**	377

The VAR at 31 December 2008 increased compared with 31 December 2007. The major cause of this was the deteriorating capital market, especially in the last few months of 2008.

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 50 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:

	2008		2007	
	Impact on profit for the year	*Impact on net assets*	*Impact on profit for the year*	*Impact on net assets*
	€000	**€000**	€000	€000
Group				
+ 50 basis points	**6,019**	**3,713**	3,354	1,099
- 50 basis points	**(6,019)**	**(3,713)**	(3,354)	(1,099)

iv *Currency concentration*

	2008			2007		
	Euro	*Other currencies*	*Total*	*Euro*	*Other currencies*	*Total*
	€000	**€000**	**€000**	€000	€000	€000
Group						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**128,543**	**2,139**	**130,682**	469,287	2,849	472,136
Cheques in course of collection	**8,444**	**864**	**9,308**	2,010	1,093	3,103
Financial assets held for trading	**6,357**	**5,466**	**11,823**	14,270	1,710	15,980
Financial assets designated at fair value through profit or loss	**216,874**	**62,840**	**279,714**	223,957	51,738	275,695
Financial investments	**370,198**	**59,714**	**429,912**	366,146	90,379	456,525
Loans and advances to banks	**546,284**	**526,022**	**1,072,306**	131,831	499,187	631,018
Loans and advances to customers	**3,085,245**	**26,995**	**3,112,240**	2,796,653	25,662	2,822,315
Other assets	**245,991**	**4,112**	**250,103**	216,305	2,012	218,317
Total assets	**4,607,936**	**688,152**	**5,296,088**	4,220,459	674,630	4,895,089

Notes on the Accounts (continued)

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv Currency concentration (continued)

	2008			2007		
	Euro	*Other currencies*	*Total*	*Euro*	*Other currencies*	*Total*
	€000	€000	€000	€000	€000	€000
Group						
Liabilities and equity						
Financial liabilities held for trading	**5,829**	**5,552**	**11,381**	13,391	1,652	15,043
Amounts owed to banks	**429,801**	**32,384**	**462,185**	71,193	15,949	87,142
Amounts owed to customers	**3,431,309**	**585,323**	**4,016,632**	3,431,267	608,225	4,039,492
Liabilities to customers under investment contracts	**15,122**	**–**	**15,122**	18,947	–	18,947
Liabilities under insurance contracts issued	**311,250**	**–**	**311,250**	290,943	–	290,943
Subordinated liabilities	**87,777**	**–**	**87,777**	57,962	–	57,962
Other liabilities	**103,542**	**5,722**	**109,264**	100,452	8,816	109,268
Total equity	**282,477**	**–**	**282,477**	276,292	–	276,292
Total liabilities and equity	**4,667,107**	**628,981**	**5,296,088**	4,260,447	634,642	4,895,089

	2008			2007		
	Euro	*Other currencies*	*Total*	*Euro*	*Other currencies*	*Total*
	€000	€000	€000	€000	€000	€000
Bank						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**128,542**	**2,139**	**130,681**	469,287	2,849	472,136
Cheques in course of collection	**8,444**	**864**	**9,308**	2,010	1,093	3,103
Financial assets held for trading	**6,357**	**5,700**	**12,057**	14,270	1,710	15,980
Financial investments	**353,252**	**58,764**	**412,016**	361,629	90,379	452,008
Loans and advances to banks	**546,247**	**526,022**	**1,072,269**	131,749	499,187	630,936
Loans and advances to customers	**3,085,245**	**26,995**	**3,112,240**	2,796,653	25,662	2,822,315
Other assets	**197,343**	**2,769**	**200,112**	188,245	2,013	190,258
Total assets	**4,325,430**	**623,253**	**4,948,683**	3,963,843	622,893	4,586,736
Liabilities and equity						
Financial liabilities held for trading	**5,829**	**6,546**	**12,375**	13,587	1,652	15,239
Amounts owed to banks	**429,801**	**32,384**	**462,185**	71,193	15,949	87,142
Amounts owed to customers	**3,485,730**	**588,145**	**4,073,875**	3,499,769	608,225	4,107,994
Subordinated liabilities	**87,777**	**–**	**87,777**	57,962	–	57,962
Other liabilities	**82,284**	**5,715**	**87,999**	77,549	8,793	86,342
Total equity	**224,472**	**–**	**224,472**	232,057	–	232,057
Total liabilities and equity	**4,315,893**	**632,790**	**4,948,683**	3,952,117	634,619	4,586,736

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	
	2008	2007
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**243,988**	212,299
Term assurance and other long-term contracts	**7,600**	6,610
Total non-linked	**251,588**	218,909
Life (linked)	**59,662**	72,034
Investment contracts	**15,122**	18,947
Total insurance liabilities	**326,372**	309,890

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	
		2008	2007
		€000	€000
As published			
Risk free rate	+100 basis points	**2,061**	261
Risk free rate	-100 basis points	**(484)**	(51)
Risk adjusted discount rate	+100 basis points	**(788)**	(566)
Risk adjusted discount rate	-100 basis points	**858**	620
Expenses inflation	+100 basis points	**(310)**	(168)
Expenses inflation	-100 basis points	**285**	179
Lapse rate	+100 basis points	**(255)**	(170)
Lapse rate	-100 basis points	**269**	193

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.

Notes on the Accounts (continued)

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 and equity prices as at balance sheet date would have the following impact on the profit for the year and net assets at that date:

	2008		2007	
	Impact on profit for the year	*Impact on net assets*	*Impact on profit for the year*	*Impact on net assets*
	€000	**€000**	€000	€000
+100 basis points shift in yield curves	**1,000**	**1,000**	314	314
-100 basis points shift in yield curves	**67**	**67**	(375)	(375)
+10 per cent increase in equity prices	**749**	**749**	72	72
-10 per cent increase in equity prices	**(1,996)**	**(1,996)**	(77)	(77)

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 and treasury bills within insurance business by rating agency (S & P Rating Agency) :

	Treasury bills	*Debt securities*	*Total*
	€000	**€000**	**€000**
At 31 December 2008			
AAA	**–**	**19,938**	**19,938**
AA- to AA+	**–**	**9,869**	**9,869**
A- to A+	**22,369**	**65,535**	**87,904**
Lower than A-	**–**	**11,028**	**11,028**
Unrated	**–**	**12,520**	**12,520**
	22,369	**118,890**	**141,259**
At 31 December 2007			
AAA	–	17,861	17,861
AA- to AA+	–	4,416	4,416
A- to A+	–	115,768	115,768
Lower than A-	–	1,405	1,405
Unrated	–	10,766	10,766
	–	150,216	150,216

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 2008:

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	€000	**€000**	**€000**	**€000**	**€000**
At 31 December 2008					
Liabilities to customers under investment contracts	**–**	**–**	**1,380**	**13,742**	**15,122**
Liabilities under insurance contracts issued	**1,221**	**–**	**59,670**	**250,359**	**311,250**
At 31 December 2007					
Liabilities to customers under investment contracts	–	51	2,434	16,462	18,947
Liabilities under insurance contracts issued	1,698	–	12,448	276,797	290,943

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

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

As of 1 January 2008, the group implemented Banking Rule BR04/2007 – Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994, thereby becoming compliant with respect to pillar 1 capital requirements under Basel II, adopting the standardised approach to allocate capital against credit risk. Basel II also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in pillar 1. Part of the pillar 2 process is the Internal Capital Adequacy Assessment Process which is the bank's self assessment of risks not captured by pillar 1. The group will complete its initial ICAAP in accordance with regulatory requirements during 2009.

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.

Capital management is monitored by ALCO. 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.

The Malta Financial Services Authority 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.

Notes on the Accounts (continued)

5 Capital management and allocation *(continued)*

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

- Original own funds comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book values of goodwill and intangible assets are 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.

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. Changes in the determination of risk-weighted assets brought about by Basel II requirements came into force on 1 January 2008.

	Group		*Bank*	
	Face value	*Weighted amount*	*Face value*	*Weighted amount*
	2008	**2008**	**2008**	**2008**
	€000	**€000**	**€000**	**€000**
On-balance sheet assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**130,682**	**–**	**130,681**	**–**
Cheques in course of collection	**9,308**	**9,308**	**9,308**	**9,308**
Loans and advances to banks	**1,072,272**	**214,454**	**1,072,269**	**214,454**
Loans and advances to customers	**3,125,996**	**1,974,942**	**3,125,996**	**1,974,942**
Debt securities and equities	**413,826**	**100,051**	**412,016**	**98,249**
Shares in subsidiary companies	**–**	**–**	**35,707**	**35,707**
Property and equipment and investment property	**82,313**	**82,313**	**82,378**	**82,378**
Other assets	**69,408**	**51,226**	**47,298**	**29,709**
Prepayments and accrued income	**44,852**	**35,861**	**44,598**	**35,377**
	4,948,657	**2,468,155**	**4,960,251**	**2,480,124**
Off-balance sheet items				
Contingent liabilities and commitments	**1,240,497**	**281,059**	**1,240,520**	**281,070**
Total adjusted assets and off-balance sheet items		**2,749,214**		**2,761,194**
Operational risk		**304,652**		**293,500**
Market risk		**34,700**		**34,700**
Total risk weighted assets		**3,088,566**		**3,089,394**
Own funds				
Original own funds				
Called up share capital	**87,552**		**87,552**	
Retained earnings	**137,694**		**121,606**	
Intangible assets	**(1,914)**		**(1,797)**	
	223,332		**207,361**	

5 Capital management and allocation *(continued)*

	Group		Bank	
	Face value	*Weighted amount*	*Face value*	*Weighted amount*
	2008	**2008**	**2008**	**2008**
	€000	**€000**	**€000**	**€000**
Additional own funds				
Revaluation reserves	**15,131**		**15,296**	
Collectively assessed allowances	**13,756**		**13,756**	
Subordinated liabilities	**87,777**		**87,777**	
	116,664		**116,829**	
Total own funds	**339,996**		**324,190**	
Capital adequacy ratio 2008		**11.00%**		**10.49%**
Capital adequacy ratio 2007		10.31%		9.89%

6 Interest receivable and similar income

	Group		Bank	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
On loans and advances to banks	**34,710**	28,421	**34,710**	28,421
On loans and advances to customers	**182,757**	173,455	**182,633**	173,539
On balances with Central Bank of Malta	**3,412**	10,899	**3,412**	10,899
On Treasury Bills	**3,152**	4,246	**3,152**	4,246
On derivative financial instruments	**–**	566	**–**	566
	224,031	217,587	**223,907**	217,671
On debt and other fixed income instruments	**23,983**	21,947	**23,924**	21,947
Net amortisation of premiums	**(2,504)**	(1,954)	**(2,548)**	(1,954)
	21,479	19,993	**21,376**	19,993
	245,510	237,580	**245,283**	237,664
Interest receivable and similar income from:				
– Group companies	**34,446**	21,044	**34,446**	21,044
– subsidiary companies	**–**	–	**5**	7

Discount unwind on impaired loans and advances to customers included in interest receivable amounted to €1,539,000 (2007: €433,000).

Notes on the Accounts (continued)

7 Interest payable

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
On amounts owed to banks	**8,152**	9,334	**8,152**	9,334
On amounts owed to customers	**111,094**	99,462	**113,251**	101,227
On subordinated liabilities	**3,167**	2,523	**3,167**	2,523
On finance leases	**16**	23	**16**	23
	122,429	111,342	**124,586**	113,107
On derivative financial instruments	**37**	–	**37**	–
	122,466	111,342	**124,623**	113,107
Interest payable to:				
– Group companies	**7,160**	2,092	**7,160**	2,092
– subsidiary companies	**–**	–	**2,157**	1,765

8 Net fee and commission income

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Net fee and commission income that is not an integral part of the effective interest method on:				
– financial assets or liabilites not at fair value through profit or loss	**19,640**	19,085	**19,640**	18,977
– trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals and other institutions	**10,942**	10,634	**3,833**	3,371
– other	**1,183**	1,276	**3,070**	2,816
	31,765	30,995	**26,543**	25,164
Net fee and commission income from:				
– Group companies	**727**	1,092	**552**	722
– subsidiary companies	**–**	–	**3,643**	3,725

Net fee and commission income include €2,159,000 (2007:€1,370,000) derived from investment services activities.

9 Dividend income

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Available-for-sale financial assets	**29**	293	**29**	293
Financial assets held for trading	**40**	35	**40**	35
Subsidiary companies	**–**	–	**1,435**	9,327
	69	328	**1,504**	9,655

10 Trading profits

	2008	2007
	€000	€000
Group/Bank		
Profit on foreign exchange activities	**7,932**	16,692
Net (losses)/gains on financial instruments at fair value through profit or loss	**(130)**	93
	7,802	16,785

Included in trading profits are unrealised gains relating to trading financial instruments amounting to €115,000 (2007: €594,000) in respect of the group and the bank.

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

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Net gains on disposal	**1,439**	–	**1,439**	–
Net revaluation gains transferred from equity	**1,348**	3,538	**1,286**	3,538
	2,787	3,538	**2,725**	3,538

12 Net operating income

Net operating income of €188,301,000 (2007: €198,691,000) includes net income from Life insurance business analysed as follows:

	Group	
	2008	2007
	€000	€000
Net fee and commission income	**156**	180
Net income from insurance financial instruments designated at fair value through profit or loss	**(29,407)**	35
Net earned insurance premiums	**58,032**	73,249
Other operating income	**28,016**	11,575
	56,797	85,039
Net insurance claims incurred and movement in policyholders' liabilities	**(37,570)**	(68,321)
	19,227	16,718

a *Net earned insurance premiums*

	Group	
	2008	2007
	€000	€000
Life insurance		
Gross earned premium	**60,851**	76,263
Reinsurance paid	**(2,819)**	(3,014)
	58,032	73,249

Notes on the Accounts *(continued)*

12 Net operating income *(continued)*

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

	Group					
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
	2008	**2008**	**2008**	2007	2007	2007
	€000	**€000**	**€000**	€000	€000	€000
Life insurance						
Claims paid	**18,082**	**(17)**	**18,065**	16,161	(717)	15,444
Change in technical provision	**20,839**	**(773)**	**20,066**	50,867	1,402	52,269
Change in claims provision	**311**	**(872)**	**(561)**	1,069	(461)	608
	39,232	**(1,662)**	**37,570**	68,097	224	68,321

13 Employee compensation and benefits

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Wages, salaries and allowances	**45,289**	45,968	**42,991**	43,796
Defined contribution social security costs	**2,517**	2,506	**2,401**	2,397
Retirement benefits	**6,358**	867	**6,358**	867
Share-based payments	**1,313**	499	**1,241**	473
	55,477	49,840	**52,991**	47,533
	Number	*Number*	***Number***	*Number*
Average number of employees				
– executive and senior managerial	**260**	243	**244**	228
– other managerial, supervisory and clerical	**1,355**	1,325	**1,299**	1,274
– others	**56**	64	**56**	64
	1,671	1,632	**1,599**	1,566

Following the issue of IFRIC 11 IFRS 2 Group and Treasury Share Transaction, all share option schemes and share awards schemes are accounted for as equity-settled share-based payments (Note 46).

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 discounted at a rate of 20 per cent discount to the market value immediately preceding the date of invitation. The options are exercisable either on the first, third or fifth anniversary of the commencement of the relevant savings contract.

Options awarded up to 31 December 2004 under the discretionary HSBC Holdings Group Share Option Plan were offered for nil consideration and granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

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.

13 Employee compensation and benefits *(continued)*

	Group			
	Options	*Weighted average exercise price (€)*	*Options*	*Weighted average exercise price (€)*
	2008	**2008**	2007	2007
Savings related Share Option Plans				
Outstanding at 1 January	**330,277**	**8.57**	306,531	8.90
Granted during the year	**193,096**	**10.35**	106,351	10.39
Exercised during the year	**(189,990)**	**6.26**	(48,527)	9.04
Closed during the year	**(95,760)**	**9.76**	(34,078)	9.83
Outstanding at 31 December	**237,623**	**8.51**	330,277	8.57
Exercisable at 31 December	**17,452**	**6.16**	364	8.76

	Group			
	Options	*Weighted average exercise price (€)*	*Options*	*Weighted average exercise price (€)*
	2008	**2008**	2007	2007
Group Share Option Plans				
Outstanding at 1 January	**597,539**	**10.37**	628,378	11.51
Reinstated during the year	**19,050**	**7.26**	–	–
Exercised during the year	**(71,389)**	**7.11**	(30,839)	9.36
Outstanding at 31 December	**545,200**	**7.95**	597,539	10.37
Exercisable at 31 December	**221,550**	**7.11**	275,989	9.36

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 are denominated in pounds sterling and disclosed in euro 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.

The significant weighted average assumptions used to estimate the fair value of the options granted in 2008 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 (%)	4.5	4.5	4.5
Expected volatility (%)	25	25	25
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.

Notes on the Accounts (continued)

13 Employee compensation and benefits *(continued)*

Share awards

During the year, 47 (2007: 46) employees of the group were granted share awards with a weighted average fair value of €5,094 (2007: €5,891).

14 Net impairment

	2008	2007
	€000	€000
Group/Bank		
Write-downs		
Loans and advances to customers		
– specific allowances	**(3,742)**	(4,945)
– collective allowances	**(152)**	(841)
– bad debts written off	**(2,504)**	(2,504)
	(6,398)	(8,290)
Reversals of write-downs		
Loans and advances to customers		
– specific allowances	**4,188**	8,001
– bad debts recovered	**303**	247
	4,491	8,248
Net impairment	**(1,907)**	(42)

15 Profit before tax

	2008	2007
	€000	€000
Group/Bank		
Profit before tax is stated after charging:		
Directors' emoluments		
– fees	**128**	112
– other emoluments	**772**	971
	900	1,083

Profit before tax is also stated after charging auditors' fees €166,000, other assurance services €18,000, tax advisory services €17,000 and other non-audit services €12,000.

16 Tax expense

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:				
– current	**28,589**	44,624	**26,449**	39,672
– deferred	**4,383**	(6,302)	**(743)**	(6,214)
	32,972	38,322	**25,706**	33,458

16 Tax expense *(continued)*

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*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Profit on ordinary activities before tax	**96,087**	114,637	**75,089**	104,370
Tax at the applicable rate of 35%	**33,630**	40,123	**26,281**	36,530
Tax effect of non-taxable income	**(80)**	–	**(58)**	–
Tax effect of profits taxed at different rates	**(824)**	(524)	**(824)**	(1,754)
Tax effect of non-deductible expenses	**174**	168	**171**	133
Tax effect of depreciation charges not deductible by way of capital allowances	**347**	340	**346**	340
Tax effect of taxable temporary differences previously recognised	**–**	(2,131)	**–**	(2,131)
Tax effect of taxable temporary differences not previously recognised	**(234)**	414	**(169)**	408
Tax effect of additional deductions	**(41)**	(68)	**(41)**	(68)
Tax expense	**32,972**	38,322	**25,706**	33,458

17 Earnings per share

The calculation of earnings per share of the group and the bank is based on the profit attributable to shareholders of the bank as shown in the income statement, divided by the number of shares in issue as at 31 December 2008.

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

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Balances with Central Bank of Malta	**88,420**	346,624	**88,420**	346,624
Malta Government Treasury Bills	**14,895**	92,246	**14,895**	92,246
Cash	**27,367**	33,266	**27,366**	33,266
	130,682	472,136	**130,681**	472,136

Balances with Central Bank of Malta include a reserve deposit requirement in terms of Regulation (EC) No. 1745/2003 of the European Central Bank. The average reserve deposit requirement as at year end was €82,966,000 in respect of the group and bank (2007: €144,272,000).

Notes on the Accounts (continued)

19 Financial instruments held for trading

	Group 2008	Group 2007	Bank 2008	Bank 2007
	€000	€000	**€000**	€000
Financial assets held for trading				
Equity and other non-fixed income instruments	**391**	657	**391**	657
Derivative financial instruments	**11,432**	15,323	**11,666**	15,323
	11,823	15,980	**12,057**	15,980
Derivative financial instruments held with:				
– Group companies	**3,986**	14,638	**3,986**	14,638
– subsidiary companies	**–**	–	**234**	–
Financial liabilities held for trading				
Derivative financial instruments	**11,381**	15,043	**12,375**	15,239
Derivative financial instruments held with:				
– Group companies	**6,971**	70	**6,971**	70
– subsidiary companies	**–**	–	**994**	196

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:

	2008	2007
	€000	€000
Group/Bank		
Issued by other issuers		
– local others	**391**	657
	391	657

b *Derivative financial instruments*

	Notional 2008	*Fair value assets* 2008	*Fair value liabilities* 2008	*Notional* 2007	*Fair value assets* 2007	*Fair value liabilities* 2007
	€000	**€000**	**€000**	€000	€000	€000
Group						
Interest rate derivatives						
Over the counter products						
– interest rate swaps purchased	**82,584**	**3,641**	**–**	79,576	1,351	–
– interest rate swaps written	**82,584**	**–**	**3,589**	79,576	–	1,351
Currency derivatives						
Over the counter products						
– foreign exchange contracts	**95,510**	**3,013**	**3,014**	42,080	769	489
– foreign exchange options purchased	**54,030**	**3,354**	**–**	11,794	268	–
– foreign exchange options written	**54,030**	**–**	**3,354**	11,794	–	268
Equity derivatives						
Over the counter products						
– equity index options purchased	**34,804**	**1,424**	**–**	35,788	12,935	–
– equity index options written	**34,804**	**–**	**1,424**	35,788	–	12,935
		11,432	**11,381**		15,323	15,043

19 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*
	2008	**2008**	**2008**	2007	2007	2007
	€000	**€000**	**€000**	€000	€000	€000
Bank						
Interest rate derivatives						
Over the counter products						
– interest rate swaps purchased	**82,584**	**3,641**	**–**	79,576	1,351	–
– interest rate swaps written	**82,584**	**–**	**3,589**	79,576	–	1,351
Currency derivatives						
Over the counter products						
– foreign exchange contracts	**108,604**	**3,247**	**4,008**	46,327	769	685
– foreign exchange options purchased	**54,030**	**3,354**	**–**	11,794	268	–
– foreign exchange options written	**54,030**	**–**	**3,354**	11,794	–	268
Equity derivatives						
Over the counter products						
– equity index options purchased	**34,804**	**1,424**	**–**	35,788	12,935	–
– equity index options written	**34,804**	**–**	**1,424**	35,788	–	12,935
		11,666	**12,375**		15,323	15,239

20 Financial assets designated at fair value through profit or loss

	Group	
	2008	2007
	€000	€000
Debt, Treasury Bills and other fixed income instruments	**125,173**	150,216
Equity and other non-fixed income instruments	**154,541**	125,479
	279,714	275,695

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

	Group	
	2008	2007
	€000	€000
Issued by public bodies		
– local government	**71,502**	104,866
– foreign government	**17,640**	17,787
Issued by other issuers		
– local banks	**111**	342
– foreign banks	**12,702**	13,154
– others local	**6,994**	4,952
– others foreign	**16,224**	9,115
	125,173	150,216
Listing status		
– listed on the Malta Stock Exchange	**80,007**	111,921
– listed elsewhere	**43,181**	36,897
– local unlisted	**1,985**	1,398
	125,173	150,216

Notes on the Accounts (continued)

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

a *Debt, Treasury Bills and other fixed income instruments (continued)*

	Group 2008	*Group* 2007
	€000	€000
At 1 January	**150,216**	138,229
Exchange adjustments	**(11)**	(61)
Amortisation	**394**	–
Acquisitions	**76,217**	42,339
Disposals/Redemptions	**(103,356)**	(23,720)
Changes in fair value	**1,713**	(6,571)
At 31 December	**125,173**	150,216

b *Equity and other non-fixed income instruments*

	Group 2008	*Group* 2007
	€000	€000
Issued by other issuers		
– others local	**34,895**	38,146
– others foreign	**119,646**	87,333
	154,541	125,479
Listing status		
– listed on the Malta Stock Exchange	**13,110**	37,966
– listed elsewhere	**119,646**	87,333
– local unlisted	**21,785**	180
	154,541	125,479
At 1 January	**125,479**	123,769
Exchange adjustments	**490**	(5,094)
Acquisitions	**108,351**	41,854
Disposals	**(42,392)**	(38,099)
Changes in fair value	**(37,387)**	3,049
At 31 December	**154,541**	125,479

21 Financial investments

	Group		Bank	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Debt and other fixed income instruments				
– available-for-sale	**401,909**	401,225	**385,805**	401,225
– held-to-maturity	**25,240**	47,030	**25,240**	47,030
Equity and other non-fixed income instruments				
– available-for-sale	**2,763**	8,270	**971**	3,753
	429,912	456,525	**412,016**	452,008

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

	Group		Bank	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Issued by public bodies				
– local government	**186,769**	154,200	**186,292**	154,200
– foreign government	**10,441**	–	**5,122**	–
Issued by other issuers				
– foreign banks	**165,751**	222,047	**164,808**	222,047
– foreign others	**38,948**	24,978	**29,583**	24,978
	401,909	401,225	**385,805**	401,225
Amounts include:				
– issued by Group companies	**1,005**	1,006	**1,005**	1,006
Listing status				
– listed on the Malta Stock Exchange	**186,769**	154,200	**186,292**	154,200
– listed elsewhere	**208,623**	243,223	**192,996**	243,223
– foreign unlisted	**6,517**	3,802	**6,517**	3,802
	401,909	401,225	**385,805**	401,225
At 1 January	**401,225**	277,338	**401,225**	277,338
Exchange adjustments	**(9,137)**	(3,993)	**(9,137)**	(3,993)
Amortisation	**(1,226)**	(815)	**(1,270)**	(815)
Acquisitions	**83,733**	274,104	**67,953**	274,104
Disposals/Redemptions	**(64,112)**	(132,495)	**(64,112)**	(132,495)
Changes in fair value	**(8,574)**	(12,914)	**(8,854)**	(12,914)
At 31 December	**401,909**	401,225	**385,805**	401,225

Debt instruments with a carrying amount of €105,449,000 (2007: €424,055,000) have been pledged in favour of the Central Bank of Malta.

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

	2008	2007
	€000	€000
Group/Bank		
Issued by other issuers		
– local banks	**–**	932
– foreign banks	**8,512**	29,727
– local others	**8,881**	8,870
– foreign others	**7,847**	7,501
	25,240	47,030

Notes on the Accounts (continued)

21 Financial investments *(continued)*

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

	2008	2007
	€000	€000
Group/Bank		
Listing status		
– listed on the Malta Stock Exchange	**10,279**	10,268
– listed elsewhere	**14,961**	35,830
– local unlisted	**–**	932
	25,240	47,030
At 1 January	**47,030**	109,010
Exchange adjustments	**(3,086)**	(2,886)
Amortisation	**4**	16
Redemptions	**(18,708)**	(59,110)
At 31 December	**25,240**	47,030

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

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Issued by other issuers				
– local banks	**–**	3,261	**–**	3,261
– local others	**2,251**	4,976	**459**	459
– foreign others	**512**	33	**512**	33
	2,763	8,270	**971**	3,753
Listing status				
– listed on the Malta Stock Exchange	**–**	5,626	**–**	3,261
– local unlisted	**2,251**	2,611	**459**	459
– foreign unlisted	**512**	33	**512**	33
	2,763	8,270	**971**	3,753
At 1 January	**8,270**	4,729	**3,753**	4,729
Exchange adjustments	**(46)**	–	**(46)**	–
Acquisitions	**540**	4,664	**539**	–
Disposals	**(4,831)**	(3,473)	**(2,436)**	(3,473)
Changes in fair value	**(1,170)**	2,350	**(839)**	2,497
At 31 December	**2,763**	8,270	**971**	3,753

22 Loans and advances to banks

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Repayable on call and at short notice	**8,590**	51,288	**8,553**	51,206
Term loans and advances	**1,063,716**	579,730	**1,063,716**	579,730
	1,072,306	631,018	**1,072,269**	630,936
Amounts include:				
– due from Group companies	**1,066,679**	582,975	**1,066,679**	582,975

23 Loans and advances to customers

	2008	2007
	€000	€000
Group/Bank		
Repayable on call and at short notice	**524,230**	503,813
Term loans and advances	**2,630,131**	2,365,048
Gross loans and advances to customers	**3,154,361**	2,868,861
Allowances for uncollectability	**(42,121)**	(46,546)
Net loans and advances to customers	**3,112,240**	2,822,315
Allowances for uncollectability		
– individually assessed allowances	**28,365**	32,942
– collectively assessed allowances	**13,756**	13,604
	42,121	46,546

The balance of individually assessed allowances at balance sheet date includes €14,792,000 (2007: €17,382,000) in respect of interest in suspense which has been netted off against interest receivable.

24 Shares in subsidiary companies

Bank *Name of company*	*Incorporated in*	*Nature of business*	*Current equity interest*	**2008**	2007
			%	**€000**	€000
HSBC Life Assurance (Malta) Limited	Malta	Life insurance	**99.99**	**28,578**	23,578
HSBC Global Asset Management (Malta) Limited (formerly HSBC Fund Management (Malta) Limited)	Malta	Portfolio management services	**99.99**	**5,940**	5,940
HSBC Securities Services (Malta) Limited	Malta	Fund administration services	**99.99**	**1,166**	–
HSBC Stockbrokers (Malta) Limited	Malta	Stockbroking services	**99.99**	**23**	23
				35,707	29,541

All subsidiary companies are unlisted.

The 99.99% equity interest formerly held by HSBC Global Asset Management (Malta) Limited in HSBC Securities Sevices (Malta) Limited was purchased by HSBC Bank Malta p.l.c. on 1 July 2008.

The purchase consideration amounting to €1,166,000, was paid in cash. The total amount of assets and liabilities in the acquired subsidiary are €1,710,000 and €544,000 respectively, of which €1,407,000 represents cash and cash equivalents.

Notes on the Accounts (continued)

25 Intangible assets

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Software	**2,014**	1,728	**1,797**	1,363
Present value of in-force long-term insurance business	**62,242**	34,382	**–**	–
	64,256	36,110	**1,797**	1,363

a *Software*

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Cost				
At 1 January	**9,477**	8,969	**8,220**	7,926
Additions	**1,524**	508	**1,445**	294
At 31 December	**11,001**	9,477	**9,665**	8,220
Depreciation				
At 1 January	**7,749**	6,705	**6,857**	6,077
Charge for the year	**1,238**	1,044	**1,011**	780
At 31 December	**8,987**	7,749	**7,868**	6,857
Carrying amount at 1 January	**1,728**	2,264	**1,363**	1,849
Carrying amount at 31 December	**2,014**	1,728	**1,797**	1,363

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

	Group	
	2008	2007
	€000	€000
At 1 January	**34,382**	23,124
Addition from current year new business	**21,853**	6,855
Movement from in-force business	**6,007**	4,403
At 31 December	**62,242**	34,382

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

	Group	
	2008	2007
	%	%
Risk free rate	**4.50**	4.50
Risk adjusted discount rate	**8.00**	8.00
Expenses inflation	**3.25**	3.00
Lapse rate	**11.00**	10.00

26 Property and equipment

	Land and buildings	*Computer equipment*	*Others*	*Total*
	€000	**€000**	**€000**	**€000**
Group				
Cost/revaluation				
At 1 January 2008	**52,378**	**17,824**	**46,849**	**117,051**
Acquisitions	**2,135**	**1,825**	**2,072**	**6,032**
Disposals	**(5,810)**	**(1,346)**	**(1,178)**	**(8,334)**
At 31 December 2008	**48,703**	**18,303**	**47,743**	**114,749**
Depreciation				
At 1 January 2008	**1,796**	**12,502**	**24,933**	**39,231**
Charge for the year	**570**	**1,497**	**3,884**	**5,951**
Disposals	**(17)**	**(345)**	**(755)**	**(1,117)**
At 31 December 2008	**2,349**	**13,654**	**28,062**	**44,065**
Carrying amount at 1 January 2008	**50,582**	**5,322**	**21,916**	**77,820**
Carrying amount at 31 December 2008	**46,354**	**4,649**	**19,681**	**70,684**
Cost/revaluation				
At 1 January 2007	44,060	14,675	43,045	101,780
Acquisitions	98	3,291	4,286	7,675
Revaluation	8,220	–	–	8,220
Disposals	–	(142)	(482)	(624)
At 31 December 2007	52,378	17,824	46,849	117,051
Depreciation				
At 1 January 2007	2,632	10,762	21,737	35,131
Charge for the year	557	1,845	3,624	6,026
Revaluation	(1,393)	–	–	(1,393)
Disposals	–	(105)	(428)	(533)
At 31 December 2007	1,796	12,502	24,933	39,231
Carrying amount at 1 January 2007	41,428	3,913	21,308	66,649
Carrying amount at 31 December 2007	50,582	5,322	21,916	77,820

	Group	
	2008	2007
	€000	€000
Carrying amount of land and buildings occupied for own activities	**46,354**	50,582

	Land and buildings	*Computer equipment*	*Others*	*Total*
	€000	**€000**	**€000**	**€000**
Bank				
Cost/revaluation				
At 1 January 2008	**52,364**	**17,403**	**45,524**	**115,291**
Acquisitions	**2,135**	**1,812**	**2,062**	**6,009**
Disposals	**(5,810)**	**(1,341)**	**(1,087)**	**(8,238)**
At 31 December 2008	**48,689**	**17,874**	**46,499**	**113,062**

Notes on the Accounts (continued)

26 Property and equipment *(continued)*

	Land and buildings	*Computer equipment*	*Others*	*Total*
	€000	**€000**	**€000**	**€000**
Bank				
Depreciation				
At 1 January 2008	**1,580**	**12,155**	**23,699**	**37,434**
Charge for the year	**570**	**1,470**	**3,880**	**5,920**
Disposals	**(17)**	**(343)**	**(663)**	**(1,023)**
At 31 December 2008	**2,133**	**13,282**	**26,916**	**42,331**
Carrying amount at 1 January 2008	**50,784**	**5,248**	**21,825**	**77,857**
Carrying amount at 31 December 2008	**46,556**	**4,592**	**19,583**	**70,731**
Cost/revaluation				
At 1 January 2007	44,046	14,286	41,732	100,064
Acquisitions	98	3,259	4,274	7,631
Revaluation	8,220	–	–	8,220
Disposals	–	(142)	(482)	(624)
At 31 December 2007	52,364	17,403	45,524	115,291
Depreciation				
At 1 January 2007	2,416	10,431	20,522	33,369
Charge for the year	557	1,829	3,605	5,991
Revaluation	(1,393)	–	–	(1,393)
Disposals	–	(105)	(428)	(533)
At 31 December 2007	1,580	12,155	23,699	37,434
Carrying amount at 1 January 2007	41,630	3,855	21,210	66,695
Carrying amount at 31 December 2007	50,784	5,248	21,825	77,857

	Bank	
	2008	2007
	€000	€000
Carrying amount of land and buildings occupied for own activities	**46,556**	50,784

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 €18,949,000 (2007: €20,119,000) for the group and the bank.

27 Investment property

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2008	**2008**	2007	2007
	€000	**€000**	€000	€000
Group				
Freehold land and buildings				
At 1 January	**12,885**	**8,553**	7,959	6,755
Additions	**–**	**–**	1,798	1,798
Fair value adjustments	**1,165**	**–**	3,128	–
At 31 December	**14,050**	**8,553**	12,885	8,553

27 Investment property *(continued)*

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2008	**2008**	2007	2007
	€000	**€000**	€000	€000
Bank				
Freehold land and buildings				
At 1 January	**10,482**	**6,473**	5,721	4,675
Additions	**–**	**–**	1,798	1,798
Fair value adjustments	**1,165**	**–**	2,963	–
At 31 December	**11,647**	**6,473**	10,482	6,473

During the year ended 31 December 2008, €689,000 (2007: €645,000) was recognised as rental income in profit or loss relating to investment property for the group and €533,000 (2007: €494,000) for the bank. The rental income of the bank was received from a Group company.

28 Assets held for sale

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Assets acquired in satisfaction of debt	**7,519**	9,483	**7,668**	9,632
Other	**1,649**	2,439	**1,649**	2,439
	9,168	11,922	**9,317**	12,071

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.

29 Other assets

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Acceptances and endorsements	**4,233**	3,445	**4,233**	3,445
Reinsurance assets	**16,952**	16,472	**–**	–
Other	**4,639**	5,938	**4,192**	5,493
	25,824	25,855	**8,425**	8,938
Amounts include:				
– due from Group companies	**1,815**	3,165	**1,815**	3,165

30 Prepayments and accrued income

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Accrued income	**46,215**	36,599	**43,579**	33,601
Prepayments	**1,024**	2,977	**1,019**	2,970
	47,239	39,576	**44,598**	36,571
Amounts include:				
– due from Group companies	**11,271**	2,031	**11,239**	2,010
– due from subsidiary companies	**–**	–	**288**	235

Notes on the Accounts (continued)

31 Amounts owed to banks

	2008	2007
	€000	€000
Group/Bank		
Term deposits	**440,405**	54,372
Repayable on demand	**21,780**	32,770
	462,185	87,142
Amounts include:		
– due to Group companies	**342,399**	66,369

32 Amounts owed to customers

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Term deposits	**2,286,470**	2,397,177	**2,295,696**	2,437,542
Repayable on demand	**1,730,162**	1,642,315	**1,778,179**	1,670,452
	4,016,632	4,039,492	**4,073,875**	4,107,994
Amounts include:				
– due to Group companies	**971**	1,905	**971**	1,905
– due to subsidiary companies	**–**	–	**57,243**	68,502

33 Deferred tax

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Deferred tax liabilities and (assets) are attributable to the following:				
– excess of capital allowances over depreciation	**936**	995	**928**	997
– allowances for uncollectibility	**(13,770)**	(15,833)	**(13,770)**	(15,833)
– property sales tax consequences	**6,953**	7,498	**6,664**	7,209
– fair value movements on investments	**(6,030)**	(2,158)	**(6,148)**	(2,159)
– value of in-force life insurance business	**21,785**	12,034	**–**	–
– fair value movement on policyholders' investments	**(4,771)**	60	**–**	–
– other	**(3,419)**	(1,788)	**(3,400)**	(1,762)
	1,684	808	**(15,726)**	(11,548)

	Group			
	At 1 January 2008	*Recognised in income*	*Recognised in equity*	*At 31 December 2008*
	€000	**€000**	**€000**	**€000**
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	**995**	**(61)**	**2**	**936**
– allowances for uncollectibility	**(15,833)**	**2,063**	**–**	**(13,770)**
– property sales tax consequences	**7,498**	**(558)**	**13**	**6,953**
– fair value movements on investments	**(2,158)**	**50**	**(3,922)**	**(6,030)**
– value of in-force life insurance business	**12,034**	**9,751**	**–**	**21,785**
– fair value movement on policyholders' investments	**60**	**(4,781)**	**(50)**	**(4,771)**
– other	**(1,788)**	**(2,081)**	**450**	**(3,419)**
	808	**4,383**	**(3,507)**	**1,684**

33 Deferred tax *(continued)*

	Group			
	At 1 January 2007	*Recognised in income*	*Recognised in equity*	*At 31 December 2007*
	€000	€000	€000	€000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	1,293	(298)	–	995
– allowances for uncollectibility	(11,363)	(4,470)	–	(15,833)
– property sales tax consequences	5,917	591	990	7,498
– fair value movements on investments	2,753	(12)	(4,899)	(2,158)
– unrelieved tax losses	(149)	149	–	–
– value of in-force life insurance business	8,095	3,939	–	12,034
– fair value movement on policyholders' investments	4,158	(4,098)	–	60
– other	123	(2,103)	192	(1,788)
	10,827	(6,302)	(3,717)	808

	Bank			
	At 1 January 2008	*Recognised in income*	*Recognised in equity*	*At 31 December 2008*
	€000	**€000**	**€000**	**€000**
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	**997**	**(69)**	**–**	**928**
– allowances for uncollectibility	**(15,833)**	**2,063**	**–**	**(13,770)**
– property sales tax consequences	**7,209**	**(558)**	**13**	**6,664**
– fair value movements on investments	**(2,159)**	**(106)**	**(3,883)**	**(6,148)**
– other	**(1,762)**	**(2,073)**	**435**	**(3,400)**
	(11,548)	**(743)**	**(3,435)**	**(15,726)**

	Bank			
	At 1 January 2007	*Recognised in income*	*Recognised in equity*	*At 31 December 2007*
	€000	€000	€000	€000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	1,286	(289)	–	997
– allowances for uncollectibility	(11,363)	(4,470)	–	(15,833)
– property sales tax consequences	5,649	570	990	7,209
– fair value movements on investments	2,753	(12)	(4,900)	(2,159)
– unrelieved tax losses	(149)	149	–	–
– other	234	(2,162)	166	(1,762)
	(1,590)	(6,214)	(3,744)	(11,548)

The group's deferred tax assets and liabilities on the balance sheet have not been off-set to the extent that there is no legally enforceable right of set-off with the tax authorities.

Notes on the Accounts (continued)

34 Liabilities to customers under investment contracts

	Group 2008	Group 2007
	€000	€000
At 1 January	**18,947**	21,321
Premiums received	**1,385**	978
Accounts balances paid on surrender and other termination during the year	**(910)**	(3,017)
Changes in unit prices and other movements	**(4,300)**	(335)
At 31 December	**15,122**	18,947

35 Liabilities under insurance contracts issued

	Group Gross 2008	Group Gross 2007
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**250,467**	217,237
Outstanding claims	**1,121**	1,672
Total non-linked	**251,588**	218,909
Life insurance (linked)		
Provisions for policyholders	**59,614**	72,008
Outstanding claims	**48**	26
Total linked	**59,662**	72,034
Total liabilities under insurance contracts	**311,250**	290,943

	Group				
	Non-linked business			*Linked Business*	*All Business*
	Provisions for policy-holders	*Outstanding claims*	*Total*	*Total*	*Total*
	2008	**2008**	**2008**	**2008**	**2008**
	€000	**€000**	**€000**	**€000**	**€000**
At 1 January	**217,237**	**1,672**	**218,909**	**72,034**	**290,943**
Claims in respect of new business	**–**	**2,072**	**2,072**	**121**	**2,193**
Movement for the year	**33,230**	**(1,807)**	**31,423**	**(12,251)**	**19,172**
Previous year claims paid	**–**	**(816)**	**(816)**	**(242)**	**(1,058)**
At 31 December	**250,467**	**1,121**	**251,588**	**59,662**	**311,250**

35 Liabilities under insurance contracts issued *(continued)*

	Group				
	Non-linked business			*Linked Business*	*All Business*
	Provisions for policy-holders	*Outstanding claims*	*Total*	*Total*	*Total*
	2007	2007	2007	2007	2007
	€000	€000	€000	€000	€000
At 1 January	175,965	985	176,950	62,440	239,390
Claims in respect of new business	–	2,665	2,665	307	2,972
Movement for the year	41,272	(1,468)	39,804	9,320	49,124
Previous year claims paid	–	(510)	(510)	(33)	(543)
At 31 December	217,237	1,672	218,909	72,034	290,943

36 Other liabilities

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Bills payable	**12,153**	10,766	**12,153**	10,766
Cash collateral for commitments	**1,021**	142	**1,021**	142
Obligations under finance leases	**404**	307	**404**	307
Acceptances and endorsements	**4,233**	3,445	**4,233**	3,445
Other	**18,923**	17,643	**16,072**	14,634
	36,734	32,303	**33,883**	29,294

37 Accruals and deferred income

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Accrued interest	**33,848**	33,536	**34,404**	33,695
Other	**20,082**	19,611	**19,435**	18,679
	53,930	53,147	**53,839**	52,374
Amounts include:				
– due to Group companies	**1,762**	3,788	**1,681**	3,664
– due to subsidiary companies	**–**	–	**556**	159

38 Provisions for liabilities and other charges

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
At 1 January	**414**	74	**380**	75
Provisions made during the year	**91**	391	**91**	356
Provisions reversed during the year	**(193)**	(51)	**(194)**	(51)
At 31 December	**312**	414	**277**	380

Notes on the Accounts (continued)

39 Subordinated liabilities

	2008	2007
	€000	€000
Group/Bank		
4.60% € subordinated unsecured bond 2017	**57,992**	57,962
5.90% € subordinated unsecured bond 2018	**29,785**	–
	87,777	57,962

The subordinated bonds are redeemable at par on maturity. Carrying amount at balance sheet date is net of unamortised issue costs amounting to €457,000 (2007: €272,000).

40 Share capital

	2008	2007
	€000	€000
Authorised		
470,000,000 Ordinary shares of 30c each	**141,000**	93,175
(2007: 320,000,000 Ordinary shares of 29.1172c each)		
Issued and fully paid up		
291,840,000 Ordinary shares of 30c each	**87,552**	84,976
(2007: 291,840,000 Ordinary shares of 29.1172c each)		

On 4 April 2008 the bank increased its authorised share capital from 320,000,000 ordinary shares to 470,000,000 ordinary shares. The bank also increased its issued share capital by €2,576,000 through a capitalisation of retained earnings, resulting in a paid-up capital of €87,552,000.

41 Reserves

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.

42 Contingent liabilities

	Group Contract amount		*Bank Contract amount*	
	2008	2007	2008	2007
	€000	€000	€000	€000
Guarantees and assets pledged as collateral security				
– guarantees	**97,505**	100,086	**97,528**	100,109
– standby letters of credit	**32,420**	29,886	**32,420**	29,886
	129,925	129,972	**129,948**	129,995
Amounts include:				
– in favour of Group companies	**9,566**	12,474	**9,566**	12,474
– in favour of subsidiary companies	**–**	–	**23**	23

43 Commitments

	Contract amount	
	2008	2007
	€000	€000
Group/Bank		
Documentary credits	**16,411**	14,698
Undrawn formal standby facilities, credit facilities and other commitments to lend	**1,094,159**	1,133,334
Uncalled share capital in other companies	**2**	2
	1,110,572	1,148,034
Amounts include:		
– in favour of Group companies	**70**	70

44 Capital and lease commitments

a *Capital commitments*

Capital commitments are made up of:

	2008	2007
	€000	€000
Group/Bank		
Intangible assets	**379**	273
Property and equipment	**393**	2,304
	772	2,577

b *Operating leases*

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

	2008	2007
	€000	€000
Group/Bank		
Less than one year	**2,163**	1,570
Between one year and five years	**5,347**	3,678
More than five years	**4,967**	7,333
	12,477	12,581

c *Finance leases*

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

	2008	2007
	€000	€000
Group/Bank		
Less than one year	**289**	168
Between one year and five years	**153**	161
Total minimum lease payments	**442**	329
Finance charges	**(38)**	(21)
Present value of minimum lease payments	**404**	308

Notes on the Accounts (continued)

45 Dividends

	Bank			
	2008	2007	**2008**	2007
	% per share	% per share	**€000**	€000
Gross of income tax				
% per 30c share (2007: 29.1172c share)				
– prior year's final	**49**	42	**43,192**	36,032
– special prior year's final	**–**	42	**–**	36,032
– interim	**40**	53	**34,729**	44,866
– special interim	**–**	32	**–**	27,188
	89	169	**77,921**	144,118
	Cents per share	Cents per share	**€000**	€000
Net of income tax				
cents per 30c share (2007: 29.1172c share)				
– prior year's final	**9.62**	8.02	**28,075**	23,421
– special prior year's final	**–**	8.02	**–**	23,421
– interim	**7.74**	9.99	**22,574**	29,163
– special interim	**–**	6.06	**–**	17,672
	17.36	32.09	**50,649**	93,677

The Directors have proposed a final gross ordinary dividend of €0.096 (2007: €0.148) per share. The final dividend will be payable to shareholders on the bank's register as at 4 March 2009.

46 Prior year adjustment

Following the further guidance issued under IFRIC 11 IFRS 2 Group and Treasury Share Transactions, all share-based payments issued by the Group are recognised as equity-settled share-based payments. As a result, certain reclassifications were made in the comparative period (see note 54).

47 Cash and cash equivalents

	Group		Bank	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Balances of cash and cash equivalents as shown in the balance sheet are analysed below:				
Cash	**27,367**	33,266	**27,366**	33,266
Balances with Central Bank of Malta (excluding reserve deposit)	**5,454**	202,352	**5,454**	202,352
Financial assets designated at fair value through profit or loss	**4,985**	–	–	–
Loans and advances to banks	**713,481**	454,337	**713,444**	454,255
Amounts owed to banks	**(446,692)**	(85,751)	**(446,692)**	(85,751)
	304,595	604,204	**299,572**	604,122
Adjustment to reflect balances with contractual maturity of more than three months	**632,956**	543,231	**358,227**	267,536
Per balance sheet	**937,551**	1,147,435	**657,799**	871,658

47 Cash and cash equivalents *(continued)*

	Group		*Bank*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Analysed as follows:				
Cash and balances with Central Bank of Malta (excluding reserve deposit)	**32,821**	235,618	**32,820**	235,618
Malta Government Treasury Bills	**14,895**	92,246	**14,895**	92,246
Financial assets designated at fair value through profit or loss	**279,714**	275,695	**–**	–
Loans and advances to banks	**1,072,306**	631,018	**1,072,269**	630,936
Amounts owed to banks	**(462,185)**	(87,142)	**(462,185)**	(87,142)
	937,551	1,147,435	**657,799**	871,658

48 Segmental information

a *Class of business*

	Personal Financial Services		*Commercial Banking*		*Global Banking and Markets*		*Total*	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Group								
Profit before tax								
Segment operating income	**103,604**	93,521	**69,462**	69,908	**15,235**	35,262	**188,301**	198,691
Segment impairment allowances	**(1,017)**	(1,475)	**(890)**	1,433	**–**	–	**(1,907)**	(42)
Common costs							**(90,307)**	(84,012)
Profit before tax							**96,087**	114,637

	Personal Financial Services		*Commercial Banking*		*Global Banking and Markets*		*Total*	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Assets								
Segment total assets	**1,974,137**	1,791,205	**1,667,774**	1,545,083	**1,654,177**	1,558,801	**5,296,088**	4,895,089
Average total assets	**1,882,670**	1,686,957	**1,606,429**	1,531,857	**1,606,489**	1,426,860	**5,095,588**	4,645,674
Total Equity	**114,874**	104,134	**153,929**	147,230	**13,674**	24,928	**282,477**	276,292

b *Geographical segments*

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

Notes on the Accounts (continued)

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 13).

a *Transactions, arrangements and agreements involving Directors and others*

Particulars of transactions, arrangements and agreements entered into with Directors, connected persons and companies controlled by them and with key management personnel of HSBC Bank Malta p.l.c.:

	Group		*Bank*	
	2008	2007	**2008**	2007
	Balance at end of year	*Balance at end of year*	*Balance at end of year*	*Balance at end of year*
	€000	€000	**€000**	€000
Directors, connected persons and companies controlled by them				
Loans	**109,228**	58,877	**109,228**	58,877
Credit card transactions	**21**	14	**21**	14
Guarantees	**1,764**	652	**1,764**	652
Commitments to lend	**43,430**	81,337	**43,430**	81,337
Senior executive management				
Loans	**1,816**	1,442	**1,692**	1,309
Credit card transactions	**50**	44	**50**	42

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*	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Short-term employee benefits	**3,316**	4,493	**3,006**	4,205
Post-employment benefits	**208**	203	**208**	203
Other long-term benefits	**3**	–	**3**	–
Termination benefits	**204**	–	**204**	–
Share-based payments	**206**	147	**193**	135
	3,937	4,843	**3,614**	4,543

Details of Directors' fees and emoluments are stated in note 15.

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 13 – employee compensation and benefits
Note 19 – financial instruments held for trading
Note 21 – financial investments
Note 22 – loans and advances to banks
Note 24 – shares in subsidiary companies
Note 27 – investment property
Note 29 – other assets
Note 30 – prepayments and accrued income
Note 31 – amounts owed to banks
Note 32 – amounts owed to customers
Note 37 – accruals and deferred income
Note 42 – contingent liabilities
Note 43 – commitments

Included in interest receivable and similar income (note 6) and in interest payable (note 7), the group recognised interest amounting to €34,128,000 and €6,228,000 respectively, on advances and deposits placed with an intermediate parent.

Furthermore, expenditure relating to transactions with HSBC Holdings plc and its subsidiaries amounting to €4,565,000 (2007: €4,668,000) for the group and €4,324,000 (2007: €4,293,000) 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 2008, the total assets held by the group on behalf of customers were €2,587,745,000 (2007: €2,674,498,000).

51 Registered office and ultimate parent company

The addresses of the registered and principal offices of the bank and its subsidiary companies included in the consolidated financial statements can be found in a separate statement which is filed at the Registrar of Companies in accordance with the provisions of the Fourth Schedule to the Companies Act, 1995.

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, 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 2008* and *Annual Report and Accounts 2008* may be obtained from its registered office from 3 April 2009.

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.

53 Accounting estimates and judgements *(continued)*

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.

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. In addition, the following items relating to the comparative period were restated in line with adoption of IFRIC 11 IFRS 2 Group and Treasury Share Transactions:

	Group			*Bank*		
	As restated	*As previously stated*	*Change*	*As restated*	*As previously stated*	*Change*
	€000	€000	€000	€000	€000	€000
Income Statement						
Employee compensation and benefits	(49,840)	(49,781)	(59)	(47,533)	(47,475)	(58)
Tax expense	(38,322)	(38,344)	22	(33,458)	(33,478)	20
Balance Sheet						
Financial investments	456,525	457,268	(743)	452,008	452,702	(694)
Deferred tax assets	11,553	11,729	(176)	11,548	11,724	(176)
Deferred tax liabilities	12,361	12,350	11	–	–	–
Other liabilities	32,303	32,793	(490)	29,294	29,758	(464)
Revaluation reserves	24,614	24,584	30	24,764	24,738	26
Other reserve	–	790	(790)	–	734	(734)
Retained earnings	166,702	166,382	320	122,317	122,015	302

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 25 to 83, which comprise the balance sheets as at 31 December 2008 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 24, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation 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 financial position of the bank and the group as at 31 December 2008, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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

20 February 2009

Group Income Statement: Five-Year Comparison

	2008	2007	2006	2005	2004
	€000	€000	€000	€000	€000
Interest receivable and similar income	**245,510**	237,580	188,388	167,445	160,277
Interest payable	**(122,466)**	(111,342)	(78,996)	(63,655)	(63,855)
Net interest income	**123,044**	126,238	109,392	103,790	96,422
Net non-interest income	**65,257**	72,453	66,634	56,070	43,574
Operating expenses	**(90,409)**	(83,672)	(80,007)	(74,691)	(73,515)
Net impairment	**(1,907)**	(42)	422	331	9,345
Reversals/(provisions) for liabilities and other charges	**102**	(340)	(16)	2	701
Profit before tax	**96,087**	114,637	96,425	85,502	76,527
Tax expense	**(32,972)**	(38,322)	(33,944)	(29,448)	(25,257)
Profit for the year	**63,115**	76,315	62,481	56,054	51,270
Profit attributable to shareholders of the bank	**63,115**	76,315	62,451	56,038	51,270
Profit attributable to minority interest	**–**	–	30	16	–
Earnings per share	**21.6c**	26.1c	21.4c	19.1c	17.4c

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

	2008	2007	2006	2005	2004
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**130,682**	472,136	304,144	179,644	248,791
Cheques in course of collection	**9,308**	3,103	24,540	22,658	10,384
Financial assets held for trading	**11,823**	15,980	24,216	9,101	11,242
Financial assets designated at fair value through profit and loss	**279,714**	275,695	261,999	216,937	168,956
Financial investments	**429,912**	456,525	391,656	522,944	555,430
Loans and advances to banks	**1,072,306**	631,018	596,459	379,413	305,807
Loans and advances to customers	**3,112,240**	2,822,315	2,623,169	2,366,838	2,274,158
Intangible assets	**64,256**	36,110	25,388	21,973	20,457
Property and equipment	**70,684**	77,820	66,648	69,290	71,388
Investment property	**14,050**	12,885	7,959	2,239	806
Assets held for sale	**9,168**	11,922	9,266	11,456	7,338
Current tax recoverable	**2,966**	2,596	1,877	4,414	3,196
Deferred tax assets	**15,916**	11,553	–	–	–
Other assets	**25,824**	25,855	24,955	20,268	15,588
Prepayments and accrued income	**47,239**	39,576	33,983	29,974	38,402
Total assets	**5,296,088**	4,895,089	4,396,259	3,857,149	3,731,943
Liabilities					
Financial liabilities held for trading	**11,381**	15,043	24,792	9,434	23,100
Amounts owed to banks	**462,185**	87,142	294,264	52,800	112,593
Amounts owed to customers	**4,016,632**	4,039,492	3,436,873	3,184,751	3,001,673
Debt securities in issue	**–**	–	–	28	28
Provision for current tax	**688**	11,043	–	–	–
Deferred tax liabilities	**17,600**	12,361	10,729	8,952	5,243
Liabilities to customers under investment contracts	**15,122**	18,947	21,321	19,327	–
Liabilities under insurance contracts issued	**311,250**	290,943	239,390	200,967	160,664
Other liabilities	**36,734**	32,303	32,183	39,029	33,827
Accruals and deferred income	**53,930**	53,147	42,271	35,022	35,176
Provisions for liabilities and other charges	**312**	414	75	58	61
Subordinated liabilities	**87,777**	57,962	–	–	46,387
Total liabilities	**5,013,611**	4,618,797	4,101,898	3,550,368	3,418,752
Equity attributable to shareholders	**282,477**	276,292	294,361	306,017	313,191
Minority interest	**–**	–	–	764	–
Total equity	**282,477**	276,292	294,361	306,781	313,191
Total liabilities and equity	**5,296,088**	4,895,089	4,396,259	3,857,149	3,731,943
Memorandum items					
Contingent liabilities	**129,925**	129,972	138,779	119,993	102,788
Commitments	**1,110,572**	1,148,034	1,064,288	934,582	770,054

Group Cash Flow Statement: Five-Year Comparison

	2008	2007	2006	2005	2004
	€000	€000	€000	€000	€000
Net cash (used in)/from operating activities	**(309,684)**	343,005	(22,241)	135,935	19,054
Cash flows from investing activities					
Dividends received	**49**	228	172	217	752
Interest received from financial investments	**23,884**	21,011	26,399	27,484	29,145
Proceeds from sale and maturity of financial investments	**88,551**	195,078	207,061	133,252	189,383
Proceeds on sale of property and equipment and intangible assets	**9,755**	61	186	615	133
Purchase of financial investments	**(83,733)**	(278,768)	(88,169)	(86,956)	(216,951)
Purchase of property and equipment, investment property and intangible assets	**(7,556)**	(9,981)	(5,383)	(6,650)	(3,205)
Proceeds on sale of shares in subsidiary company	**–**	–	1,048	–	–
Net cash from/(used in) investing activities	**30,950**	(72,371)	141,314	67,962	(743)
Cash flows from financing activities					
Dividends paid	**(50,649)**	(93,677)	(67,827)	(66,446)	(43,855)
Maturity of debt securities in issue and subordinated loan stock	**–**	–	(28)	(46,387)	–
Issue of subordinated loan stock	**30,000**	58,234	–	–	–
Issue of units to minority interest	**–**	–	212	748	–
Subordinated loan stock issue costs	**(226)**	(302)	–	–	–
Net cash used in financing activities	**(20,875)**	(35,745)	(67,643)	(112,085)	(43,855)
(Decrease)/increase in cash and cash equivalents	**(299,609)**	234,889	51,430	91,812	(25,544)

Group Accounting Ratios: Five-Year Comparison

	2008	2007	2006	2005	2004
	%	%	%	%	%
Net interest income and other operating income to total assets	**3.6**	4.1	4.0	4.1	3.8
Operating expenses to total assets	**1.7**	1.7	1.8	1.9	2.0
Cost to income ratio	**48.0**	42.1	45.5	46.7	52.5
Profit before tax to total assets	**1.8**	2.3	2.2	2.2	2.1
Profit before tax on equity	**34.0**	41.5	32.8	27.9	24.4
Profit after tax to equity	**22.3**	27.6	21.2	18.3	16.4

	2008	2007	2006	2005	2004
Shares in issue (millions)	**291.8**	291.8	291.8	73.0	36.5
Net assets per 30 cents share (cents)*	**96.8**	94.7	100.9	105.1	107.4
Earnings per 30 cents share (cents)*	**21.6**	26.1	21.4	19.1	17.5
Dividend per 30 cents share (cents)*					
– gross	**26.7**	49.4	35.9	34.9	23.1
– net	**17.4**	32.1	23.3	22.8	15.1
Dividend cover	**1.2**	0.8	0.9	0.8	1.2

** Ratios for 2004 and 2005 have been restated to reflect the number of shares in issue.*

Group Financial Highlights in US dollars

	2008	2007
	US$000	US$000
Income statement		
Net operating income	**262,774**	277,273
Operating expenses	**(126,166)**	(116,764)
Net impairment charges	**(2,661)**	(59)
Reversals/(provisions) for liabilities and other charges	**142**	(474)
Profit before tax	**134,089**	159,976
Tax expense	**(46,012)**	(53,478)
Profit for the year	**88,077**	106,498
Profit attributable to shareholders of the bank	**88,077**	106,498
Balance sheet		
Assets		
Balances with Central Bank of Malta, Treasury Bills and cash	**182,367**	658,866
Cheques in course of collection	**12,989**	4,330
Financial assets held for trading	**16,499**	22,300
Financial assets at fair value through profit or loss	**390,341**	384,732
Financial investments	**599,942**	637,081
Loans and advances to banks	**1,496,403**	880,586
Loans and advances to customers	**4,343,131**	3,938,541
Intangible assets	**89,669**	50,392
Property and equipment	**98,640**	108,598
Investment property	**19,607**	17,981
Assets held for sale	**12,794**	16,637
Current tax recoverable	**4,139**	3,623
Deferred tax asset	**22,211**	16,122
Other assets	**36,037**	36,081
Prepayments and accrued income	**65,922**	55,228
Total assets	**7,390,691**	6,831,098
Liabilities and equity		
Financial liabilities held for trading	**15,882**	20,992
Amounts owed to banks	**644,979**	121,607
Amounts owed to customers	**5,605,210**	5,637,111
Provision for current tax	**961**	15,410
Deferred tax liabilities	**24,560**	17,250
Liabilities to customers under investment contracts	**21,103**	26,441
Liabilities under insurance contracts issued	**434,349**	406,011
Other liabilities	**51,263**	45,079
Accruals and deferred income	**75,259**	74,167
Provisions for liabilities and other charges	**435**	578
Subordinated liabilities	**122,493**	80,886
Called up share capital	**122,179**	118,584
Revaluation and other reserves	**21,141**	34,349
Retained earnings	**250,877**	232,633
Total liabilities and equity	**7,390,691**	6,831,098

Figures have been converted from euro to US dollars using the rate of exchange ruling on 31 December 2008: €1=US$1.3955. Comparative results have also been translated at these rates.

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 2417

Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2597 3382 Fax: 2597 3306

Inheritance Unit
1st Floor, 32 Merchants Street
Valletta VLT 1173
Tel: 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

Personal Financial Services
Personal Financial Services Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1895 Fax: 2380 4537

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: 2380 2380 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: 2380 2380 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

Mellieħa
6 Gorg Borg Olivier Street MLH 1027
Tel: 2380 2380 Fax: 2334 6890

Mosta
63 Constitution Street MST 9058
Tel: 2380 2380 Fax: 2334 6190

Msida
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 International Banking Centre
233 Republic Street VLT 1116
Tel: 2597 2961 Fax: 2597 2466

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
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