

HSBC Bank Malta p.l.c.

*Annual Report
and Accounts*

The world's local bank



The HSBC Group

HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises over 9,700 offices in 77 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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Chairman's Statement



I am pleased to advise that 2005 was another record year for HSBC Bank Malta p.l.c.

Performance

Profit before taxation increased by 11.7% to Lm36.7 million. This excellent result was underpinned by a strong performance from all areas of the organisation.

Costs remained under control with only a marginal increase. This containment of costs was achieved in spite of significant increases in business volumes and through continued investment in more efficient processes without reducing customer service.

The bank's subsidiary companies in the areas of Fund Management, Life Assurance and Stockbroking all had record results and contributed to our strong performance.

Profit attributable to shareholders increased by 9.3% to Lm24.1 million. The Board is recommending a final gross ordinary dividend of 19.1 cents per share and a gross special dividend of 21.1 cents per share.

This follows on the gross dividend per share of 46.5 cents paid in August 2005 and brings the total gross dividend for the year to 86.7 cents. Dividends are being charged to retained earnings in the year they are declared and therefore this final dividend will feature in next year's accounts. The gross dividend yield at year end market price for payments made during 2005 stood at 7.5%. Furthermore the board is also recommending a three-for-one bonus issue.

As at time of publication shareholders have seen a strong rise in the value of their shares. At the beginning of 2005 market capitalisation stood at Lm291.5 million. However, this doubled at 31 December 2005 to Lm583.7 million. HSBC Bank Malta p.l.c., a subsidiary of London-based HSBC Holdings plc, is the largest listed company in Malta.

Strategy

The bank continued with the HSBC Group's 'Managing for Growth' strategy focusing on customers in line with our core business values. The key objective is to remain the leading financial services organisation in Malta by being totally customer-driven, ensuring the bank provides products and services designed to meet the requirements of our personal, corporate and institutional customers. This necessitates investing in technology and training to enhance our delivery channels and customer services.

Surveys found that customer satisfaction in our personal and corporate businesses achieved record highs of 89.2% and 90% respectively in 2005.

Human resource activities were focused on sales training, new performance-based incentive and reward compensation schemes, career development and talent management schemes. I am also pleased to report that this year a new position, Head of Diversity, was established to implement our diversity programme and policy to ensure that all members of staff have the chance to develop their career in the spirit of meritocracy.

Corporate Social Responsibility

HSBC is very conscious that it is an integral member of the community in which it operates and that this is necessary if it is to continue to flourish and thrive in its business activities. Community involvement and business integrity are as important as earnings. That is why the bank is a market leader in demonstrating its



The bank launched its third Fund "HSBC Cares For Malta's Heritage Fund" on 25 October 2005.

Hypogeum, Tarxien, Malta - World Heritage site.



H.M. Queen Elizabeth II arriving at the HSBC sponsored World Children's Day celebrations, at the Cottonera Sports Complex on 24 November 2005, accompanied by Mrs Chatherine Gonzi, Chairperson of the HSBC Cares For Children Fund.

corporate social responsibility in trying to contribute in the enhancement of quality of life in Malta.

The HSBC Cares For Children Fund was set up to help underprivileged children. In 2004 the HSBC Cares For The Environment Fund was established to contribute to the improvement of the Maltese environment. Following the success of these two funds and their beneficial contribution to Maltese society, in July 2005 it was announced that a new HSBC Cares For Malta's Heritage Fund was being set up to protect Malta's rich cultural treasures for the benefit of future generations. The bank also approved a special donation of Lm100,000 to corporate social responsibility programmes and existing community initiatives under these funds. The success of these initiatives involves significant participation by our staff as much as financial contribution by the bank itself.

Together, the three funds contributed Lm213,000 and supported a wide range of charitable institutions and projects ranging from afforestation to promoting Malta's heritage. During the year, the bank also sponsored a number of social and cultural events which included promoting financial literacy and supporting various student and cultural organisations.

The bank also sponsored World Children's Day celebrations held during the state visit of Her Majesty Queen Elizabeth II prior to the Commonwealth Heads of Government Meeting which was held in Malta.

International Reputation

HSBC's reputation is synonymous with integrity, trust and customer service. During 2005 we contributed to our strong international brand by winning various awards and participating in a number of events both locally and internationally. Undoubtedly, one of the major events of the year was Commonwealth Heads of Government Meeting and the HSBC-sponsored

Commonwealth Business Forum which was a platform to promote Malta.

Board

During 2005, there was one change to the Board of Directors. Mr Dyfrig John resigned after being appointed Deputy Chief Executive of HSBC Bank plc in the UK and was replaced by the present Chief Operating Officer of HSBC Bank plc, Mr David Budd. I would like to convey my thanks to Dyfrig John for his valuable and excellent contribution to our organisation since his appointment in January 2003 and wish him every success in his new role. I also welcome David Budd whose presence on our Board is evidence of the importance and esteem given to our organisation by the HSBC Group.

The Board presently has an excellent mix of members which together bring with them the wealth of experience and knowledge required to take this organisation forward. Besides myself as Chairman, the Board is composed of two local executives and two expatriate executives, three Maltese prominent non-executive directors and one overseas-based Director complete the Board.

Outlook

Looking forward, we believe that we have the right strategy, structure and resources to continue our strong performance. In 2006 we shall continue to invest and build on our service and our success.

I would like to take this opportunity to express my gratitude and appreciation to the Board of Directors and to the directors of the subsidiaries for their expertise and stewardship in making 2005 another excellent year. My sincere thanks and congratulations go to a dedicated and professional workforce, without whose commitment these excellent results would not have been attained.

Finally, I would like to thank our shareholders for their continued support and our customers for their custom and loyalty towards our organisation.

Albert Mizzi, *Chairman*
16 February 2006

Chief Executive Officer's Review of Operations



2005 has been another successful year for HSBC Bank Malta p.l.c. with growth across all our key lines of business. This is reflected in a strong set of financial results.

This growth was achieved through a strong customer focus, sales and marketing culture and ethical values through our principal customer groups: Personal Financial Services, Commercial Banking and Corporate, Investment Banking and Markets.

Personal Financial Services

Personal Financial Services encompasses a broad range of banking and related financial services for personal customers and small businesses. This customer group is expanding strongly, generating significant levels of interest and non-interest income through Retail Banking, Consumer Finance, Home Loans, Wealth Management, Private Clients, Funds' Management, Insurance and Stockbroking, all of which enjoyed success in 2005.

Customer needs are at the core of our thinking in terms of solutions, products and services to our clients. 2005 saw extended banking hours, new and refurbished branches and ATMs and upgraded Internet and Telephone Banking services.

We continued to lead the market with innovative products and campaigns including Sharesops, new Funds, a 48-hour 'Home Loan Service Promise', 'Sales', Cash Rewards on Card Usage, Repatriation

of Overseas Funds, Charity Auction finance etc. This strategy delivered strong growth in our Consumer Finance business and HSBC maintained its position as market leader in the competitive home loans market.

Assets were not the only part of the Personal Financial Services business to see strong growth, with our Fund Management and Insurance companies also enjoying excellent growth. Our success in these areas is reflected by the fact that customer satisfaction is at an all time high. We are very aware of the fact that it is our satisfied customers who become our loyal customers and loyal customers who buy our products and services.

Following new legislation, the bank was the first organisation locally to apply and be granted a licence to offer Trust services. With the global expertise and support of the HSBC Group, this area has seen good growth.

The bank is also well prepared for the provision of Private Pensions. Again drawing on expertise across the HSBC Group, we have invested time and resources in ensuring that as legislation is enacted we will be well positioned to assist our personal and corporate customers with decisions on their retirement planning.

Use of our automated delivery channels continues to grow as customers appreciate the convenience that different channels provide. Transactions via ATMs, registrations for internet and mobile services all



HSBC's new branch in Naxxar opened on 11 April 2005.



Louis A. Farrugia, Chairperson of the Commonwealth Business Forum Steering Committee and non-executive Director, HSBC Bank Malta p.l.c., addressing the forum on 22 November 2005.

witnessed significant growth. Our Call Centre team also continued to provide the very highest levels of customer service in a timely and efficient manner as measured against our global benchmarks. Investment priorities in 2005 focused on the latest technology on our main IT systems, upgrading our shop card terminals, and mobile phone banking and refreshing our internet website.

Finally, we ensured that staff were rightly rewarded for their outstanding contribution through a progressive programme of empowerment and an enhanced bonus scheme which has meant significantly bigger payouts for our very best performers.

Commercial Banking

During the last year we rebranded our Commercial banking business. Our strategy was centred on broadening and deepening of relationships with our customers. Businessmen and entrepreneurs were provided with a dedicated business banking service, focused on understanding and identifying their needs. This strategy was supported by marketing campaigns under the theme 'we understand that business is personal', in which many of our customers provided testimonials endorsing our service quality.

Our business banking services include international business solutions, payment and cash management, business lending and finance, trade finance, insurance and protection, business savings and investments, and telephone, branch and electronic banking. This comprehensive range of commercial services is provided through specialised staff operating from our

centralised commercial branch and from strategically located commercial centres.

HSBC Bank Malta was the principal sponsor of the Commonwealth Business Forum which took place in parallel with the Commonwealth Heads of Government Meeting. This event was attended by more than 500 delegates, bringing together political and business leaders to discuss opportunities for trade between the Commonwealth, Europe and the Mediterranean. The occasion provided an opportunity for the HSBC Group to endorse Malta as a good place to do business.

Corporate, Investment Banking and Markets

Record results were also registered in our Treasury Capital Markets business mainly as a result of higher foreign exchange turnover and trading profits.

During the year a substantial increase in Custody services from overseas HSBC Group customers resulted in Funds under Custody exceeding Lm379 million. Our custody operation now forms part of the HSBC Group's global custody and clearing operating platform.

In Stockbroking, record profits were also generated for the bank and HSBC has the largest market share of Malta Stock Exchange turnover by value. In this area we also assisted both local and international customers in corporate advisory services and acted as one of the main sponsoring brokers and managers in the Government's sale of Malta International Airport shares.

Treasury also supported our Personal Financial Services, Private Clients and Corporate customers by

Chief Executive Officer's Review of Operations (continued)

drawing upon the HSBC Group's global treasury and investment advice, solutions and execution.

Human Resources

During the year the bank continued comprehensive training for staff and enhanced its internal communications. We introduced a number of initiatives to assist staff members in developing their careers and to ensure they are justly rewarded according to their performance. We are committed to continue investing in our workforce and further empowering colleagues. It is only through their enthusiasm, professionalism, commitment and teamwork that we can remain market leaders.

In line with Group principles a Diversity strategy was designed to recognise and value the contribution of all individuals irrespective of gender, race, age, creed or culture. HSBC believes that a diverse workforce helps the bank to deliver its full potential both as a business and as a member of the community. The diversity strategy currently focuses on gender equality and ensures the opportunity for equal career development.

The bank also supported staff in various activities related to worthy causes. At present we have two senior managers seconded to charitable institutions and we have recently seconded another member of staff to the Ministry for Rural Affairs and the Environment, to lead their afforestation projects. A number of employees also participated in the global Earthwatch field research programme and such activities as Corporate Social Responsibility day, planting of trees and similar community initiatives.

Good relations exist with our trade unions and we work together to improve conditions and opportunities for all our staff.

Awards and Achievements

As in previous years, our organisation has contributed to our strong international brand by winning various awards.

Locally, the bank won the 'Conservation Award For Sustainable Development' as part of the 2005 Environment Awards for Industry. We were also recognised by the Foundation for Human Resources Development as having the best human resource initiative for our work on Diversity.

Internationally, the bank was named 'Best Bank in Malta' by the leading American Global Finance magazine for the second consecutive year. The bank was also nominated for two financial innovation awards by the Institute of Financial Services in the categories

of 'Most Promising New Product - Banking' and 'Most Effective Front Office Initiative'.

Outlook

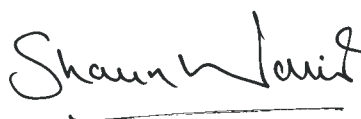
The financial sector in Malta continues to be a force for economic growth. HSBC Bank Malta has contributed to this development and to the increase in customer choice and market competition.

The task before us is both to build on the progress made over the years and to invest in the future. We will build on our customer-driven philosophy through the implementation of a much improved Customer Relationship Management System developed by the HSBC Group.

Importance will continue to be given to cost management and investing in alternative delivery systems to provide customers with a greater choice in the way they interact with the bank.

Integration of our local operations with the rest of the HSBC Group will continue so we can benefit from pooled expertise and shared synergies. Initiatives such as the outsourcing of back office administration from HSBC Life in Dublin to Malta and the establishment of a new HSBC Group insurance management operation in Malta will continue. The latter will also provide the Group's customers with an excellent alternative for captive insurance business.

Based on these excellent results, I am convinced that with the continued support and ongoing commitment of our staff, customers, suppliers and shareholders, HSBC Bank Malta p.l.c., will continue to grow and to enhance its reputation as the leading provider of financial services in Malta.



Shaun Wallis, *Chief Executive Officer*
16 February 2006

Board of Directors

Albert Mizzi, NON-EXECUTIVE CHAIRMAN

Age 78. Non-Executive Chairman of HSBC Bank Malta p.l.c. since June 1999. In 1946, joined family business Alf. Mizzi & Sons Ltd. and was Chairman for several years. In the 1960s he was heavily involved in private banking and appointed director of Medport. Established a number of Malta's important parastatal businesses: Air Malta, Sea Malta, Medserv, Mediterranean Insurance Brokers and Middle Sea Insurance. Following the setting up of Air Malta in 1973, he served as its Chairman for 19 years.

Shaun Wallis, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Age 50. Director of HSBC Bank Malta p.l.c. since acquisition of Mid-Med Bank p.l.c. in June 1999. Executive of the HSBC Group since 1978. He has occupied a number of senior managerial positions within the HSBC Group in different countries. Most recent appointment was General Manager International responsible for HSBC Bank plc's overseas operations in Europe. Chief Executive Officer of HSBC Bank Malta p.l.c. since September 2004.

Martin Wilkins, DIRECTOR AND CHIEF OPERATING OFFICER

Age 55. 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 the UK, USA and continental Europe.

David Budd, NON-EXECUTIVE DIRECTOR

Age 52. Director of HSBC Bank Malta p.l.c. since September 2005. Has occupied various top managerial posts within the HSBC Group world-wide since 1975. He was an executive Director and Chief Operating Officer of HSBC Bank Brasil S.A.-Banco Múltiplo between 2000 and 2002. Subsequently he was President and Chief Executive Officer of HSBC Bank Argentina S.A. from January 2003 to May 2005. He is now an executive Director and Chief Operating Officer of HSBC Bank plc.

Philip Farrugia Randon, DIRECTOR

Age 56. Director of HSBC Bank Malta p.l.c. since June 2004. Graduated LL.D. in 1973 and joined the bank in 1974 as a legal adviser. Held the post of Company Secretary of the bank for several years. Also holds the post of Head of Group Legal Department of HSBC Bank Malta p.l.c.

Charles John Farrugia, DIRECTOR

Age 48. Director of HSBC Bank Malta p.l.c. since November 2004. Joined the bank in 1975. Was appointed Chief Dealer in 1995, Group Senior Treasury Manager in 1999 and Managing Director of HSBC Stockbrokers (Malta) Limited in 2001. Currently holds the post of Head of Corporate, Investment Banking and Markets of HSBC Bank Malta p.l.c.

Louis Farrugia, NON-EXECUTIVE DIRECTOR

Age 54. 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.

Victor Scicluna, NON-EXECUTIVE DIRECTOR

Age 67. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2001. A Certified Public Accountant. Currently Chairman of the Board of Governors of the Malta College of Arts, Science and Technology and Chairman of the Malta Council for Economic and Social Development.

Peter Paul Testaferrata Moroni Viani, NON-EXECUTIVE DIRECTOR

Age 45. 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.

George Brancaleone, COMPANY SECRETARY

Age 44. Company Secretary of HSBC Bank Malta p.l.c. since June 2004. Joined the bank in 1980 and graduated LL.D. in 1988. Company Secretary of various HSBC subsidiaries in Malta since 2001. Presently holds the post of Senior Manager at Group Legal Department of HSBC Bank Malta p.l.c.

Financial Review

Summary of Financial Performance

Group profit

During the year ended 31 December 2005, HSBC Bank Malta p.l.c. and its subsidiaries generated a profit before tax on ordinary activities of Lm36.7 million, an increase of Lm3.9 million or 11.7 per cent compared with the year ended 31 December 2004.

Profit attributable to shareholders was Lm24.1 million, an increase of Lm2.1 million on the previous year.

Net interest income grew by 13.2 per cent over prior year and contributed Lm46.9 million to total operating income.

Net non-interest income levels grew by 16.3 per cent, contributing Lm21.8 million to net operating income.

Operating expenses were Lm32.1 million, an increase of Lm0.5 million over prior year figures.

As a result, the group's cost to income ratio improved to 46.7 per cent from 52.5 per cent in 2004.

Net impairment reversals contributed Lm0.1 million to profitability.

Shareholder ratios

Earnings per share increased from a 2004 figure of 30.2 cents to 33.0 cents, with the pre-tax return on average equity increasing from 24.7 per cent in 2004 to 27.6 per cent.

The Board is recommending a final ordinary dividend of 19.1 cents gross per share and a special dividend of 21.1 cents gross per share, giving a total final dividend of 40.2 cents gross per share. This follows on the gross interim dividend of 19.1 cents and a special dividend of 27.4 cents paid in August 2005.

Net interest income

Net interest income grew by 13.2 per cent, over prior year levels, and contributed Lm46.9 million to total operating income.

Local monetary policy conditions were stable following a 25 basis points increase in the Central Intervention Rate in April 2005.

International currency retail deposits followed market interest rate trends. Sterling and euro rates were generally flat offset by a strong increase in US dollar rates.

During the year the full Lm20.0 million tranche of 7.25% subordinated unsecured loan stock liabilities was redeemed.

Year-end group balance sheet assets increased by Lm51.5 million to Lm1,650.7 million during 2005.

There was strong growth in mortgage and commercial lending offset by lower exposures to Malta Government Treasury Bills and parastatal entities.

Non-interest income

Non-interest income levels, net of insurance policyholders' liability movements and claims, grew by 16.3 per cent, contributing Lm21.8 million to net operating income.

Net fee income contributed Lm11.1 million, significantly up on last year's Lm8.8 million. Sales of wealth and fund management products recorded significantly higher volumes of activity than the prior year whilst customer usage of cards and transaction banking recorded stronger growth.

Trading profits increased by 9.8 per cent to Lm7.2 million supported by an active foreign exchange market and increased turnover in spite of the local currency joining ERM II in May 2005.

Balance sheet liabilities under insurance contracts increased by 22.9 per cent over prior year. This resulted in a stronger contribution of life assurance business activities to profitability levels.

The contribution is recorded through higher premium income and fair value gains offset against policyholders' liability movements and claims.

Operating expenses

Operating expense levels grew by 1.6 per cent to reach Lm32.1 million.

Employee compensation and benefits were Lm20.1 million, up on a prior year Lm19.7 million reflecting higher expenditure on performance based employee bonus and share payment schemes and lower voluntary retirement payouts.

General and administrative expenses increased to Lm9.1 million from last year's Lm8.6 million as a result of increased business volumes. Progress continues to be made to improve efficiency and automation.

Depreciation and amortisation charges decreased to Lm2.8 million from a prior year level of Lm3.1 million as goodwill amortisation charges were fully written off during the prior year.

Net impairment reversals

There were no significant lending impairment issues during the year.

Net impairment reversals contributed Lm0.1 million to profitability. New specific allowances of Lm1.6 million were raised offset by a release of Lm0.7 million in collective allowances.

Bad debt write-offs of Lm4.1 million were effected. These were fully provided for in prior years and contributed towards the reversing of Lm5.1 million in specific allowances.

Successful debt recoveries, stability in the credit quality of the lending portfolio and aged bad debt write-offs reduced non-performing loans from Lm82.3 million to Lm61.7 million and are considered appropriately provisioned.

This amount represents 6.0 per cent of gross loans and advances to customers (2004: 8.3 per cent).

Taxation

The 2005 effective rate of tax was 34.4 per cent up on a prior year 33.0 per cent. Tax on profit on ordinary activities for 2005 increased to Lm12.6 million.

Assets

Total assets increased by Lm51.5 million to Lm1,650.7 million.

Net loans and advances to customers increased by Lm39.8 million supported by strong mortgage and commercial demand offset by reductions in exposure to parastatals.

Advances to deposits ratio decreased to 74.3 per cent from a prior year end level of 75.8 per cent primarily due to an increase in deposits.

Life assurance business assets are valued as financial assets at fair value through profit or loss. This portfolio grew to Lm92.6 million from a prior year end level of Lm72.5 million.

Balances with Central Bank and Treasury Bill holdings decreased from a prior year end level of Lm96.7 million to a year end level of Lm65.4 million.

This was offset by an increase in short term liquid money market placements disclosed under the loans and advances to banks category. These balances increased from Lm111.6 million to Lm138.3 million.

Liabilities

Liabilities increased by Lm54.3 million to Lm1,519.0 million.

Amounts owed to customers increased by Lm78.6 million. This growth absorbed part of the Lm20.0 million subordinated loan stock which redeemed in June 2005.

Liabilities under insurance contracts issued increased by Lm15.1 million during the year to reach a year end level of Lm81.1 million.

Funds under management

Funds under management by the group increased by 33.8 per cent up from a prior year end level of Lm199.7 million to Lm267.1 million.

Shareholders' equity

Equity totalled Lm131.7 million at year end following the payment of Lm28.5 million in dividends paid out during 2005.

The capital solvency ratio stands at 12.93 per cent and is well in excess of regulatory capital requirements.

Report of the Directors

Results for 2005

The group reported a profit on ordinary activities before tax of Lm36.7 million for the year under review. The group's profit attributable to shareholders of the bank was Lm24.1 million.

A gross interim dividend of 46.5 cents per ordinary share was paid on 12 August 2005. The Directors have proposed a gross final dividend of 40.2 cents per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 21 February 2006. The Board is also recommending a three-for-one bonus share issue. The bonus shares will be allotted to shareholders on the register of members as at close of trading on the Malta Stock Exchange on 18 April 2006. These bonus shares will be available for trading by the shareholders at the opening of business on 19 April 2006.

Further information about the results is provided in the group income statement on page 18.

Principal activities

Principal activities of parent company

The bank is authorised to carry on the business of banking under the Banking Act, 1994 as a credit institution. It is also an authorised dealer in terms of the Exchange Control Act (Cap. 233) and a licensed financial intermediary in terms of the Financial Markets Act, 1990. The bank also holds Category 3 and Category 4 Investment Services licences issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994. These licences authorise the bank to provide both investment services to third parties and trustee or custodian services for collective investment schemes.

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

The bank had the following subsidiaries at 31 December 2005: HSBC Home Loans (Malta) Limited, HSBC Life Assurance (Malta) Limited, HSBC Fund Management (Malta) Limited, HSBC Stockbrokers (Malta) Limited, HSBC Investment Services (Malta) Limited and HSBC Malta Funds SICAV p.l.c. - Equity Growth Fund.

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. The company will be amalgamated with the bank during 2006.

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 long-term insurance contracts 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 Investment Services Act, 1994 and 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.

HSBC Malta Funds SICAV p.l.c. - Equity Growth Fund principal activity is to achieve long-term capital growth for investors, primarily by investing in the local and international equity markets.

Business review

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

Audit committee

This committee, composed of independent non-executive directors, meets regularly with the bank's senior financial, internal audit and compliance management and the independent auditors 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 HSBC 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.

Events after the balance sheet date

On 25 October 2005 the Board of Directors agreed to the amalgamation of HSBC Home Loans (Malta) Limited with HSBC Bank Malta p.l.c. on 21 April 2006 and subsequently filed the requisite statutory notices of amalgamation in accordance with the provisions of the Companies Act, 1995.

Standard licence conditions

In accordance with paragraph 10.35 of the Investment Services Guidelines regulated by the Malta Financial Services Authority, licence holders are required to include in the Directors' Report breaches of standard licence conditions. During the year under review, a minor breach was reported by the directors of a subsidiary company. No other breaches of standard licence conditions were reported, nor other breaches in relation to regulatory requirements which were subject to an administrative penalty or regulatory sanction.

Board of Directors

The Directors who served during the year are as follows:

Albert Mizzi (Chairman)
Shaun Wallis
Martin Wilkins
Dyfrig John (resigned 1 August 2005)
David Budd (appointed 1 September 2005)
Philip Farrugia Randon
Charles John Farrugia
Louis Farrugia
Victor Scicluna
Peter Paul Testaferrata Moroni Viani

Auditors

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

Approved by the Board of Directors on 16 February 2006 and signed on its behalf by:



Albert Mizzi, *Chairman*



Shaun Wallis, *Chief Executive Officer*

Statement of Compliance with the Principles of Good Corporate Governance

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

Compliance with the Principles

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

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

Internal control

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

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

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. The majority shareholder therefore has the right to appoint six Directors. Furthermore, any excess fractional shareholding not so utilised may be used to participate in the voting for the election of further Directors. Shareholders who own less than 11 per cent of the ordinary share capital participate in the election of the remaining three Directors.

The largest single shareholder (subject to a minimum 33 per cent holding of the ordinary issued share capital of the company), is entitled to appoint a Chairman from amongst the Directors appointed or elected to the Board. Every poll for the election of Directors is overseen by the bank's independent auditors.

The Board of Directors

The Board has delegated specific authority to the Chief Executive Officer to manage the activities of the bank within the limits set 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	Lm46,000
– Directors' emoluments as full-time bank employees	Lm300,000

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 plc share options as detailed in note 11 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.

Going concern

As required by Listing Rule 9.37.17, upon due consideration of the bank's profitability and balance sheet, capital adequacy and solvency, the Directors confirm the bank's ability to continue operating as a going concern for the foreseeable future.

Committees

Audit committee

This committee met five times during 2005. Its terms of reference are modelled mainly on the recommendations in the Cadbury Report and the principles noted above. Additional terms of reference have been adopted by this committee to align with Group's requirements. The audit committee, having been approved by the Listing Authority in this regard in terms of Listing Rule 8.65.1, also considers the arm's length nature of related party transactions that the bank carries out. 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 independent auditors attend the meetings. The Head of Audit has a right of direct access to the chairman of the committee at all times.

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.

Remuneration committee

The bank felt that it was appropriate to establish a remuneration committee similar to those found within the HSBC Group. As this committee was formed at the end of October 2005, only one meeting was held. This committee meets primarily to review compensation policy of HSBC Bank Malta p.l.c. and make annual recommendations which are then sent to HSBC Bank plc for concurrence on pay review, salary increases and bonuses for key management personnel. The remuneration committee is chaired by Mr Albert Mizzi (non-executive chairman) and comprises the Chief Executive Officer and the Chief Operating Officer.

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

Asset and liability management committee ('ALCO')

This committee reviews the following balance sheet risks and ensures their prudent management: interest rate risk, liquidity and funding, foreign exchange risk, and credit and counterparty risk using a portfolio approach (including market sector risk) and country risk. Furthermore, ALCO monitors the external environment and measures the impact on profitability of factors such as interest rate volatility, market liquidity, exchange rate volatility, monetary and fiscal policies and competitor bank actions.

The Chief Executive Officer has primary responsibility for ensuring efficient development of asset and liability management. Membership consists of senior executives with responsibility for the following functions: corporate banking, retail banking, treasury, financial control, marketing, and credit.

The ALCO, which is chaired by the Chief Executive Officer and deputised by the Chief Operating Officer, meets once a month.

Shareholders

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

Besides these meetings, the bank has each year for the past four 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.

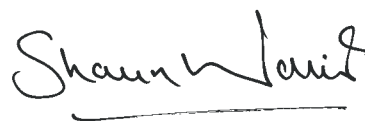
Directors' dealings

On joining the Board and regularly thereafter, Directors are informed and reminded of their obligations on dealing in securities of the bank within the parameters of law and the Listing Rules. A proper procedure of reporting advanced notices has been endorsed by the Board in line with the Principles and the Listing Rules.

On behalf of the Board



Albert Mizzi, *Chairman*



Shaun Wallis, *Chief Executive Officer*

Report of the Independent Auditors to the Shareholders of HSBC Bank Malta p.l.c. pursuant to Listing Rule 8.28 issued by the Listing Authority

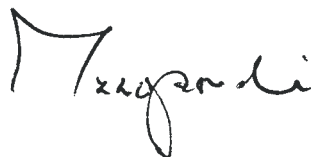
Listing Rules 8.26 and 8.27 issued by the Listing Authority, require the bank's Directors to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as independent auditors of the bank, is laid down by Listing Rule 8.28, which requires us to include a report on this statement of compliance.

We read the statement of compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

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

In our opinion, the statement of compliance set out on pages 12 to 14 provides the disclosures required by the Listing Rules 8.26 and 8.27 issued by the Listing Authority.



Ray Azzopardi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pietà
Malta

16 February 2006

Statement of Directors' Responsibilities

The Companies Act, 1995 (the "Act") requires the directors to prepare financial statements for each financial period which give a true and fair view of the financial position of the bank and the group as at the end of the financial period and of the profit or loss of the bank and the group for that period in accordance with the requirements of International Financial Reporting Standards.

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

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


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

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

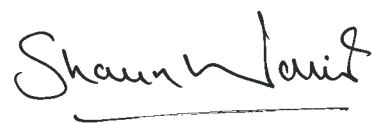
The Directors, through oversight of management, are responsible to ensure that the bank and the group establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable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

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

Signed on behalf of the Board of Directors on 16 February 2006 by:



Albert Mizzi, *Chairman*



Shaun Wallis, *Chief Executive Officer*

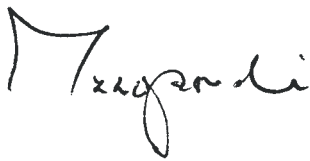
Report of the Independent Auditors to the Shareholders of HSBC Bank Malta p.l.c.

We have audited the financial statements set out on pages 18 to 76. As described on page 16, these financial statements are the responsibility of the bank's directors. Our responsibility is to express an opinion on these 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 examining, on a test basis, 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 on the financial statements.

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, these financial statements give a true and fair view of the financial position of the bank and the group as at 31 December 2005 and of the results of their operations and their cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.



Ray Azzopardi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pietà
Malta

16 February 2006


Income Statement for the year 1 January 2005 to 31 December 2005

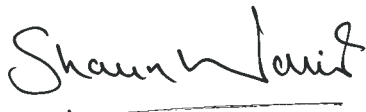
	Note	Group		Bank	
		2005 Lm000	2004 Lm000	2005 Lm000	2004 Lm000
Interest receivable and similar income					
– on loans and advances, balances with					
Central Bank of Malta and Treasury Bills	3	60,994	56,531	58,048	53,088
– on debt and other fixed income instruments	3	13,205	12,276	12,196	11,817
Interest payable	4	(27,327)	(27,413)	(27,648)	(27,717)
Net interest income		46,872	41,394	42,596	37,188
Fees and commissions receivable		11,866	9,567	9,342	7,685
Fees and commissions payable		(814)	(765)	(686)	(646)
Net fee and commission income	5	11,052	8,802	8,656	7,039
Dividend income	6	473	363	22,604	5,709
Trading profits	7	7,206	6,562	7,215	6,552
Net income from insurance financial					
instruments designated at fair value					
through profit or loss		8,523	3,496	–	–
Net gains on disposal of					
non-trading financial instruments	8	1,204	1,716	1,266	1,019
Net earned insurance premium	9	16,236	14,198	–	–
Other operating income		723	737	24	50
Total operating income		92,289	77,268	82,361	57,557
Net insurance claims incurred and movement					
in policyholders' liabilities	10	(23,661)	(17,168)	–	–
Net operating income		68,628	60,100	82,361	57,557
Employee compensation and benefits	11	(20,132)	(19,656)	(19,203)	(18,698)
General and administrative expenses		(9,075)	(8,590)	(8,527)	(8,026)
Depreciation		(2,197)	(2,311)	(2,157)	(2,253)
Amortisation of intangible assets		(635)	(797)	(556)	(616)
Other operating charges		(26)	(206)	(6)	(206)
Net operating income before impairment					
reversals and provisions		36,563	28,540	51,912	27,758
Net impairment reversals	12	142	4,012	121	3,649
Reversals of provisions for liabilities					
and other charges		1	301	1	301
Profit before tax	13	36,706	32,853	52,034	31,708
Tax on profit	14	(12,642)	(10,843)	(17,854)	(10,627)
Profit for the year		24,064	22,010	34,180	21,081
Profit attributable to shareholders of the bank		24,057	22,010	34,180	21,081
Profit attributable to minority interest		7	–	–	–
Earnings per share	15	33.0c	30.2c	46.8c	28.9c

Balance Sheet at 31 December 2005

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		2005	2004	2005	2004
		Lm000	Lm000	Lm000	Lm000
Assets					
Balances with Central Bank of Malta,					
Treasury Bills and cash	16	77,121	106,806	77,118	106,781
Cheques in course of collection		9,727	4,458	9,727	4,458
Financial assets held for trading	17	3,907	4,826	3,907	4,826
Financial assets designated at fair value					
through profit or loss	18	93,131	72,533	–	–
Investments	19	224,500	238,446	254,468	268,226
Loans and advances to banks	20	162,882	131,283	202,332	172,363
Loans and advances to customers	21	1,016,084	976,296	937,813	884,868
Shares in subsidiary companies	22	–	–	20,350	19,850
Intangible assets	23	9,433	8,782	829	964
Property, plant and equipment	24	29,746	30,647	29,755	30,620
Investment property	25	961	346	–	–
Assets held for sale	26	4,918	3,150	5,864	3,150
Current tax recoverable		1,895	1,372	1,607	1,310
Other assets	27	3,522	3,715	2,699	2,856
Prepayments and accrued income	28	12,868	16,486	12,945	15,716
Total assets		<u>1,650,695</u>	<u>1,599,146</u>	<u>1,559,414</u>	<u>1,515,988</u>
Liabilities					
Financial liabilities held for trading	17	4,050	9,917	4,050	9,917
Amounts owed to banks	29	22,667	48,336	22,667	48,336
Amounts owed to customers	30	1,367,214	1,288,618	1,381,683	1,296,687
Debt securities in issue	31	12	12	–	–
Deferred tax liability	32	3,843	2,251	349	564
Liabilities to customers under investment contracts		8,297	–	–	–
Liabilities under insurance contracts issued	33	81,096	65,996	–	–
Other liabilities	34	16,755	14,522	16,192	13,306
Accruals and deferred income	35	15,035	15,101	14,942	14,818
Provisions for liabilities and other charges	36	25	26	25	26
Subordinated liabilities	37	–	19,914	–	20,000
Total liabilities		<u>1,518,994</u>	<u>1,464,693</u>	<u>1,439,908</u>	<u>1,403,654</u>
Equity					
Called up share capital	38	9,120	9,120	9,120	9,120
Revaluation reserves	39	13,105	11,473	13,041	11,479
Other reserve	39	4,242	4,242	4,242	4,242
Retained earnings		104,906	109,618	93,103	87,493
Equity attributable to shareholders		131,373	134,453	119,506	112,334
Minority interest		328	–	–	–
Total equity		<u>131,701</u>	<u>134,453</u>	<u>119,506</u>	<u>112,334</u>
Total liabilities and equity		<u>1,650,695</u>	<u>1,599,146</u>	<u>1,559,414</u>	<u>1,515,988</u>
Memorandum items					
Contingent liabilities	40	51,513	44,127	51,523	44,537
Commitments	41	419,573	330,584	430,401	346,758

The financial statements on pages 18 to 76 were approved by the Board of Directors on 16 February 2006 and signed on its behalf by:


Albert Mizzi, *Chairman*


Shaun Wallis, *Chief Executive Officer*

Statement of Changes in Equity for the year 1 January 2005 to 31 December 2005

	<i>Attributable to shareholders of the bank</i>						
	<i>Called up share capital</i>	<i>Revaluation reserves</i>	<i>Other reserve</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>							
At 1 January 2004	9,120	11,365	4,242	106,435	131,162	–	131,162
Release of net gains on available-for-sale assets transferred to the income statement on disposal	–	(1,357)	–	–	(1,357)	–	(1,357)
Net fair value adjustments on investments	–	615	–	–	615	–	615
Surplus on revaluation of freehold and long leasehold properties	–	850	–	–	850	–	850
Net gains not recognised in the income statement	–	108	–	–	108	–	108
Profit for the year	–	–	–	22,010	22,010	–	22,010
Dividends (note 43)	–	–	–	(18,827)	(18,827)	–	(18,827)
At 31 December 2004	9,120	11,473	4,242	109,618	134,453	–	134,453
At 1 January 2005 as previously stated	9,120	11,473	4,242	109,618	134,453	–	134,453
Impact of adoption of IFRS 4	–	–	–	(199)	(199)	–	(199)
At 1 January 2005 as restated	9,120	11,473	4,242	109,419	134,254	–	134,254
Release of net gains on available-for-sale assets transferred to the income statement on disposal	–	(783)	–	–	(783)	–	(783)
Net fair value adjustments on investments	–	757	–	–	757	–	757
Release of revaluation reserve on disposal of property	–	30	–	(45)	(15)	–	(15)
Movement in deferred tax on revaluation of property	–	1,628	–	–	1,628	–	1,628
Net gains not recognised in the income statement	–	1,632	–	(45)	1,587	–	1,587
Share capital of subsidiary	–	–	–	–	–	321	321
Profit for the year	–	–	–	24,057	24,057	7	24,064
Dividends (note 43)	–	–	–	(28,525)	(28,525)	–	(28,525)
At 31 December 2005	9,120	13,105	4,242	104,906	131,373	328	131,701

	<i>Called up share capital</i>	<i>Revaluation reserves</i>	<i>Other reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Bank</i>					
At 31 December 2003 as previously stated	9,120	32,456	4,242	85,239	131,057
Effect of change in accounting policy for valuation of investment in subsidiary companies	—	(21,752)	—	—	(21,752)
At 31 December 2003 as restated	<u>9,120</u>	<u>10,704</u>	<u>4,242</u>	<u>85,239</u>	<u>109,305</u>
At 1 January 2004	<u>9,120</u>	<u>10,704</u>	<u>4,242</u>	<u>85,239</u>	<u>109,305</u>
Release of net gains on available-for-sale assets transferred to the income statement on disposal	—	(660)	—	—	(660)
Net fair value adjustments on investments	—	585	—	—	585
Surplus on revaluation of freehold and long leasehold properties	—	850	—	—	850
Net gains not recognised in the income statement	—	775	—	—	775
Profit for the year	—	—	—	21,081	21,081
Dividends (note 43)	—	—	—	(18,827)	(18,827)
At 31 December 2004	<u>9,120</u>	<u>11,479</u>	<u>4,242</u>	<u>87,493</u>	<u>112,334</u>
At 1 January 2005	<u>9,120</u>	<u>11,479</u>	<u>4,242</u>	<u>87,493</u>	<u>112,334</u>
Release of net gains on available-for-sale assets transferred to the income statement on disposal	—	(823)	—	—	(823)
Net fair value adjustments on investments	—	727	—	—	727
Release of revaluation reserve on disposal of properties	—	30	—	(45)	(15)
Movement in deferred tax on revaluation of property	—	1,628	—	—	1,628
Net gains not recognised in the income statement	—	1,562	—	(45)	1,517
Profit for the year	—	—	—	34,180	34,180
Dividends (note 43)	—	—	—	(28,525)	(28,525)
At 31 December 2005	<u>9,120</u>	<u>13,041</u>	<u>4,242</u>	<u>93,103</u>	<u>119,506</u>

Cash Flow Statement for the year 1 January 2005 to 31 December 2005

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Cash flows from operating activities				
Interest and commission receipts	101,511	84,933	77,419	63,919
Interest and commission payments	(30,381)	(31,843)	(28,359)	(30,256)
Payments to employees and suppliers	(29,547)	(25,841)	(27,938)	(25,133)
Operating profit before changes in operating assets/liabilities	41,583	27,249	21,122	8,530
(Increase)/decrease in operating assets:				
Trading instruments	419	(1,742)	419	(1,742)
Reserve deposit with Central Bank of Malta	(1,823)	(4,827)	(1,823)	(4,841)
Loans and advances to banks with contractual maturity of over three months	(4,952)	(7,079)	(4,952)	(7,080)
Loans and advances to customers	(41,414)	(52,911)	(54,538)	(71,273)
Treasury Bills with contractual maturity of over three months	42,144	30,701	42,144	30,700
Cheques in course of collection	(5,269)	1,179	(5,269)	1,179
Other receivables	(206)	(1,261)	(242)	(1,610)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks with contractual maturity of over three months	(22,999)	14,561	(22,999)	14,560
Amounts owed to customers	67,563	25,735	73,962	27,297
Other payables	2,444	4,670	3,002	1,865
Net cash from/(used in) operating activities before tax	77,490	36,275	50,826	(2,415)
Tax paid	(9,784)	(10,412)	(8,953)	(9,504)
Net cash flows from/(used in) operating activities	67,706	25,863	41,873	(11,919)
Cash flows from investing activities				
Dividends received	397	323	14,798	3,887
Interest received from financial instruments designated at fair value through profit or loss	2,399	1,605	–	–
Interest received from available-for-sale debt and other fixed income instruments	6,821	5,083	6,821	5,083
Interest received from held-to-maturity debt and other fixed income instruments	4,978	7,429	6,328	8,802
Proceeds on disposal of financial instruments designated at fair value through profit or loss	9,454	4,031	–	–
Proceeds on disposal of available-for-sale instruments	15,498	10,814	15,354	5,224
Proceeds on maturity of held-to-maturity debt and other fixed income instruments	41,707	70,488	41,707	70,488
Proceeds on disposal of property, plant and equipment	264	57	255	47
Purchase of financial instruments designated at fair value through profit or loss	(21,506)	(23,319)	–	–
Purchase of available-for-sale instruments	(37,330)	(35,332)	(37,330)	(30,764)
Purchase of held-to-maturity debt and other fixed income instruments	–	(57,805)	–	(57,805)
Purchase of property, plant and equipment and investment property	(2,143)	(1,290)	(1,553)	(1,244)
Purchase of intangible assets	(712)	(86)	(421)	(81)
Purchase of shares in subsidiary companies	–	–	(1,500)	–
Net cash flows from/(used in) investing activities	19,827	(18,002)	44,459	3,637

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		2005	2004	2005	2004
		Lm000	Lm000	Lm000	Lm000
Cash flows from financing activities					
Dividends paid		(28,525)	(18,827)	(28,525)	(18,827)
Maturity of subordinated loan stock		(19,914)	–	(20,000)	–
Issue of units to minority interest		321	–	–	–
Cash used in financing activities		(48,118)	(18,827)	(48,525)	(18,827)
Increase/(decrease) in cash and cash equivalents		39,415	(10,966)	37,807	(27,109)
Effect of exchange rate changes on cash and cash equivalents		2,558	(1,139)	2,558	(1,139)
Net increase/(decrease) in cash and cash equivalents		36,857	(9,827)	35,249	(25,970)
		39,415	(10,966)	37,807	(27,109)
Cash and cash equivalents at beginning of year		97,053	108,019	138,108	165,217
Cash and cash equivalents at end of year	<i>44</i>	136,468	97,053	175,915	138,108

Notes on the Accounts

1 Basis of preparation

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

The consolidated financial statements are presented in Maltese liri which represents the functional currency of the group. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments at fair value through profit or loss, financial instruments classified as available-for-sale and land and buildings.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted for use in the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 52.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for IFRS 2 'Share-based Payment' (see note 50) and IFRS 4 'Insurance Contracts', the impact of which is disclosed in the statement of changes in equity. The group changed its accounting policy in measuring investment in subsidiary companies. In order to align with Group accounting policies, investment in subsidiaries is no longer measured at fair value but at cost less impairment losses in line with IAS 27 'Consolidated and Separate Financial Statements' (see note 50).

2 Significant accounting policies

a *Statement of compliance*

The consolidated financial statements comprise the financial statements of the bank and its subsidiary companies ('the group'). These financial statements have been prepared in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 enacted in Malta. The Companies Act, 1995 (the 'Act') requires adherence to IFRS and their interpretations adopted by the European Union.

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRS or its application is incompatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

b *Basis of consolidation*

i *Subsidiaries*

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

ii *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

2 Significant accounting policies (continued)

c Financial instruments

i Investments in debt and equity securities

Financial instruments held for trading and financial instruments designated at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income statement.

Where the group has the positive intent and ability to hold debt securities to maturity, they are stated at amortised cost less impairment losses (see note 2(h)).

Other financial instruments held by the group (excluding investment in subsidiaries (see note 2(d)) are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement.

The fair value of financial instruments at fair value through profit or loss and available-for-sale financial assets is their quoted bid price at the balance sheet date.

Financial instruments classified as at fair value through profit or loss or as available-for-sale investments are recognised or derecognised by the group on the date it commits to purchase or sell the investments. Securities held-to-maturity are recognised or derecognised on the day they are transferred to or by the group.

ii Derivative financial instruments

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

iii Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include loans and advances to banks and customers that are recognised on the day the cash is advanced to the borrowers. These are initially recognised at their fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment losses (see note 2(h)).

iv Financial liabilities

The group's financial liabilities, other than customers' liabilities under unit-linked investment contracts (see note 2(i)(iv)) comprise amounts owed to banks and customers and debt securities in issue. These are recognised when the group becomes a party to the contractual provisions of the instrument. In the case of debt securities in issue, these are recognised on the date that such securities are issued. Financial liabilities are initially recognised at their fair value plus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition all financial liabilities are measured at amortised cost using the effective interest method to amortise the difference between proceeds, net of directly attributable transaction costs, and the redemption amount over the expected life of the liability. Premia and discounts 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.

v Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset have been realised, expired, transferred and control is not retained by the group or substantially all the risks and rewards of ownership have been transferred by the group. A financial liability is derecognised when it is extinguished, that is, when the obligation is discharged, cancelled or expires.

A gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Notes on the Accounts (continued)

2 Significant accounting policies (continued)

c Financial instruments (continued)

vi Offsetting financial instruments

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

vii Repurchase transactions

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

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

d Investment in subsidiaries

Investment in subsidiaries is shown in the balance sheet of the bank at cost less impairment losses (see note 2(h)).

e Property, plant and equipment

i Owned assets

Property, plant and equipment are initially measured at cost.

Freehold and long leasehold properties are revalued to fair value on the basis of their existing use. Revaluations are performed by a professionally qualified architect with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Any surpluses arising on revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to the income statement.

Items of property, plant and equipment are stated net of accumulated depreciation (see note 2(e)(iv)) and impairment losses (see note 2(h)).

ii Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for in accordance with the accounting policies described in note 2(p).

iii Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

iv Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

– long leaseholds, freehold buildings and improvements	50 years
– short leaseholds and improvements to rented property	over term of lease
– equipment and fixtures and fittings	4 - 10 years

The residual value, if not insignificant, is reassessed annually.

2 Significant accounting policies (continued)

f Intangible assets

Intangible assets include computer software and the value of in-force long-term assurance business.

Computer software is initially measured at cost and subsequently net of accumulated amortisation and impairment losses (see note 2(h)). Subsequent expenditure is capitalised only when it increases the future economic benefits. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over four years, being the estimated useful life of computer software.

For notes on the value of the in-force long-term assurance business see note 2(i)(iii).

g Investment property

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

Investment property comprises freehold land and buildings and is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and, where relevant associated costs. These valuations are reviewed annually by an independent valuation expert.

Changes in fair value are recorded in the income statement.

h Impairment

The carrying amounts of the group's assets, other than deferred tax assets (note 2(q)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably measured. If any such indication exists, the asset's recoverable amount is estimated (see note 2(h)(i)).

It is the group's policy to recognise losses for impaired loans promptly where there is objective evidence that impairment of a loan or portfolio of loans has occurred. This is done on a consistent basis in accordance with established HSBC Group guidelines.

There are two basic methods of calculating impairment losses, those calculated on individual loans and those losses assessed on a collective basis (see note 2(h)(i)). Losses expected as a result of future events, no matter how likely, are not recognised.

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

i Calculation of recoverable amount

The recoverable amount of the group's loans and advances is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

Impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. The group assesses at each balance sheet date whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining such impairment losses on individually assessed accounts, the following factors are considered:

- the group's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the group and the likelihood of other creditors continuing to support the customer;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit risk mitigants) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Notes on the Accounts (continued)

2 Significant accounting policies (continued)

h Impairment (continued)

i Calculation of recoverable amount (continued)

Impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account.

Impairment losses are calculated on a collective basis in two different scenarios:

- in respect of losses which have been incurred but have not yet been identified on loans subject to individual assessment for impairment; and
- for homogeneous groups of loans that are not considered individually significant.

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. For homogeneous groups of loans that are not considered individually significant, two alternative methods are used to calculate allowances on a portfolio basis.

When appropriate empirical information is available, the group utilises roll rate methodology. This methodology utilises a statistical analysis of historical trends of the probability of default and amount of consequential loss, assessed at each time period for which the customer's contractual payments are overdue. The amount of loss is based on the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio. Other historical data and an evaluation of current economic conditions are also considered to calculate the appropriate level of allowance based on inherent loss.

In other cases, when the portfolio size is small or when information is insufficient or not sufficiently reliable to adopt a roll rate methodology, the group adopts a formulaic approach which allocates progressively higher loss rates in line with the period of time for which a customer's loan is overdue. Loss rates are based on the discounted expected future cash flows from a portfolio.

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

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

ii Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through income statement. In the case of debt or other fixed income instrument classified as available-for-sale the impairment loss shall be reversed, with the amount of the reversal recognised in income statement if the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

2 Significant accounting policies (continued)

h Impairment (continued)

ii Reversals of impairment (continued)

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

i Insurance contracts

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

Insurance contracts are accounted for as follows:

i Premiums

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

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

ii Claims and reinsurance recoveries

Gross insurance claims for life assurance reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. The technical reserves for non-linked liabilities (long-term business provision) are calculated by each life assurance operation based on local actuarial principles. The technical reserves for linked liabilities are at least the element of any surrender or transfer value which is calculated by reference to the relevant fund or funds or index.

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

iii Value of long-term assurance business

A value is placed on insurance contracts that are classified as long-term assurance business, and are in force at the balance sheet date.

The value of the in-force long-term assurance business is determined by discounting future earnings expected to emerge from business currently in force, using appropriate assumptions in assessing factors such as recent experience and general economic conditions. Movements in the value of in-force long-term assurance business are included in other operating income on a gross of tax basis.

iv Investment contracts

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

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

Investment management fees receivable are recognised in the income statement over the period of the provision of the investment management services.

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

j Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with contractual maturity of less than three months. Amounts owed to banks that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes on the Accounts (continued)

2 Significant accounting policies (continued)

k Dividends payable

Dividends are recognised as a liability in the period in which they are declared.

l Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

m Revenue

i Interest income

Interest income for all interest-bearing financial instruments are recognised in 'Interest income' in the income statement using the effective interest rates of the financial assets.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial asset but not future credit losses. The calculation includes all amounts paid or received by HSBC that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

ii Fee and commission income

Fee income is accounted for as follows:

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

iii Dividend income

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

n Employee benefits

i Defined contribution plan

The group contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in the income statement as incurred.

ii Retirement schemes

The group has voluntary early retirement schemes currently in place. Termination benefits payable under these schemes are recognised as a liability and as an expense in the income statement of the period during which the commitment to pay these benefits is established. Termination benefits which fall due more than twelve 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.

2 Significant accounting policies (continued)

n Employee benefits (continued)

iii Equity compensation plans

The compensation expense relating to share options which is to be spread over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any non-market vesting conditions such as option lapses. The compensation expense is recognised over the vesting period. An option may lapse if, for example, an employee ceases to be employed by HSBC before the end of the vesting period. Estimates of such future employee departures are taken into account when accruing the cost during the service period.

Guaranteed bonuses awarded in respect of service in the past, where an employee must complete a specified period of service until entitled to the award, are spread over the period of service rendered to the vesting date.

Discretionary bonuses awarded in respect of service in the past, are expensed over the vesting period which, in this case, is the period from the date the bonus is announced until the award vests.

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 to Maltese lira at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are stated at historical cost in a foreign currency are translated using the 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 into Maltese lira at the foreign exchange rates ruling at the dates that the values were determined.

p Lease payments

i Operating lease

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

ii Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

q Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes on the Accounts (continued)**2 Significant accounting policies** (continued)**r Non-current assets held for sale**

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRS. Upon initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are charged to the income statement even when a revaluation reserve was created when applying the applicable IFRS prior to classification as held for sale. Gains and losses on subsequent remeasurement are also included in the income statement.

s Segmental information

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

3 Interest receivable and similar income

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
On loans and advances to banks	3,871	3,156	5,127	4,671
On loans and advances to customers	54,945	49,451	50,743	44,494
On balances with Central Bank of Malta	1,640	1,733	1,640	1,733
On Treasury Bills	538	2,180	538	2,179
On lease receivables	–	11	–	11
	60,994	56,531	58,048	53,088
On debt and other fixed income instruments	14,051	13,381	12,988	12,890
Net amortisation of premiums	(846)	(1,105)	(792)	(1,073)
	13,205	12,276	12,196	11,817
	74,199	68,807	70,244	64,905
Interest receivable and similar income from:				
– Group companies	2,225	2,071	2,225	2,071
– subsidiary companies	–	–	2,646	2,901

4 Interest payable

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
On amounts owed to banks	921	562	921	562
On amounts owed to customers	25,555	25,019	25,877	25,324
On debt securities in issue	1	1	–	–
On subordinated liabilities	657	1,450	657	1,450
On trading financial instruments	174	381	174	381
On finance leases	19	–	19	–
	27,327	27,413	27,648	27,717
Interest payable to:				
– Group companies	294	337	294	337
– subsidiary companies	–	–	324	218

5 Net fee and commission income

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Net fee and commission income that is not an integral part of the effective interest method on:				
– financial assets or liabilities not at fair value through profit or loss	6,778	5,412	6,650	5,280
– trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals and other institutions	3,877	3,027	1,264	983
– other	397	363	742	776
	11,052	8,802	8,656	7,039
Net fee and commission income/(expense) from:				
– Group companies	506	220	209	(53)
– subsidiary companies	–	–	1,284	546

6 Dividend income

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
From equity shares	473	363	142	117
From subsidiary companies	–	–	22,462	5,592
	473	363	22,604	5,709

7 Trading profits

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Profit on foreign exchange activities	7,020	6,921	7,029	6,911
Price movements on trading financial instruments	132	(359)	132	(359)
Net gains on sale of trading financial instruments	54	–	54	–
	7,206	6,562	7,215	6,552

Included in trading profits are unrealised gains relating to trading financial instruments amounting to Lm131,000 (2004: Lm151,000) in respect of the group and the bank.

8 Net gains on disposal of non-trading financial instruments

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Available-for-sale assets				
– net gains on disposal	–	3	–	3
– net revaluation gains transferred from equity	1,204	1,713	1,266	1,016
	1,204	1,716	1,266	1,019

Notes on the Accounts (continued)**9 Net earned insurance premium**

	<i>Group</i>	
	<i>Life insurance</i>	
	2005	2004
	Lm000	Lm000
Gross earned premium	17,014	15,075
Reinsurance paid	(778)	(877)
	16,236	14,198

10 Net insurance claims incurred and movement in policyholders' liabilities

	<i>Group</i>			<i>Group</i>		
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
	2005	2005	2005	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Life insurance						
Claims paid	2,334	(320)	2,014	1,770	(410)	1,360
Change in technical provision	23,848	(2,201)	21,647	16,466	(658)	15,808
	26,182	(2,521)	23,661	18,236	(1,068)	17,168

11 Employee compensation and benefits

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Wages, salaries and allowances	18,038	16,783	17,172	15,991
Defined contribution social security costs	980	986	934	942
Retirement benefits	815	1,703	815	1,589
Share based payments	299	184	282	176
	20,132	19,656	19,203	18,698
	Number	<i>Number</i>	Number	<i>Number</i>
Average number of employees				
– executive and senior managerial	215	210	203	198
– other managerial, supervisory and clerical	1,264	1,279	1,213	1,228
– others	79	81	79	81
	1,558	1,570	1,495	1,507

HSBC operates both share option schemes and share awards schemes.

In order to align the interests of staff with those of shareholders, share options in ordinary shares of the ultimate parent company are offered to group employees under all-employee share plans and achievement shares awarded to group middle management and above under discretionary incentive plans. Until 31 December 2004 share options in ordinary shares of the ultimate parent company were awarded to group employees under discretionary incentive plans.

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

11 Employee compensation and benefits (continued)

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

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

	<i>Group</i>			
	<i>Options</i>	<i>Weighted average exercise price (Lm)</i>	<i>Options</i>	<i>Weighted average exercise price (Lm)</i>
	2005	2005	2004	2004
Share option schemes				
Outstanding at 1 January	761,189	3.63	749,413	2.99
Granted during the year	97,610	4.18	69,952	4.05
Forfeited during the year	(28,804)	3.64	(168)	3.77
Exercised during the year	(266,871)	3.79	(37,215)	4.14
Expired during the year	(1,412)	3.53	(20,793)	3.61
Outstanding at 31 December	<u>561,712</u>	<u>3.65</u>	<u>761,189</u>	3.63
Exercisable at 31 December	<u>4,153</u>	<u>3.77</u>	<u>4,925</u>	4.23
	<i>Bank</i>			
	<i>Options</i>	<i>Weighted average exercise price (Lm)</i>	<i>Options</i>	<i>Weighted average exercise price (Lm)</i>
	2005	2005	2004	2004
Share option schemes				
Outstanding at 1 January	725,413	3.63	714,191	2.99
Granted during the year	93,022	4.18	66,664	4.05
Forfeited during the year	(27,450)	3.64	(160)	3.77
Exercised during the year	(254,328)	3.79	(35,466)	4.14
Expired during the year	(1,346)	3.53	(19,816)	3.61
Outstanding at 31 December	<u>535,311</u>	<u>3.65</u>	<u>725,413</u>	3.63
Exercisable at 31 December	<u>3,958</u>	<u>3.77</u>	<u>4,694</u>	4.23

The options outstanding at 31 December 2005 had a weighted average exercise price of Lm3.65 and a contractual life of between three and five years.

The weighted average exercise price is denominated in pounds sterling and disclosed in Maltese lira equivalent.

Fair value of share option schemes

Fair values of share options/awards, measured at the date of grant of the option/award, are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model. When modelling options/awards with vesting dependent on HSBC's Total Shareholder Return over a period, these performance targets are incorporated into the model using Monte-Carlo simulation. The expected life of options depends on the behaviour of option holders, which is incorporated into the option model consistent with historic observable data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

Notes on the Accounts (continued)**11 Employee compensation and benefits** (continued)

The significant weighted average assumptions used to estimate the fair value of the options granted in 2005 are as follows:

	<i>3 year savings-related share option schemes</i>	<i>5 year savings-related share option schemes</i>
Risk-free interest rate (%)	4.3	4.3
Expected volatility (%)	20.0	20.0
Expected life (years)	3	5

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

Share awards

During the year, 40 share awards with a weighted average fair value of Lm3,000 were granted to employees of the group.

12 Net impairment reversals

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Write-downs				
Loans and advances to customers				
– specific allowances	(1,602)	(2,903)	(1,600)	(2,897)
– collective allowances	–	(413)	–	(827)
– bad debts written off	(4,069)	(2,616)	(4,059)	(2,571)
	(5,671)	(5,932)	(5,659)	(6,295)
Reversals of write-downs				
Investments				
– equity and other non-fixed income instruments	–	5	–	5
Loans and advances to customers				
– specific allowances	5,104	9,776	5,090	9,776
– collective allowances	676	–	657	–
– bad debts recovered	33	163	33	163
	5,813	9,944	5,780	9,944
Net impairment reversals	142	4,012	121	3,649

13 Profit before tax

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Profit before tax is stated after charging:				
Auditors' remuneration	51	50	37	36
Directors' emoluments				
– fees	46	41	46	41
– other emoluments	300	237	300	237
	346	278	346	278

14 Tax on profit

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:				
– current	9,337	7,710	16,462	8,596
– deferred	3,305	3,133	1,392	2,031
	12,642	10,843	17,854	10,627

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>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Profit on ordinary activities before tax	36,706	32,853	52,034	31,708
Tax at the applicable rate of 35%	12,847	11,499	18,212	11,099
Tax effect of non-taxable income	(481)	(752)	(471)	(477)
Tax effect of profits taxed at different rates	–	(1)	(105)	(176)
Tax effect of non-deductible expenses	94	198	63	116
Tax effect of depreciation charges not deductible by way of capital allowances	113	113	113	113
Tax effect of taxable temporary differences not previously recognised	136	(48)	63	(48)
Tax effect of additional deductions	(67)	(166)	(21)	–
Tax on profit on ordinary activities	12,642	10,843	17,854	10,627

15 Earnings per share

The calculation of earnings per share of the group is based on the profit attributable to shareholders of the bank for the year ended 31 December 2005, amounting to Lm24,057,000 (2004: Lm22,010,000), divided by the number of shares in issue.

The calculation of earnings per share for the bank is based on the profit attributable to shareholders for the year ended 31 December 2005, amounting to Lm34,180,000 (2004: Lm21,081,000), divided by the number of shares in issue.

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Balances with Central Bank of Malta	63,427	53,145	63,425	53,145
Malta Government Treasury Bills	1,967	43,573	1,967	43,573
Cash	11,727	10,088	11,726	10,063
	77,121	106,806	77,118	106,781

Balances with Central Bank of Malta include a reserve deposit, required in terms of Article 37 of the Central Bank of Malta Act, Cap. 204. The average reserve deposit requirement as at year end was Lm54,968,000 in respect of the group and bank (2004: Lm54,950,000).

Notes on the Accounts (continued)**17 Financial instruments held for trading**

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Financial assets held for trading				
Debt and other fixed income instruments	–	1,081	–	1,081
Equity and other non-fixed income instruments	344	108	344	108
Derivative financial instruments	3,563	3,637	3,563	3,637
	3,907	4,826	3,907	4,826
Financial liabilities held for trading				
Derivative financial instruments	4,050	9,917	4,050	9,917

a Debt and other fixed income instruments

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Issued by public bodies				
– local government	–	1,081	–	1,081
Listing status				
– listed on the Malta Stock Exchange	–	1,081	–	1,081

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 and are analysed as follows:

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Issued by other issuers				
– local banks	218	45	218	45
– local others	126	63	126	63
	344	108	344	108

c Derivative financial instruments

	<i>Notional amount with remaining life of:</i>				2005	2005
	<i>Less than 3 months</i>	<i>Between 3 months & 1 year</i>	<i>More than 1 year</i>	<i>Total</i>		
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Interest rate derivatives						
Over the counter products						
– interest rate swaps	–	–	7,616	7,616	–	24
Currency derivatives						
Over the counter products						
– forward exchange contracts	28,824	16,116	21,651	66,591	582	1,045
Equity derivatives						
Over the counter products						
– equity index options purchased	–	1,338	8,110	9,448	2,981	–
– equity index options written	–	(1,338)	(8,110)	(9,448)	–	2,981
					3,563	4,050

17 Financial instruments held for trading (continued)

c Derivative financial instruments (continued)

	Notional amount with remaining life of:			Total Lm000	2004	2004
	Less than 3 months	Between 3 months & 1 year	More than 1 year		Fair value assets	Fair value liabilities
	Lm000	Lm000	Lm000		Lm000	Lm000
Interest rate derivatives						
Over the counter products						
– interest rate swaps	–	7,433	2,156	9,589	–	210
Currency derivatives						
Over the counter products						
– forward exchange contracts	70,081	78,824	6,718	155,623	2,142	8,212
Equity derivatives						
Over the counter products						
– equity index options						
purchased	–	1,338	7,406	8,744	1,495	–
– equity index options written	–	(1,338)	(7,406)	(8,744)	–	1,495
					3,637	9,917

18 Financial assets designated at fair value through profit or loss

	Group	
	2005 Lm000	2004 Lm000
Debt and other fixed income instruments	49,504	42,125
Equity and other non-fixed income instruments	43,627	30,408
	93,131	72,533

a Debt and other fixed income instruments

	Group	
	2005 Lm000	2004 Lm000
Issued by public bodies		
– local government	43,764	30,176
Issued by other issuers		
– local banks	162	105
– foreign banks	1,634	6,221
– others local	2,227	3,069
– others foreign	1,717	2,554
	49,504	42,125
Listing status		
– listed on the Malta Stock Exchange	46,050	33,245
– listed elsewhere	3,351	8,775
– local unlisted	103	105
	49,504	42,125

Notes on the Accounts (continued)**18 Financial assets designated at fair value through profit or loss** (continued)**a Debt and other fixed income instruments** (continued)

	<i>Group</i>	
	<u>2005</u>	<u>2004</u>
	Lm000	Lm000
At 1 January	42,125	27,852
Exchange adjustments	(18)	(2)
Acquisitions	13,334	14,179
Disposals	(7,236)	(92)
Changes in fair value	1,299	188
At 31 December	49,504	42,125

b Equity and other non-fixed income instruments

	<i>Group</i>	
	<u>2005</u>	<u>2004</u>
	Lm000	Lm000
Issued by other issuers		
– local banks	2,737	–
– others local	12,435	10,132
– others foreign	28,455	20,276
	43,627	30,408
Listing status		
– listed on the Malta Stock Exchange	39,531	26,231
– listed elsewhere	4,096	4,177
	43,627	30,408
At 1 January	30,408	22,191
Exchange adjustments	562	(380)
Acquisitions	8,172	8,931
Disposals	(2,218)	(3,939)
Changes in fair value	6,703	3,605
At 31 December	43,627	30,408

19 Investments

	<i>Group</i>		<i>Bank</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	Lm000	Lm000	Lm000	Lm000
Debt and other fixed income instruments				
– available-for-sale	137,766	113,916	137,766	113,916
– held-to-maturity	82,837	120,933	112,807	150,849
Equity and other non-fixed income instruments				
– available-for-sale	3,897	3,597	3,895	3,461
	224,500	238,446	254,468	268,226

19 Investments (continued)

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Issued by public bodies				
– local government	105,330	93,107	105,330	93,107
Issued by other issuers				
– foreign banks	31,346	16,464	31,346	16,464
– foreign others	1,090	4,345	1,090	4,345
	137,766	113,916	137,766	113,916
Amounts include:				
– issued by Group companies	3,156	4,519	3,156	4,159
Listing status				
– listed on the Malta Stock Exchange	105,330	93,107	105,330	93,107
– listed elsewhere	31,615	20,493	31,615	20,493
– foreign unlisted	821	316	821	316
	137,766	113,916	137,766	113,916
At 1 January	113,916	83,525	113,916	83,525
Exchange adjustments	1,644	(48)	1,644	(48)
Amortisation	(473)	(259)	(473)	(259)
Acquisitions	37,330	30,761	37,330	30,761
Disposals	(14,616)	–	(14,616)	–
Changes in fair value	(35)	(63)	(35)	(63)
At 31 December	137,766	113,916	137,766	113,916

Debt instruments with a nominal value of Lm46,642,000 (2004: Lm13,500,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2005 no balances were outstanding against these credit lines.

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Issued by public bodies				
– local government	–	15,442	–	15,442
– foreign government	1,450	1,265	1,450	1,265
Issued by other issuers				
– local banks	400	400	30,370	30,316
– foreign banks	65,006	84,460	65,006	84,460
– local others	3,799	3,795	3,799	3,795
– foreign others	12,182	15,571	12,182	15,571
	82,837	120,933	112,807	150,849
Amounts include:				
– issued by Group companies	1,502	1,519	1,502	1,519
– issued by subsidiary companies				
– unsubordinated	–	–	29,970	29,916
Listing status				
– listed on the Malta Stock Exchange	4,399	19,837	4,399	19,837
– listed elsewhere	77,329	98,185	77,329	98,185
– local unlisted	400	400	30,370	30,316
– foreign unlisted	709	2,511	709	2,511
	82,837	120,933	112,807	150,849

Notes on the Accounts (continued)**19 Investments** (continued)**b Debt and other fixed income instruments held-to-maturity** (continued)

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
At 1 January	120,933	135,396	150,849	165,280
Exchange adjustments	3,633	(1,686)	3,633	(1,686)
Amortisation	(22)	(94)	32	(62)
Acquisitions	–	57,805	–	57,805
Redemptions	(41,707)	(70,488)	(41,707)	(70,488)
At 31 December	82,837	120,933	112,807	150,849

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Issued by other issuers				
– local banks	3,561	2,155	3,561	2,155
– local others	322	1,432	320	1,296
– foreign others	14	10	14	10
	3,897	3,597	3,895	3,461
Listing status				
– listed on the Malta Stock Exchange	3,565	3,021	3,564	2,885
– local unlisted	318	566	317	566
– foreign unlisted	14	10	14	10
	3,897	3,597	3,895	3,461
At 1 January	3,597	12,981	3,461	7,386
Acquisitions	–	13	–	3
Disposals	(882)	(10,714)	(738)	(5,216)
Changes in fair value	1,182	1,317	1,172	1,288
At 31 December	3,897	3,597	3,895	3,461

20 Loans and advances to banks

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Repayable on call and at short notice	8,485	52,657	47,935	93,737
Term loans and advances	154,397	78,626	154,397	78,626
	162,882	131,283	202,332	172,363
Amounts include:				
– due from Group companies	95,259	70,950	95,259	70,950
– due from subsidiary companies				
– unsubordinated	–	–	39,167	41,039

Notes on the Accounts (continued)**21 Loans and advances to customers** (continued)

	<i>Group</i>	<i>Bank</i>
	2005	2005
	Lm000	Lm000
Analysis of loans and advances to customers, which are past due at the reporting date but not impaired, is as follows:		
– past due up to 29 days	2,513	2,513
– past due 30 to 59 days	853	853
– past due 60 to 89 days	1,409	1,050
– past due 90 to 179 days	8,449	8,449
– past due over 180 days but less than 1 year	24	24
– past due more than 1 year	3	3
Total	13,251	12,892
The analysis of loans and advances that were individually determined to be impaired by industry sector is as follows:		
– personal banking	8,585	6,143
– commercial and industrial	25,476	25,454
– commercial real estate and construction	11,841	11,774
– other	5,672	5,672
Total	51,574	49,043

Further disclosures as required by the Banking Directive/07/2002 ‘Publication of Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994’:

The aggregate amount of impaired loans and advances inclusive of interest amounted to Lm61,681,000 (2004: Lm82,322,000) in respect of the group and Lm58,793,000 (2004: Lm77,507,000) 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 Lm10,107,000 (2004: Lm14,020,000) in respect of the group and Lm9,750,000 (2004: Lm13,581,000) in respect of the bank.

22 Shares in subsidiary companies

<i>Bank</i>					
<i>Name of company</i>	<i>Incorporated in</i>	<i>Nature of business</i>	<i>Current equity interest</i>	2005	2004
			<i>%</i>	Lm000	Lm000
HSBC Home Loans (Malta) Limited	Malta	Finance for housing	99.99	10,668	10,668
HSBC Life Assurance (Malta) Limited	Malta	Life assurance	99.99	7,122	6,622
HSBC Fund Management (Malta) Limited	Malta	Management of collective investment schemes	99.99	2,550	2,550
HSBC Stockbrokers (Malta) Limited	Malta	Stockbroking services	99.99	10	10
				20,350	19,850

None of the above mentioned subsidiary companies are listed.

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

Investment in HSBC Malta Funds SICAV p.l.c. - Equity Growth Fund has been classified by the bank as held for sale (see note 26).

On 25 October 2005 the Board of Directors agreed to the amalgamation of HSBC Home Loans (Malta) Limited with HSBC Bank Malta p.l.c. on 21 April 2006 and subsequently filed the requisite statutory notices of amalgamation in accordance with the provisions of Companies Act, 1995.

22 Shares in subsidiary companies (continued)

The impact of this amalgamation will be to merge the bank's and the subsidiary's balance sheets. A negative reserve of Lm3,818,000 will be charged to the bank's equity and will be partially offset by the accumulated reserves of the subsidiary (31 December 2005: Lm2,317,000). The amalgamation will have no impact on the group's equity.

23 Intangible assets

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Software	1,077	1,022	829	964
Present value of in-force long-term assurance business	8,356	7,760	-	-
	9,433	8,782	829	964

a Software

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Cost				
At 1 January	4,152	4,695	3,822	4,370
Additions	712	86	421	81
Disposals	(441)	(629)	(256)	(629)
At 31 December	4,423	4,152	3,987	3,822
Depreciation				
At 1 January	3,130	3,272	2,858	3,031
Charge for the year	635	458	556	427
Disposals	(419)	(600)	(256)	(600)
At 31 December	3,346	3,130	3,158	2,858
Carrying amount at 31 December	1,077	1,022	829	964

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

	<i>Group</i>	
	2005	2004
	Lm000	Lm000
At 1 January	7,760	7,262
Addition from current year new business	931	1,067
Movement from in-force business	(335)	(569)
At 31 December	8,356	7,760

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

	<i>Group</i>	
	2005	2004
	%	%
Risk free rate	4.25	4.75
Risk adjusted discount rate	12.00	14.00
Expenses inflation	3.00	3.00
Lapse rate	15.00	15.00

Notes on the Accounts (continued)**23 Intangible assets** (continued)**b Present value of in-force long-term assurance business (PVIF)** (continued)

Effect on PVIF at end of year of theoretical changes in the main economic assumptions:

Assumptions	Movement	PVIF Impact	
		2005 Lm000	2004 Lm000
As published			
Risk free rate	+100 basis points	442	334
Risk free rate	-100 basis points	(420)	(315)
Risk adjusted discount rate	+100 basis points	(171)	(132)
Risk adjusted discount rate	-100 basis points	185	145
Expenses inflation	+100 basis points	(143)	(108)
Expenses inflation	-100 basis points	131	102
Lapse rate	+100 basis points	(14)	(12)
Lapse rate	-100 basis points	17	17

24 Property, plant and equipment

Group	Land and buildings	Computer equipment	Others	Total
	Lm000	Lm000	Lm000	Lm000
Cost/revaluation				
At 1 January 2004	17,782	7,267	16,620	41,669
Reclassifications	80	101	(181)	–
Acquisitions	68	457	986	1,511
Revaluation	1,115	–	–	1,115
Disposals	–	(652)	(306)	(958)
At 31 December 2004	19,045	7,173	17,119	43,337
Depreciation				
At 1 January 2004	620	4,934	5,604	11,158
Reclassifications	1	–	(1)	–
Charge for the year	228	735	1,348	2,311
Revaluation	(192)	–	–	(192)
Disposals	–	(448)	(139)	(587)
At 31 December 2004	657	5,221	6,812	12,690
Carrying amount at 31 December 2004	18,388	1,952	10,307	30,647
Cost/revaluation				
At 1 January 2005	19,045	7,173	17,119	43,337
Acquisitions	94	629	840	1,563
Disposals	(206)	(613)	(224)	(1,043)
At 31 December 2005	18,933	7,189	17,735	43,857
Depreciation				
At 1 January 2005	657	5,221	6,812	12,690
Charge for the year	238	504	1,455	2,197
Disposals	(1)	(562)	(213)	(776)
At 31 December 2005	894	5,163	8,054	14,111
Carrying amount at 31 December 2005	18,039	2,026	9,681	29,746

24 Property, plant and equipment (continued)

	<i>Group</i>			
	2005	2004		
	Lm000	Lm000		
Carrying amount of land and buildings occupied for own activities	18,039	18,388		
Future capital expenditure				
– contracted but not provided in the financial statements	588	218		
– authorised by the directors but not yet contracted	515	1,350		
	1,103	1,568		
	<i>Land and buildings</i>	<i>Computer equipment</i>	<i>Others</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000
<i>Bank</i>				
Cost/revaluation				
At 1 January 2004	17,776	6,924	15,880	40,580
Reclassifications	80	101	(181)	–
Acquisitions	68	432	979	1,479
Revaluation	1,115	–	–	1,115
Disposals	–	(649)	(286)	(935)
At 31 December 2004	19,039	6,808	16,392	42,239
Depreciation				
At 1 January 2004	527	4,650	4,945	10,122
Reclassifications	1	–	(1)	–
Charge for the year	228	700	1,325	2,253
Revaluation	(192)	–	–	(192)
Disposals	–	(445)	(119)	(564)
At 31 December 2004	564	4,905	6,150	11,619
Carrying amount at 31 December 2004	18,475	1,903	10,242	30,620
Cost/revaluation				
At 1 January 2005	19,039	6,808	16,392	42,239
Acquisitions	94	622	837	1,553
Disposals	(206)	(588)	(129)	(923)
At 31 December 2005	18,927	6,842	17,100	42,869
Depreciation				
At 1 January 2005	564	4,905	6,150	11,619
Charge for the year	238	478	1,441	2,157
Disposals	(1)	(538)	(123)	(662)
At 31 December 2005	801	4,845	7,468	13,114
Carrying amount at 31 December 2005	18,126	1,997	9,632	29,755

Notes on the Accounts (continued)**24 Property, plant and equipment** (continued)

	<i>Bank</i>	
	<u>2005</u>	<u>2004</u>
	Lm000	Lm000
Carrying amount of land and buildings occupied for own activities	18,126	18,475
Future capital expenditure		
– contracted but not provided in the financial statements	588	188
– authorised by the directors but not yet contracted	515	1,121
	1,103	1,309

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 Lm9,068,000 (2004: Lm9,442,000) for the group and the bank.

25 Investment property

	<i>Group</i>		<i>Group</i>	
	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
	Lm000	Lm000	Lm000	Lm000
Freehold land and buildings				
As at 1 January	346	313	346	313
Additions	580	580	–	–
Fair value adjustments	35	–	–	–
At 31 December	961	893	346	313

26 Assets held for sale

	<i>Group</i>		<i>Bank</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	Lm000	Lm000	Lm000	Lm000
Assets acquired in satisfaction of debt	4,918	3,150	4,864	3,150
Investment in subsidiary company held exclusively for sale (see note 22)	–	–	1,000	–
	4,918	3,150	5,864	3,150

27 Other assets

	<i>Group</i>		<i>Bank</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	Lm000	Lm000	Lm000	Lm000
Acceptances and endorsements	1,536	1,935	1,536	1,935
Reinsurance assets	602	811	–	–
Other	1,384	969	1,163	921
	3,522	3,715	2,699	2,856

28 Prepayments and accrued income

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Accrued income	12,569	16,203	12,647	15,435
Prepayments	299	283	298	281
	12,868	16,486	12,945	15,716
Amounts include:				
– due from Group companies	706	401	688	371
– due from subsidiary companies	–	–	1,398	1,330

29 Amounts owed to banks

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Term deposits	10,112	42,462	10,112	42,462
Repayable on demand	12,555	5,874	12,555	5,874
	22,667	48,336	22,667	48,336
Amounts include:				
– due to Group companies	9,864	26,547	9,864	26,547

30 Amounts owed to customers

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Term deposits	757,851	725,546	770,002	732,921
Repayable on demand	609,363	563,072	611,681	563,766
	1,367,214	1,288,618	1,381,683	1,296,687
Amounts include:				
– due to subsidiary companies	–	–	14,507	8,218

31 Debt securities in issue

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Bonds and notes issued	12	12	–	–

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 Article 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)**32 Deferred tax liability**

	<i>Group</i>			<i>Group</i>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Net</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Net</i>
	2005	2005	2005	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Deferred tax (assets) and liabilities are attributable to the following:						
– excess of capital allowances over depreciation	(7)	593	586	(16)	610	594
– allowances for uncollectibility	(5,472)	–	(5,472)	(6,982)	–	(6,982)
– property revaluation	–	2,248	2,248	–	3,744	3,744
– fair value movements on investments	–	3,038	3,038	(16)	3,011	2,995
– unrelieved tax losses	(1,925)	–	(1,925)	(1,725)	–	(1,725)
– value of in-force life assurance business	–	2,925	2,925	–	2,766	2,766
– fair value movement on policyholders' investments	–	2,402	2,402	–	668	668
– other	(1,037)	1,078	41	(933)	1,124	191
	(8,441)	12,284	3,843	(9,672)	11,923	2,251

	<i>Group</i>			
	<i>At 1 January 2005</i>	<i>Recognised in income</i>	<i>Recognised in equity</i>	<i>At 31 December 2005</i>
	Lm000	Lm000	Lm000	Lm000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	594	(8)	–	586
– allowances for uncollectibility	(6,982)	1,510	–	(5,472)
– property revaluation	3,744	104	(1,611)	2,237
– fair value movements on investments	2,995	39	4	3,038
– unrelieved tax losses	(1,725)	(200)	–	(1,925)
– value of in-force life assurance business	2,766	159	–	2,925
– fair value movement on policyholders' investments	668	1,745	–	2,413
– other	191	(44)	(106)	41
	2,251	3,305	(1,713)	3,843

32 Deferred tax liability (continued)

	<i>Group</i>			
	<i>At 1 January</i>	<i>Recognised</i>	<i>Recognised</i>	<i>At</i>
	<i>2004</i>	<i>in income</i>	<i>in equity</i>	<i>31 December</i>
	Lm000	Lm000	Lm000	Lm000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	377	217	–	594
– allowances for uncollectibility	(9,254)	2,272	–	(6,982)
– property revaluation	3,287	–	457	3,744
– fair value movements on investments	4,021	(1,294)	268	2,995
– unrelieved tax losses	(1,824)	99	–	(1,725)
– value of in-force life assurance business	2,542	224	–	2,766
– fair value movement on policyholders' investments	23	645	–	668
– other	(779)	970	–	191
	(1,607)	3,133	725	2,251

	<i>Bank</i>			<i>Bank</i>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Net</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Net</i>
	2005	2005	2005	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Deferred tax (assets) and liabilities are attributable to the following:						
– excess of capital allowances over depreciation	–	590	590	–	601	601
– allowances for uncollectibility	(5,422)	–	(5,422)	(6,922)	–	(6,922)
– property revaluation	–	2,133	2,133	–	3,744	3,744
– fair value movements on investments	–	3,038	3,038	–	3,011	3,011
– unrelieved tax losses	(72)	–	(72)	(37)	–	(37)
– other	(996)	1,078	82	(933)	1,100	167
	(6,490)	6,839	349	(7,892)	8,456	564

	<i>Bank</i>			
	<i>At 1 January</i>	<i>Recognised</i>	<i>Recognised</i>	<i>At</i>
	<i>2005</i>	<i>in income</i>	<i>in equity</i>	<i>31 December</i>
	Lm000	Lm000	Lm000	Lm000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	601	(11)	–	590
– allowances for uncollectibility	(6,922)	1,500	–	(5,422)
– property revaluation	3,744	–	(1,611)	2,133
– fair value movements on investments	3,011	23	4	3,038
– unrelieved tax losses	(37)	(35)	–	(72)
– other	167	(85)	–	82
	564	1,392	(1,607)	349

Notes on the Accounts (continued)**32 Deferred tax liability** (continued)

	<i>Bank</i>			
	<i>At 1 January 2004</i>	<i>Recognised in income</i>	<i>Recognised in equity</i>	<i>At 31 December 2004</i>
	Lm000	Lm000	Lm000	Lm000
Movement in temporary differences relating to:				
– excess of capital allowances over depreciation	386	215	–	601
– allowances for uncollectibility	(9,050)	2,128	–	(6,922)
– property revaluation	3,287	–	457	3,744
– fair value movements on investments	2,733	7	271	3,011
– unrelieved tax losses	(44)	7	–	(37)
– other	493	(326)	–	167
	<u>(2,195)</u>	<u>2,031</u>	<u>728</u>	<u>564</u>

33 Liabilities under insurance contracts issued

	<i>Group</i>			<i>Group</i>		
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
	2005	2005	2005	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Life insurance (non-linked)						
Provisions for policyholders	66,179	5,179	61,000	48,820	2,977	45,843
Outstanding claims	434	–	434	–	–	–
Total non-linked	<u>66,613</u>	<u>5,179</u>	<u>61,434</u>	<u>48,820</u>	<u>2,977</u>	<u>45,843</u>
Life insurance (linked)						
Provisions for policyholders	19,639	–	19,639	20,153	–	20,153
Outstanding claims	23	–	23	–	–	–
Total linked	<u>19,662</u>	<u>–</u>	<u>19,662</u>	<u>20,153</u>	<u>–</u>	<u>20,153</u>
Total liabilities under insurance contracts	<u>86,275</u>	<u>5,179</u>	<u>81,096</u>	<u>68,973</u>	<u>2,977</u>	<u>65,996</u>

33 Liabilities under insurance contracts issued (continued)

The key assumptions about the future and other sources of measuring uncertainty, that have a significant risk of causing material adjustments to the carrying amounts of insurance liabilities within the next financial year are:

<i>Assumptions</i>	<i>Movement</i>	<i>Impact on profit for the year</i>
		<u>2005</u>
		Lm000
Economic assumptions		
Exchange rate with Maltese lira	-50%	(7)
Failure of major bond provider (20% recovery)	N/A	(596)
Non-economic assumptions		
Mortality and/or morbidity	+10%	(240)
Mortality and/or morbidity	-10%	84
Lapse rate	+10%	(79)
Lapse rate	-10%	130

	<i>Group</i>				
	<u>Non-linked business</u>			<u>Linked Business</u>	<u>All Business</u>
	<i>Provisions for policy- holders</i>	<i>Outstanding claims</i>	<i>Total</i>	<i>Total</i>	<i>Total</i>
	2004	2004	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000	Lm000
Gross					
At 1 January	36,308	–	36,308	16,208	52,516
Claims/premiums in respect of new business	–	–	–	3,252	3,252
Policy terminations	–	–	–	(538)	(538)
Movement for the year	12,512	–	12,512	1,231	13,743
At 31 December	48,820	–	48,820	20,153	68,973
Reinsurance					
At 1 January	2,319	–	2,319	–	2,319
Movement for the year	658	–	658	–	658
At 31 December	2,977	–	2,977	–	2,977
Total	45,843	–	45,843	20,153	65,996

Notes on the Accounts (continued)**33 Liabilities under insurance contracts issued** (continued)

	<i>Group</i>				
	<i>Non-linked business</i>			<i>Linked Business</i>	<i>All Business</i>
	<i>Provisions for policy-holders</i>	<i>Outstanding claims</i>	<i>Total</i>	<i>Total</i>	<i>Total</i>
	2005	2005	2005	2005	2005
	Lm000	Lm000	Lm000	Lm000	Lm000
Gross					
At 1 January	48,820	–	48,820	20,153	68,973
Impact of IFRS4	–	–	–	(7,140)	(7,140)
At 1 January as restated	48,820	–	48,820	13,013	61,833
Claims/premiums in respect of new business	–	738	738	4,329	5,067
Other claims/premiums in respect of current year	–	(497)	(497)	(730)	(1,227)
Provisions to prior year amounts	–	(11)	(11)	–	(11)
Movement for the year	17,359	408	17,767	3,061	20,828
Previous year claims paid	–	(204)	(204)	(11)	(215)
At 31 December	66,179	434	66,613	19,662	86,275
Reinsurance					
At 1 January	2,977	–	2,977	–	2,977
Other movements	2,202	–	2,202	–	2,202
At 31 December	5,179	–	5,179	–	5,179
Total	61,000	434	61,434	19,662	81,096

34 Other liabilities

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Bills payable	8,634	8,830	8,634	8,830
Cash collateral for commitments	347	53	347	53
Obligations under finance leases	222	233	222	233
Share-based payments liabilities	483	184	458	176
Acceptances and endorsements	1,536	1,935	1,536	1,935
Other	5,533	3,287	4,995	2,079
	16,755	14,522	16,192	13,306

35 Accruals and deferred income

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Accrued interest	8,189	8,337	8,414	8,458
Other	6,846	6,764	6,528	6,360
	15,035	15,101	14,942	14,818
Amounts include:				
– due to Group companies	561	706	561	706
– due to subsidiary companies	–	–	227	124

36 Provisions for liabilities and other charges

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
At 1 January	26	327	26	327
Released through income statement	–	(82)	–	(82)
Provisions utilised	(1)	(219)	(1)	(219)
At 31 December	25	26	25	26

37 Subordinated liabilities

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
7.25% subordinated unsecured loan stock	–	19,914	–	20,000
Amounts include:				
– due to subsidiary companies	–	–	–	86

The 7.25% subordinated unsecured loan stock was redeemed on 15 June 2005.

38 Share capital

	2005		2004	
	<i>Shares of 12.5c each</i>		<i>Shares of 25c each</i>	
	000s	Lm000	000s	Lm000
Authorised				
Ordinary shares	320,000	40,000	160,000	40,000
Issued and fully paid up				
Ordinary shares	72,960	9,120	36,480	9,120

On 1 April 2005 each ordinary share of 25 cents was split into two ordinary shares of 12.5 cents each.

39 Reserves

a *Revaluation reserves*

The revaluation reserves comprise the surplus arising on the revaluation of the group's freehold and long leasehold properties and the cumulative net change in fair values of available-for-sale 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 tax effects. This reserve is presently not available for distribution.

Notes on the Accounts (continued)**40 Contingent liabilities**

	<i>Group</i>		<i>Bank</i>	
	<i>Contract amount</i>		<i>Contract amount</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Guarantees and assets pledged as collateral security				
– guarantees	33,787	36,049	33,797	36,459
– standby letters of credit	17,726	8,078	17,726	8,078
	51,513	44,127	51,523	44,537
Amounts include:				
– in favour of Group companies	539	–	539	–
– in favour of subsidiary companies	–	–	10	410

41 Commitments

	<i>Group</i>		<i>Bank</i>	
	<i>Contract amount</i>		<i>Contract amount</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Documentary credits	5,526	4,481	5,526	4,481
Undrawn formal standby facilities, credit facilities and other commitments to lend	414,046	326,102	424,874	342,276
Uncalled share capital in other companies	1	1	1	1
	419,573	330,584	430,401	346,758
Amounts include:				
– committed to subsidiary companies	–	–	10,898	16,450

42 Lease commitments**a Operating leases**

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Less than one year	385	469	385	469
Between one year and five years	384	553	384	553
More than five years	84	72	84	72
	853	1,094	853	1,094

b Finance leases

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Less than one year	65	57	65	57
Between one year and five years	186	211	186	211
Total minimum lease payments	251	268	251	268
Finance charges	(29)	(35)	(29)	(35)
Present value of minimum lease payments	222	233	222	233

43 Dividends

	<i>Bank</i>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<i>% per</i>	<i>% per</i>		
	12.5c share	25c share	Lm000	Lm000
Gross of income tax				
– prior year’s final	109	98	9,959	8,974
– interim	153	78	13,935	7,077
– special interim	219	142	19,991	12,914
	481	318	43,885	28,965
	<i>Cents per</i>	<i>Cents per</i>		
	12.5c share	25c share	Lm000	Lm000
Net of income tax				
– prior year’s final	8.87	16.00	6,473	5,833
– interim	12.42	12.61	9,058	4,600
– special interim	17.81	23.01	12,994	8,394
	39.10	51.62	28,525	18,827

The Directors have proposed a final gross ordinary dividend of 19.1 cents per share and a gross special dividend of 21.1 cents per share, giving a total gross final dividend of 40.2 cents per share. The final dividend will be payable to shareholders on the bank’s register as at 21 February 2006.

44 Cash and cash equivalents

	<i>Group</i>		<i>Bank</i>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<i>Lm000</i>	Lm000	<i>Lm000</i>	Lm000
Balances of cash and cash equivalents as shown in the balance sheet are analysed below:				
Cash	11,727	10,088	11,726	10,063
Balances with Central Bank of Malta (excluding reserve deposit)	8,459	–	8,457	–
Loans and advances to banks	138,293	111,646	177,743	152,726
Amounts owed to banks	(22,011)	(24,681)	(22,011)	(24,681)
	136,468	97,053	175,915	138,108
Adjustment to reflect balances with contractual maturity of more than three months	25,900	39,555	25,900	39,555
Per balance sheet	162,368	136,608	201,815	177,663
Analysed as follows:				
Cash and balances with Central Bank of Malta (excluding reserve deposit)	20,186	10,088	20,183	10,063
Malta Government Treasury Bills	1,967	43,573	1,967	43,573
Loans and advances to banks	162,882	131,283	202,332	172,363
Amounts owed to banks	(22,667)	(48,336)	(22,667)	(48,336)
	162,368	136,608	201,815	177,663

Notes on the Accounts (continued)**45 Segmental information****a** *Class of business*

	<i>Personal Financial Services</i>		<i>Commercial Banking</i>		<i>Corporate, Investment Banking and Markets</i>		<i>Total</i>	
	2005	2004	2005	2004	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>								
Profit before tax								
Segment operating income	33,732	29,606	23,517	22,136	11,379	8,358	68,628	60,100
Segment impairment allowances	(507)	107	649	3,905	–	–	142	4,012
Common costs							(32,064)	(31,259)
Profit before tax							36,706	32,853
Assets								
Segment total assets	577,333	476,124	610,844	653,122	462,518	469,900	1,650,695	1,599,146
Average total assets	526,728	444,835	631,983	648,577	466,209	475,653	1,624,920	1,569,065
Total equity	38,261	39,451	79,806	82,069	13,634	12,933	131,701	134,453

b *Geographical segments*

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

46 Related party transactions

During the course of banking operations, the group conducted business transactions with entities owned by the ultimate parent and its subsidiaries on an arm's length basis.

Executive Directors participate in the HSBC Group share option plans (see note 11).

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

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

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	<i>Balance at end of year</i>	<i>Balance at end of year</i>	<i>Balance at end of year</i>	<i>Balance at end of year</i>
	Lm000	Lm000	Lm000	Lm000
Directors, connected persons and companies controlled by them				
Loans	34,058	38,884	34,058	38,884
Credit card transactions	5	5	5	5
Guarantees	448	397	448	397
Commitments to lend	14,072	9,633	14,072	9,633

46 Related party transactions (continued)

a Transactions, arrangements and agreements involving Directors and others (continued)

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	<i>Balance at end of year</i>	<i>Balance at end of year</i>	<i>Balance at end of year</i>	<i>Balance at end of year</i>
	Lm000	Lm000	Lm000	Lm000
Senior executive management				
Loans	304	310	236	238
Credit card transactions	14	12	11	9
Guarantees	15	25	15	25

The above banking facilities are part of long-term commercial relationships and were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

b Compensation to Directors and key management personnel

	<i>Group</i>		<i>Bank</i>	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Short-term employee benefits	1,702	1,485	1,623	1,374
Post-employment benefits	300	97	296	93
Other long-term benefits	4	1	4	1
Termination benefits	-	213	-	100
Share-based payments	76	47	64	40
	2,082	1,843	1,987	1,608

Details of Directors' fees and emoluments are stated in note 13.

c Transactions with other related parties

Information relating both to transactions with HSBC Holdings plc and its subsidiaries as well as with subsidiary companies of HSBC Bank Malta p.l.c. are stated in the 'Notes on the Accounts' where the following are disclosed.

- Note 3 - interest receivable and similar income
- Note 4 - interest payable
- Note 5 - net fee and commission income
- Note 6 - dividend income
- Note 19 - investments
- Note 20 - loans and advances to banks
- Note 21 - loans and advances to customers
- Note 22 - shares in subsidiary companies
- Note 28 - prepayments and accrued income
- Note 29 - amounts owed to banks
- Note 30 - amounts owed to customers
- Note 35 - accruals and deferred income
- Note 37 - subordinated liabilities
- Note 40 - contingent liabilities
- Note 41 - commitments

Furthermore, expenditure relating to transactions with HSBC Holdings plc and its subsidiaries amounting to Lm1,354,000 (2004: Lm1,122,000) for the group and Lm1,315,000 (2004: Lm1,084,000) for the bank are included within general and administrative expenses.

Notes on the Accounts (continued)

47 Financial instruments and risk management

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 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 21. The group's largest economic sector exposures are within the household and individuals sector which accounts for 42 per cent of total loans and advances. The wholesale and retail trade sector accounts for 16 per cent, construction 13 per cent, hotels and restaurants 9 per cent, manufacturing 8 per cent and transport storage and communication 4 per cent.

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 (accrual 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' equity and current accounts, as well as fixed rate loans and liabilities other than those generated by treasury business. The group's asset and liability management committee (ALCO) assesses the interest rate risks which arise in the business. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income.

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 75 per cent of the group's assets and 59 per cent of its liabilities and equity are contractually repricable within a three-month timeframe from the current financial period end.

47 Financial instruments and risk management (continued)

c Market and liquidity risk management (continued)

Group	Lm000	Effective	Less	Between	Between	More	Others
		interest	than	three	one year	than five	
	%	rate	three	months	and five	years	Lm000
			months	and one	years		
			Lm000	year	Lm000	Lm000	Lm000
At 31 December 2005							
Assets							
Balances with Central Bank of Malta, Treasury Bills and cash	77,121	3.00	4,300	1,967	–	–	70,854
Cheques in course of collection	9,727	–	–	–	–	–	9,727
Financial assets held for trading							
– equity and other non-fixed income instruments	344	–	–	–	–	–	344
– derivative financial instruments	3,563	–	–	–	–	–	3,563
Financial assets designated at fair value through profit or loss							
– debt and other fixed income financial instruments	49,504	2.97	–	546	8,045	40,913	–
– equity and other non-fixed income instruments	43,627	–	–	–	–	–	43,627
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	137,766	4.73	28,593	10,813	70,335	28,025	–
– held-to-maturity	82,837	4.05	69,286	7,116	6,435	–	–
– equity and other non-fixed income instruments							
– available-for-sale	3,897	–	–	–	–	–	3,897
Loans and advances to banks	162,882	3.13	139,933	4,241	18,453	–	255
Loans and advances to customers	1,016,084	5.36	1,006,320	8,046	1,718	–	–
Other assets	63,343	–	–	–	–	–	63,343
Total assets	1,650,695		1,248,432	32,729	104,986	68,938	195,610

Notes on the Accounts (continued)**47 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

	<u>Lm000</u>	<i>Effective interest rate</i> <u>%</u>	<i>Less than three months</i> <u>Lm000</u>	<i>Between</i>	<i>Between</i>	<i>More</i>	<i>Others</i> <u>Lm000</u>
				<i>three months and one year</i> <u>Lm000</u>	<i>one year and five years</i> <u>Lm000</u>	<i>than five years</i> <u>Lm000</u>	
<i>Group</i>							
At 31 December 2005							
Liabilities							
Financial liabilities							
held for trading	4,050	–	24	–	–	–	4,026
Amounts owed to banks	22,667	2.86	21,816	656	–	–	195
Amounts owed to customers	1,367,214	2.19	948,301	320,179	94,970	1,081	2,683
Debt securities in issue	12	4.50	–	12	–	–	–
Liabilities to customers							
under investment contracts	8,297	–	–	–	–	–	8,297
Liabilities under insurance							
contracts issued	81,096	–	–	–	–	–	81,096
Other liabilities	35,658	–	–	–	–	–	35,658
Total liabilities	1,518,994		970,141	320,847	94,970	1,081	131,955
Equity							
Called up share capital	9,120	–	–	–	–	–	9,120
Revaluation reserves	13,105	–	–	–	–	–	13,105
Other reserve	4,242	–	–	–	–	–	4,242
Retained earnings	104,906	–	–	–	–	–	104,906
Equity attributable to							
shareholders	131,373	–	–	–	–	–	131,373
Minority interest	328	–	–	–	–	–	328
Total equity	131,701		–	–	–	–	131,701
Total liabilities and equity	1,650,695		970,141	320,847	94,970	1,081	263,656
Gap			278,291	(288,118)	10,016	67,857	(68,046)
Cumulative gap			278,291	(9,827)	189	68,046	–

47 Financial instruments and risk management (continued)

c Market and liquidity risk management (continued)

Group	Lm000	Effective interest rate %	Less than three months Lm000	Between	Between	More	Others Lm000
				three months and one year Lm000	one year and five years Lm000	than five years Lm000	
At 31 December 2004							
Assets							
Balances with Central Bank of Malta, Treasury Bills and cash	106,806	2.67	32,412	11,161	–	–	63,233
Cheques in course of collection	4,458	–	–	–	–	–	4,458
Financial assets held for trading							
– debt and other fixed income instruments	1,081	5.46	–	–	1,081	–	–
– equity and other non-fixed income instruments	108	–	–	–	–	–	108
– derivative financial instruments	3,637	–	–	–	–	–	3,637
Financial assets at fair value through profit or loss							
– debt and other fixed income financial instruments	42,125	3.11	–	783	8,193	33,149	–
– equity and other non-fixed income instruments	30,408	–	–	–	–	–	30,408
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	113,916	5.49	17,594	1,786	59,616	34,920	–
– held-to-maturity	120,933	3.61	81,811	25,154	10,172	3,796	–
– equity and other non-fixed income instruments							
– available-for-sale	3,597	–	–	–	–	–	3,597
Loans and advances to banks	131,283	2.57	112,396	3,977	14,910	–	–
Loans and advances to customers	976,296	5.11	966,966	4,899	1,739	–	2,692
Other assets	64,498	–	–	–	–	–	64,498
Total assets	1,599,146		1,211,179	47,760	95,711	71,865	172,631

Notes on the Accounts (continued)**47 Financial instruments and risk management** (continued)**c Market and liquidity 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 2004							
Liabilities							
Financial liabilities							
held for trading	9,917	–	(24)	133	101	–	9,707
Amounts owed to banks	48,336	1.84	24,753	23,388	–	–	195
Amounts owed to customers	1,288,618	2.00	876,835	313,613	96,874	–	1,296
Debt securities in issue	12	4.50	–	–	12	–	–
Liabilities under insurance							
contracts issued	65,996	–	–	–	–	–	65,996
Subordinated liabilities	19,914	7.25	–	19,914	–	–	–
Other liabilities	31,900	–	–	–	–	–	31,900
Total liabilities	1,464,693		901,564	357,048	96,987	–	109,094
Equity							
Called up share capital	9,120	–	–	–	–	–	9,120
Revaluation reserves	11,473	–	–	–	–	–	11,473
Other reserve	4,242	–	–	–	–	–	4,242
Retained earnings	109,618	–	–	–	–	–	109,618
Total equity	134,453		–	–	–	–	134,453
Total liabilities and equity	1,599,146		901,564	357,048	96,987	–	243,547
Gap			309,615	(309,288)	(1,276)	71,865	(70,916)
Cumulative gap			309,615	327	(949)	70,916	–

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.

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.

47 Financial instruments and risk management (continued)

c Market and liquidity 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>Undated</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>							
At 31 December 2005							
Assets							
Balances with Central Bank of Malta and cash	–	75,154	–	–	–	–	75,154
Malta Government Treasury Bills	–	–	1,967	–	–	–	1,967
Cheques in course of collection	–	9,727	–	–	–	–	9,727
Financial assets held for trading							
– equity and other non-fixed income instruments	73	–	–	–	–	271	344
– derivative financial instruments	2,200	–	418	945	–	–	3,563
Financial assets designated at fair value through profit or loss							
– debt and other fixed income instruments	2,117	–	558	7,948	38,881	–	49,504
– equity and other non-fixed income instruments	9,390	–	–	–	–	34,237	43,627
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	6,144	1,954	15,628	87,526	26,514	–	137,766
– held-to-maturity	–	4,231	31,173	47,433	–	–	82,837
– equity and other non-fixed income instruments	1,182	–	–	–	–	2,715	3,897
Loans and advances to banks	–	140,188	4,241	18,453	–	–	162,882
Loans and advances to customers	–	273,499	57,969	286,520	398,096	–	1,016,084
Other assets	–	–	–	–	–	63,343	63,343
Total assets	21,106	504,753	111,954	448,825	463,491	100,566	1,650,695

Notes on the Accounts (continued)**47 Financial instruments and risk management** (continued)**c Market and liquidity 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>Undated</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>							
At 31 December 2005							
Liabilities and equity							
Financial liabilities							
held for trading	2,663	–	418	969	–	–	4,050
Amounts owed to banks	–	21,816	656	–	195	–	22,667
Amounts owed to customers	–	950,665	320,198	96,242	109	–	1,367,214
Debt securities in issue	–	–	12	–	–	–	12
Liabilities to customers under investment contracts	–	4	8	856	7,429	–	8,297
Liabilities under insurance contracts issued	–	75	746	15,836	63,333	1,106	81,096
Other liabilities	–	–	–	–	–	35,658	35,658
Equity attributable to shareholders	–	–	–	–	–	131,373	131,373
Minority interest	–	–	–	–	–	328	328
Total liabilities and equity	2,663	972,560	322,038	113,903	71,066	168,465	1,650,695

47 Financial instruments and risk management (continued)

c Market and liquidity risk management (continued)

Group	<i>Fair value</i>	<i>Less than</i>	<i>Between</i>	<i>Between</i>	<i>More than</i>	<i>Undated</i>	<i>Total</i>
	<i>adjustments</i>	<i>three months</i>	<i>three months</i>	<i>one and</i>	<i>five years</i>		
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
At 31 December 2004							
Assets							
Balances with Central Bank of Malta and cash	–	63,233	–	–	–	–	63,233
Malta Government Treasury Bills	(9)	32,417	11,165	–	–	–	43,573
Cheques in course of collection	–	–	–	–	–	4,458	4,458
Financial assets held for trading							
– debt and other fixed income instruments	–	–	–	1,081	–	–	1,081
– equity and other non-fixed income instruments	–	–	–	–	–	108	108
– derivative financial instruments	2,142	–	–	1,495	–	–	3,637
Financial assets designated at fair value through profit or loss							
– debt and other fixed income instruments	897	–	848	8,512	31,868	–	42,125
– equity and other non-fixed income instruments	641	–	–	–	–	29,767	30,408
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	7,234	–	3,084	71,763	31,835	–	113,916
– held-to-maturity	–	8,894	31,844	76,400	3,795	–	120,933
– equity and other non-fixed income instruments	1,317	–	–	–	–	2,280	3,597
Loans and advances to banks	–	112,396	3,977	14,910	–	–	131,283
Loans and advances to customers	–	292,303	56,484	311,838	315,671	–	976,296
Other assets	–	–	–	–	–	64,498	64,498
Total assets	12,222	509,243	107,402	485,999	383,169	101,111	1,599,146

Notes on the Accounts (continued)**47 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

<i>Group</i>	<i>Fair value</i>	<i>Less than</i>	<i>Between</i>	<i>Between</i>	<i>More than</i>	<i>Undated</i>	<i>Total</i>
	<i>adjustments</i>	<i>three months</i>	<i>three months</i>	<i>one and</i>	<i>five years</i>		
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
At 31 December 2004							
Liabilities and equity							
Financial liabilities							
held for trading	8,212	–	117	1,588	–	–	9,917
Amounts owed to banks	–	24,753	23,388	–	195	–	48,336
Amounts owed to customers	–	878,132	313,612	96,874	–	–	1,288,618
Debt securities in issue	–	–	–	12	–	–	12
Liabilities under insurance contracts issued	–	–	15	10,524	54,433	1,024	65,996
Other liabilities	–	–	–	–	–	31,900	31,900
Subordinated liabilities	–	–	19,914	–	–	–	19,914
Total equity	–	–	–	–	–	134,453	134,453
Total liabilities and equity	8,212	902,885	357,046	108,998	54,628	167,377	1,599,146

47 Financial instruments and risk management (continued)

c Market and liquidity 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>Undated</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Bank</i>							
At 31 December 2005							
Assets							
Balances with Central Bank of Malta and cash	–	75,151	–	–	–	–	75,151
Malta Government Treasury Bills	–	–	1,967	–	–	–	1,967
Cheques in course of collection	–	9,727	–	–	–	–	9,727
Financial assets held for trading							
– equity and other non-fixed income instruments	73	–	–	–	–	271	344
– derivative financial instruments	2,200	–	418	945	–	–	3,563
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	6,144	1,954	15,628	87,526	26,514	–	137,766
– held-to-maturity	–	4,231	61,143	47,433	–	–	112,807
– equity and other non-fixed income instruments	1,182	–	–	–	–	2,713	3,895
Loans and advances to banks	–	179,638	4,241	18,453	–	–	202,332
Loans and advances to customers	–	272,803	57,939	285,330	321,741	–	937,813
Other assets	–	–	–	–	–	74,049	74,049
Total assets	9,599	543,504	141,336	439,687	348,255	77,033	1,559,414
Liabilities and equity							
Financial liabilities held for trading	2,663	–	418	969	–	–	4,050
Amounts owed to banks	–	21,816	656	–	195	–	22,667
Amounts owed to customers	–	963,360	321,998	96,216	109	–	1,381,683
Other liabilities	–	–	–	–	–	31,508	31,508
Total equity	–	–	–	–	–	119,506	119,506
Total liabilities and equity	2,663	985,176	323,072	97,185	304	151,014	1,559,414

Notes on the Accounts (continued)**47 Financial instruments and risk management** (continued)**c Market and liquidity 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>Undated</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Bank</i>							
At 31 December 2004							
Assets							
Balances with Central Bank of Malta and cash	–	63,208	–	–	–	–	63,208
Malta Government Treasury Bills	(9)	32,417	11,165	–	–	–	43,573
Cheques in course of collection	–	–	–	–	–	4,458	4,458
Financial assets held for trading							
– debt and other fixed income financial instruments	–	–	–	1,081	–	–	1,081
– equity and other non-fixed instruments	–	–	–	–	–	108	108
– derivative financial instruments	2,142	–	–	1,495	–	–	3,637
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	7,234	–	3,084	71,763	31,835	–	113,916
– held-to-maturity	–	8,894	31,844	106,316	3,795	–	150,849
– equity and other non-fixed income instruments	1,288	–	–	–	–	2,173	3,461
Loans and advances to banks	–	153,476	3,977	14,910	–	–	172,363
Loans and advances to customers	–	292,173	56,435	310,750	225,510	–	884,868
Other assets	–	–	–	–	–	74,466	74,466
Total assets	10,655	550,168	106,505	506,315	261,140	81,205	1,515,988
Liabilities and equity							
Financial liabilities held for trading	8,212	–	117	1,588	–	–	9,917
Amounts owed to banks	–	24,753	23,388	–	195	–	48,336
Amounts owed to customers	–	885,231	314,592	96,864	–	–	1,296,687
Other liabilities	–	–	–	–	–	28,714	28,714
Subordinated liabilities	–	–	20,000	–	–	–	20,000
Total equity	–	–	–	–	–	112,334	112,334
Total liabilities and equity	8,212	909,984	358,097	98,452	195	141,048	1,515,988

47 Financial instruments and risk management (continued)

c Market and liquidity 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 HSBC Group. Foreign exchange exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

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

	2005			2004		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	75,404	1,717	77,121	105,063	1,743	106,806
Cheques in course of collection	8,934	793	9,727	4,035	423	4,458
Financial assets held for trading						
– debt and other fixed income instruments	–	–	–	1,081	–	1,081
– equity and other non-fixed income instruments	344	–	344	108	–	108
– derivative financial instruments	–	3,563	3,563	–	3,637	3,637
Financial assets designated at fair value through profit or loss						
– debt and other fixed income instruments	46,094	3,410	49,504	32,344	9,781	42,125
– equity and other non-fixed income instruments	15,172	28,455	43,627	8,256	22,152	30,408
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	105,330	32,436	137,766	93,107	20,809	113,916
– held-to-maturity	4,802	78,035	82,837	20,237	100,696	120,933
– equity and other non-fixed income instruments						
– available-for-sale	3,886	11	3,897	3,451	146	3,597
Loans and advances to banks	1,129	161,753	162,882	2,720	128,563	131,283
Loans and advances to customers	979,074	37,010	1,016,084	942,809	33,487	976,296
Other assets	61,585	1,758	63,343	62,925	1,573	64,498
Total assets	<u>1,301,754</u>	<u>348,941</u>	<u>1,650,695</u>	<u>1,276,136</u>	<u>323,010</u>	<u>1,599,146</u>

Notes on the Accounts (continued)**47 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

	2005			2004		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Liabilities and equity						
Financial liabilities held						
for trading	–	4,050	4,050	–	9,917	9,917
Amounts owed to banks	13,033	9,634	22,667	20,762	27,574	48,336
Amounts owed to customers	1,003,867	363,347	1,367,214	979,969	308,649	1,288,618
Debt securities in issue	12	–	12	12	–	12
Liabilities to customers under investment contracts	8,297	–	8,297	–	–	–
Liabilities under insurance contracts issued	81,096	–	81,096	65,996	–	65,996
Subordinated liabilities	–	–	–	19,914	–	19,914
Other liabilities	31,790	3,868	35,658	29,431	2,469	31,900
Equity attributable						
to shareholders	131,373	–	131,373	134,453	–	134,453
Minority interest	328	–	328	–	–	–
Total liabilities and equity	<u>1,269,796</u>	<u>380,899</u>	<u>1,650,695</u>	<u>1,250,537</u>	<u>348,609</u>	<u>1,599,146</u>
	2005			2004		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Bank</i>						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	75,401	1,717	77,118	105,038	1,743	106,781
Cheques in course of collection	8,934	793	9,727	4,035	423	4,458
Financial assets held for trading						
– debt and other fixed income instruments	–	–	–	1,081	–	1,081
– equity and other non-fixed income instruments	344	–	344	108	–	108
– derivative financial instruments	–	3,563	3,563	–	3,637	3,637
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	105,330	32,436	137,766	93,107	20,809	113,916
– held-to-maturity	34,769	78,038	112,807	50,153	100,696	150,849
– equity and other non-fixed income instruments						
– available-for-sale	3,881	14	3,895	3,451	10	3,461
Loans and advances to banks	40,579	161,753	202,332	43,800	128,563	172,363
Loans and advances to customers	900,803	37,010	937,813	851,251	33,617	884,868
Other assets	72,308	1,741	74,049	72,922	1,544	74,466
Total assets	<u>1,242,349</u>	<u>317,065</u>	<u>1,559,414</u>	<u>1,224,946</u>	<u>291,042</u>	<u>1,515,988</u>

47 Financial instruments and risk management (continued)

c Market and liquidity risk management (continued)

	2005			2004		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Liabilities and equity						
Financial liabilities						
held for trading	–	4,050	4,050	–	9,917	9,917
Amounts owed to banks	13,033	9,634	22,667	20,762	27,574	48,336
Amounts owed to customers	1,018,336	363,347	1,381,683	988,038	308,649	1,296,687
Subordinated liabilities	–	–	–	20,000	–	20,000
Other liabilities	27,640	3,868	31,508	26,245	2,469	28,714
Total equity	119,506	–	119,506	112,334	–	112,334
Total liabilities and equity	1,178,515	380,899	1,559,414	1,167,379	348,609	1,515,988

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 Lm82,837,000 as at 31 December 2005. Fair value based on quoted market prices at the balance sheet date without any deduction for transaction costs amounts to Lm82,826,000 as at 31 December 2005.

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

Certain unlisted equity investments are carried at cost and amount to Lm318,000. 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 2005 the group's carrying amount was Lm1,178,966,000.

The loans and advances to customers category of asset amounts to Lm1,016,084,000. This carrying value approximates to fair value in the case of loans which are repriced at the group's discretion. These loans constitute a significant element of the total loan portfolio.

The loans and advances to banks category of asset amounts to Lm162,882,000. 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 2005, 86 per cent of loans and advances to banks had a contractual repricing within the "less than three months" band. Interest rates on these loans and advances reflect current market rates, and therefore the carrying amount approximates to fair value.

iv Amounts owed to banks and customers

This category of liability is carried at amortised cost and amounts to Lm1,389,881,000 as at 31 December 2005. Of this liability, 70 per cent has contractual repricing within the "less than three months" band, 23 per cent reprices within the "between three months and one year" band whilst 7 per cent reprices within the "between one year and five years" band. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at balance sheet date.

Notes on the Accounts (continued)**48 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 2005, the total assets held by the group on behalf of customers were Lm379,598,000 (2004: Lm278,212,000).

49 Registered office and ultimate parent company

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

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, which is incorporated and registered in England. The registered address is 8 Canada Square, London E14 5HQ, United Kingdom. Copies of the HSBC Holdings plc *Annual Review 2005* and *Annual Report and Accounts 2005* may be obtained from its registered office from 4 April 2006.

50 Comparative amounts

Certain amounts have been reclassified to conform with the current year's presentation. In addition, the following items relating to the comparative period were restated in line with adoption of IFRS 2 'Share-based Payments', IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and change in accounting policy in respect of investment in subsidiaries:

	<i>As restated</i>	<i>As reclassified following line-by-line consolidation of life assurance subsidiary company¹</i>	<i>Change</i>
	Lm000	Lm000	Lm000
<i>Group</i>			
Income statement			
Employee compensation and benefits	(19,656)	(19,472)	(184)
Tax on profit	(10,843)	(10,907)	64
Balance sheet			
Loans and advances to customers	976,296	979,446	(3,150)
Assets held for sale	3,150	–	3,150
Other assets	3,715	3,152	563
Current tax recoverable	1,372	–	1,372
Deferred tax liability	2,251	2,315	(64)
Other liabilities	14,522	12,403	2,119
Revaluation reserves	11,473	11,086	387
Retained earnings	109,618	103,652	5,966
Dividend reserve	–	6,473	(6,473)

¹Amounts exclude effects of changes required by IFRS 2 and IFRS 5.

50 Comparative amounts (continued)

	<i>As restated</i>	<i>As previously stated</i>	<i>Change</i>
	Lm000	Lm000	Lm000
<i>Bank</i>			
Income statement			
Employee compensation and benefits	(18,698)	(18,522)	(176)
Tax on profit	(10,627)	(10,688)	61
Balance sheet			
Loans and advances to customers	884,868	888,018	(3,150)
Shares in subsidiaries	19,850	42,023	(22,173)
Assets held for sale	3,150	–	3,150
Other assets	2,856	2,231	625
Current tax recoverable	1,310	–	1,310
Deferred tax liability	564	625	(61)
Other liabilities	13,306	11,195	2,111
Revaluation reserves	11,479	33,265	(21,786)
Retained earnings	87,493	81,522	5,971
Dividend reserve	–	6,473	(6,473)

In applying IFRS 4 ‘Insurance Contracts’, the group complied with paragraphs 23 to 25 of IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

51 Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme.

HSBC Bank Malta p.l.c. and HSBC Stockbrokers (Malta) Limited have elected to pay the amount of the variable contribution directly to the Scheme.

52 Accounting estimates and judgements

The directors considered the development, selection and disclosure of the group’s critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting judgement in applying accounting policies

i Impairment losses on loans and advances

The group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics (see note 2(h)(i)). As a result, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease is actually identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the relative economic situation of an asset group or in the credit status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes on the Accounts (continued)

52 Accounting estimates and judgements (continued)

Critical accounting judgement in applying accounting policies (continued)

ii Policyholder claims and benefits

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the group. Estimates are made as to the expected number of deaths for each of the years in which the group is exposed to risk. The group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the group's own experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the group has significant exposure to mortality risk.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

For long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature, estimates of future deaths, voluntary terminations, investment returns and administrative expenses form the assumptions used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. New estimates are made each subsequent year to reflect the current long-term outlook.

iii Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumption about these factors could affect reported fair value of financial instruments.

iv Impairment of available-for-sale equity instruments

The group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financial cash flows.

v Held-to-maturity investments

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

Group Solvency Ratio at 31 December 2005

	<i>Face value</i>	<i>Weighted amount</i>
	Lm000	Lm000
On-balance sheet assets		
Balances with Central Bank of Malta, Treasury Bills and cash	77,121	–
Cheques in course of collection	9,727	1,945
Loans and advances to banks	162,882	32,576
Loans and advances to customers	1,020,048	765,168
Debt securities and equities	317,631	81,621
Property, plant and equipment	30,707	30,707
Other assets	22,254	22,254
Prepayments and accrued income	12,868	6,434
	<u>1,653,238</u>	<u>940,705</u>
Off-balance sheet items		
Contingent liabilities and commitments	471,086	33,705
Total adjusted assets and off-balance sheet items		<u>974,410</u>
Own funds		
Original own funds	110,203	
Additional own funds	15,789	
Total own funds	<u>125,992</u>	
Solvency ratio at 31 December 2005		<u>12.93%</u>
Solvency ratio at 31 December 2004		<u>13.92%</u>

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

Group Income Statement: Five-Year Comparison

	<u>2005</u>	2004	2003	2002	2001
	Lm000	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income	74,199	68,807	69,360	76,105	82,588
Interest payable	(27,327)	(27,413)	(34,660)	(42,778)	(51,721)
Net interest income	46,872	41,394	34,700	33,327	30,867
Net non-interest income	21,756	18,706	18,668	18,282	20,424
Operating expenses	(31,430)	(30,763)	(30,290)	(28,588)	(29,385)
Amortisation of intangible assets	(635)	(797)	(291)	(291)	(287)
Net impairment reversals/(losses)	142	4,012	3,386	(1,515)	(5,842)
Reversal/(provisions) for liabilities and other charges	1	301	(9)	(89)	(15)
Profit before tax	36,706	32,853	26,164	21,126	15,762
Tax on profit	(12,642)	(10,843)	(9,383)	(5,762)	(2,520)
Profit for the year	24,064	22,010	16,781	15,364	13,242
Profit attributable to shareholders of the bank	24,057	22,010	16,781	15,364	13,242
Profit attributable to minority interest	7	-	-	-	-
Earnings per share	33.0c	30.2c	23.0c	21.1c	18.1c

Earnings per share for 2004, 2003, 2002 and 2001 have been restated as a result of share split effected on 1 April 2005.

Group Balance Sheet: Five-Year Comparison

	2005	2004	2003	2002	2001
	Lm000	Lm000	Lm000	Lm000	Lm000
Assets					
Balances with Central Bank of Malta,					
Treasury Bills and cash	77,121	106,806	133,574	171,501	119,862
Cheques in course of collection	9,727	4,458	5,637	3,986	4,513
Financial assets held for trading	3,907	4,826	2,444	2,779	5,580
Financial assets at fair value through profit and loss	93,131	72,533	–	–	–
Investments	224,500	238,446	235,059	263,912	295,524
Loans and advances to banks	162,882	131,283	130,700	146,000	72,010
Loans and advances to customers	1,016,084	976,296	922,526	890,664	878,329
Intangible assets	9,433	8,782	1,762	630	921
Property, plant and equipment	29,746	30,647	30,511	28,965	26,688
Investment property	961	346	346	346	343
Assets held for sale	4,918	3,150	–	–	–
Current tax recoverable	1,895	1,372	–	–	–
Deferred tax asset	–	–	1,607	6,011	6,705
Other assets	3,522	3,715	58,756	37,281	25,989
Prepayments and accrued income	12,868	16,486	16,062	18,258	19,807
Total assets	1,650,695	1,599,146	1,538,984	1,570,333	1,456,271
Liabilities					
Financial liabilities held for trading	4,050	9,917	8,611	6,402	405
Amounts owed to banks	22,667	48,336	32,367	64,563	60,615
Amounts owed to customers	1,367,214	1,288,618	1,267,378	1,303,140	1,223,077
Debt securities in issue	12	12	12	12	12
Deferred tax liability	3,843	2,251	–	–	–
Liabilities to customers under investment contracts	8,297	–	–	–	–
Liabilities under insurance contracts issued	81,096	65,996	–	–	–
Other liabilities	16,755	14,522	62,080	39,780	29,687
Accruals and deferred income	15,035	15,101	15,676	17,848	18,204
Provisions for liabilities and other charges	25	26	1,698	1,591	229
Subordinated liabilities	–	19,914	20,000	20,000	20,000
Total liabilities	1,518,994	1,464,693	1,407,822	1,453,336	1,352,229
Equity attributable to shareholders	131,373	134,453	131,162	116,997	104,042
Minority interest	328	–	–	–	–
Total equity	131,701	134,453	131,162	116,997	104,042
Total liabilities and equity	1,650,695	1,599,146	1,538,984	1,570,333	1,456,271
Memorandum items					
Contingent liabilities	51,513	44,127	38,818	47,634	36,117
Commitments	419,573	330,584	297,631	287,605	264,622

Group Cash Flow Statement: Five-Year Comparison

	2005	2004	2003	2002	2001
	Lm000	Lm000	Lm000	Lm000	Lm000
Net cash flows from/(used in) operating activities	67,706	25,863	(51,991)	(17,628)	50,830
Cash flows from investing activities					
Dividends received	397	323	125	122	144
Interest received from financial instruments designated at fair value through profit or loss	2,399	1,605	–	–	–
Interest received from investment securities	11,799	12,512	13,279	19,151	11,073
Proceeds on disposals of financial instruments designated at fair value through profit or loss	9,454	4,031	–	–	–
Proceeds on disposal of available-for-sale instruments	15,498	10,814	9,986	8,728	16,966
Proceeds on maturity/disposal of investment securities	41,707	70,488	72,588	91,044	86,768
Proceeds on liquidation of subsidiaries	–	–	–	–	1
Proceeds on disposal of property, plant and equipment	264	57	26	51	74
Purchase of financial instruments designated at fair value through profit or loss	(21,506)	(23,319)	–	–	–
Purchase of available-for-sale instruments	(37,330)	(35,332)	(1,812)	(297)	(27,960)
Purchase of investment securities	–	(57,805)	(50,295)	(70,826)	(51,507)
Purchase of property, plant and equipment and investment property	(2,143)	(1,290)	(5,286)	(6,041)	(4,110)
Purchase of intangible assets	(712)	(86)	(66)	(484)	(1,020)
Net cash flows from/(used in) investing activities	19,827	(18,002)	38,545	41,448	30,429
Cash flows from financing activities					
Dividends paid	(28,525)	(18,827)	(5,691)	(3,794)	(2,608)
Decrease in debt securities in issue	(19,914)	–	–	–	(16,110)
Issue of units to minority interest	321	–	–	–	–
Cash used in financing activities	(48,118)	(18,827)	(5,691)	(3,794)	(18,718)
Increase/(decrease) in cash and cash equivalents	39,415	(10,966)	(19,137)	20,026	62,541

Group Accounting Ratios: Five-Year Comparison

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	%	%	%	%	%
Net interest income and other operating income to total assets	4.2	3.8	3.5	3.3	3.5
Operating expenses to total assets	1.9	2.0	2.0	1.8	2.0
Profit before tax to total assets	2.2	2.1	1.7	1.3	1.1
Return on capital employed before tax	27.9	24.4	19.1	16.6	13.6
Profit after tax to equity	18.3	16.4	12.8	13.1	12.7
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Shares in issue (millions)	73.0	36.5	36.5	36.5	36.5
Net assets per 12.5 cents share (cents)	180.5	184.3	179.8	160.4	142.6
Earnings per 12.5 cents share (cents)	33.0	30.2	23.0	21.1	18.1
Dividend per 12.5 cents share (cents)					
– gross	60.1	39.7	12.0	8.0	5.5
– net	39.1	25.8	7.8	5.2	3.6
Dividend cover	0.8	1.2	2.9	4.0	5.1

Group Financial Highlights in Major Currencies

	2005	2004	2005	2004
	€000	€000	US\$000	US\$000
Income statement				
Net operating income	159,860	139,995	188,694	165,245
Operating expenses	(73,212)	(71,659)	(86,417)	(84,583)
Amortisation of intangible assets	(1,479)	(1,857)	(1,746)	(2,191)
Net impairment reversals	331	9,345	391	11,031
Reversals/(provisions) for liabilities and other charges	2	701	3	828
Profit before tax	85,502	76,525	100,925	90,330
Tax on profit	(29,352)	(25,257)	(34,647)	(29,813)
Profit for the year	56,150	51,268	66,278	60,517
Profit attributable to shareholders of the bank	56,134	51,268	66,259	60,517
Profit attributable to minority interest	16	–	19	–
Balance sheet				
Assets				
Balances with Central Bank of Malta,				
Treasury Bills and cash	179,644	248,791	212,046	293,665
Cheques in course of collection	22,658	10,384	26,745	12,257
Financial assets held for trading	9,101	11,242	10,742	13,269
Financial assets at fair value through profit or loss	216,937	168,956	256,065	199,431
Investments	522,944	555,430	617,267	655,612
Loans and advances to banks	379,413	305,807	447,847	360,965
Loans and advances to customers	2,366,839	2,274,158	2,793,743	2,684,344
Intangible assets	21,973	20,457	25,936	24,146
Property, plant and equipment	69,289	71,388	81,787	84,265
Investment property	2,239	806	2,642	951
Assets held for sale	11,456	7,338	13,522	8,661
Current tax recoverable	4,414	3,196	5,210	3,772
Other assets	8,204	8,654	9,684	10,214
Prepayments and accrued income	29,974	38,402	35,381	45,329
Total assets	3,845,085	3,725,009	4,538,617	4,396,881
Liabilities and equity				
Financial liabilities held for trading	9,434	23,100	11,136	27,267
Amounts owed to banks	52,800	112,593	62,323	132,901
Amounts owed to customers	3,184,752	3,001,673	3,759,181	3,543,078
Debt securities in issue	28	28	33	33
Deferred tax liability	8,952	5,243	10,566	6,189
Liabilities to customers under investment contracts	19,327	–	22,813	–
Liabilities under insurance contracts issued	188,903	153,730	222,975	181,458
Other liabilities	39,029	33,827	46,068	39,929
Accruals and deferred income	35,022	35,176	41,339	41,520
Provisions for liabilities and other charges	58	61	69	71
Subordinated liabilities	–	46,387	–	54,754
Called up share capital	21,244	21,244	25,076	25,076
Revaluation reserves	30,526	26,725	36,032	31,545
Other reserve	9,881	9,881	11,663	11,663
Retained earnings	244,365	255,341	288,441	301,397
Minority interest	764	–	902	–
Total liabilities and equity	3,845,085	3,725,009	4,538,617	4,396,881

The euro exchange rate ruling on 31 December 2005 was €1 = Lm0.4293. The US dollar exchange rate ruling on the same date was US\$1 = Lm0.3637. Comparative results have also been translated at these rates.

Shareholder Register Information

Directors' interest in the share capital of the company or in any related company at 31 December 2005

Philip Farrugia Randon	1,600 shares
Charles J. Farrugia	2,000 shares

Mr Peter Paul Testaferrata Moroni Viani has a beneficial interest in the company of 14,700 ordinary shares through the shareholding of MacApps Limited in HSBC Bank Malta p.l.c. He also has a non-beneficial interest in the company of 68,040 ordinary shares through the shareholding of Santumas Shareholdings p.l.c. in HSBC Bank Malta p.l.c.

Mr Louis Farrugia has a beneficial interest in the company of 9,994 ordinary shares through the shareholding of Farrugia Investments Limited in HSBC Bank Malta p.l.c.

Mr Albert Mizzi has a non-beneficial interest in the company of 54,870 ordinary shares through the shareholding held by Finco Control Co Limited in HSBC Bank Malta p.l.c. and a non-beneficial interest in the company of 96,500 ordinary shares through the shareholding of Finco Treasury Management Limited in HSBC Bank Malta p.l.c.

There were no changes to the Directors' interest from 31 December 2005 to 8 February 2006.

Shareholders holding 5% or more of the equity capital at 8 February 2006

HSBC Europe B.V.	70.03%
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Number of shareholders at 8 February 2006

One class of shares (All shares have equal voting rights)	4,704 shareholders
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Number of shareholders analysed by range

Range of shareholding	31 December 2005		8 February 2006	
	Total shareholders	Shares	Total shareholders	Shares
1 - 500	1,317	426,353	1,432	449,421
501 - 1,000	825	653,494	846	670,102
1,001 - 5,000	1,821	4,274,790	1,831	4,293,499
5,001 and over	593	67,605,363	595	67,546,978

Company Secretary

George Brancaleone
233 Republic Street
Valletta VLT 05
Tel: 2597 2404

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

Card Products Division

Operations Centre
80 Mill Street, Qormi QRM 03
Tel: 2380 5983 Fax: 2380 4924

Direct Banking Centre

Operations Centre
80 Mill Street, Qormi QRM 03
Tel: 2380 2380 Fax: 2149 0613
Freephone: 8007 4444

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 3802 Fax: 2380 3815

Premier Centre

Hexagon House, Spencer Gardens
Blata l-Bajda HMR 12
Tel: 2597 2904 Fax: 2597 2219

Securities Centre

Operations Centre
80 Mill Street, Qormi QRM 03
Tel: 2380 5900 Fax: 2380 4842

Small & Medium Size

Enterprises Unit
Hexagon House, Spencer Gardens
Blata l-Bajda HMR 12
Tel: 2293 3406 Fax: 2293 3699

Trade Services

Operations Centre
80 Mill Street, Qormi QRM 03
Tel: 2380 8897 Fax: 2380 8890

Wealth Management Office

Hexagon House, Spencer Gardens
Blata l-Bajda HMR 12
Tel: 2293 2900 Fax: 2293 2926

Balzan

Bertu Fenech Square 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, 2144 0585
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

Bugibba

Bay Square SPB 04
Tel: 2380 2380 Fax: 2334 7390

Cospicua

50 Pilgrimage Street CSP 02
Tel: 2380 2380 Fax: 2293 4090

Fgura

Council of Europe Square 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

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

Marsaxlokk (Automated Office)

55 Xatt is-Sajjieda

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 Seafront MSD 08
Tel: 2380 2380 Fax: 2597 8590

Msida, University of Malta

Room 6, Ground Floor
Humanities Building MSD 06
Tel: 2134 5051
Fax: 2133 1377

Naxxar

Victory Square NXR 04
Tel: 2380 2380 Fax: 2334 5990

Paceville (Automated Office)

Eden Super Bowl

Paola

12 Antoine De Paule Square PLA 06
Tel: 2380 2380 Fax: 2361 1390

Paola (Commercial Centre)

12 Antoine De Paule Square 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

198 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 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 2590

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 (Commercial Branch)

233 Republic Street VLT 05
Tel: 2597 3407 Fax: 2597 3697

Zabbar

19 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

GOZO OFFICES**Victoria**

90 Republic Street VCT 103
Tel: 2380 2380 Fax: 2293 7192

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

SUBSIDIARY COMPANIES**HSBC Fund Management
(Malta) Ltd**

Hexagon House, Spencer Gardens
Blata l-Bajda HMR 12
Tel: 2293 5126 Fax: 2293 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

Hexagon House, Spencer Gardens
Blata l-Bajda HMR 12
Tel: 2293 8699 Fax: 2293 8690

HSBC Stockbrokers (Malta) Ltd

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

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