

2003

**HSBC Bank Malta p.l.c.**

*Annual Report  
and Accounts*

The world's local bank



## The HSBC Group

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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 9,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

### **HSBC Bank Malta p.l.c.**

*Registered in Malta: number C3177*

*Registered Office and Head Office:*

233 Republic Street

Valletta VLT 05

Malta

Telephone: 356 2597 0000

Facsimile: 356 2380 4923

Web: [www.hsbc.com.mt](http://www.hsbc.com.mt)

### **HSBC Holdings plc**

*Registered Office and Group Head Office:*

8 Canada Square

London E14 5HQ

United Kingdom

Telephone: 020 7991 8888

Facsimile: 020 7992 4880

Web: [www.hsbc.com](http://www.hsbc.com)

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## Chairman's Statement



I am very pleased to present the bank's Annual Report and Accounts for another year, being the fifth anniversary since HSBC took over the operations of Mid-Med Bank p.l.c. in Malta. The year under review was again characterised by difficult economic and capital market conditions both locally and internationally. Malta was hit hard by the growing uncertainty in global economic conditions, which heightened the risk to domestic economic growth.

Despite this background, the bank continued to register significant improvements both with regards to its systems and operations as well as its financial results. The Board during the year approved a new three-year strategic plan. The plan aims to build on achievements registered so far and focuses on being a fully customer driven organisation, with particular emphasis on giving customers more choice on how they bank with us by expanding delivery channels and investment in new technology and systems.

Profit before taxation at Lm26.2 million shows a significant increase of 23.8 per cent over the figure of Lm21.1 million registered in 2002. The Board is recommending an increased gross final dividend of 60.0



The new Call Centre at Operations Centre.

cents per share, inclusive of special dividend of 36.0 cents per share. This results in a total dividend payout during the year of Lm25.8 million or 70.8 cents per share.

During the year under review the bank continued with the centralisation of administrative back-office work from the branch network to a purpose built centre. This centralisation is aimed at increasing overall efficiency and allowing front office staff to spend more time with our customers. At the same time new ways of banking have been developed, for example the Personal Internet Banking project, which has just been launched. In November the Call Centre together with a 24/7 phone-banking service was also launched. Professionally trained people who are committed to deliver the best quality service run this Call Centre. All this manifests the bank's commitment to deliver the highest quality service to the community at large.

The bank continued to adopt a consistent approach in identifying customer needs and providing individual tailored solutions to satisfy these needs. In this respect during the year a Personal Customer Relationship Management strategy was launched in the branch network with the main objective of broadening relationships with higher value personal customers. To strengthen our ties with top clients, the bank has also officially launched in October the "Premier" proposition and a Premier centre at 233, Republic Street Valletta. The "Premier" service is built around the concept of relationship management and guarantees a unique personal service to this selected esteemed clientele through the HSBC network worldwide.

The subsidiaries, as in previous years, have contributed significantly to the Group's overall financial performance. We continued to lead in the mortgage business and a high level of service has been

provided to this important market segment, through our dedicated Homeloan shops. This is discussed in more detail in the Chief Executive Officer's report.

The refurbishment of the Operations Centre in Qormi was successfully completed. The refurbished offices are now occupied, with open plan environments which aid efficiency and centralisation, plus improved environmental, fire, safety and security standards. In line with the bank's commitment to be the bank for the whole community, facilities for the disabled have also been provided. The centre has a car parking area for circa 220 cars with existing site boundaries for staff, visitors and customers. The Deputy Prime Minister has today officially inaugurated the centre.

The bank and its employees are conscious and committed to reducing the environmental impact. In this regard, the bank will be implementing a Green Commuter Plan (GCP) for its Operations Centre in Qormi. The benefits of a managed car share scheme will be explained to the staff. Those opting for car sharing will be offered preferential parking for cars. The Malta Environmental and Planning Authority (MEPA), have confirmed that this is the first GCP to come into operation in Malta.

In July 2003 a new Chief Operating Officer was appointed. Martin Wilkins replaced Tim Fitzpatrick who has been assigned the role of Area Manager, London City. I have no doubt that Martin will continue to contribute towards the considerable success, which the bank has managed to achieve during the years since it acquired Mid-Med Bank p.l.c. I would like to take

the opportunity to thank Tim Fitzpatrick for his dedication and excellent contribution to the successes achieved by the bank during his term of office.

In 2003, HSBC Bank Malta p.l.c. has won the Bank of the Year Award for Malta. This is the first time that HSBC has won this prestigious award granted by the FT Business magazine, "The Banker". This award affirms the bank's efforts in setting the highest standards for the island in the areas of customer service, ethics and business practice.

With great pleasure, I would also like to extend my thanks and appreciation to the Board of Directors and to the Chairmen and Directors of the subsidiary companies for their support and contribution towards another very successful year. My sincere and honest congratulations once again go to all the employees for the high levels of commitment and the professionalism they continued to display during the year, which was characterised by difficult economic conditions. This contributed to the bank's remarkable success, which was significantly better than that registered in previous years. Well done.



Albert Mizzi, *Chairman*  
12 February 2004



The new HSBC Operations Centre in Qormi.

## Chief Executive Officer's Review of Operations



2003 was another challenging year for the bank operating within a local economy gearing itself for EU membership. Despite the conditions of political uncertainty which characterised the earlier part of the year under review and the economic restructuring underway, the bank registered a very satisfactory financial result with profit before tax increasing by 23.8 per cent to Lm26.2 million. The financial results are better than planned and the bank is on course to achieve its strategic objectives.

The enthusiasm and commitment of our staff together with improved operating systems and operational efficiencies were the prime contributors to the overall success.

### Customer Driven Initiatives

We continued to enhance our customer driven philosophy and launched a number of initiatives and activities aimed at improving customer service and strengthening relationships. Work has progressed on an enhanced Customer Relationship Management System. This will enable customer facing staff to access real time information on investments and bank accounts of the customers they are serving, leading to improved service and a better understanding of customers' needs.

During the final quarter of the year under review, the bank also launched its "Premier" proposition and a Premier branch in Republic Street, Valletta. Apart from providing a dedicated relationship management service to selected personal customers, "Premier" is recognised throughout the HSBC Group worldwide. This new service has been well received with positive feedback from those enjoying the "Premier" package.

Towards the end of the year Personal Internet Banking was developed and was launched in January

2004. Apart from providing customers with another way of doing business with us, the service will produce operational efficiencies and should save time for both bank and customers.

In November a Call Centre together with a 24/7 phone-banking service was launched. The centre is being run by professionally trained people so as to ensure that the best service is provided to customers.

Several IT projects were implemented, in particular a system which provides a link into the HSBC Group's global ATM network, allowing customers with the appropriate cards to access HSBC ATMs worldwide. An HSBC Group Treasury Trading System replaced an existing third party system, establishing a good platform which can support future developments.

Work was completed on the implementation of an HSBC Trade Services, Import/Exports Documentary Credits/Bills System. This was implemented in January 2004. The system, which provides enhanced facilities to international trade customers, has significantly streamlined and upgraded the processing of all Letters of Credit and Bills for Collection business within Trade Services, enabling this specialised unit to provide an enhanced customer service and develop new trade services products.

Our strategy of centralisation of back office processing continued, with all personal lending, other than the initial application being centralised during the year under review. This facilitates the provision of a better service to this sector. Work has also started on the centralisation of back office work relating to commercial lending.

## Product Development

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The bank is preparing itself for the introduction of the new pensions legislation in Malta. Drawing on the experience and assistance of the HSBC Group, different pension schemes models are being developed aimed to meet the requirements of different sectors of the Maltese working population. Details will be announced once the regulatory framework is in place.

The bank continued with the issuing of a number of capital guaranteed equity linked deposit products offering risk averse investors protection of capital invested while allowing them the possibility to participate in a basket of foreign stock market indices. Three tranches of such equity linked deposits were issued including, for the first time, one denominated in pound sterling.

The term of residential home loans was extended further, thus allowing customers the possibility of paying lower instalments over a longer period. The home loan associated reducing life policy was revamped. The policy has been priced more attractively and additional disability benefits are now also being offered. Joint coverage is now also possible.

A new commercial property loan product was launched during the year aimed at commercial customers who want to purchase their own business premises.

## Community Involvement

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The bank will continue with its responsibility towards the local community by supporting the activities carried out by the “HSBC Cares For Children Fund”.

During the year under review the fund sponsored several educational and environmental activities, in particular the English Literacy Programme in collaboration with the British Council and the Foundation for Educational Services, aimed at teaching English to children in Church homes. A newsletter, “Animal Magic” was distributed in schools as part of the educational programme in animal awareness and initiatives to strengthen the awareness on the Argotti Botanic Gardens were carried out.

The fund paid for counselling and therapy fees for children in homes and sponsored several pilgrimages to Lourdes for sick children in collaboration with “Assoċjazzjoni Volontarji Lourdes”. Gym equipment was provided to Sannat Primary School for children with disability.

## Human Resources

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The bank continued providing comprehensive training programmes for staff in particular those relating to providing counselling to customers, understanding their needs and providing financial solutions and appropriate products and services. The bank provides a dedicated and professional sales team with a vast knowledge of products on offer. This ensures that the best possible service is always provided to our customers.

In July HSBC Bank Malta p.l.c. won the Employment Training Council, People Management and Satisfaction Award. Following a detailed report and presentation prepared by the bank's Human Resources and Training department, the judging panel undertook a thorough independent review of the bank's people management practices.

During the year an employee development review for managerial employees was initiated. Once complete, this review will give meaningful development plans for all of the management grades within the bank and will serve to support the succession planning process. The bank is committed to continue investing in its workforce. We strongly believe that it is only through its dedication and motivation that the success of the organisation can be assured.



The new Premier branch in Republic Street, Valletta.

## Chief Executive Officer's Review of Operations (continued)

Four bank employees were selected during the year to participate in the Group's Employee Environmental Fellowships in conjunction with Earthwatch Institute. Selected individuals participate in Earthwatch environmental research projects, which are taking place, in all parts of the world. On their return, employees are encouraged to become involved in local environmental projects in their own community.

During the year, an employee of the life assurance subsidiary company was seconded for seven months with HSBC life actuarial team in Southampton. He will be returning to Malta in May 2004 after having gained the necessary actuarial experience and will continue with his studies in Malta.

### Subsidiaries

The subsidiary companies once again contributed materially to the operating profit, in particular to the non-interest income generated.

#### HSBC Home Loans (Malta) Limited

During the year, the company continued with the administration of the group's mortgage business. The dedicated Homeloan shops once again contributed to the overall increase in sales. Through this facility, experienced staff talk directly to customers focusing on generating new business and offering the bank's services.

#### HSBC Life Assurance (Malta) Limited

The life assurance company has built inherent strengths in term, with-profits and also unit-linked insurance business. This versatility has enabled the company to address the various customer demands according to their preferred type of business.

#### HSBC Fund Management (Malta) Limited

During the year under review, HSBC Fund Management (Malta) Limited assumed representation of HSBC International Capital Secured Growth Fund in Malta, through its separate subsidiary, HSBC Investment Services (Malta) Ltd.

A Euro variant to the International Bond Fund was launched during the year. Notwithstanding the adverse market conditions which prevailed throughout 2003, the company recorded good pre-tax profits for the period and is well poised to meet the challenges for 2004.

#### HSBC Stockbrokers (Malta) Limited

The company continued to gain market share and contributed positively towards the group's profits registering a pre-tax profit. The company was involved in four very successful bond issues during the year under review totalling around Lm20 million. These generated good commissions for the group. Towards the end of the year, interest in equities provided a further boost.

### Outlook

The economic situation is still expected to remain uncertain, however the bank will continue to respond to the challenges that may arise taking full advantage of its global reach and experience.

We are undoubtedly well placed to create long-term value for our shareholders. I am convinced that with the continued support of our staff and the determination to service customers in the best possible way, the success we have achieved will continue into 2004 and beyond.



Chris Hothersall, *Chief Executive Officer*  
12 February 2004

## Board of Directors

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### **Albert Mizzi**, NON-EXECUTIVE CHAIRMAN

Age 76. 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. In 1993 was appointed Chairman of the Malta Council for Economic Development.

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### **Chris Hothersall**, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Age 50. Chief Executive Officer and Director of HSBC Bank Malta p.l.c. since August 2002. An Honours graduate in Economics, he joined the HSBC Group in September 1974. His roles within the Group have covered a number of different general management and specialised appointments in different countries, including Head of Trade Services at HSBC's Head Office in Hong Kong. He was Deputy Chief Executive Officer in India prior to joining HSBC Bank Malta.

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### **James Bonello**, DIRECTOR

Age 55. Director of HSBC Bank Malta p.l.c. since October 2002. Commenced his banking career in 1965 with Barclays Bank DCO. Currently holds the post of Head of Commercial Banking. He has served in positions within a number of Maltese organisations including Secretary to the Board of Directors at the Malta Development Corporation and Chief Executive Officer of the Malta International Business Authority (now the Malta Financial Services Authority).

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### **Martin Wilkins**, DIRECTOR AND CHIEF OPERATING OFFICER

Age 53. Director of HSBC Bank Malta p.l.c. since July 2003. A professional banker and an associate of the Chartered Institute of Bankers in England. Joined HSBC Bank plc (formerly Midland Bank plc) in 1970 and followed a traditional branch banking path before moving into international banking. Has held a number of senior managerial positions in UK, USA and Continental Europe.

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### **Dyfrig John**, DIRECTOR

Age 53. Director of HSBC Bank Malta p.l.c. since January 2003. Joined Midland Bank in 1972. He followed a traditional branch banking career path which, in 1978, led him to the bank's Corporate Finance arm in London. Following a number of other senior management appointments in London and Wales, he took over as Chief Executive Officer of The Hongkong and Shanghai Banking Corporation in India in May 1997. He was appointed Deputy Chairman and Chief Executive Officer of HSBC Bank Malaysia Berhad in November 1999 and subsequently became a Group General Manager in August 2000.

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### **Shaun Wallis**, DIRECTOR

Age 48. Director of HSBC Bank Malta p.l.c. since January 2000. Executive of the HSBC Group since 1978. He has occupied a number of senior managerial positions within the bank in different countries. Head of International for HSBC Bank plc's overseas branches and offices since January 2000. Appointed General Manager International in February 2003.

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### **Louis Farrugia**, NON-EXECUTIVE DIRECTOR

Age 52. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2000. Group Chief Executive and Managing Director of Simonds Farsons Cisk plc. Fellow of the Institute of Chartered Accountants in England and Wales. In 1998 appointed as Director of the Institute for the Promotion of Small Enterprises and the Malta Development Corporation and also as President of the Malta Chamber of Commerce. For five years served on the Council of the Federation of Industries as Honorary Treasurer and Vice President. Appointed President of the Confederation of Private Enterprises in 1985.

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### **Victor Scicluna**, NON-EXECUTIVE DIRECTOR

Age 65. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2001. A Certified Public Accountant and Auditor. Currently Chairman of the Board of Governors of the Malta College of Arts, Science and Technology and Chairman of the Employment Restructuring Unit. Vice-President of the Malta Employers' Association and member of the National Commission on Social Welfare Reform.

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### **Peter Paul Testaferrata Moroni Viani**, NON-EXECUTIVE DIRECTOR

Age 43. 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.

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### Company Secretary

#### **Philip Farrugia Randon**

Age 54. Graduated LL.D. in 1973 and joined the bank in 1974 as a legal adviser. Also holds the post of Head of Group Legal Department.

## Financial Review

### Summary of Financial Performance

#### Group profit

In 2003, HSBC Bank Malta and its subsidiaries generated a profit on ordinary activities before tax of Lm26.2 million, during the 12-month period ended 31 December 2003, an increase of Lm5.0 million, or 23.8 per cent compared with the 12-month period ended 31 December 2002.

Profit attributable to shareholders was Lm16.8 million, an increase of Lm1.4 million over prior year figures.

Net interest income grew by 4.1 per cent over prior year and contributed Lm34.7 million to total operating income.

Non-interest income levels grew by 2.1 per cent, contributing Lm18.7 million to total operating income.

Operating expenses increased by 5.9 per cent, from a prior year level of Lm28.9 million to a current year Lm30.6 million, largely attributable to increased retirement benefits.

As a result, the group's cost to income ratio increased to 56.8 per cent from 55.4 per cent in 2002.

The reduction in net impairment losses totalled Lm3.4 million.

#### Shareholder ratios

Earnings per share increased from a 2002 figure of 42.1 cents to 46.0 cents with the pre-tax return on average shareholders' funds increasing from 19.1 per cent in 2002 to 21.1 per cent.

During the year, the directors re-assessed capital requirements and are reserving Lm14.2 million as a final dividend for 2003. This level of final dividend is being proposed to better align the overall level of capital held within the group with its own local regulatory and operational needs, as well as seeking to maximise dividend payout levels to its shareholders.

The directors are proposing a final dividend of 60.0 cents per share, inclusive of a special dividend of 36.0 cents per share. The special dividend is being proposed in order to reduce group shareholders' funds by Lm8.5 million, which amount is considered surplus to current and planned operational needs.

The interim and final dividends, exclusive of the Lm8.5 million, are covered 2.0 times by attributable profit (2002: 3.1 times).

#### Net interest income

Net interest income grew by 4.1 per cent, over prior year levels, and contributed Lm34.7 million to total operating income. The year was characterised by a general preference for shorter term liquidity as international and local interest rates maintained a declining trend. There was significant growth in mortgage lending and the lower cost of borrowing impacted positively on debt recovery rates. Treasury opportunities were limited due to the thin levels of trading in longer dated debt instruments.

Period-end group balance sheet assets decreased by Lm31.3 million to Lm1,539.0 million during 2003 reflecting lower wholesale lending activity to banks, a lower appetite by customers for retail deposits and preferences towards wealth management investment funds. Funds under management by the group, grew by Lm62.0 million during the year.

#### Non-interest income

Non-interest income levels grew by 2.1 per cent contributing Lm18.7 million to total operating income.

Markets were characterised by modest conditions through most of the early part of the year, with activity picking up through the second half. Net fees and commissions contributed Lm10.1 million, up on last year's Lm9.3 million and supported by significant trends in fund management business, card and account services income.

Trading profits decreased by 7.1 per cent to Lm5.8 million with lower volumes of foreign exchange turnover and tightened margins characterising market conditions.

Net gains on disposal of non-trading financial instruments, of Lm0.6 million, was Lm0.3 million up on prior year, supported by strong local demand for debt instruments attributable to the low interest rate climate characterising the year.

Other operating income generated Lm1.9 million reflecting strong underlying performance from life assurance business activities.

#### Operating expenses

Operating expenses increased by 5.9 per cent from a prior year level of Lm28.9 million to a current year Lm30.6 million.

Staff costs were Lm19.6 million, up on a prior year Lm17.2 million, reflecting a Lm1.8 million increase in

retirement benefits, performance related increases offset by lower overtime and cost control initiatives.

Other administrative expenses increased to Lm7.8 million from last year's Lm7.3 million reflecting increased local regulatory and operational fees. Depreciation charges were 9.4 per cent higher as a result of the increased carrying cost on the refurbishment of the branch network and centralised offices.

Other operating charges decreased by Lm1.3 million reflecting last year's asset write-offs arising from the branch and Operations Centre refurbishment programme.

The group's cost to income ratio increased to 56.8 per cent from 55.4 per cent in 2002.

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#### Net impairment losses

The reduction in net impairment losses totalled Lm3.4 million. New specific allowances of Lm3.3 million were raised and bad debt write-offs of Lm1.3 million were effected. An overall improvement in the credit quality of the lending book reduced non-performing loans from Lm120.3 million to Lm107.5 million. This contributed towards the reversing of Lm4.6 million in specific allowances together with a Lm2.6 million reduction in the level of general allowances held.

Investment disposals contributed towards the reversing of a further Lm0.8 million in impairment allowances.

The aggregate amount of non-performing customer advances represents 11.7 per cent of net loans and advances to customers (2002:13.5 per cent) a trend which has been supported by ongoing debt recovery management and the focusing of new lending growth towards lower-risk market sectors.

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#### Taxation

The 2003 effective rate of tax was 35.9 per cent compared with 27.3 per cent in 2002. The increase is primarily due to the full year impact of the merger of HSBC Overseas (Malta) Limited with HSBC Bank (Malta) p.l.c. in November 2002 as well as higher deferred tax credits arising in the current year.

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#### Assets

Total assets decreased by Lm31.3 million to Lm1,539.0 million mainly as a result of the holding of lower interbank assets as limited treasury opportunities

presented themselves through the year. The low interest rate environment encouraged lending demand and pushed up the value of the debt security portfolio. Mortgage business forms a significant part of this year's growth with a net increase of Lm29.5 million. Redemptions from the held-to-maturity investment portfolio reduced this category of asset by Lm26.9 million to Lm135.4 million whilst the available-for-sale book reduced by Lm1.9 million through a combination of Lm10.0 million in disposals offset by a Lm4.8 million increase in fair value and Lm3.4 million in acquisitions and transfers.

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#### Liabilities

Liabilities decreased by Lm45.5 million to Lm1,407.8 million. Amounts owed to customers contracted by Lm35.8 million whilst amounts owed to banks reduced by Lm32.2 million as the low interest rate environment persisted. This was offset by a Lm 19.6 million increase in long-term life assurance liabilities attributable to policyholders as customer demand levels picked up significantly through the year.

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#### Shareholders' funds

Shareholders' funds rose by Lm14.2 million to Lm131.2 million through the period. Lm14.2 million is carried in dividend reserves and supports the proposed dividend distribution. The solvency ratio which is computed in line with local directives and excludes the dividend reserve level at year end stands at 14.0 per cent. Net asset value per share at year end stands at Lm3.60.

## Report of the Directors

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### Results for 2003

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The group reported a profit on ordinary activities before tax of Lm26.2 million for the year under review. The group's profit attributable to shareholders was Lm16.8 million.

A gross interim dividend of 10.8 cents per ordinary share was paid on 12 August 2003. The Directors have proposed a final dividend of 60.0 cents per ordinary share, inclusive of a special dividend of 36.0 cents per share. This special dividend is being proposed in order to reduce group shareholders' funds by Lm8.5 million, which amount is considered surplus to current and planned operational needs. Aggregate dividend will result in a total net distribution for the year under review of Lm16.8 million. The final dividend will be payable to shareholders on the bank's register on 18 February 2004.

Further information about the results is provided in the consolidated profit and loss account on page 18.

### Principal activities

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#### 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 (Cap. 233) and a licensed financial intermediary in terms of the Financial Markets Act, 1990. The bank also holds a Category 3 and a Category 4 Investment Services licence 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, financial and related services.

The bank had the following subsidiaries at 31 December 2003: HSBC Home Loans (Malta) Limited, HSBC Life Assurance (Malta) Limited, HSBC Fund Management (Malta) Limited, HSBC Stockbrokers (Malta) Limited and HSBC Investment Services (Malta) Limited.

#### Principal activities of subsidiaries

HSBC Home Loans (Malta) Limited is licensed as a credit institution under the Banking Act, 1994 and provides medium and long-term finance principally to individuals for the purchase of personal dwellings. As from September 2001 the company ceased writing new home loans business or accepting customer deposits. From that date all home loans business is being written in the books of the bank to focus the mortgage proposition in one entity and provide a platform for the planned future merger of the company with the bank.

HSBC Life Assurance (Malta) Limited is licensed under the Insurance Business Act, 1998 and under the Investment Services Act, 1994. Its principal activities are to carry on life assurance business in Malta and to provide investment services in relation to linked Long Term Contracts of Insurance in Malta.

HSBC Fund Management (Malta) Limited acts as a manager and administrator of collective investment schemes. The company owns 99.9 per cent of HSBC Investment Services (Malta) Limited.

HSBC Investment Services (Malta) Limited is licensed under the Financial Services Act, 1994 and it is registered as an authorised financial intermediary.

HSBC Stockbrokers (Malta) Limited is registered under the Companies Act, 1995. The company 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

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A review of the business of the bank and its subsidiaries during the year under review and an indication of likely future developments are given in the "Chief Executive Officer's Review of Operations" on pages 4 to 6.

## **Audit committee**

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This committee, composed of independent non-executive directors, meets regularly with the bank's senior financial, internal audit and compliance management and the external auditor to consider the bank's financial reporting, the nature and scope of audit reviews, the effectiveness of the systems of internal control and compliance and the arm's length nature of related party transactions, including inter-related transactions with Group and Directors' interests. The members of the audit committee are Messrs Louis Farrugia, Victor Scicluna and Peter Paul Testaferrata Moroni Viani. Further reference to the activities of this committee are contained in the "Statement of Compliance with the Principles of Good Corporate Governance" on pages 12 to 14.

## **Valuation of freehold and long-term leasehold land and buildings**

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The group's freehold and long-term leasehold properties were revalued in accordance with its policy of valuation every year. As a result, the net book value of land and buildings increased by Lm0.6 million. Further details are included in note 20 of the "Notes on the Accounts".

## **Board of Directors**

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The Directors who served during the year are as follows:

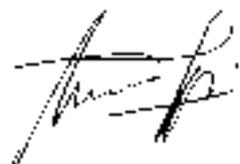
Albert Mizzi (Chairman)  
Chris Hothersall  
James Bonello  
Tim Fitzpatrick (resigned 31 May 2003)  
Martin Wilkins (appointed 7 July 2003)  
Dyfrig John (appointed 3 January 2003)  
Shaun Wallis  
Louis Farrugia  
Victor Scicluna  
Peter Paul Testaferrata Moroni Viani

## **Auditors**

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

Approved by the Board of Directors on 12 February 2004 and signed on its behalf by:



Albert Mizzi, *Chairman*



Chris Hothersall, *Chief Executive Officer*

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

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*As required by the Malta Financial Services Authority listing rules 8.26 and 8.27, 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

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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 five executive directors, an independent non-executive chairman and three independent non-executive directors. Furthermore, the roles of the Chief Executive Officer and the Chairman are separate.

### Internal control

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

- Authority to operate the bank is delegated to the Chief Executive Officer within the limits set by the Board of the bank. Functional, operating and financial reporting standards are applicable within all entities of the HSBC Group. These are supplemented by operating standards set by the bank's management, as required.
- Systems and procedures are in place in the bank to identify, control and to report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by the asset and liability management committee (ALCO).
- 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 set 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 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.

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

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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% 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.

## The Board of Directors

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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 four times each year unless further meetings are required. 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 Directors receive monthly financial information, regular updates on the working of all of the bank's subsidiary companies, and periodic updates by the Heads of Audit, Credit, Compliance and Marketing.

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 is being disclosed in aggregate rather than as separate figures for each Director as required by the Principles.

Directors' remuneration for the financial year under review:

- Directors' fees Lm27,000
- Directors' salaries as full-time bank employees Lm161,000

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 7 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.

## Committees

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### Audit committee

This committee meets at least four times a year. Its terms of reference are modelled mainly on the recommendations in the Cadbury Report and the Principles noted above. Its members are Messrs Louis Farrugia (chairman), Victor Scicluna and Peter Paul Testaferrata Moroni Viani, who are independent non-executive directors. Executives of the bank are available to attend any of the meetings as directed by the committee. Normally, the Chief Executive Officer, the Chief Operating Officer, the Head of Audit and Head of Compliance and a representative of the external auditors attend the meetings. The Head of Audit has a right of direct access to the chairman of the committee at all times.

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

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### Nominations committee

In view of the aforementioned rules governing the appointment/election of Directors, the Board decided that a nominations committee is not appropriate. For the same reason a succession policy for Directors cannot be established.

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### Remuneration committee

The Board has decided that there is no scope for such a committee where the remuneration of top-level executives (including those who are also Directors) is established by a foreign parent company on the basis of internationally established criteria. Furthermore, the risk that a Director fixes his own salary or fees does not arise since the remuneration of the Chairman and that of the three non-executive Directors elected at the general meeting is established by the Board without the participation and in the absence of the said individuals.

Remuneration of the bank's executives is based on predetermined parameters established in conjunction with HSBC Bank plc.

Remuneration is an important component in people's decisions on which company to join, but it is not the only one; it is the bank's experience that people are attracted to an organisation with good values, fairness, the potential for success and the scope to develop a broad, interesting career.

### Shareholders

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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 three years held shareholders meetings where senior executives of the bank hold a dialogue with shareholders without a fixed agenda. These meetings have proved to be beneficial both for the bank and shareholders alike.

Regular contact with shareholders is also maintained via company announcements.

### Directors' dealings

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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 Malta Stock Exchange Bye-Laws. A proper procedure of reporting advanced notices has been endorsed by the Board in line with the Principles and the Malta Stock Exchange Bye-Laws.

On behalf of the Board



Albert Mizzi, *Chairman*



Chris Hothersall, *Chief Executive Officer*

## Report of the Auditors to the Members of HSBC Bank Malta p.l.c. pursuant to the Malta Stock Exchange Bye-Law 6.05.07 (iii)

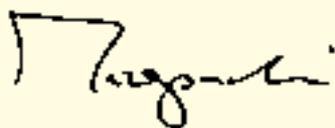
The Malta Stock Exchange Bye-Law 6.05.07 (ii) requires the bank's Directors to include in their annual report a statement of compliance on the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles. Our responsibility is to report on this statement of compliance.

The Malta Stock Exchange Bye-Law 6.05.07 (iii) requires us as auditors of the bank to include a report on this statement of compliance.

Our procedures include reviewing the statement of compliance and considering whether it is consistent with the audited annual report and accounts. If we become aware of any apparent misstatements or material inconsistencies between the statement of compliance and the annual report and accounts, we consider the implications for our report. Our responsibilities do not extend to considering whether the statement of compliance is consistent with other information included in the annual report and accounts.

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 12 to 14 has been properly prepared in accordance with the requirements of the Malta Stock Exchange Bye-Law 6.05.07 (ii).



*Ray Azzopardi (Partner) for and on behalf of*

KPMG  
*Certified Public Accountants and Auditors*  
Portico Building  
Marina Street  
Pietà  
Malta

12 February 2004

## Statement of Directors' Responsibilities in Relation to Financial Statements

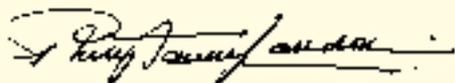
The following statement, which should be read in conjunction with the Report of the Auditors on page 17 is made to enable shareholders to distinguish between the respective responsibilities of the Directors and Auditors in relation to financial statements.

The Companies Act, 1995 requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs 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 preparing the financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

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 Companies Act, 1995 and the Banking Act, 1994. They are also responsible for safeguarding the assets of the bank and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



On behalf of the Board  
Philip Farrugia Randon, *Company Secretary*  
12 February 2004

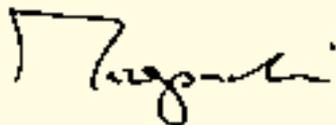
## Report of the Auditors to the Members of HSBC Bank Malta p.l.c.

We have audited the financial statements set out on pages 18 to 55. As described on page 16, these financial statements are the responsibility of the bank's Directors. Our responsibility is to express an opinion on the financial statements based on our audit. We are also required 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 and whether the financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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.

In our opinion, the financial statements give a true and fair view of the state of affairs of the bank and the group as at 31 December 2003 and of the profit, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.



*Ray Azzopardi (Partner) for and on behalf of*

KPMG  
*Certified Public Accountants and Auditors*  
Portico Building  
Marina Street  
Pietà  
Malta

12 February 2004

## Profit and Loss Account for the year 1 January 2003 to 31 December 2003

	Note	Group		Bank	
		2003 Lm000	2002 Lm000	2003 Lm000	2002 Lm000
Interest receivable and similar income					
– on loans and advances, balances with					
Central Bank of Malta and Treasury Bills	3	58,648	62,073	54,679	57,297
– on debt and other fixed income instruments	3	10,712	14,032	12,017	14,510
Interest payable	4	(34,660)	(42,778)	(34,637)	(44,612)
<b>Net interest income</b>		<b>34,700</b>	<b>33,327</b>	<b>32,059</b>	<b>27,195</b>
Fees and commissions receivable		10,805	9,885	8,841	8,081
Fees and commissions payable		(659)	(601)	(607)	(525)
Dividend income		125	122	125	122
Trading profits	5	5,817	6,263	5,779	5,829
Net gains on disposal of					
non-trading financial instruments	6	649	378	700	449
Other operating income		1,931	2,235	21	48
<b>Operating income</b>		<b>53,368</b>	<b>51,609</b>	<b>46,918</b>	<b>41,199</b>
Administrative expenses	7	(27,325)	(24,519)	(26,630)	(23,316)
Depreciation		(2,643)	(2,415)	(2,574)	(2,295)
Net amortisation of goodwill		(291)	(291)	(205)	(205)
Other operating charges		(322)	(1,654)	(320)	(1,654)
<b>Operating profit before impairment losses and provisions</b>		<b>22,787</b>	<b>22,730</b>	<b>17,189</b>	<b>13,729</b>
Net impairment losses	8	3,386	(1,515)	2,937	(1,960)
Provisions for contingent liabilities and other charges		(9)	(89)	(9)	(89)
<b>Profit on ordinary activities before tax</b>	9	<b>26,164</b>	<b>21,126</b>	<b>20,117</b>	<b>11,680</b>
Tax on profit on ordinary activities	10	(9,383)	(5,762)	(7,352)	(3,944)
<b>Profit for the financial year attributable to shareholders</b>		<b>16,781</b>	<b>15,364</b>	<b>12,765</b>	<b>7,736</b>
<b>Earnings per share</b>	11	<b>46.0c</b>	<b>42.1c</b>	<b>35.0c</b>	<b>21.2c</b>

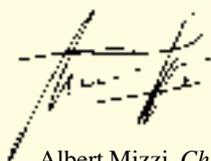
The profit and loss account is to be read in conjunction with the notes on and forming part of the accounts set out on pages 24 to 55.

**Balance Sheet at 31 December 2003**

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		<b>2003</b>	2002	<b>2003</b>	2002
		<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Assets</b>					
Balances with Central Bank of Malta,					
Treasury Bills and cash	13	<b>133,574</b>	171,501	<b>133,512</b>	171,201
Cheques in course of collection		<b>5,637</b>	3,986	<b>5,637</b>	3,986
Financial assets held for trading	14	<b>2,444</b>	2,779	<b>2,444</b>	2,779
Investments	15	<b>235,059</b>	263,912	<b>256,191</b>	280,009
Loans and advances to banks	16	<b>130,700</b>	146,000	<b>187,945</b>	224,263
Loans and advances to customers	17	<b>922,285</b>	890,664	<b>813,101</b>	762,952
Shares in subsidiary companies	18	–	–	<b>41,602</b>	37,105
Intangible fixed assets	19	<b>339</b>	630	<b>189</b>	394
Tangible fixed assets	20	<b>31,934</b>	28,965	<b>31,797</b>	28,786
Deferred tax asset	21	<b>1,607</b>	6,011	<b>2,195</b>	5,382
Other assets	22	<b>59,248</b>	37,627	<b>1,246</b>	902
Prepayments and accrued income	23	<b>16,157</b>	18,258	<b>15,432</b>	17,545
<b>Total assets</b>		<b><u>1,538,984</u></b>	<u>1,570,333</u>	<b><u>1,491,291</u></b>	<u>1,535,304</u>
<b>Liabilities</b>					
Financial liabilities held for trading	14	<b>8,611</b>	6,402	<b>8,611</b>	6,402
Amounts owed to banks	24	<b>32,367</b>	64,563	<b>32,368</b>	66,304
Amounts owed to customers	25	<b>1,267,378</b>	1,303,140	<b>1,271,058</b>	1,298,726
Debt securities in issue	26	<b>12</b>	12	–	–
Other liabilities	27	<b>62,080</b>	39,780	<b>11,032</b>	7,938
Accruals and deferred income	28	<b>15,676</b>	17,848	<b>15,419</b>	17,474
Provisions for liabilities and other charges	29	<b>1,698</b>	1,591	<b>1,746</b>	1,637
Subordinated liabilities	30	<b>20,000</b>	20,000	<b>20,000</b>	20,000
		<b><u>1,407,822</u></b>	<u>1,453,336</u>	<b><u>1,360,234</u></b>	<u>1,418,481</u>
<b>Shareholders' funds</b>					
Called up issued share capital	31	<b>9,120</b>	9,120	<b>9,120</b>	9,120
Revaluation reserves	32	<b>10,978</b>	7,933	<b>32,069</b>	24,939
Other reserve	32	<b>4,242</b>	4,242	<b>4,242</b>	4,242
Profit and loss account		<b>92,595</b>	92,572	<b>71,399</b>	75,392
Dividend reserve		<b>14,227</b>	3,130	<b>14,227</b>	3,130
		<b><u>131,162</u></b>	<u>116,997</u>	<b><u>131,057</u></b>	<u>116,823</u>
<b>Total liabilities</b>		<b><u>1,538,984</u></b>	<u>1,570,333</u>	<b><u>1,491,291</u></b>	<u>1,535,304</u>
<b>Memorandum items</b>					
Contingent liabilities	33	<b>38,818</b>	47,634	<b>39,238</b>	48,054
Commitments	34	<b>297,631</b>	287,605	<b>315,397</b>	300,985

The balance sheet is to be read in conjunction with the notes on and forming part of the accounts set out on pages 24 to 55.

The financial statements on pages 18 to 55 were approved by the Board of Directors on 12 February 2004 and signed on its behalf by:



Albert Mizzi, *Chairman*



Chris Hothersall, *Chief Executive Officer*

## Statement of Changes in Equity for the year 1 January 2003 to 31 December 2003

	<i>Group</i>						
		<i>Share capital</i>	<i>Revaluation reserves</i>	<i>Other reserve</i>	<i>Profit and loss account</i>	<i>Dividend reserve</i>	<i>Total</i>
	<i>Note</i>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
At 1 January 2002		9,120	6,420	4,242	82,363	1,897	104,042
Release of net gains on available-for-sale assets transferred to the income statement on disposal		–	(255)	–	43	–	(212)
Net fair value adjustments on investments		–	1,692	–	–	–	1,692
Deficit on revaluation of freehold and long leasehold properties		–	(85)	–	–	–	(85)
Transfer between reserves		–	161	–	(171)	–	(10)
Net gains not recognised in the profit and loss account		–	1,513	–	(128)	–	1,385
Profit attributable to shareholders		–	–	–	15,364	–	15,364
Dividends		–	–	–	(5,027)	5,027	–
Dividends paid		–	–	–	–	(3,794)	(3,794)
At 31 December 2002		<b>9,120</b>	<b>7,933</b>	<b>4,242</b>	<b>92,572</b>	<b>3,130</b>	<b>116,997</b>
At 1 January 2003		<b>9,120</b>	<b>7,933</b>	<b>4,242</b>	<b>92,572</b>	<b>3,130</b>	<b>116,997</b>
Release of net gains on available-for-sale assets transferred to the income statement on disposal		–	(609)	–	30	–	(579)
Net fair value adjustments on investments		–	3,239	–	–	–	3,239
Surplus on revaluation of freehold and long leasehold properties		–	415	–	–	–	415
Net gains not recognised in the profit and loss account		–	3,045	–	30	–	3,075
Profit attributable to shareholders		–	–	–	16,781	–	16,781
Dividends	12	–	–	–	(16,788)	16,788	–
Dividends paid		–	–	–	–	(5,691)	(5,691)
At 31 December 2003		<b>9,120</b>	<b>10,978</b>	<b>4,242</b>	<b>92,595</b>	<b>14,227</b>	<b>131,162</b>

		<i>Bank</i>					
		<i>Share capital</i>	<i>Revaluation reserves</i>	<i>Other reserve</i>	<i>Profit and loss account</i>	<i>Dividend reserve</i>	<i>Total</i>
<i>Note</i>		<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
	At 1 January 2002	9,120	32,133	4,242	56,386	1,897	103,778
	Release of net gains on available-for-sale assets transferred to the income statement on disposal	–	(326)	–	43	–	(283)
	Net fair value adjustments on investments	–	5,191	–	–	–	5,191
	Taken over on merger of subsidiary	–	4,290	–	–	–	4,290
	Revaluation reserve transferred upon merger of subsidiary companies with parent	–	(16,283)	–	16,283	–	–
	Deficit on revaluation of freehold and long leasehold properties	–	(85)	–	–	–	(85)
	Transfer between reserves	–	19	–	(29)	–	(10)
	Net (losses)/gains not recognised in the profit and loss account	–	(7,194)	–	16,297	–	9,103
	Profit attributable to shareholders	–	–	–	7,736	–	7,736
	Dividends	–	–	–	(5,027)	5,027	–
	Dividends paid	–	–	–	–	(3,794)	(3,794)
	At 31 December 2002	<b>9,120</b>	<b>24,939</b>	<b>4,242</b>	<b>75,392</b>	<b>3,130</b>	<b>116,823</b>
	At 1 January 2003	<b>9,120</b>	<b>24,939</b>	<b>4,242</b>	<b>75,392</b>	<b>3,130</b>	<b>116,823</b>
	Release of net gains on available-for-sale assets transferred to the income statement on disposal	–	(661)	–	30	–	(631)
	Net fair value adjustments on investments	–	7,376	–	–	–	7,376
	Surplus on revaluation of freehold and long leasehold properties	–	415	–	–	–	415
	Net gains not recognised in the profit and loss account	–	7,130	–	30	–	7,160
	Profit attributable to shareholders	–	–	–	12,765	–	12,765
	Dividends	–	–	–	(16,788)	16,788	–
	Dividends paid	–	–	–	–	(5,691)	(5,691)
	At 31 December 2003	<b>9,120</b>	<b>32,069</b>	<b>4,242</b>	<b>71,399</b>	<b>14,227</b>	<b>131,057</b>

The statement of changes in equity is to be read in conjunction with the notes on and forming part of the accounts set out on pages 24 to 55.

## Cash Flow Statement for the year 1 January 2003 to 31 December 2003

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Cash flows from operating activities</b>				
Interest and commission receipts	<b>78,609</b>	79,167	<b>73,110</b>	74,936
Interest and commission payments	<b>(39,214)</b>	(44,959)	<b>(39,116)</b>	(47,565)
Payments to employees and suppliers	<b>(25,721)</b>	(22,800)	<b>(24,952)</b>	(21,607)
Operating profit before changes in operating assets/liabilities	<b>13,674</b>	11,408	<b>9,042</b>	5,764
(Increase)/decrease in operating assets:				
Trading instruments	<b>(209)</b>	3,913	<b>(209)</b>	3,913
Reserve deposits with Central Bank of Malta	<b>5,756</b>	(4,343)	<b>5,736</b>	(4,424)
Loans and advances to banks	<b>4,431</b>	(14,273)	<b>4,432</b>	(9,603)
Loans and advances to customers	<b>(28,980)</b>	(13,750)	<b>(47,962)</b>	(28,381)
Treasury Bills with contractual maturity of over three months	<b>9,004</b>	(69,299)	<b>9,000</b>	(69,313)
Cheques in course of collection	<b>(1,651)</b>	527	<b>(1,651)</b>	521
Other receivables	<b>(23,267)</b>	(9,994)	<b>(344)</b>	1,288
Increase/(decrease) in operating liabilities:				
Amounts owed to banks	<b>(14,550)</b>	(11,341)	<b>(15,102)</b>	(79,150)
Amounts owed to customers	<b>(28,844)</b>	88,161	<b>(20,758)</b>	81,425
Other payables	<b>24,115</b>	12,202	<b>3,094</b>	(1,851)
Net cash (used in)/from operating activities before income tax	<b>(40,521)</b>	(6,789)	<b>(54,722)</b>	(99,811)
Tax paid	<b>(6,252)</b>	(3,837)	<b>(5,472)</b>	(2,560)
Net cash flows (used in)/from operating activities	<b>(46,773)</b>	(10,626)	<b>(60,194)</b>	(102,371)
<b>Cash flows from investing activities</b>				
Dividends received	<b>125</b>	122	<b>125</b>	122
Interest received from held-to-maturity debt and other fixed income instruments	<b>8,060</b>	12,149	<b>8,824</b>	9,270
Proceeds on disposal of available-for-sale instruments	<b>9,986</b>	8,728	<b>7,095</b>	8,123
Proceeds on maturity/disposal of held-to-maturity debt and other fixed income instruments	<b>72,588</b>	91,044	<b>67,395</b>	66,879
Proceeds on disposal of tangible fixed assets	<b>48</b>	51	<b>48</b>	51
Purchase of available-for-sale instruments	<b>(1,812)</b>	(297)	<b>(741)</b>	-
Purchase of held-to-maturity debt and other fixed income instruments	<b>(50,295)</b>	(70,826)	<b>(50,295)</b>	(70,826)
Purchase of tangible fixed assets	<b>(5,373)</b>	(6,525)	<b>(5,314)</b>	(6,460)
Purchase of shares in subsidiary companies	-	-	-	(2,500)
Net cash flows from investing activities	<b>33,327</b>	34,446	<b>27,137</b>	4,659
<b>Cash flows from financing activities</b>				
Dividends paid	<b>(5,691)</b>	(3,794)	<b>(5,691)</b>	(3,794)
Net cash used in financing activities	<b>(5,691)</b>	(3,794)	<b>(5,691)</b>	(3,794)
Effect of merger of subsidiary companies on cash and cash equivalents	-	-	-	174,237
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(19,137)</b>	20,026	<b>(38,748)</b>	72,731

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		<b>2003</b>	2002	<b>2003</b>	2002
		<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Effect of exchange rate changes on cash and cash equivalents		<b>(6,066)</b>	(1,538)	<b>(6,021)</b>	2,263
Net increase/(decrease) in cash and cash equivalents		<b>(13,071)</b>	21,564	<b>(32,727)</b>	70,468
		<b>(19,137)</b>	20,026	<b>(38,748)</b>	72,731
Cash and cash equivalents at beginning of year		<b>127,156</b>	107,130	<b>203,965</b>	131,234
<b>Cash and cash equivalents at end of year</b>	35	<b>108,019</b>	127,156	<b>165,217</b>	203,965

The cash flow statement is to be read in conjunction with the notes on and forming part of the accounts set out on pages 24 to 55.

## Notes on the Accounts

### 1 Basis of preparation

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The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board, and the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets held for trading, available-for-sale assets, derivative financial instruments and land and buildings.

The accounting policies have been consistently applied by the group, except for gains and losses on subsequent measurement of available-for-sale financial assets held by HSBC Life Assurance (Malta) Limited which have been recognised in the profit and loss account and not in equity.

### 2 Significant accounting policies

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#### a Basis of consolidation

The consolidated financial statements comprise the financial statements of HSBC Bank Malta p.l.c. ('the bank') and its subsidiary companies ('the group').

All significant intra-group transactions have been eliminated on consolidation.

Goodwill arising on acquisition, being the difference between the cost of the investment and the group's share of the fair value of the net identifiable assets of subsidiary undertakings, is recognised as an intangible asset and amortised on a straight-line basis over five years.

#### b Revenue recognition

Interest income is recognised in the profit and loss account as it accrues.

Fee income is accounted for in the period when receivable, 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.

Dividend income on equity shares is accounted for when the right to receive dividend income is established.

#### c Financial instruments

##### i Classification

*Trading instruments* are those that the group principally holds for the purpose of short-term profit taking. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

*Originated loans and receivables* are loans and receivables created by the group providing money to a debtor other than those created with the intention of short-term profit taking.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the group has the intent and ability to hold to maturity. These include certain debt investments.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the group, or held-to-maturity. Available-for-sale instruments include certain debt and equity investments.

##### ii Recognition

The group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains or losses arising from changes in fair value of the assets are recognised.

Held-to-maturity instruments and originated loans and receivables are recognised on the day they are transferred to the group.

##### iii Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

## 2 Significant accounting policies (continued)

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised over the period to maturity based on the effective interest rate of the instrument.

### iv Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is estimated at the amount that the group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

### v Gains and losses on subsequent measurement

Gains or losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains or losses arising from a change in the fair value of trading instruments are recognised in the income statement.

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## d Derecognition

A financial asset is derecognised when the group loses control over the contractual rights that comprise the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the group commits to sell the assets.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the group.

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## e 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 on an accrual basis over the period of the transactions and is included in interest.

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## f Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indications exist, the asset's recoverable amount is estimated.

### i Originated loans and receivables

The recoverable amount of originated loans and receivables represents the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance amount are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.



## 2 Significant accounting policies (continued)

### m Deferred taxation

Deferred income taxes are provided for using the balance sheet liability method of accounting for income taxes under which deferred tax consequences are recognised for all temporary differences, being differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised. The amount of deferred taxation on these differences is determined by using the rate of local income tax applicable at balance sheet date.

### n Retirement benefits

The group contributes towards the State pension in accordance with local legislation. This cost is expensed during the period in which it is incurred.

The group has voluntary early retirement schemes currently in force. Termination benefits payable under these schemes are recognised as a liability and as an expense in the profit and loss of the period during which the commitment to pay these benefits is established. Termination benefits which fall due more than 12 months after the balance sheet date are discounted using rates reflecting market yields on government bonds which have a remaining maturity consistent with the estimated term of the termination benefits.

### o Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for gains and losses resulting from the translation of available-for-sale non-monetary assets which are recognised in equity. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

### p Cash and cash equivalents

Cash and cash equivalents comprise:

- cash in hand;
- balances with Central Bank of Malta excluding reserve deposit requirement;
- treasury bills with originating maturity of less than 3 months;
- deposits repayable on demand or with a contractual period to maturity of less than three months, with any bank or financial institution; and
- advances from banks repayable within three months from the date of the advance.

### q Segmental information

A segment is a distinguishable component of the group that is engaged either in providing products or services (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.

## 3 Interest receivable and similar income

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
On loans and advances to banks	<b>3,464</b>	3,840	<b>5,807</b>	7,378
On loans and advances to customers	<b>50,670</b>	54,423	<b>44,363</b>	46,125
On balances with Central Bank of Malta	<b>1,758</b>	1,388	<b>1,757</b>	1,386
On Treasury Bills	<b>2,747</b>	2,398	<b>2,743</b>	2,384
On lease receivables	<b>9</b>	24	<b>9</b>	24
	<b>58,648</b>	62,073	<b>54,679</b>	57,297
On debt and other fixed income instruments	<b>12,018</b>	13,492	<b>13,255</b>	13,872
Amortisation of discounts and premiums	<b>(1,306)</b>	540	<b>(1,238)</b>	638
	<b>10,712</b>	14,032	<b>12,017</b>	14,510
	<b>69,360</b>	76,105	<b>66,696</b>	71,807

**Notes on the Accounts** (continued)**4 Interest payable**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
On amounts owed to banks	<b>424</b>	695	<b>430</b>	5,391
On amounts owed to customers	<b>32,365</b>	40,242	<b>32,337</b>	37,381
On debt securities in issue	<b>1</b>	1	–	–
On subordinated liabilities	<b>1,450</b>	1,450	<b>1,450</b>	1,450
On trading financial instruments	<b>420</b>	390	<b>420</b>	390
	<b>34,660</b>	42,778	<b>34,637</b>	44,612

**5 Trading profits**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Profit on foreign exchange activities	<b>6,355</b>	6,508	<b>6,317</b>	6,074
Price movements on trading financial instruments	<b>(684)</b>	(253)	<b>(684)</b>	(253)
Net gains/(losses) on sale of trading financial instruments	<b>146</b>	8	<b>146</b>	8
	<b>5,817</b>	6,263	<b>5,779</b>	5,829

Included in trading profits are unrealised gains relating to trading financial instruments amounting to Lm100,000 (2002: Lm758,000) in respect of the group and the bank.

**6 Net gains on disposal of non-trading financial instruments**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Available-for-sale assets				
– net (losses)/gains on disposal	<b>(270)</b>	8	<b>(270)</b>	8
– net revaluation gains transferred from equity	<b>919</b>	370	<b>970</b>	441
	<b>649</b>	378	<b>700</b>	449

**7 Administrative expenses**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Staff costs				
– wages, salaries and allowances	<b>16,519</b>	16,116	<b>16,026</b>	15,242
– social security costs	<b>989</b>	957	<b>961</b>	901
– retirement benefits	<b>2,045</b>	167	<b>2,045</b>	167
Other administrative expenses	<b>7,772</b>	7,279	<b>7,598</b>	7,006
	<b>27,325</b>	24,519	<b>26,630</b>	23,316

The charge for retirement benefits is inclusive of Lm1,098,000 representing the net present value of benefits established in prior financial years. These amounts are not considered significant in respect of each respective year and accordingly comparative information has not been restated.

## 7 Administrative expenses (continued)

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Average number of employees				
– executive and senior managerial	<b>203</b>	201	<b>187</b>	186
– other managerial, supervisory and clerical	<b>1,281</b>	1,285	<b>1,204</b>	1,207
– others	<b>100</b>	122	<b>99</b>	121
	<b>1,584</b>	1,608	<b>1,490</b>	1,514

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 awarded to group employees under discretionary incentive plans.

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

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

## 8 Net impairment losses

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Write-downs</b>				
Investments				
– equity and other non-fixed income instruments	–	129	–	129
Loans and advances to customers				
– specific allowances	<b>3,312</b>	4,218	<b>3,312</b>	4,218
– bad debts written off	<b>1,304</b>	803	<b>1,266</b>	505
	<b>4,616</b>	5,150	<b>4,578</b>	4,852
<b>Reversals of write-downs</b>				
Investments				
– debt and other fixed income instruments	<b>750</b>	29	<b>750</b>	29
Loans and advances to customers				
– specific allowances	<b>4,614</b>	2,872	<b>4,609</b>	2,605
– general allowances	<b>2,615</b>	686	<b>2,133</b>	210
– bad debts recovered	<b>23</b>	48	<b>23</b>	48
	<b>8,002</b>	3,635	<b>7,515</b>	2,892
Net impairment losses	<b>(3,386)</b>	1,515	<b>(2,937)</b>	1,960

**Notes on the Accounts** (continued)**9 Profit on ordinary activities before tax**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Profit before tax is stated after charging:				
Auditors' remuneration	<b>43</b>	50	<b>34</b>	32
Directors' emoluments				
– fees	<b>27</b>	22	<b>27</b>	22
– other emoluments	<b>161</b>	329	<b>161</b>	329
	<b>188</b>	351	<b>188</b>	351

**10 Tax on profit on ordinary activities**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:				
– current	<b>6,386</b>	5,784	5,572	4,647
– deferred	<b>2,997</b>	(22)	1,780	(703)
	<b>9,383</b>	5,762	<b>7,352</b>	3,944

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

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Profit on ordinary activities before tax	<b>26,164</b>	21,126	<b>20,117</b>	11,680
Tax at the applicable rate of 35%	<b>9,157</b>	7,394	<b>7,041</b>	4,088
Tax effect of non-taxable income	<b>(471)</b>	(473)	<b>(471)</b>	(473)
Tax effect of profits taxed at different rates	<b>(4)</b>	(1,064)	<b>(2)</b>	(51)
Tax effect of non-deductible expenses	<b>228</b>	174	<b>184</b>	118
Tax effect of depreciation charges not deductible by way of capital allowances	<b>97</b>	93	<b>97</b>	92
Tax effect of taxable temporary differences not previously recognised	<b>579</b>	(244)	<b>579</b>	170
Tax effect of additional deductions	<b>(203)</b>	(118)	<b>(76)</b>	–
Tax on profit on ordinary activities	<b>9,383</b>	5,762	<b>7,352</b>	3,944

## 11 Earnings per share

The calculation of earnings per share of the group is based on the profit after tax for the year ended 31 December 2003 amounting to Lm16,781,000 (2002: Lm15,364,000) divided by the number of shares in issue.

The calculation of earnings per share for the bank is based on the profit after tax for the year ended 31 December 2003 amounting to Lm12,765,000 (2002: Lm7,736,000) divided by the number of shares in issue.

## 12 Dividends

	<i>Bank</i>			
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>% per share</b>	% per share	<b>Lm000</b>	Lm000
<b>Gross of income tax</b>				
– interim	<b>43</b>	32	<b>3,940</b>	2,918
– proposed final	<b>240</b>	53	<b>21,888</b>	4,815
	<b>283</b>	85	<b>25,828</b>	7,733
	<b>Cents per share</b>	Cents per share	<b>Lm000</b>	Lm000
<b>Net of income tax</b>				
– interim	<b>7.02</b>	5.20	<b>2,561</b>	1,897
– proposed final	<b>39.00</b>	8.58	<b>14,227</b>	3,130
	<b>46.02</b>	13.78	<b>16,788</b>	5,027

## 13 Balances with Central Bank of Malta, Treasury Bills and cash

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Balances with Central Bank of Malta	<b>48,318</b>	80,080	<b>48,304</b>	79,973
Malta Government Treasury Bills	<b>72,984</b>	78,513	<b>72,954</b>	78,363
Cash	<b>12,272</b>	12,908	<b>12,254</b>	12,865
	<b>133,574</b>	171,501	<b>133,512</b>	171,201

Balances with Central Bank of Malta include a reserve deposit requirement in terms of Section 37 of the Central Bank of Malta Act, Cap. 204. The average reserve deposit requirement as at year end was Lm52,361,000 (2002: Lm54,074,000) in respect of the group and Lm52,338,000 (2002: Lm54,040,000) in respect of the bank.

**Notes on the Accounts** (continued)**14 Financial instruments held for trading**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Financial assets held for trading</b>				
Debt and other fixed income instruments	–	12	–	12
Equity and other non-fixed income instruments	<b>141</b>	118	<b>141</b>	118
Derivative financial instruments	<b>2,303</b>	2,649	<b>2,303</b>	2,649
	<b>2,444</b>	2,779	<b>2,444</b>	2,779
<b>Financial liabilities held for trading</b>				
Derivative financial instruments	<b>8,611</b>	6,402	<b>8,611</b>	6,402
<b>a Debt and other fixed income instruments</b>				
Issued by public bodies				
– local government	–	12	–	12
Listing status				
– listed on the Malta Stock Exchange	–	12	–	12

**b 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.

**c Derivative financial instruments**

	<i>Notional amount with remaining life of:</i>				<b>2003</b>	<b>2003</b>		
	<i>Less than 3 months</i>	<i>Between 3 months &amp; 1 year</i>	<i>More than 1 year</i>	<i>Total</i>			<i>Fair value assets</i>	<i>Fair value liabilities</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>			<b>Lm000</b>	<b>Lm000</b>
<b>Interest rate derivatives</b>								
Over the counter products								
– Interest rate swaps	–	–	<b>10,319</b>	<b>10,319</b>	–	<b>614</b>		
<b>Currency derivatives</b>								
Over the counter products								
– Forward exchange contracts	<b>35,007</b>	<b>59,221</b>	<b>12,854</b>	<b>107,082</b>	<b>1,583</b>	<b>7,277</b>		
– Foreign exchange options purchased	<b>917</b>	–	–	<b>917</b>	<b>25</b>	–		
– Foreign exchange options written	<b>(917)</b>	–	–	<b>(917)</b>	–	<b>25</b>		
	<b>35,007</b>	<b>59,221</b>	<b>12,854</b>	<b>107,082</b>				
<b>Equity derivatives</b>								
Over the counter products								
– Equity index options purchased	–	–	<b>7,536</b>	<b>7,536</b>	<b>695</b>	–		
– Equity index options written	–	–	<b>(7,536)</b>	<b>(7,536)</b>	–	<b>695</b>		
<b>Total derivative financial instruments</b>					<b>2,303</b>	<b>8,611</b>		

## 14 Financial instruments held for trading (continued)

### c Derivative financial instruments (continued)

	Notional amount with remaining life of:				2002	2002
	<i>Less than 3 months</i>	<i>Between 3 months &amp; 1 year</i>	<i>More than 1 year</i>	<i>Total</i>	<i>Fair value assets</i>	<i>Fair value liabilities</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Interest rate derivatives</b>						
Over the counter products						
– Interest rate swaps	–	–	12,008	12,008	–	949
<b>Currency derivatives</b>						
Over the counter products						
– Forward exchange contracts	70,228	30,289	16,997	117,514	2,389	5,193
<b>Equity derivatives</b>						
Over the counter products						
– Equity index purchased	–	–	5,589	5,589	260	–
– Equity index written	–	–	(5,589)	(5,589)	–	260
<b>Total derivative financial instruments</b>					<b>2,649</b>	<b>6,402</b>

## 15 Investments

	Group		Bank	
	2003	2002	2003	2002
	Lm000	Lm000	Lm000	Lm000
<b>Debt and other fixed income instruments</b>				
– available-for-sale	86,632	89,003	83,525	85,809
– held-to-maturity	135,396	162,302	165,280	186,925
<b>Equity and other non-fixed income instruments</b>				
– available-for-sale	13,031	12,607	7,386	7,275
	<b>235,059</b>	<b>263,912</b>	<b>256,191</b>	<b>280,009</b>

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

	Group		Bank	
	2003	2002	2003	2002
	Lm000	Lm000	Lm000	Lm000
Issued by public bodies				
– local government	85,430	88,070	83,525	85,809
Issued by other issuers				
– foreign banks	–	446	–	–
– foreign others	1,202	487	–	–
	<b>86,632</b>	<b>89,003</b>	<b>83,525</b>	<b>85,809</b>
Listing status				
– listed on the Malta Stock Exchange	85,430	88,070	83,525	85,809
– foreign unlisted	1,202	933	–	–
	<b>86,632</b>	<b>89,003</b>	<b>83,525</b>	<b>85,809</b>

**Notes on the Accounts** (continued)**15 Investments** (continued)**a Debt and other fixed income instruments available-for-sale** (continued)

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
At 1 January	<b>89,003</b>	96,759	<b>85,809</b>	91,467
Transfers	<b>1,614</b>	(1,973)	–	–
Amortisation	<b>(221)</b>	330	<b>(221)</b>	330
Acquisitions	<b>1,812</b>	268	<b>741</b>	–
Disposals	<b>(9,610)</b>	(8,502)	<b>(6,767)</b>	(8,123)
Changes in fair value	<b>4,034</b>	2,121	<b>3,963</b>	2,135
At 31 December	<b>86,632</b>	89,003	<b>83,525</b>	85,809

Debt instruments with a nominal value of Lm13,500,000 have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2003 no balances were outstanding against these credit lines.

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

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Issued by public bodies				
– local government	<b>23,773</b>	39,409	<b>23,773</b>	39,409
– foreign government	<b>1,357</b>	5,743	<b>1,357</b>	5,161
Issued by other issuers				
– local banks	<b>400</b>	400	<b>30,284</b>	30,216
– foreign banks	<b>90,152</b>	100,087	<b>90,152</b>	95,476
– foreign others	<b>15,923</b>	12,881	<b>15,923</b>	12,881
– local others	<b>3,791</b>	3,782	<b>3,791</b>	3,782
	<b>135,396</b>	162,302	<b>165,280</b>	186,925
Amounts include:				
Issued by subsidiary companies				
– unsubordinated	<b>–</b>	–	<b>29,884</b>	29,816
Listing status				
– listed on the Malta Stock Exchange	<b>27,564</b>	43,191	<b>27,564</b>	43,191
– listed elsewhere	<b>103,316</b>	114,094	<b>103,316</b>	108,901
– local unlisted	<b>400</b>	400	<b>30,284</b>	30,216
– foreign unlisted	<b>4,116</b>	4,617	<b>4,116</b>	4,617
	<b>135,396</b>	162,302	<b>165,280</b>	186,925

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
At 1 January	<b>162,302</b>	185,881	<b>186,925</b>	178,431
Exchange adjustments	<b>(4,797)</b>	(3,567)	<b>(4,797)</b>	(3,469)
Amortisation	<b>(296)</b>	210	<b>(228)</b>	308
Acquisitions	<b>50,295</b>	70,826	<b>50,295</b>	70,826
Redemptions	<b>(72,858)</b>	(91,048)	<b>(67,665)</b>	(66,879)
Reversal of impairment allowance	<b>750</b>	–	<b>750</b>	–
Taken over on merger of subsidiary company	<b>–</b>	–	<b>–</b>	7,708
At 31 December	<b>135,396</b>	162,302	<b>165,280</b>	186,925

## 15 Investments (continued)

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

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Listing status				
– listed on the Malta Stock Exchange	<b>12,283</b>	11,493	<b>6,732</b>	6,288
– listed elsewhere	<b>3</b>	38	–	–
– local unlisted	<b>736</b>	1,053	<b>645</b>	964
– foreign unlisted	<b>9</b>	23	<b>9</b>	23
	<b>13,031</b>	12,607	<b>7,386</b>	7,275
At 1 January	<b>12,607</b>	12,884	<b>7,275</b>	7,545
Transfers	<b>(8)</b>	–	–	–
Acquisitions	<b>10</b>	29	<b>10</b>	–
Disposals	<b>(376)</b>	(226)	<b>(329)</b>	–
Changes in fair value	<b>798</b>	20	<b>430</b>	(170)
Impairments	–	(100)	–	(100)
At 31 December	<b>13,031</b>	12,607	<b>7,386</b>	7,275

Certain local and foreign unlisted equity investments held by the group and the bank are stated at cost. 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 fair value of these investments.

## 16 Loans and advances to banks

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Repayable on call and at short notice	<b>7,856</b>	20,028	<b>65,102</b>	94,891
Term loans and advances	<b>122,844</b>	125,972	<b>122,843</b>	129,372
	<b>130,700</b>	146,000	<b>187,945</b>	224,263
Amounts include:				
Due from subsidiary companies				
– unsubordinated	–	–	<b>57,275</b>	78,270

**Notes on the Accounts** (continued)**17 Loans and advances to customers**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Repayable on call and at short notice	<b>260,866</b>	267,385	<b>260,866</b>	267,385
Term loans and advances	<b>687,662</b>	653,259	<b>577,896</b>	524,478
Finance lease receivables	<b>124</b>	336	<b>124</b>	336
Gross loans and advances to customers	<b>948,652</b>	920,980	<b>838,886</b>	792,199
Allowances for uncollectability	<b>(26,367)</b>	(30,316)	<b>(25,785)</b>	(29,247)
Net loans and advances to customers	<b>922,285</b>	890,664	<b>813,101</b>	762,952
Amounts include:				
Due from subsidiary companies				
– unsubordinated	<b>–</b>	–	<b>264</b>	390
<b>Allowances for uncollectability</b>				
– specific allowances	<b>22,140</b>	23,474	<b>22,059</b>	23,388
– general allowances	<b>4,227</b>	6,842	<b>3,726</b>	5,859
	<b>26,367</b>	30,316	<b>25,785</b>	29,247
The following industry concentrations are considered significant:				
– energy and water	<b>56,665</b>	66,034	<b>56,665</b>	66,034
– transport, storage and communications	<b>56,349</b>	53,210	<b>56,349</b>	53,210
– agriculture and fisheries	<b>2,632</b>	3,488	<b>2,612</b>	3,468
– manufacturing	<b>75,533</b>	78,190	<b>75,530</b>	78,185
– shipbuilding and ship repair	<b>26,552</b>	26,455	<b>26,552</b>	26,455
– building and construction	<b>30,187</b>	32,193	<b>30,187</b>	32,193
– hotel, restaurant and tourism	<b>120,447</b>	115,600	<b>20,361</b>	115,508
– wholesale and retail trade	<b>149,655</b>	161,913	<b>149,640</b>	161,882
– personal	<b>317,026</b>	273,118	<b>207,736</b>	144,815
– all others	<b>113,606</b>	110,779	<b>113,254</b>	110,449
	<b>948,652</b>	920,980	<b>838,886</b>	792,199

**Further disclosures as required by the Publication of Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994 Directive:**

The aggregate amount of impaired loans and advances amounted to Lm107,529,000 (2002: Lm120,333,000) in respect of the group and Lm100,146,000 (2002: Lm111,915,000) in respect of the bank. Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to Lm17,215,000 (bank: Lm16,666,000).

During the current year, the group reviewed the estimate used to arrive at the level of general allowances against loan losses. The effect of these changes translates into a reduction of Lm2,818,000 (bank: Lm2,484,000) in the level of general allowances held against loan losses.

## 18 Shares in subsidiary companies

Name of company	Incorp. in	Nature of business	Current equity interest		Bank	
			Group	Bank	2003	2002
			%	%	Lm000	Lm000
HSBC Home Loans (Malta) Limited	Malta	Finance for housing	100.00	99.99	22,712	20,652
HSBC Life Assurance (Malta) Limited	Malta	Life assurance	100.00	99.99	10,708	9,436
HSBC Fund Management (Malta) Limited	Malta	Management of Collective Investment Schemes	100.00	99.99	8,028	6,934
HSBC Stockbrokers (Malta) Limited	Malta	Stockbroking services	100.00	99.99	154	83
HSBC Investment Services (Malta) Limited	Malta	Financial services	100.00	–	–	–
					<u>41,602</u>	<u>37,105</u>

The bank's holding in HSBC Investment Services (Malta) Limited is held through HSBC Fund Management (Malta) Limited.

None of the subsidiary companies are listed.

## 19 Intangible fixed assets

Intangible fixed assets consist of purchased goodwill.

	Group	Bank
	Lm000	Lm000
<b>Cost</b>		
At 1 January 2003	1,943	1,026
<b>At 31 December 2003</b>	<u>1,943</u>	<u>1,026</u>
<b>Amortisation</b>		
At 1 January 2003	1,313	632
Amortisation recognised during the year	291	205
<b>At 31 December 2003</b>	<u>1,604</u>	<u>837</u>
<b>Net book amount</b>		
<b>At 31 December 2003</b>	<u>339</u>	<u>189</u>
At 31 December 2002	<u>630</u>	<u>394</u>

**Notes on the Accounts** (continued)**20 Tangible fixed assets**

	<i>Land and buildings</i>	<i>Computer equipment</i>	<i>Others</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Group</i>				
<b>Cost/revaluation</b>				
At 1 January 2003	15,535	12,296	15,117	42,948
Additions	2,081	1,533	1,879	5,493
Revaluation	624	–	–	624
Disposals	(458)	(1,115)	(213)	(1,786)
<b>At 31 December 2003</b>	<b>17,782</b>	<b>12,714</b>	<b>16,783</b>	<b>47,279</b>
<b>Depreciation</b>				
At 1 January 2003	445	8,633	4,905	13,983
Charge for the year	240	1,246	1,184	2,670
Revaluation	(16)	–	–	(16)
Disposals	(44)	(1,104)	(144)	(1,292)
<b>At 31 December 2003</b>	<b>625</b>	<b>8,775</b>	<b>5,945</b>	<b>15,345</b>
<b>Net book amount</b>				
<b>At 31 December 2003</b>	<b>17,157</b>	<b>3,939</b>	<b>10,838</b>	<b>31,934</b>
At 31 December 2002	15,090	3,663	10,212	28,965
			<b>2003</b>	<b>2002</b>
			<b>Lm000</b>	<b>Lm000</b>
<b>Net book amount of land and buildings occupied for own activities</b>			<b>17,157</b>	<b>15,090</b>
<b>Future capital expenditure</b>				
– contracted but not provided in the financial statements			428	2,870
– authorised by the directors but not yet contracted			484	655
			<b>912</b>	<b>3,525</b>

20 Tangible fixed assets (continued)

	<i>Land and buildings</i>	<i>Computer equipment</i>	<i>Others</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Bank</i>				
<b>Cost/revaluation</b>				
At 1 January 2003	15,529	11,680	14,366	41,575
Additions	2,081	1,480	1,877	5,438
Revaluation	624	–	–	624
Disposals	(458)	(1,114)	(200)	(1,772)
<b>At 31 December 2003</b>	<b>17,776</b>	<b>12,046</b>	<b>16,043</b>	<b>45,865</b>
<b>Depreciation</b>				
At 1 January 2003	352	8,177	4,260	12,789
Charge for the year	240	1,176	1,158	2,574
Revaluation	(16)	–	–	(16)
Disposals	(44)	(1,103)	(132)	(1,279)
<b>At 31 December 2003</b>	<b>532</b>	<b>8,250</b>	<b>5,286</b>	<b>14,068</b>
<b>Net book amount</b>				
<b>At 31 December 2003</b>	<b>17,244</b>	<b>3,796</b>	<b>10,757</b>	<b>31,797</b>
At 31 December 2002	15,177	3,503	10,106	28,786
			<b>2003</b>	<b>2002</b>
			<b>Lm000</b>	<b>Lm000</b>
<b>Net book amount of land and buildings occupied for own activities</b>			<b>17,244</b>	<b>15,177</b>
<b>Future capital expenditure</b>				
– contracted but not provided in the financial statements			428	2,870
– authorised by the directors but not yet contracted			484	611
			<b>912</b>	<b>3,481</b>

The group's freehold and long-term leasehold properties were revalued by an independent professionally qualified valuer on an existing use basis during September 2003.

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 Lm9,388,000 (bank: Lm9,388,000).

**Notes on the Accounts** (continued)**21 Deferred tax asset**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2002: 35%). The deferred tax is analysed as follows:

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Tax effect of temporary differences relating to:				
– excess of capital allowances over depreciation	(377)	559	(386)	549
– allowances for uncollectibility	9,254	10,624	9,050	10,250
– other provisions	733	883	772	492
– revaluation	(3,287)	(4,617)	(3,287)	(4,617)
– fair value movements on investments	(3,998)	(1,411)	(3,998)	(1,336)
– unrelieved tax losses	1,824	1,906	44	44
– value of in-force life assurance business	(2,542)	(1,933)	–	–
	<b>1,607</b>	<b>6,011</b>	<b>2,195</b>	<b>5,382</b>

**22 Other assets**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Long-term assurance portfolios				
attributable to policyholders	50,192	30,586	–	–
Value of in-force life assurance business	7,262	5,524	–	–
Other	1,794	1,517	1,246	902
	<b>59,248</b>	<b>37,627</b>	<b>1,246</b>	<b>902</b>

Long-term assurance portfolios attributable to policyholders are analysed as follows:

<i>Group</i>	<b>2003</b>	2002
	<b>Lm000</b>	Lm000
Debt and other fixed income instruments	24,746	15,518
Equity and other non-fixed income instruments	22,075	13,368
Loans and advances to banks	3,025	1,354
Investment properties	346	346
	<b>50,192</b>	<b>30,586</b>

The fair value gains and losses on financial assets relating to long-term assurance business are recognised in the consolidated profit and loss account and not through equity. Aggregate unrealised gains on shareholders' portfolios recognised through the consolidated profit and loss account amounted to Lm37,000 (2002: Lm50,000).

## 23 Prepayments and accrued income

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Accrued income	<b>15,886</b>	18,126	<b>15,163</b>	17,414
Prepayments	<b>271</b>	132	<b>269</b>	131
	<b>16,157</b>	18,258	<b>15,432</b>	17,545

## 24 Amounts owed to banks

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Term deposits	<b>23,525</b>	53,822	<b>23,525</b>	55,440
Repayable on demand	<b>8,842</b>	10,741	<b>8,843</b>	10,864
	<b>32,367</b>	64,563	<b>32,368</b>	66,304
Amounts include:				
– due to subsidiary companies	<b>–</b>	–	<b>1</b>	1,741

## 25 Amounts owed to customers

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Term deposits	<b>722,758</b>	773,398	<b>725,878</b>	767,937
Repayable on demand	<b>544,620</b>	529,742	<b>545,180</b>	530,789
	<b>1,267,378</b>	1,303,140	<b>1,271,058</b>	1,298,726
Amounts include:				
– due to subsidiary companies	<b>–</b>	–	<b>4,230</b>	3,275

## 26 Debt securities in issue

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Bonds and notes issued	<b>12</b>	12	<b>–</b>	–

Debt securities in issue are guaranteed by the Government of Malta and interest payable thereon is tax free by virtue of an exemption order in terms of Part IV Section II (2) of the Income Tax Act, Cap. 123. The securities bear interest at the rate of 4.5 per cent per annum.

**Notes on the Accounts** (continued)**27 Other liabilities**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Long-term assurance liabilities attributable to policyholders	<b>50,192</b>	30,586	–	–
Bills payable	<b>7,390</b>	5,276	<b>7,390</b>	5,276
Cash collateral for commitments	<b>51</b>	128	<b>51</b>	128
Other	<b>4,447</b>	3,790	<b>3,591</b>	2,534
	<b>62,080</b>	39,780	<b>11,032</b>	7,938

**28 Accruals and deferred income**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Accrued interest	<b>10,349</b>	14,244	<b>10,351</b>	14,223
Other	<b>5,327</b>	3,604	<b>5,068</b>	3,251
	<b>15,676</b>	17,848	<b>15,419</b>	17,474

**29 Provisions for liabilities and other charges**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Provision for tax	<b>1,371</b>	1,273	<b>1,419</b>	1,319
Other	<b>327</b>	318	<b>327</b>	318
	<b>1,698</b>	1,591	<b>1,746</b>	1,637

**30 Subordinated liabilities**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
7.25% subordinated unsecured loan stock	<b>20,000</b>	20,000	<b>20,000</b>	20,000

**31 Share capital**

	<b>2003</b>		<b>2002</b>	
	<i>Shares of 25c each</i>	<b>Lm000</b>	<i>Shares of 25c each</i>	<b>Lm000</b>
	<b>000s</b>	<b>Lm000</b>	<b>000s</b>	<b>Lm000</b>
<b>Authorised</b>				
Ordinary shares	<b>160,000</b>	<b>40,000</b>	160,000	40,000
<b>Issued and paid up</b>				
Ordinary shares	<b>36,480</b>	<b>9,120</b>	36,480	9,120

### 32 Reserves

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#### a Revaluation reserves

The revaluation reserves comprise the surplus arising on the revaluation of the group's freehold and long-term leasehold property and the cumulative net change in fair values of available-for-sale assets held by the group. The revaluation reserves are not available for distribution.

#### b Other reserve

This reserve represents the gain registered by the bank on the translation of its net foreign currency holding following the devaluation of the Maltese lira on 25 November 1992, net of related deferred tax effects. This reserve is not available for distribution.

### 33 Contingent liabilities

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	<i>Group</i>		<i>Bank</i>	
	<i>Contract amount</i>		<i>Contract amount</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Guarantees and assets pledged as collateral security				
– guarantees	<b>33,997</b>	41,476	<b>34,417</b>	41,896
– standby letters of credit	<b>4,821</b>	6,158	<b>4,821</b>	6,158
	<b>38,818</b>	47,634	<b>39,238</b>	48,054

The bank has been named as a defendant in a legal action, the outcome of which remains uncertain. The bank has good defences to the claim and the directors are of the opinion that the outcome should not have any material impact on the bank.

### 34 Commitments

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	<i>Group</i>		<i>Bank</i>	
	<i>Contract amount</i>		<i>Contract amount</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Documentary credits	<b>6,091</b>	10,152	<b>6,091</b>	10,152
Undrawn formal standby facilities, credit facilities and other commitments to lend	<b>291,240</b>	277,153	<b>309,006</b>	290,533
Uncalled share capital in other companies	<b>300</b>	300	<b>300</b>	300
	<b>297,631</b>	287,605	<b>315,397</b>	300,985

**Notes on the Accounts** (continued)**35 Cash and cash equivalents**

	<i>Group</i>		<i>Bank</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Balances of cash and cash equivalents as shown in the balance sheet are analysed below:</b>				
Treasury Bills	<b>878</b>	150	<b>848</b>	–
Loans and advances to banks	<b>118,142</b>	129,011	<b>175,388</b>	207,274
Cash	<b>12,272</b>	12,908	<b>12,254</b>	12,865
Balances with Central Bank of Malta (excluding reserve deposits)	–	26,006	–	25,933
Amounts owed to banks	<b>(23,273)</b>	(40,919)	<b>(23,273)</b>	(42,107)
	<b>108,019</b>	127,156	<b>165,217</b>	203,965
Adjustment to reflect balances with contractual maturity of more than three months	<b>75,570</b>	71,708	<b>75,568</b>	71,155
<b>Per balance sheet</b>	<b>183,589</b>	198,864	<b>240,785</b>	275,120
<b>Analysed as follows:</b>				
Balances with Central Bank of Malta and cash	<b>12,272</b>	38,914	<b>12,254</b>	38,798
Treasury Bills	<b>72,984</b>	78,513	<b>72,954</b>	78,363
Loans and advances to banks	<b>130,700</b>	146,000	<b>187,945</b>	224,263
Amounts owed to banks	<b>(32,367)</b>	(64,563)	<b>(32,368)</b>	(66,304)
	<b>183,589</b>	198,864	<b>240,785</b>	275,120

**36 Segmental information****a Class of business**

	<i>Commercial banking</i>		<i>Investment banking</i>		<i>Other companies</i>		<i>Group total</i>	
	<b>2003</b>	2002	<b>2003</b>	2002	<b>2003</b>	2002	<b>2003</b>	2002
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Profit before tax</b>								
Segment operating income	<b>49,662</b>	48,322	<b>1,810</b>	1,173	<b>1,896</b>	2,114	<b>53,368</b>	51,609
Common costs							<b>(27,204)</b>	(30,483)
<b>Profit on ordinary activities before tax</b>							<b>26,164</b>	21,126
<b>Assets</b>								
Segment total assets	<b>1,470,518</b>	1,523,330	<b>7,062</b>	6,906	<b>61,404</b>	40,097	<b>1,538,984</b>	1,570,333
Average total assets	<b>1,496,924</b>	1,472,046	<b>6,984</b>	6,987	<b>50,751</b>	34,269	<b>1,554,659</b>	1,513,302
Net assets	<b>120,783</b>	108,984	<b>6,028</b>	4,934	<b>4,351</b>	3,079	<b>131,162</b>	116,997

**b Geographical segments**

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

### 37 Related parties

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During the course of banking operations, the bank conducted business transactions with entities owned by the ultimate parent and its subsidiaries on an arm's length basis. These include sales of HSBC Group products and the provision of management resources and IT development costs in relation to the integration of the group and the bank into the HSBC Group.

Executive directors participate in the HSBC Group share option plans (see note 7).

### 38 Financial instruments and risk management

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International Accounting Standard 32 Financial Instruments: Disclosure and Presentation requires disclosure of information that will assist users to assess the extent of risks relating to both on and off balance sheet financial instruments.

#### *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, subordinated debt securities in issue and amounts due to banks and customers.

The group is potentially 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.

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

#### *b Credit risk management*

Credit risk is the risk that a customer or counterparty of the group will be unable or unwilling to meet a commitment that it has entered into with a member of the group. It arises from the lending, trade finance, treasury and any other activities undertaken by group companies. The group has in place HSBC Group standards, policies and procedures for the control and monitoring of all such risks. Management is responsible for the quality of its credit portfolios and has established credit processes involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

Authority levels are maintained throughout the branch network, lendings are graded and a system of reporting exists to ensure controlled reviews. Statutorily-imposed limits in line with Banking Directives issued by the Malta Financial Services Authority are also maintained.

Sectorial concentrations of the group's loans and advances portfolio are set out in note 17. The group's largest economic sector exposures are personal loans which account for 33 per cent of total advances. The wholesale and retail trade sector accounts for 16 per cent, hotel, restaurant and tourism 13 per cent, manufacturing 8 per cent, energy and water 6 per cent and transport, storage and communications 6 per cent of total advances.

#### *c Market and liquidity risk management*

Market risk is the risk that interest rates, foreign exchange rates or equity prices will move and result in profits or losses to the group. Market risk arises on financial instruments that are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis). The group manages market risk through risk limits approved by the HSBC Group Executive Committee. 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. Interest rate risk arises in both dealing portfolios and accrual books. The primary source of interest rate risk originating in other banking activities arises from the employment of non-interest bearing liabilities such as shareholders' funds and some current accounts, as well as fixed rate loans and liabilities other than those generated by treasury business. The group's asset and liability management committee (ALCO) assesses the interest rate risks which arise in the business. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income.

**Notes on the Accounts** (continued)**38 Financial instruments and risk management** (continued)

The effect of changes in the local interest rate structure are controlled by monitoring interest rate gaps on financial assets and financial liabilities. The following table discloses that 72.5 per cent of the group's assets and 57.1 per cent of its liabilities are contractually repricable within a three month timeframe from the current financial period end.

		<i>Effective interest rate</i>	<i>Less than three months</i>	<i>Between three months and one year</i>	<i>Between one year and five years</i>	<i>More than five years</i>	<i>Others</i>
	<u>Lm000</u>	<u>%</u>	<u>Lm000</u>	<u>Lm000</u>	<u>Lm000</u>	<u>Lm000</u>	<u>Lm000</u>
<i>Group</i>							
<b>At 31 December 2003</b>							
<b>Assets</b>							
Balances with Central Bank of Malta, Treasury Bills and cash	133,574	2.85	42,422	30,579	–	–	60,573
Cheques in course of collection	5,637	–	–	–	–	–	5,637
Financial assets held for trading							
– Equity and other non-fixed income instruments	141	–	–	–	–	–	141
– Derivative financial instruments	2,303	–	–	–	–	–	2,303
Investments							
Debt and other fixed income financial instruments							
– available-for-sale	86,632	6.38	91	–	33,021	53,520	–
– held-to-maturity	135,396	4.33	49,291	46,315	35,174	3,791	825
Equity and other non-fixed income instruments							
– available-for-sale	13,031	–	–	–	–	–	13,031
Loans and advances to banks	130,700	2.75	122,156	3,656	4,888	–	–
Loans and advances to customers	922,285	5.46	901,930	12,032	3,886	–	4,437
Long-term assurance portfolios attributable to policyholders	50,192	3.34	–	–	3,523	21,223	25,446
Other assets	59,093	–	–	–	–	–	59,093
<b>Total assets</b>	<b><u>1,538,984</u></b>		<b><u>1,115,890</u></b>	<b><u>92,582</u></b>	<b><u>80,492</u></b>	<b><u>78,534</u></b>	<b><u>171,486</u></b>

38 Financial instruments and risk management (continued)

		Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Liabilities</b>							
Financial liabilities							
held for trading	8,611	-	-	-	-	-	8,611
Amounts owed to banks	32,367	2.22	31,168	1,004	-	-	195
Amounts owed to customers	1,267,378	2.51	847,030	341,894	76,644	-	1,810
Debt securities in issue	12	4.50	-	-	12	-	-
Subordinated liabilities	20,000	7.25	-	-	20,000	-	-
Other liabilities	79,454	-	-	-	-	-	79,454
	<u>1,407,822</u>		<u>878,198</u>	<u>342,898</u>	<u>96,656</u>	<u>-</u>	<u>90,070</u>
<b>Shareholders' funds</b>							
Called up share capital	9,120	-	-	-	-	-	9,120
Revaluation reserves	10,978	-	-	-	-	-	10,978
Other reserve	4,242	-	-	-	-	-	4,242
Profit and loss account	92,595	-	-	-	-	-	92,595
Dividend reserve	14,227	-	-	-	-	-	14,227
	<u>131,162</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,162</u>
<b>Total liabilities</b>	<b><u>1,538,984</u></b>		<b><u>878,198</u></b>	<b><u>342,898</u></b>	<b><u>96,656</u></b>	<b><u>-</u></b>	<b><u>221,232</u></b>
<b>Gap</b>			<b><u>237,692</u></b>	<b><u>(250,316)</u></b>	<b><u>(16,164)</u></b>	<b><u>78,534</u></b>	<b><u>(49,746)</u></b>
<b>Cumulative gap</b>			<b><u>237,692</u></b>	<b><u>(12,624)</u></b>	<b><u>(28,788)</u></b>	<b><u>49,746</u></b>	<b><u>-</u></b>

**Notes on the Accounts** (continued)**38 Financial instruments and risk management** (continued)

		<i>Effective interest rate</i>	<i>Less than three months</i>	<i>Between three months and one year</i>	<i>Between one year and five years</i>	<i>More than five years</i>	<i>Others</i>
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>							
At 31 December 2002							
<b>Assets</b>							
Balances with Central Bank of Malta, Treasury Bills and cash	171,501	2.72	97,577	6,930	–	–	66,994
Cheques in course of collection	3,986	–	–	–	–	–	3,986
Financial assets held for trading							
– Debt and other fixed income instruments	12	–	–	–	–	12	–
– Equity and other non-fixed income instruments	118	–	–	–	–	–	118
– Derivative financial instruments	2,649	–	–	–	–	–	2,649
Investments							
Debt and other fixed income financial instruments							
– available-for-sale	89,003	6.70	–	393	17,644	70,966	–
– held-to-maturity	162,302	4.83	68,804	18,281	71,041	4,176	–
Equity and other non-fixed income instruments							
– available-for-sale	12,607	–	–	–	–	–	12,607
Loans and advances to banks	146,000	2.46	135,700	10,300	–	–	–
Loans and advances to customers	890,664	5.99	859,729	13,988	12,672	4,275	–
Long-term assurance portfolios attributable to policyholders	30,586	6.40	–	837	205	14,476	15,068
Other assets	60,905	–	–	–	–	–	60,905
<b>Total assets</b>	<b>1,570,333</b>		<b>1,161,810</b>	<b>50,729</b>	<b>101,562</b>	<b>93,905</b>	<b>162,327</b>

### 38 Financial instruments and risk management (continued)

		Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Liabilities</b>							
<b>Financial liabilities</b>							
held for trading	6,402	–	104	321	524	–	5,453
Amounts owed to banks	64,563	2.99	63,569	499	–	–	495
Amounts owed to customers	1,303,140	3.12	823,682	387,188	85,826	5,119	1,325
Debt securities in issue	12	4.50	–	–	12	–	–
Subordinated liabilities	20,000	7.25	–	–	20,000	–	–
Other liabilities	59,219	–	–	–	–	–	59,219
	<u>1,453,336</u>		<u>887,355</u>	<u>388,008</u>	<u>106,362</u>	<u>5,119</u>	<u>66,492</u>
<b>Shareholders' funds</b>							
Called up issued share capital	9,120	–	–	–	–	–	9,120
Revaluation reserves	7,933	–	–	–	–	–	7,933
Other reserve	4,242	–	–	–	–	–	4,242
Profit and loss account	92,572	–	–	–	–	–	92,572
Dividend reserve	3,130	–	–	–	–	–	3,130
	<u>116,997</u>		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>116,997</u>
<b>Total liabilities</b>	<u>1,570,333</u>		<u>887,355</u>	<u>388,008</u>	<u>106,362</u>	<u>5,119</u>	<u>183,489</u>
<b>Gap</b>			<u>274,455</u>	<u>(337,279)</u>	<u>(4,800)</u>	<u>88,786</u>	<u>(21,162)</u>
<b>Cumulative gap</b>			<u>274,455</u>	<u>(62,824)</u>	<u>(67,624)</u>	<u>21,162</u>	<u>–</u>

The HSBC Group requires operating entities to manage the liquidity structure of their assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

Liquidity is managed on a daily basis by the group's treasury operations.

Compliance with liquidity requirements is monitored by the group's ALCO. This process includes:

- maintenance of group's liquidity ratios;
- monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors;
- maintenance of liquidity contingency plans;
- ensuring compliance with local regulatory requirements; and
- projecting cash flows by major currency and a consideration of the level of liquid assets in relation thereto.

**Notes on the Accounts** (continued)**38 Financial instruments and risk management** (continued)

The following tables provide an analysis of the financial assets and liabilities of the group and the bank into relevant maturity groupings based on the remaining contractual periods to repayment. The fair value adjustment has been presented to facilitate reconciliation to the balance sheet.

	<i>Fair value adjustments</i>	<i>Less than three months</i>	<i>Between three months and one year</i>	<i>Between one and five years</i>	<i>More than five years</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Group</i>						
<b>At 31 December 2003</b>						
<b>Financial assets</b>						
Investments						
Debt and other fixed income financial instruments						
– available-for-sale	7,388	91	–	30,319	48,834	86,632
– held-to-maturity	–	21,887	46,993	62,725	3,791	135,396
Loans and advances to banks	–	122,156	3,656	4,888	–	130,700
Loans and advances to customers	–	310,860	49,586	290,721	271,118	922,285
<b>Financial liabilities</b>						
Amounts owed to banks	–	23,799	8,373	–	195	32,367
Amounts owed to customers	–	844,553	342,259	76,167	4,399	1,267,378
Debt securities in issue	–	–	–	12	–	12
Subordinated liabilities	–	–	–	20,000	–	20,000
<b>At 31 December 2002</b>						
<b>Financial assets</b>						
Financial assets held for trading						
– Debt and other fixed income instruments	–	–	–	–	12	12
Investments						
Debt and other fixed income financial instruments						
– available-for-sale	4,422	–	–	16,814	67,767	89,003
– held-to-maturity	–	30,787	31,764	95,569	4,182	162,302
Loans and advances to banks	–	133,330	10,300	2,370	–	146,000
Loans and advances to customers	–	307,385	59,702	237,226	286,351	890,664
<b>Financial liabilities</b>						
Amounts owed to banks	–	39,939	24,129	–	495	64,563
Amounts owed to customers	–	825,007	387,188	85,826	5,119	1,303,140
Debt securities in issue	–	–	–	12	–	12
Subordinated liabilities	–	–	–	20,000	–	20,000

### 38 Financial instruments and risk management (continued)

	<i>Fair value adjustments</i>	<i>Less than three months</i>	<i>Between three months and one year</i>	<i>Between one and five years</i>	<i>More than five years</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Bank</i>						
<b>At 31 December 2003</b>						
<b>Financial assets</b>						
Investments						
Debt and other fixed income financial instruments						
– available-for-sale	7,297	–	–	28,289	47,939	83,525
– held-to-maturity	–	21,887	46,993	92,609	3,791	165,280
Loans and advances to banks	–	179,401	3,656	4,888	–	187,945
Loans and advances to customers	–	310,018	49,542	289,758	163,783	813,101
<b>Financial liabilities</b>						
Amounts owed to banks	–	23,800	8,373	–	195	32,368
Amounts owed to customers	–	845,381	344,616	76,662	4,399	1,271,058
Subordinated liabilities	–	–	–	20,000	–	20,000
<b>At 31 December 2002</b>						
<b>Financial assets</b>						
Financial assets held for trading						
– Debt and other fixed income instruments	–	–	–	–	12	12
Investments						
Debt and other fixed income financial instruments						
– available-for-sale	4,282	–	–	15,016	66,511	85,809
– held-to-maturity	–	28,913	28,445	125,385	4,182	186,925
Loans and advances to banks	–	211,593	10,300	2,370	–	224,263
Loans and advances to customers	–	306,330	59,505	236,218	160,899	762,952
<b>Financial liabilities</b>						
Amounts owed to banks	–	40,978	24,831	–	495	66,304
Amounts owed to customers	–	827,874	386,900	78,833	5,119	1,298,726
Subordinated liabilities	–	–	–	20,000	–	20,000

**Notes on the Accounts** (continued)**38 Financial instruments and risk management** (continued)

The group's foreign exchange exposure arises from foreign exchange dealings originated by the group's commercial and retail banking business. These exposures are managed by the group's treasury operations together with exposures, which result from dealing activities, within limits approved by the group. Investments denominated in foreign currency are either used to hedge against liabilities held in foreign currency or are otherwise mainly invested in currencies according to their respective weightings in the Maltese lira basket. The group is exposed to currency risk in the event of re-alignment of the Maltese lira basket of currencies.

The following tables provide an analysis of the financial assets and liabilities of the group and the bank into relevant currency groupings.

	2003			2002		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000	Lm000
<i>Group</i>						
<b>Assets</b>						
Balances with Central Bank of Malta, Treasury Bills and cash	<b>131,961</b>	<b>1,613</b>	<b>133,574</b>	169,447	2,054	171,501
Cheques in course of collection	<b>5,637</b>	–	<b>5,637</b>	3,986	–	3,986
Financial assets held for trading						
– Debt and other fixed income instruments	–	–	–	12	–	12
– Equity and other non fixed income instruments	<b>141</b>	–	<b>141</b>	118	–	118
– Derivative financial instruments	<b>21</b>	<b>2,282</b>	<b>2,303</b>	–	2,649	2,649
Investments						
Debt and other fixed income financial instruments						
– available-for-sale	<b>85,430</b>	<b>1,202</b>	<b>86,632</b>	88,070	933	89,003
– held-to-maturity	<b>27,963</b>	<b>107,433</b>	<b>135,396</b>	43,564	118,738	162,302
Equity and other non fixed income instruments						
– available-for-sale	<b>12,701</b>	<b>330</b>	<b>13,031</b>	12,219	388	12,607
Loans and advances to banks	<b>361</b>	<b>130,339</b>	<b>130,700</b>	821	145,179	146,000
Loans and advances to customers	<b>893,427</b>	<b>28,858</b>	<b>922,285</b>	848,787	41,877	890,664
Long-term assurance portfolios attributable to policyholders	<b>25,894</b>	<b>24,298</b>	<b>50,192</b>	19,447	11,139	30,586
Other assets	<b>58,924</b>	<b>169</b>	<b>59,093</b>	57,993	2,912	60,905
<b>Total assets</b>	<b><u>1,242,460</u></b>	<b><u>296,524</u></b>	<b><u>1,538,984</u></b>	<b><u>1,244,464</u></b>	<b><u>325,869</u></b>	<b><u>1,570,333</u></b>
<b>Liabilities</b>						
Financial liabilities held for trading	–	<b>8,611</b>	<b>8,611</b>	–	6,402	6,402
Amounts owed to banks	<b>18,799</b>	<b>13,568</b>	<b>32,367</b>	20,878	43,685	64,563
Amounts owed to customers	<b>980,500</b>	<b>286,878</b>	<b>1,267,378</b>	994,156	308,984	1,303,140
Debt securities in issue	<b>12</b>	–	<b>12</b>	12	–	12
Subordinated liabilities	<b>20,000</b>	–	<b>20,000</b>	20,000	–	20,000
Other liabilities	<b>76,693</b>	<b>2,761</b>	<b>79,454</b>	57,285	1,934	59,219
Shareholders' funds	<b>131,162</b>	–	<b>131,162</b>	116,997	–	116,997
<b>Total liabilities</b>	<b><u>1,227,166</u></b>	<b><u>311,818</u></b>	<b><u>1,538,984</u></b>	<b><u>1,209,328</u></b>	<b><u>361,005</u></b>	<b><u>1,570,333</u></b>

**38 Financial instruments and risk management (continued)**

	2003			2002		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000	Lm000
<i>Bank</i>						
<b>Assets</b>						
Balances with Central Bank of Malta, Treasury Bills and cash	<b>131,899</b>	<b>1,613</b>	<b>133,512</b>	169,147	2,054	171,201
Cheques in course of collection	<b>5,637</b>	–	<b>5,637</b>	3,986	–	3,986
Financial assets held for trading						
– Debt and other fixed income instruments	–	–	–	12	–	12
– Equity and other non fixed income instruments	<b>141</b>	–	<b>141</b>	118	–	118
– Derivative financial instruments	<b>21</b>	<b>2,282</b>	<b>2,303</b>	–	2,649	2,649
Investments						
Debt and other fixed income financial instruments						
– available-for-sale	<b>83,525</b>	–	<b>83,525</b>	85,809	–	85,809
– held-to-maturity	<b>57,847</b>	<b>107,433</b>	<b>165,280</b>	73,380	113,545	186,925
Equity and other non fixed income instruments						
– available-for-sale	<b>7,368</b>	<b>18</b>	<b>7,386</b>	7,252	23	7,275
Loans and advances to banks	<b>57,606</b>	<b>130,339</b>	<b>187,945</b>	79,084	145,179	224,263
Loans and advances to customers	<b>784,243</b>	<b>28,858</b>	<b>813,101</b>	720,685	42,267	762,952
Other assets	<b>92,285</b>	<b>176</b>	<b>92,461</b>	87,322	2,792	90,114
<b>Total assets</b>	<b><u>1,220,572</u></b>	<b><u>270,719</u></b>	<b><u>1,491,291</u></b>	<b><u>1,226,795</u></b>	<b><u>308,509</u></b>	<b><u>1,535,304</u></b>
<b>Liabilities</b>						
Financial liabilities						
held for trading	–	<b>8,611</b>	<b>8,611</b>	–	6,402	6,402
Amounts owed to banks	<b>18,800</b>	<b>13,568</b>	<b>32,368</b>	20,878	45,426	66,304
Amounts owed to customers	<b>984,180</b>	<b>286,878</b>	<b>1,271,058</b>	996,347	302,379	1,298,726
Subordinated liabilities	<b>20,000</b>	–	<b>20,000</b>	20,000	–	20,000
Other liabilities	<b>25,443</b>	<b>2,754</b>	<b>28,197</b>	25,172	1,877	27,049
Shareholders' funds	<b>131,057</b>	–	<b>131,057</b>	116,823	–	116,823
<b>Total liabilities</b>	<b><u>1,179,480</u></b>	<b><u>311,811</u></b>	<b><u>1,491,291</u></b>	<b><u>1,179,220</u></b>	<b><u>356,084</u></b>	<b><u>1,535,304</u></b>

**Notes on the Accounts** (continued)**38 Financial instruments and risk management** (continued)**d Fair Values**

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

*i Investments - Debt and other fixed income instruments held-to-maturity*

This category of asset is carried at amortised cost and amounts to Lm135,396,000 as at 31 December 2003. Fair value based on quoted market prices at the balance sheet date without any deduction for transaction costs amounts to Lm136,869,000 as at 31 December 2003.

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

Certain unlisted equity investments are carried at cost and amount to Lm745,000. 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.

*iii Loans and advances to banks and customers*

This category of asset is reported net of allowances to reflect the estimated recoverable amounts. As at 31 December 2003 the group carrying amount was Lm1,052,985,000. The loans and advances to customers category of asset amounts to Lm922,285,000. This carrying value approximates to fair value in the case of loans which are repriceable at the bank's discretion. These loans constitute a significant element of the total loan portfolio.

The loans and advances to banks category of asset amounts to Lm130,700,000. For loans and advances to banks within the "less than three months" maturity band fair value is taken to be the amount carried at balance sheet date. As at 31 December 2003, 93 per cent of loans and advances to banks had a contractual repricing within the "less than three months" band. Interest rates on these advances reflect current market rates, and therefore the carrying amount approximates to fair value.

*iv Amounts owed to banks and customers*

This category of liability is carried at amortised cost and amounts to Lm1,299,745,000 as at 31 December 2003. 68 per cent of this liability has contractual repricing within the "less than three months" band, 26 per cent reprices within the "between three months and one year" band whilst 6 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. Fair value of other fixed-maturity deposits, representing the remaining 6 per cent of this category of liability can be measured by discounted cash flows using rates currently offered for deposits of similar remaining maturities.

*v Subordinated liabilities*

This category of liability is carried at amortised cost and amounts to Lm20,000,000 as at 31 December 2003. Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs and amounts to Lm21,000,000 as at 31 December 2003.

### 39 Loans and commitments on behalf of directors and officers

	<i>Group</i>				<i>Bank</i>			
	<b>2003</b>	<b>2003</b>	2002	2002	<b>2003</b>	<b>2003</b>	2002	2002
	<i>Loans &amp; Advances</i>	<i>Commitments</i>						
<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000	<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000	
<b>Directors</b>								
At 1 January	33	24	46	21	33	24	46	21
Additions	10	23	5	3	10	23	5	3
	43	47	51	24	43	47	51	24
Repayments/cancellations	(1)	(10)	(18)	–	(1)	(10)	(18)	–
At 31 December	<b>42</b>	<b>37</b>	33	24	<b>42</b>	<b>37</b>	33	24
<b>Officers</b>								
At 1 January	1,200	153	1,111	199	1,151	151	820	190
Additions	85	267	530	40	70	237	525	37
	1,285	420	1,641	239	1,221	388	1,345	227
Repayments/cancellations	(183)	(12)	(441)	(86)	(213)	(27)	(194)	(76)
At 31 December	<b>1,102</b>	<b>408</b>	1,200	153	<b>1,008</b>	<b>361</b>	1,151	151

### 40 Trust activities

The group provides trust 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 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 2003 the total assets held by the group on behalf of customers were Lm190,000,000 (2002: Lm150,000,000).

### 41 Registered office and ultimate parent company

The addresses of the registered and principal offices of the bank and its subsidiary companies included in the consolidated financial statements can be found in a separate statement which is filed at the Registrar of Companies in accordance with the provisions of paragraph 23 of the Fourth Schedule to the Companies Act, 1995.

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc which is incorporated and registered in England, the registered office of which is 8 Canada Square, London E14 5HQ, United Kingdom. Copies of the HSBC Holdings plc 2003 Annual Review and 2003 Annual Report and Accounts may be obtained from its registered office, when published.

### 42 Comparative amounts

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

## Group Solvency Ratio at 31 December 2003

	<i>Face value</i>	<i>Weighted amount</i>
	<b>Lm000</b>	<b>Lm000</b>
<b>Group on-balance sheet assets</b>		
Balances with Central Bank of Malta, Treasury Bills and cash	133,574	–
Cheques in course of collection	5,637	1,127
Loans and advances to banks	130,700	26,140
Loans and advances to customers	926,512	688,430
Investments	235,059	38,722
Tangible fixed assets	31,934	31,934
Other assets	63,158	43,826
Prepayments and accrued income	16,157	8,079
	<u>1,542,731</u>	<u>838,258</u>
<b>Group off-balance sheet items</b>		
Contingent liabilities and commitments	338,598	30,377
<b>Total adjusted assets and off-balance sheet items</b>		<u><b>868,635</b></u>
<b>Group own funds</b>		
Original own funds	101,535	
Additional own funds	20,182	
<b>Total own funds</b>	<u><b>121,717</b></u>	
<b>Solvency ratio at 31 December 2003</b>		<u><b>14.01%</b></u>
Solvency ratio at 31 December 2002		<u>14.73%</u>

The solvency ratio is calculated in accordance with the Solvency Ratio of Credit Institutions Directive and Own Funds of Credit Institutions Directive. Both Directives are issued in terms of the Banking Act, 1994, Section 17 (1).

## Group Profit and Loss Account - 5 year summary

	<b>12 mths to 31/12/03</b>	12 mths to 31/12/02	12 mths to 31/12/01	12 mths to 31/12/00	15 mths to 31/12/99
	<b>Lm000</b>	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income	<b>69,360</b>	76,105	82,588	84,333	101,449
Interest payable	<b>(34,660)</b>	(42,778)	(51,721)	(53,933)	(66,143)
<b>Net interest income</b>	<b>34,700</b>	33,327	30,867	30,400	35,306
Other operating income	<b>18,668</b>	18,282	20,424	17,622	18,793
Operating expenses	<b>(30,299)</b>	(28,677)	(29,400)	(29,116)	(30,718)
Net amortisation of goodwill	<b>(291)</b>	(291)	(287)	(300)	(139)
Net impairment losses	<b>3,386</b>	(1,515)	(5,842)	(4,684)	(6,773)
Share of profits of associated companies	-	-	-	-	278
<b>Profit on ordinary activities before tax</b>	<b>26,164</b>	21,126	15,762	13,922	16,747
Tax on profit on ordinary activities	<b>(9,383)</b>	(5,762)	(2,520)	(3,473)	(2,692)
<b>Profit on ordinary activities after tax</b>	<b>16,781</b>	15,364	13,242	10,449	14,055
Profit attributable to minority interest	-	-	-	(109)	(243)
<b>Profit for the financial year/period attributable to shareholders</b>	<b>16,781</b>	15,364	13,242	10,340	13,812
<b>Earnings per share</b>	<b>46.0c</b>	42.1c	36.3c	28.3c	37.9c

## Group Balance Sheet - 5 year summary

	<u>31/12/03</u>	<u>31/12/02</u>	<u>31/12/01</u>	<u>31/12/00</u>	<u>31/12/99</u>
	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Assets</b>					
Balances with Central Bank of Malta,					
Treasury Bills and cash	133,574	171,501	119,862	96,690	94,016
Cheques in course of collection	5,637	3,986	4,513	6,027	5,615
Financial assets held for trading	2,444	2,779	5,580	4,291	–
Investments	235,059	263,912	295,524	310,417	–
Debt securities	–	–	–	–	274,382
Equity shares	–	–	–	–	21,100
Loans and advances to banks	130,700	146,000	72,010	76,739	74,976
Loans and advances to customers	922,285	890,664	878,329	847,568	816,887
Shares in subsidiary companies	–	–	–	1	1
Intangible fixed assets	339	630	921	1,208	1,079
Tangible fixed assets	31,934	28,965	26,688	23,734	19,619
Deferred tax asset	1,607	6,011	6,705	5,803	5,375
Other assets	59,248	37,627	26,332	20,309	6,692
Prepayments and accrued income	16,157	18,258	19,807	22,065	21,822
<b>Total assets</b>	<b>1,538,984</b>	<b>1,570,333</b>	<b>1,456,271</b>	<b>1,414,852</b>	<b>1,341,564</b>
<b>Liabilities</b>					
Financial liabilities held for trading	8,611	6,402	405	–	–
Amounts owed to banks	32,367	64,563	60,615	54,976	37,585
Amounts owed to customers	1,267,378	1,303,140	1,223,077	1,183,409	1,147,007
Debt securities in issue	12	12	12	16,122	16,124
Other liabilities	62,080	39,780	29,687	26,820	10,327
Accruals and deferred income	15,676	17,848	18,204	20,642	19,470
Provisions for liabilities and other charges	1,698	1,591	229	214	5,881
Subordinated liabilities	20,000	20,000	20,000	20,000	19,990
Minority interests	–	–	–	–	884
	<b>1,407,822</b>	<b>1,453,336</b>	<b>1,352,229</b>	<b>1,322,183</b>	<b>1,257,268</b>
<b>Shareholders' funds</b>					
Called up issued share capital	9,120	9,120	9,120	9,120	9,120
Revaluation reserves	10,978	7,933	6,420	7,790	8,121
Other reserve	4,242	4,242	4,242	4,242	4,242
Profit and loss account	92,595	92,572	82,363	70,095	62,339
Dividend reserve	14,227	3,130	1,897	1,422	474
	<b>131,162</b>	<b>116,997</b>	<b>104,042</b>	<b>92,669</b>	<b>84,296</b>
<b>Total liabilities</b>	<b>1,538,984</b>	<b>1,570,333</b>	<b>1,456,271</b>	<b>1,414,852</b>	<b>1,341,564</b>
<b>Memorandum items</b>					
Contingent liabilities	38,818	47,634	36,117	31,508	31,314
Commitments	297,631	287,605	264,622	270,074	256,598

## Group Cash Flow Statement - 5 year summary

	<b>12 mths to 31/12/03</b>	12 mths to 31/12/02	12 mths to 31/12/01	12 mths to 31/12/00	15 mths to 31/12/99
	<b>Lm000</b>	Lm000	Lm000	Lm000	Lm000
<b>Net cash flows (used in)/from operating activities</b>	<b>(46,773)</b>	(10,626)	50,830	(28,429)	23,065
<b>Cash flows from investing activities</b>					
Dividends received	125	122	144	482	522
Interest received from investment securities	8,060	12,149	11,073	16,067	28,880
Proceeds on disposal of available-for-sale instruments	9,986	8,728	16,966	–	–
Proceeds on maturity/disposal of investment securities	72,588	91,044	86,768	110,763	202,340
Proceeds on liquidation of subsidiaries	–	–	1	–	–
Proceeds on disposal of associated companies	–	–	–	360	6,326
Proceeds on disposal of tangible fixed assets	48	51	74	37	67
Purchase of available-for-sale instruments	(1,812)	(297)	(27,960)	–	–
Purchase of investment securities	(50,295)	(70,826)	(51,507)	(140,342)	(184,484)
Purchase of tangible fixed assets	(5,373)	(6,525)	(5,130)	(6,190)	(3,982)
Purchase of shares in subsidiary companies	–	–	–	(1,412)	–
Premium paid on acquisition	–	–	–	–	(1,026)
<b>Net cash flows from/(used in) investing activities</b>	<b>33,327</b>	34,446	30,429	(20,235)	48,643
<b>Cash flows from financing activities</b>					
Dividends paid	(5,691)	(3,794)	(2,608)	(1,660)	(3,201)
Decrease in debt securities in issue	–	–	(16,110)	(2)	(1)
<b>Net cash used in financing activities</b>	<b>(5,691)</b>	(3,794)	(18,718)	(1,662)	(3,202)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(19,137)</b>	20,026	62,541	(50,326)	68,506

## Group Accounting Ratios - 5 year summary

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	%	%	%	%	%
Net interest income and other operating income to total assets	<b>3.5</b>	3.3	3.5	3.4	4.1
Operating expenses to total assets	<b>2.0</b>	1.9	2.0	2.1	2.3
Profit before tax to total assets	<b>1.7</b>	1.3	1.1	1.0	1.2
Return on capital employed before tax	<b>19.1</b>	16.7	13.6	12.8	16.1
Profit after tax to equity	<b>12.8</b>	13.1	12.7	11.2	16.8
	<u><b>2003</b></u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Shares in issue (millions)	<b>36.5</b>	36.5	36.5	36.5	36.5
Net assets per share (cents)	<b>359.5</b>	320.7	285.2	254.0	229.8
Earnings per share (cents)	<b>46.0</b>	42.1	36.3	28.3	37.9
Dividend per share (cents)					
– gross	<b>70.8</b>	21.2	13.0	11.0	11.0
– net	<b>46.0</b>	13.8	8.5	7.2	7.1
Dividend cover	<b>1.0</b>	3.1	4.3	4.0	5.3

## Financial Highlights in Major Currencies

	<i>Group</i>		<i>Group</i>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>€000</b>	€000	<b>US\$000</b>	US\$000
<b>Profit and loss account</b>				
Operating income	<b>123,611</b>	119,537	<b>155,813</b>	150,678
Operating expenses	<b>(70,158)</b>	(66,216)	<b>(88,434)</b>	(83,466)
Amortisation of goodwill	<b>(674)</b>	(674)	<b>(850)</b>	(850)
Net impairment losses	<b>7,843</b>	(3,509)	<b>9,886</b>	(4,423)
Provisions for contingent liabilities and charges	<b>(21)</b>	(206)	<b>(26)</b>	(260)
<b>Profit on ordinary activities before tax</b>	<b>60,601</b>	48,932	<b>76,389</b>	61,680
Tax on profit on ordinary activities	<b>(21,733)</b>	(13,346)	<b>(27,395)</b>	(16,823)
<b>Profit for the financial year attributable to shareholders</b>	<b>38,868</b>	35,586	<b>48,994</b>	44,857
<b>Balance sheet</b>				
<b>Assets</b>				
Balances with Central Bank of Malta,				
Treasury Bills and cash	<b>309,384</b>	397,231	<b>389,983</b>	500,714
Financial assets held for trading	<b>5,661</b>	6,437	<b>7,136</b>	8,114
Investments	<b>544,444</b>	611,273	<b>686,278</b>	770,517
Cheques in course of collection	<b>13,056</b>	9,232	<b>16,458</b>	11,638
Loans and advances to banks	<b>302,727</b>	338,165	<b>381,592</b>	426,262
Loans and advances to customers	<b>2,136,197</b>	2,062,956	<b>2,692,703</b>	2,600,383
Tangible fixed assets	<b>73,966</b>	67,089	<b>93,234</b>	84,566
Other assets	<b>179,160</b>	144,823	<b>225,834</b>	182,550
<b>Total assets</b>	<b>3,564,595</b>	3,637,206	<b>4,493,218</b>	4,584,744
<b>Liabilities</b>				
Financial liabilities held for trading	<b>19,945</b>	14,828	<b>25,141</b>	18,691
Amounts owed to banks	<b>74,968</b>	149,541	<b>94,499</b>	188,498
Amounts owed to customers	<b>2,935,501</b>	3,018,333	<b>3,700,237</b>	3,804,648
Debt securities in issue	<b>28</b>	28	<b>35</b>	35
Other liabilities	<b>143,790</b>	92,139	<b>181,249</b>	116,142
Accruals and deferred income	<b>36,309</b>	41,340	<b>45,768</b>	52,109
Provisions for liabilities and charges	<b>3,933</b>	3,685	<b>4,957</b>	4,645
Subordinated liabilities	<b>46,324</b>	46,324	<b>58,392</b>	58,392
Called up issued share capital	<b>21,124</b>	21,124	<b>26,627</b>	26,627
Revaluation reserves	<b>25,427</b>	18,374	<b>32,051</b>	23,161
Other reserve	<b>9,825</b>	9,825	<b>12,385</b>	12,385
Profit and loss account	<b>214,468</b>	214,415	<b>270,340</b>	270,273
Dividend reserve	<b>32,953</b>	7,250	<b>41,537</b>	9,138
<b>Total liabilities</b>	<b>3,564,595</b>	3,637,206	<b>4,493,218</b>	4,584,744

The euro exchange rate ruling on 31 December 2003 was Lm1 = €2.3162. The US dollar exchange rate ruling on the same date was Lm1 = US\$2.9196. Comparative results have also been translated at these rates.

## Shareholder Register Data

### Directors' interest in the share capital of the company or in any related company at 31 December 2003

None of the directors had an interest in the share capital of the company or in any related company as at 31 December 2003.

### Shareholders holding 5% or more of the equity capital at 21 January 2004

HSBC Europe B.V.	70.03%
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### Number of shareholders at 21 January 2004

One class of shares (All shares have equal voting rights)	3,870 shareholders
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### Number of shareholders analysed by range

Range of shareholding	Total shareholders	Shares
1 - 500	1,563	426,847
501 - 1,000	976	781,210
1,001 - 5,000	1,082	2,416,569
5,001 and over	249	32,855,374

### Company Secretary

Philip Farrugia Randon  
233, Republic Street,  
Valletta, VLT 05  
Tel: 2597 2406

## Branches and Offices

### MALTA OFFICES

#### Registered Office / Head Office

233 Republic Street, Valletta VLT 05.  
Tel: 2597 0000 Fax: 2380 4923

#### Operations Centre

80 Mill Street, Qormi QRM 03.  
Tel: 2380 0000 Fax: 2380 4923

Hexagon House, Spencer Gardens,  
Blata l-Bajda HMR 12.

Tel: 2293 0000 Fax: 2293 3684

#### Information Technology

##### Operations Centre,

80 Mill Street, Qormi QRM 03.  
Tel: 2380 6380 Fax: 2380 6381

#### Legal Office

116 Archbishop Street,  
Valletta VLT 05.

Tel: 2597 2406 Fax: 2597 2418

#### Contracts Centre

32 Merchants Street, Valletta VLT 10.  
Tel: 2597 3384, 2597 3387

Fax: 2597 3306

#### Inheritance Unit

15 Republic Street, Valletta VLT 04.

Tel: 2125 1472, 2122 7415

Fax: 2123 1076

#### Payment Services Department

Operations Centre, 80 Mill Street,  
Qormi QRM 03.

Tel: 2380 5900 Fax: 2380 4842

#### Premier Centre

233, Republic Street, Valletta VLT 05.

Tel: 2597 2904 Fax: 2597 2219

#### Securities Centre

Zabbar Road, Fgura PLA 16.

Tel: 2167 7905, 2167 7909

Fax: 2167 7892

#### Small & Medium Size

##### Enterprises Unit

Small Enterprise Centre, Marsa  
Industrial Estate, Marsa.

Tel: 2125 1459, 2125 1747

Fax: 2125 1458

#### Trade Services

1st Floor, St. Andrews Road,  
St. Andrews STJ 07.

Tel: 2324 8897 Fax: 2324 8890

#### Balzan

Pjazza Bertu Fenech BZN 06.

Tel: 2380 2380 Fax: 2380 1190

#### Birkirkara

1, Naxxar Road BKR 07.

Tel: 2380 2380 Fax: 2334 1690

#### Birkirkara (Agency)

Sanctuary Street BKR 03.

Tel: 2144 0406 Fax: 2144 0406

#### Birkirkara (Commercial Centre)

1, Naxxar Road BKR 07.

Tel: 2334 1671 Fax: 2334 1691

#### Birzebbugia

2, Birzebbugia Road BBG 05.

Tel: 2380 2380 Fax: 2361 4790

#### Blata l-Bajda (Commercial Branch)

Hexagon House,  
Spencer Gardens HMR 12.

Tel: 2293 3407 Fax: 2293 3697

#### Bugibba

Misrah il-Bajja SPB 04.

Tel: 2380 2380 Fax: 2334 7390

#### Cospicua

50, Triq il-Pellegrinagg CSP 02.

Tel: 2380 2380 Fax: 2293 4090

#### Fgura

Wesghat il-Kunsill ta' l-Ewropa PLA 17.

Tel: 2380 2380 Fax: 2361 8790

#### Fgura (Automated Office)

Galleria Shopping Complex, Fgura

#### Floriana

Development House VLT 01.

Tel: 2380 2380 Fax: 2597 8990

#### Gharghur (Agency)

17, St. Bartholomew Street NXR 07.

Tel: 2141 3499 Fax: 2141 9477

#### Gudja (Agency)

1, Main Street ZTN 12.

Tel: 2182 1385 Fax: 2169 5607

#### Gzira

196, The Strand GZR 03.

Tel: 2380 2380 Fax: 2324 3990

#### Hamrun

121, St. Joseph Road HMR 02.

Tel: 2380 2380 Fax: 2597 2390

#### Luqa

143, Carmel Street LQA 04.

Tel: 2380 2380 Fax: 2361 5090

#### Luqa (Bureau)

Malta International Airport, LQA 05.

Arrivals Area - Tel: 2180 1957/8

Fax: 2180 1938

Customs Area - Tel: 2180 1912

#### Marsa

19, Cross Road HMR 17.

Tel: 2380 2380 Fax: 2293 3790

#### Marsascala (Automated Office)

St. Anthony Street ZBR 11.

#### Marsaxlokk (Agency)

Zejtun Road ZTN 09.

Tel: 2165 0667, 2165 8101

Fax: 2165 0668

#### Mellieha

6, Gorg Borg Olivier Street MLH 06.

Tel: 2380 2380 Fax: 2334 6890

#### Mosta

63, Constitution Street MST 08.

Tel: 2380 2380 Fax: 2334 6190

#### Mosta (Commercial Centre)

63, Constitution Street MST 08.

Tel: 2334 6174 Fax: 2334 6191

#### Msida

52, Msida Seafont MSD 08.

Tel: 2380 2380 Fax: 2597 8590

#### Msida, University of Malta

Room 6, Ground Floor,  
Humanities Building MSD 06.

Tel: 2132 0550, 2134 5081

Fax: 2133 1377

#### Paceville (Automated Office)

Eden Super Bowl, Paceville.

#### Paola

12, Antoine De Paule Square PLA 06.

Tel: 2380 2380 Fax: 2361 1390

#### Paola (Commercial Centre)

12, Antoine De Paule Square,

Paola PLA 06.

Tel: 2361 1360 Fax: 2361 1392

#### Qormi

38, St. Sebastian Street QRM 07.

Tel: 2380 2380 Fax: 2380 5490

#### Rabat

12, Saqqajja Square RBT 12.

Tel: 2380 2380 Fax: 2334 5890

#### San Gwann

Naxxar Road SGN 08.

Tel: 2380 2380 Fax: 2324 7590

#### St. Andrews

St. Andrews Road STJ 07.

Tel: 2380 2380 Fax: 2324 8894

#### St. Julians

St. George's Road STJ 10.

Tel: 2380 2380 Fax: 2324 2090

#### St. Paul's Bay

St. Paul's Street SPB 09.

Tel: 2380 2380 Fax: 2334 6490

#### St. Venera

Fleur-de-Lys Junction BKR 02.

Tel: 2380 2380 Fax: 2380 2790

#### Sliema

High Street SLM 01.

Tel: 2380 2380 Fax: 2324 6090

#### Sliema (Commercial Centre)

High Street SLM 01.

Tel: 2324 6071 Fax: 2324 6092

#### Sliema

112, Manwel Dimech Street SLM 14.

Tel: 2380 2380 Fax: 2324 8090

#### Sliema - The Plaza (Automated Office)

Bisazza Street, Sliema SLM 15.

#### Tarxien

Main Street PLA 12.

Tel: 2380 2380 Fax: 2293 1290

#### Valletta

32, Merchants Street VLT 10.

Tel: 2380 2380 Fax: 2597 3320

#### Valletta

17, Lascaris Wharf VLT 01.

Tel: 2380 2380 Fax: 2597 2599

#### Valletta Exchange Bureau

15, Republic Street VLT 04.

Tel: 2123 9973

#### Valletta (Commercial Centre)

32, Merchants Street VLT 10.

Tel: 2597 3365 Fax: 2597 3342

#### Valletta International

##### Banking Centre

233, Republic Street VLT 05.

Tel: 2597 2687 Fax: 2597 2465

#### Valletta Share Shop

241/242, Republic Street VLT 05.

Tel: 2597 2231 Fax: 2597 2475

#### Valletta Wealth Management Office

233, Republic Street VLT 05.

Tel: 2597 2914 Fax: 2597 2926

#### Zabbar

15B, Sanctuary Street ZBR 02.

Tel: 2380 2380 Fax: 2361 4290

#### Zebbug

254, Main Street ZBG 04.

Tel: 2380 2380 Fax: 2293 4490

#### Zejtun

25th November Avenue ZTN 05.

Tel: 2380 2380 Fax: 2361 5690

#### Zurrieq

38, High Street ZRQ 03.

Tel: 2380 2380 Fax: 2361 7890

## Branches and Offices (continued)

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### GOZO OFFICES

**Victoria**

90, Republic Street VCT 103.  
Tel: 2380 2380 Fax: 2293 7190

**Victoria****Wealth Management Centre**

43, Republic Street VCT 103.  
Tel: 2156 5752, 2156 5753, 2156 5247  
Fax: 2156 5754

**Nadur** *(Agency)*

18, St.Peter & St.Paul Sqr NDR 103.  
Tel: 2155 6362 Fax: 2155 6362

**Xaghra** *(Agency)*

8th September Avenue XRA 103.  
(Corner with Victory Street)  
Tel: 2155 6313 Fax: 2155 6313

**Xlendi** *(Automated Office)*

Calleja Flats, Flat 1,  
Rabat Road VCT 115.

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### OVERSEAS REPRESENTATIVE OFFICE

**Canada**

3300, Bloor Street West  
Centre Tower, Suite 1110  
Toronto, Ontario, M8X 2X3.  
Tel: 001 416 7635018,  
001 416 7635649  
Fax: 001 416 7636104

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### SUBSIDIARY COMPANIES

**HSBC Fund Management  
(Malta) Ltd**

114, The Strand, Gzira GZR 03.  
Tel: 2324 5126 Fax: 2324 5190

**HSBC Home Loans (Malta) Ltd**

Hexagon House, Spencer Gardens  
Blata l-Bajda HMR 12.

Tel: 2380 4689 Fax: 2380 6298

Operations Centre, 80 Mill Street,  
Qormi QRM 03.

Tel: 2380 4689 Fax: 2380 6298

**HSBC Life Assurance (Malta) Ltd**

Wesghat il-Kunsill ta' l-Ewropa,  
Fgura PLA 17.

Tel: 2361 8699 Fax: 2361 8690

**HSBC Stockbrokers (Malta) Ltd**

233, Republic Street Valletta VLT 05.  
Tel: 2597 2241 Fax: 2597 2494

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**HSBC Bank Malta p.l.c.**

233, Republic Street, Valletta VLT 05, Malta

Telephone: 356 2597 0000 Free phone: 8007 4444

Facsimile: 356 2380 4923

Web: [www.hsbc.com.mt](http://www.hsbc.com.mt)