2006

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

The world's local bank

HSBC

The HSBC Group

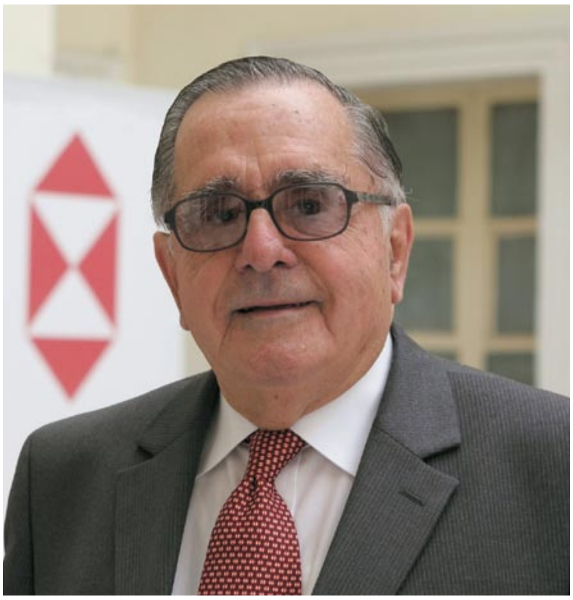
HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises over 9,500 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

HSBC Bank Malta p.l.c.
Registered in Malta: number C3177
Registered Office and Head Office:
233 Republic Street
Valletta VLT 1116
Malta
Telephone: 356 2597 0000
Customer Service: 356 2380 2380
Facsimile: 356 2380 4923
Web: www.hsbc.com.mt

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

Contents

Chairman's Statement



I am pleased to advise that 2006 was another record year for HSBC Bank Malta p.l.c.

Performance

Profit before taxation increased by 12.8 per cent to Lm41.4 million. This excellent result was underpinned by a strong performance across the organisation.

Total assets increased to over Lm1.88 billion and our return on capital employed improved to 32.8 per cent. These results make us the most profitable financial services company in Malta.

The bank's cost to income ratio also improved to 45.5 per cent, in spite of a growth in costs due to further investment in the business and to support increased performance related compensation to staff based on the improved results.

The bank's subsidiary fund management and life assurance companies both celebrated their tenth anniversary in 2006 with improved performances. Our stockbroking company also increased business volumes.

Profit attributable to shareholders increased by 11.4 per cent to Lm26.8 million. The Board is recommending a final gross ordinary dividend of 5.3 cents per share and a gross special dividend of 5.3 cents per share. This follows on the gross dividend of 5.3 cents per share paid in August 2006. This brings the total dividend for the year to 15.9 cents.

As dividends are being charged to retained earnings in the year they are declared, the final dividend will feature in next year's accounts. The gross dividend yield at year end market price for payments made in 2006 stood at 8.1 per cent.

During 2006 the number of the bank's shareholders more than doubled and is now over 9,400. This shows the confidence the investing public has in our organisation and its future performance. HSBC Bank Malta p.l.c., a subsidiary of London-based HSBC Holdings plc, is the largest listed company in Malta with a market capitalisation of over Lm600 million.

Strategy

During 2006 the bank continued with the HSBC Group strategy of building sustainable growth by focusing on its main customer groups.

Last year we were fortunate to have HSBC's Group Chief Executive, Mr Michael Geoghegan, visit as part of his worldwide Roadshow and explain at first-hand the strategy of joining up the Group. The HSBC Group has a strategic vision founded on seven Global Pillars which aim:

– To provide service excellence to our customers, putting them at the centre of everything we do

– To be the best financial services brand globally and here in Malta

– To make HSBC the best place to work

– To use our global distribution network to our customers' advantage

– To grow our business on a sustainable basis

– To use technology to make it easier for customers to do business with us

– To guide our organisation with wisdom and delegate with confidence

Our organisation aims to provide products and services that meet the requirements of our personal, corporate and institutional clients. In fact, the customer surveys, from our on-going research into customer satisfaction in our personal and corporate businesses, both achieved the highest ever results, close to 90 per cent in 2006.

Corporate Social Responsibility (CSR)

HSBC prides itself in being the market leader in Malta in CSR. For HSBC, our contribution to the local community is as important a consideration to the health of our business as is the contribution to the bottom line.

In Malta, the bank's involvement in the community revolves primarily around the three philanthropic funds it has specifically set up for this purpose. In 2006, the bank made additional contributions to these funds of over Lm190,000.

HSBC staff members together with their families planting trees, which are indigenous to Malta, at Xrobb l-Għaġin as part of the '34U' afforestation projects.

The HSBC Cares For Children Fund has continued to help underprivileged children through various educational projects, rehabilitation programmes as well as being the main sponsor of Malta's Children's Day and CSR day, both annual events. The numerous social activities it organised and sponsored brought joy to the hearts of hundreds of children. It was also instrumental in bringing over one of the world's most recognisable rock stars and campaigner against poverty, Bob Geldof, to raise funds for Malta's YMCA.

HSBC, sponsors the Young Enterprise HSBC Programme for post-secondary students and the Scoops Programme for secondary school students, encouraging hundreds of students to participate in their first encounter with the business community. The bank also funds the main students' council at the University of Malta.

In 2006 the HSBC Cares For The Environment Fund contributed to the improvement of the Maltese environment through the planting of more than 5,000 trees through the '34U' afforestation projects. Through this direct action we are committed to plant close to 20,000 trees at various sites around Malta. Customers and staff are also now joining us to plant trees to commemorate various occasions. The fund has sponsored the International ECO Schools programme in Malta, so far involving 52 schools and reaching 18,500 students. The fund also participated in environmental initiatives such as the Eco-fest during World Environment Day and Clean Up the World campaign.

The HSBC Cares For Malta's Heritage Fund was very active in its first full year of operation. As patrons of Patrimonju Malti and the National Museum of Fine Arts, funds have been made available to help with the protection of Malta's rich cultural heritage. It also supported the exhibition and publication of Malta's World Heritage Sites 360º and launched the successful Malta Hotel Heritage Sponsorship Scheme, whereby hotel guests are encouraged to make a small voluntary contribution to assist Heritage Malta in the conservation of a number of unique cultural sites.

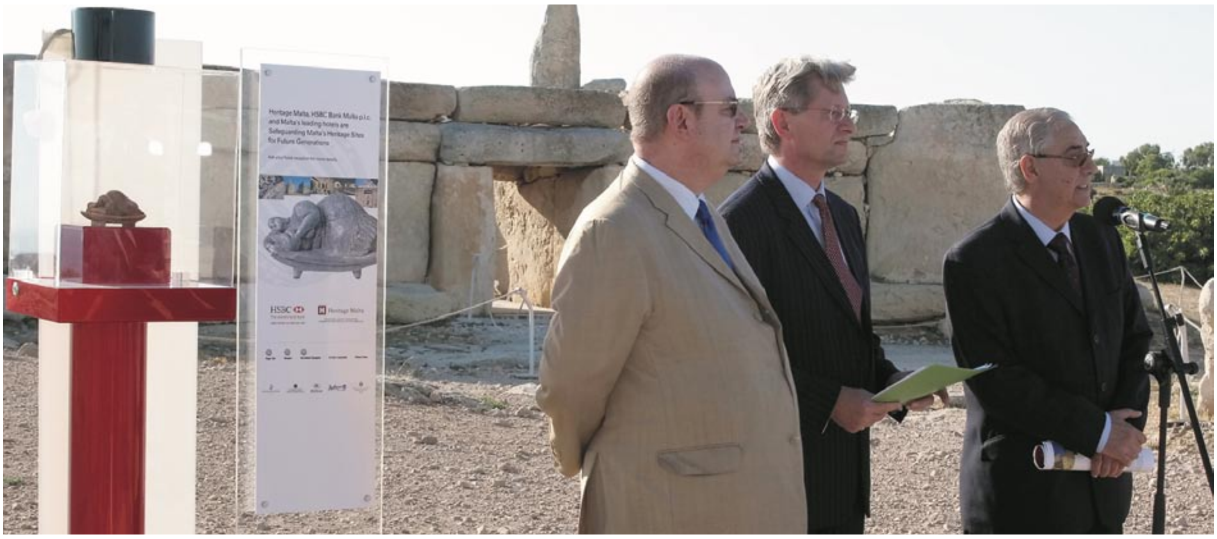
During the year the bank also contributed some Lm85,000 to numerous charitable and philanthropic causes, financial literacy projects and various NGOs and sporting events.

Board

During 2006 there were two changes to the Board of Directors. Mr Martin Wilkins resigned as an executive Director after retiring from the organisation and was succeeded by the bank's new Chief Operating Officer, Mrs Sally Robson. There was also a change in the non-executive Directors, with the appointment of Mr Saviour Portelli after the resignation of Mr Louis Farrugia.

I would like to convey my thanks to Martin Wilkins and Louis Farrugia for their valuable and excellent contribution to our organisation during the years they

Chairman's Statement (continued)



Shaun Wallis, CEO HSBC Bank Malta p.l.c., together with Dr Francis Zammit Dimech, Minister for Tourism and Culture, during the inaugural speech by Dr Mario Tabone, Chairman Heritage Malta, at the launch of the Malta Hotel Heritage Scheme at Haġar Qim Temples on 14 June 2006.

served on the Board. I also warmly welcome Sally Robson and Saviour Portelli. I have no doubt that their experience and stewardship will contribute to the future success of our organisation.

The Board has a distinctive mix of members who collectively bring the necessary skills, knowledge and experience to continue building on our achievements and steering our organisation to even more success. Besides myself as Chairman, the Board is composed of two local executives, two expatriate executive Directors, three non-executive Directors who are all Maltese, and one overseas-based Director who is also the Chief Operating Officer of HSBC Bank plc.

It is also opportune to pay tribute to Mr Chris Hothersall, the previous Chief Executive Officer and a Director of our organisation, who passed away last year. He contributed to the success of our organisation and will be sadly missed.

Awards

In addition to the strong support for the bank shown by customers and by shareholders, I should like to mention several public awards of recognition made in relation to our people management, which reflect the genuine efforts made in this important area.

Locally, the bank won the 2006 'Award for Best Training Initiative' for its female management development programme and the 2006 'Award for Excellence in People Management', both from the Foundation for Human Resources Development.

We also won the 2006 'Award for National Occupational Health and Safety Authority' for our management system initiative entitled 'Counterline Ergonomics', which aimed at minimising health risks associated with teller duties.

Internationally, for the third consecutive year the bank was selected as a finalist by the Institute of Financial Services for an innovation award, this time in the category of 'Best CSR Programme' for the Xummiemu campaign undertaken through the HSBC Cares For The Environment Fund.

Outlook

With our present strategy, structure and resources we are confident that we will continue our strong performance in 2007.

I take this opportunity to express my gratitude and appreciation to the Board of Directors, management and staff for all their work and commitment in making 2006 such an excellent year.

I would also like to thank our shareholders for their continued support, and finally and most importantly our customers for their custom and continued trust in our organisation.

Albert Mizzi, *Chairman*
16 February 2007

Chief Executive Officer's Review of Operations

2006 has been the best year ever for HSBC Bank Malta p.l.c., with record sales across all product groups, record customer service satisfaction levels and record staff engagement levels – all leading to record financial results.

Performance

This strong and sustained performance was achieved by having a clear customer focus and a strong sales and marketing culture, by investing in our staff and upgrading our systems, and by holding to our core business values and principles.

This increase in business activity has been achieved while at the same time improving operational efficiency as well as minimising losses due to error, fraud or poor credit. We have grown our loan book responsibly as evidenced by the reduced level of bad debts.

Our aim continues to be the most recommended bank by customers, staff and shareholders. This is a result of our internal drive for service excellence, operational efficiency and close coordination throughout the bank.

In order to best serve our customers, the bank is structured around customer groups: Personal Financial Services; Commercial Banking; and Corporate, Investment Banking and Markets.

Personal Financial Services (PFS)

PFS encompasses a wide range of financial services to over 250,000 personal customers and small businesses in Malta. During 2006, the customer group experienced considerable growth in all key areas of the business, particularly our consumer finance business which witnessed an increase in personal lending, largely driven by home loans, and a significant increase in credit card sales and usage.

Our Wealth Management service also had record results in our Fund Management, Life Assurance, Trusts and Premier Customer businesses. One of the most successful of the smaller business lines was the HSBC ShareShop enabling retail customers to buy and sell local and foreign shares easily on the high street.

2006 was characterised by a series of new products and services. We continued to be market leaders in this area with innovative products and creative marketing campaigns which included AIDA, INCA, Yacht Finance, a comprehensive range of new home loan products and an all-inclusive student proposition, as well as new property and capital secured growth funds.

Simultaneously PFS also demised a number of marginal products to simplify our business and reduce costs. On the retail side, PFS reopened a branch in Marsascala and two new retail outlets in Sliema and Gozo for the ShareShop business.

The PFS customer group benefited strongly from several other new initiatives, including the launch of a new Customer Relationship Management System and a new Sales Floor Management culture focusing on shop floor customer service. Furthermore, a strong focus on electronic banking saw further customer take-up of Personal Internet Banking and subscription to Mobile Banking Services, and higher use of ATM and deposit machines.

Commercial Banking (CMB)

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

Drawing upon the HSBC Group's expertise in this area, Business Specialists were appointed to look after small and medium sized enterprises (SMEs) and Start-Ups and provide a more professional and expert service to their customer segment. A specially designed Start-Up package was also launched.

Similarly, the HSBC Group's very successful and widespread Invoice Finance (Factoring) service was launched in Malta and is now available to the business community, providing short term debtor finance and sales ledger management services. This new and comprehensive service has proved very popular as it helps businesses manage their cash flow, improve their balance sheets and reduce costs. This new product has good prospects for the future.

Chief Executive Officer's Review of Operations (continued)

Trade Services continued to provide specialist import/export services and advice, offering unrivalled opportunities to traders through HSBC's global reach and trade services network.

HSBC also initiated a Global Links programme making it easier for Maltese corporate customers to find business partners around the world using HSBC's global network.

Corporate, Investment Banking and Markets (CIBM)

Good profits were also registered in our treasury capital markets business. In particular CIBM saw higher foreign exchange turnover and trading profits despite strong competition in the markets. Tighter liquidity management, however, resulted in lower interest income in CIBM being reflected in more efficient employment elsewhere in the bank. Similarly, surplus capital in the balance sheet was paid back to shareholders thereby reducing CIBM's interest earnings on otherwise surplus funds.

Our custody services business which is part of HSBC's large global business continued to grow with customer funds under custody exceeding Lm550 million. The bank also entered into a number of large international structured finance deals on a back-to-back basis with the HSBC Group.

In stockbroking, record profits were generated for the group. Our stockbroking subsidiary generated 23.4 per cent of the total turnover of the Malta Stock Exchange. In this area we also acted as main sponsoring brokers and managers in publicly listed bond and equity issues and assisted customers through our corporate advisory services. Substantial stockbroking sales were also generated for customers through our branch network.

CIBM also assisted our private clients and corporate customers to manage their excess liquidity better by manufacturing structured products to improve their returns over normal bank deposit rates.

Support Services

Building for sustained growth is a key HSBC strategic imperative and our Support Services have striven to deliver this by improving our customer service and experience. We have undertaken a branch make-over programme to give our retail outlets a fresh and inviting look and launched our new Express Banking signage: 'Come in and take a look'.

To underpin this new look we have removed processing from our retail outlets and now about 90 per cent of all branch staff time is spent face to face with our customers – servicing and selling. To support the effectiveness of this customer contact we have launched a new global HSBC Customer Relationship Management data system. This provides a deep understanding of our customers and prompts intelligent financial services solutions for our staff to discuss face to face with our customers.

Using technology to make it easier for customers to do business with us and us with them is another key HSBC strategic imperative, and so we have invested in new Express Banking services to enable our customers to bank with HSBC 24/7. Our customers are telling us that this is what they want. Nearly 50,000 of our customers now bank with us through the internet and some 45,000 of our customers now use HSBC's new Mobile Services, and our own local Call Centre is handling over 1,500 calls a day.

In summary, over 84 per cent of customers' transactions are now automated through Express Banking – leaving our branch staff with more time to talk to our customers to meet their wider banking and wealth improvement requirements, giving us more time to do business.

We continue to be risk aware and risk vigilant and it is a tribute to our Support Services staff that in 2006 operational losses dropped by 22 per cent. This focus was underpinned by the introduction of SMS transaction alerts for our customers and an internal continuous audit programme within our network. We are also well-prepared for the new regulatory framework on operational risk under Basel II which is being coordinated globally by our Group Head Office in the UK and whose expertise has been particularly helpful.

Process re-engineering

The bank has launched a process re-engineering team to streamline our processes and improve our processing: joining up the company. By constantly making our systems more efficient we are improving our customer experience. For example, we have launched our 48-hour decision or Lm50 payment promise on home loans which has always been met.

Process re-engineering has played its part in improving our shareholder return and we are seeking to pass on these cost benefits by way of preferential tariffs to customers who use our automated services. By way of example, in 2006 we improved the straight through processing of our payments by 59 per cent and there is still a lot of room for improvement. Importantly, this freed up staff to move to more rewarding customer-facing roles as well as reducing costs. This programme of process re-engineering will continue through 2007 in other areas of the bank, again drawing on best practice from elsewhere in the HSBC Group.

HSBC Bank Malta p.l.c.'s new ShareShop in Sliema.

Human Resources

At HSBC, people are our most valuable resource and it is through our professional workforce that we can remain market leaders in financial services.

We are proud to have a very high level of staff engagement. In our annual employee focus survey, to which we had an incredible 93 per cent response rate, our colleagues registered a major increase in job satisfaction and loyalty. This high level of staff involvement contributed to greater efficiency and productivity, without the need for any significant increase in headcount.

The survey also produced a number of areas which staff suggested would improve HSBC as the best place to work and we are actively working on these too.

In 2006, we continued to invest in our people through various training initiatives, career development and talent management programmes. We believe in justly rewarding our employees and this resulted in a new reward scheme in line with our performance objectives.

There is a continuous communication programme with our employees and we encourage their professional development. In 2006, the number of new job opportunities and movements within the company also increased significantly when compared to the previous year. We successfully introduced a job share policy to offer greater employment flexibility and assist individuals attain a better work-life balance.

We continued with our diversity strategy that ensures that all individuals are recognised and valued for their contribution irrespective of gender, race, age, creed or culture. Our successful ‘Springboard’ programme for female staff continued and the new ‘Navigator’ programme for male employees has just been launched. In line with Group principles, our diversity policy ensures that there is no bias because of gender and that equal career opportunities are available to everyone.

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

Achievements - Inshoring

In early 2006, with our support, HSBC launched a new insurance management company in Malta to process back-office work for HSBC Life (Europe) Limited and to service the needs of UK non-resident personal and corporate customers. Based in Dublin, Ireland, the company is well positioned for the HSBC Group clients who wish to set up an EU-based captive insurance company.

Another achievement worth noting is that in a span of 16 weeks we established a fully-fledged and fully-operational call centre in Swatar for the HSBC Group. HSBC Bank Malta played a key role in attracting this call centre and making it fully operational with state-of-the-art technology to handle in-bound calls from HSBC’s UK customers and to complement other call centres in the UK and Asia.

Chief Executive Officer's Review of Operations (continued)

General view of the HSBC call centre at Swatar. Inaugurated by the Hon. Prime Minister Dr Lawrence Gonzi and David Budd, Executive Director and Chief Operating Officer HSBC Bank plc on 20 November 2006.

Servicing a very substantial and growing number of calls everyday, the efficiency and customer experience of this call centre is already up to global standards and is evidence of the high quality of Maltese employees.

HSBC Bank Malta is benefiting directly from this call centre, particularly through management development opportunities being offered to our local staff, through sharing of best practice for our own call centre, from the rental use of this property and from the management fee paid by our parent. A win-win solution for a joined up company.

The call centre was also beneficial for the Maltese economy in general as it attracted an initial investment of Lm3 million and provided over 300 jobs.

Outlook

The economic outlook for Malta in 2007 is good and will favour our business growth. There are a number of operational challenges, in particular preparation for the adoption of the euro as Malta's national currency, the EU implementation of a Single European Payments Area as well as the new chip and pin technology required across Europe for credit cards.

HSBC Bank Malta will also be further upgrading its Internet Banking systems and automation to improve customer service and products. However, with a well-oiled operational machine we have confidence these systems and projects will be delivered successfully, on time and within budget.

Financial services continue to be one of Malta's most dynamic and competitive sectors and an area of growth. HSBC is contributing to this development in a significant and direct manner and has a sustainable competitive advantage locally and as a joined up member of the HSBC Group.

With good customer relationships, strong, recurrent business streams, excellent resources and the backing of the HSBC Group, we are confident we will continue to grow our business successfully and remain Malta's leading provider of financial services for the benefit of our customers, business partners, staff and shareholders.

Shaun Wallis, *Chief Executive Officer*
16 February 2007

Board of Directors

Albert Mizzi, NON-EXECUTIVE CHAIRMAN
Age 79. 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 51. 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.

Sally Robson, DIRECTOR AND CHIEF OPERATING OFFICER
Age 48. Director of HSBC Bank Malta p.l.c. since 31 March 2006. A professional banker and a fellow of the Chartered Institute of Bankers. Joined the then Midland Bank plc in 1979. Since 1983 she has held a number of key managerial positions within the HSBC Group in the UK, with the most recent being that of Area Director for Greater Manchester.

David Budd, NON-EXECUTIVE DIRECTOR
Age 53. Director of HSBC Bank Malta p.l.c. since September 2005. Has occupied various senior 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 57. 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 49. 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.

Victor Scicluna, NON-EXECUTIVE DIRECTOR
Age 68. Director of HSBC Bank Malta p.l.c. since March 2001 and member of the Audit Committee since June 2001. A Certified Pulic Accountant. Former Director / General Manager Central Cigarettes Co Ltd, former Chairman of the Board of Governors of the Malta College of Arts, Science and Technology and former President of The Malta Employers Association. Chairman of The Malta Council for Economic and Social Development for a number of years.

Peter Paul Testaferrata Moroni Viani, NON-EXECUTIVE DIRECTOR
Age 46. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2001. Holds various executive positions and directorships within the Testaferrata Group of companies.

Saviour sive Sonny Portelli, NON-EXECUTIVE DIRECTOR
Age 62. Appointed Director of HSBC Bank Malta p.l.c. on 9 October 2006. A senior Maltese businessman who is currently the Chairman of Maltacom p.l.c. Group. Had an early career in the Malta Civil Service which he left to join the tourist sector. Besides being a marketing specialist he sits as non-executive director on the boards of various Maltese companies.

George Brancaleone, COMPANY SECRETARY
Age 45. 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. Currently 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 2006, HSBC Bank Malta p.l.c. and its subsidiaries generated a profit on ordinary activities before tax of Lm41.4 million, an increase of Lm4.7 million, or 12.8 per cent compared with the year ended 31 December 2005.

Profit attributable to shareholders was Lm26.8 million, an increase of Lm2.8 million over prior year figure.

Net interest income grew by 5.4 per cent over prior year and contributed Lm47.0 million to total operating income.

Non-interest income levels grew by 18.8 per cent, contributing Lm28.6 million to total operating income.

Operating expenses were Lm34.3 million, an increase of Lm2.3 million over prior year figure.

As a result, the group's cost to income ratio improved to 45.5 per cent from 46.7 per cent in 2005.

Net impairment reversals contributed Lm0.2 million to profitability.

Shareholder ratios

Earnings per share increased from a 2005 figure of 8.2 cents to 9.2 cents, with the pre-tax return on average shareholders' funds increasing from 27.6 per cent in 2005 to 32.1 per cent.

The Directors propose a final dividend of 5.3 cents gross per share and a special dividend of 5.3 cents gross per share, giving a total dividend of 10.6 cents gross per share. This follows on the gross interim dividend of 5.3 cents paid in August 2006.

Net interest income

Net interest income grew by 5.4 per cent over the prior year and contributed Lm47.0 million to total operating income driven by growth in lending volumes of 10 per cent. Principal areas of growth in the lending portfolios were in the higher yielding personal and non-public sector customer segments and with a reduction in lower yielding public sector debt. This was partly offset by a higher interest rate environment for new customer deposits which pushed up interest payable costs.

Period-end group balance sheet assets increased by Lm231.4 million to Lm1,887.3 million during 2006. There was strong growth in home loans and higher holdings in Malta Government Treasury Bills.

Non-interest income

Non-interest income levels, grew by 18.8 per cent, contributing Lm28.6 million to net operating income.

Net fee and commission income contributed Lm12.7 million, up on last year's Lm11.1 million, as transactional activity on credit card payments and debit card EPOS machine usage grew substantially; funds under management, stockbroking sales also grew significantly.

Trading profits increased by 1.8 per cent to Lm7.3 million supported by an active foreign exchange market. The local currency is gearing itself up for full euro convergence in January 2008.

Net gains on the sale of financial investments realised Lm2.7 million.

Other operating income increased from Lm0.7 million to Lm2.3 million, primarily as a result of an increase in the present value of life assurance in-force business.

Balance sheet liabilities under insurance contracts increased by 19.1 per cent over prior year. This resulted in a strong contribution of life assurance business activities to profitability levels.

Operating expenses

Operating expenses grew by 7.1 per cent to Lm34.3 million.

Employee compensation and benefits were Lm21.2 million, up on a prior year Lm20.1 million. This reflects higher expenditure on employee bonus and share payment schemes due to the higher performance of the bank and also due to higher voluntary retirement benefits.

General and administrative expenses increased to Lm10.0 million from last year's Lm9.1 million. There were significant investments in infrastructure and branch network, which substantially improved automation and operational efficiencies. This has enabled the bank to absorb larger volumes of business and positioned it for future growth.

Depreciation and amortisation charges increased to Lm3.0 million from a prior year level of Lm2.8 million.

The group's cost to income ratio improved to 45.5 per cent from 46.7 per cent in 2005.

Net impairment reversals

There were no significant lending impairment issues during the year.

Net impairment reversals contributed Lm0.2 million to profitability. New specific allowances of Lm1.0 million were raised and bad debt write-offs of Lm1.6 million were effected.

Bad debt write-offs had been fully provided for in prior years and its effect was compensated by the reversal of Lm2.7 million in specific allowances.

Non-performing loans reduced from Lm51.6 million to Lm43.7 million supported by effective debt recovery management as well as the writing off of non-recoverable debts. The aggregate amount of non-performing customer advances represents 3.9 per cent of net loans and advances to customers (2005: 5.1 per cent).

Taxation

The 2006 effective rate of tax was 35.2 per cent marginally up on a prior year 34.4 per cent. Tax on profit on ordinary activities for 2006 increased to Lm14.6 million.

Assets

Total assets increased by Lm231.4 million to Lm1,887.3 million.

Loans and advances to customers increased by Lm110.0 million, supported by growth in both the personal and commercial sectors. New product lines were introduced with a diversification in mortgage product choice as well as new financing proposals for the SME and larger corporate markets. Credit quality remained sound.

Advances to deposits ratio increased to 76.3 per cent from a prior year end level of 74.3 per cent.

Life assurance business assets are designated as financial assets at fair value through profit or loss. This portfolio grew to Lm112.5 million from a prior year end level of Lm93.1 million.

Balances with Central Bank of Malta and Treasury Bill holdings increased from a prior year end level of Lm65.4 million to a year end level of Lm116.5 million.

Short term liquid money market placements in the form of loans and advances to banks increased from Lm162.9 million to Lm256.1million.

Liabilities

Liabilities increased by Lm236.8 million to Lm1,760.9 million.

Amounts owed to customers increased by Lm108.2 million to Lm1,475.5 million driven by competitive pricing and the investment in automated bank channels which strengthened the growth in deposit volumes and contributed to significantly higher transaction activity.

Amounts owed to banks increased by Lm103.7 million as a result of increased wholesale banking business transacted.

Funds under management by the group reached Lm286.7 million, 7.4 per cent up from a prior year end level of Lm267.1 million.

Liabilities under insurance contracts issued increased by Lm16.5 million during the year to reach a year end level of Lm102.8 million.

Shareholders' funds

Equity totalled Lm126.4 million at year end following record dividend payments to shareholders of Lm29.1 million during 2006.

The number of shareholders increased from 4,556 to 9,417 as at 31 December.

A bonus issue was effected to increase the share capital to Lm36.5 million from a prior year end level of Lm9.1 million. The bonus issue transferred Lm27.4 million out of capitalised reserves and retained earnings into share capital.

The solvency ratio stands at 10.93 per cent and is in excess of regulatory capital requirements.

Report of the Directors

Results for 2006

The group reported a profit on ordinary activities before tax of Lm41.4 million for the year under review. The group's profit attributable to shareholders of the bank was Lm26.8 million.

A gross interim dividend of 5.3 cents per ordinary share was paid on 17 August 2006. The Directors have proposed a gross final dividend of 10.6 cents per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 2 March 2007.

Further information about the results is provided in the group income statement on page 23.

Principal activities

Principal activities of parent company

The bank is authorised to carry on the business of banking under the Banking Act, 1994 as a credit institution. It is also an authorised dealer in terms of the Exchange Control Act and a 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 2006: HSBC Life Assurance (Malta) Limited, HSBC Fund Management (Malta) Limited, HSBC Stockbrokers (Malta) Limited and HSBC Investment Services (Malta) Limited.

Principal activities of subsidiaries

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

Business review

On 21 April 2006, a former subsidiary, HSBC Home Loans (Malta) Limited, was amalgamated with the bank and consequently ceased to exist.

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 5 to 8.

Standard licence conditions

In accordance with paragraph 10.34 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. Accordingly, the Directors confirm that no breaches of the standard licence conditions and no other breach of regulatory requirements, which were subject to an administrative penalty or regulatory sanction were reported.

Events after the balance sheet date

On 5 December 2006, the Board of Directors approved the issue of MTL20,000,000/EUR46,600,000, 4.6 per cent Subordinated Bond on 18 January 2007, maturing in 2017. The Bond issue was over subscribed and on 1 February 2007 MTL15,767,000 and EUR21,507,000, totalling MTL25,000,000/EUR58,234,000 were allotted to applicants.

Board of Directors

The Directors who served during the year are as follows:

Albert Mizzi (Chairman)
Shaun Wallis
Martin Wilkins (resigned 31 March 2006)
Sally Robson (appointed 31 March 2006)
David Budd
Philip Farrugia Randon
Charles John Farrugia
Louis Farrugia (resigned 12 September 2006)
Victor Scicluna
Peter Paul Testaferrata Moroni Viani
Saviour sive Sonny Portelli (appointed 9 October 2006)

Senior management

As at 31 December 2006, the senior management of the group was composed of the following:

Shaun Wallis	Chief Executive Officer
Sally Robson	Chief Operating Officer
Philip Farrugia Randon	Head of Group Legal
Charles John Farrugia	Head of Corporate, Investment Banking and Markets
James Dunbar Cousin	Head of Commercial Banking
Godfrey Swain	Head of Personal Financial Services
Martin Peplow	Head of Credit
Philip Farrugia	Head of Banking Services
Mark Sims	Head of Human Resources
Joseph Borg	Head of IT
David Demarco	Chief Financial Officer
John Sammut	Head of Compliance
Brian Tortell	Head of Marketing
Josef Camilleri	Head of Public Affairs and CSR
Richard Reid	Head of Insurance Services
Martin Scicluna	Head of Wealth Management
Charles Azzopardi	Head of Investment Management Services
Ray Briffa	Head of Branch Banking
Kevin Rapinett	Head of Stockbroking Services
Anthony Vella Gregory	Senior Internal Audit Manager

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 2007 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) includes a Statement of Compliance which deals with the extent to which the bank has adopted the Code of Principles of Good Corporate Governance (the Principles) and the effective measures that the bank has taken to ensure compliance with these Principles.

Compliance with the Principles

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

In line with the Principles, the Board's composition is a mixture of a non-executive Chairman, four executive Directors, one non-executive Director and three independent non-executive Directors. All the Directors, individually and collectively, are of the appropriate calibre, with the necessary skills and experience to assist them in providing leadership, integrity and judgement in directing the bank. Furthermore, the roles of the Chief Executive Officer and the Chairman are separate.

Internal control

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

- Authority to operate the bank is delegated to the Chief Executive Officer within the limits set by the Board of the bank. Functional, operating and financial reporting standards are applicable within all entities of the HSBC Group. These are supplemented by operating standards set by the bank's management, as required.
- Systems and procedures are in place in the bank to identify, control and to report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by the Asset and Liability Management Committee and by the Risk Management Committee.
- Comprehensive annual financial plans are prepared, reviewed and approved by the Board. Results are monitored and reports on progress compared with plan are prepared monthly. Financial accounting and reporting and certain management reporting standards have been established. Centralised functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes.
- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to line management. In addition, functional management in the bank has been given the responsibility to 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.
- The bank's Compliance Department ensures that HSBC Bank Malta group complies with all the local and international regulatory obligations and HSBC Group standards and regulations.

Through the Audit Committee, the Board reviews the processes and procedures to ensure the effectiveness of the system of internal control of the bank and its subsidiaries, which are monitored by internal audit.

Appointment/election of Directors

The Memorandum of Association of the bank specifically regulates the appointment of Directors. The Board consists of not more than nine Directors who are appointed/elected by the shareholders. Every shareholder owning 11 per cent of the ordinary share capital is entitled to appoint one Director for each 11 per cent shareholding. The majority shareholder therefore has the right to appoint six Directors. Furthermore, any excess fractional shareholding not so utilised may be used to participate in the voting for the election of further Directors. Shareholders who own less than 11 per cent of the ordinary share capital participate in the election of the remaining three Directors.

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

Responsibilities of the Board

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy, performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

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

Directors' attendance at Board Meetings:

Members	*Attended*
Albert Mizzi	4
Shaun Wallis	4
Sally Robson	4
David Budd	4
Philip Farrugia Randon	4
Charles J. Farrugia	4
Victor Scicluna	4
Peter Paul Testaferrata Moroni Viani	4
Louis Farrugia	1 (out of 3)
Saviour sive Sonny Portelli	1 (out of 1)

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

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

The Board regularly considers the establishment and implementation of appropriate schemes to recruit, retain and motivate high quality executive officers and the management team. It also ensures that there is ongoing training in the bank for all employees. During 2005, the group established a talent pool with the aim of identifying personnel with potential and aptitude for senior management posts.

Director's dealings

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

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

Committees

Audit committee

This committee meets at least five times a year and from 2007 will meet bi-monthly. Its terms of reference are modelled mainly on the recommendations in the Cadbury Report and the Listing Rules. Additional terms of reference have been adopted by this committee to align with the HSBC Group's requirements. The audit committee, having been approved by the Listing Authority in terms of Listing Rule 8.64, scrutinises and monitors related party transactions. It considers the materiality and the nature of the related party transaction carried out by the bank to ensure that the arms' length principle is adhered to at all times. As at 31 December 2006, its members were Messrs Victor Scicluna (Chairman), Peter Paul Testaferrata Moroni Viani and Saviour sive Sonny Portelli, who are independent non-executive Directors. Executives of the bank are available to attend any of the meetings as directed by the committee. The Chief Executive Officer, the Chief Operating Officer, the Head of Compliance and a representative of the external auditors generally attend the meetings. In line with Listing Rule 8.53, the Head of Internal Audit is always present for its meetings and has a right of direct access to the Chairman of the committee at all times.

As HSBC Holdings plc is a Securities Exchange Commission (SEC) registered company, non-audit services provided by the external auditor are regulated in terms of the SEC rules.

Remuneration committee

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

This remuneration committee meets primarily to review the compensation policy of HSBC Bank Malta p.l.c. and to make annual recommendations which are then sent to HSBC Bank plc for concurrence on pay review, salary increases and bonuses for key management personnel. It is chaired by Mr Albert Mizzi (non-executive Chairman) and comprises the Chief Executive Officer and the Chief Operating Officer. During 2006, two meetings were held by this committee.

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.

Risk management committee

The primary function of this committee is for senior and executive management to review the identification, measurement, monitoring and controlling of HSBC Bank Malta p.l.c. group's principal business risks, which include credit, liquidity, market, balance sheet, operational, audit and compliance risks. This committee also determines and agrees strategies and policies to mitigate these risks.

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

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 five 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.

In terms of the bank's Articles of Association, the Directors shall on the requisition of shareholders of the company holding not less than one-tenth of the paid-up share capital proceed duly to convene an extraordinary general meeting of the company.

Corporate Social Responsibility

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

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

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

Going concern

As required by Listing Rule 9.37.17, 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.

Signed on behalf of the Board on 16 February 2007 by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Remuneration Report

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

Directors' remuneration for the financial year under review:

	Lm
– Directors' fees	43,250
– Directors' salaries and bonuses as full-time bank employees	423,689

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

	Lm
Albert Mizzi	15,000
Louis Farrugia	5,750
Victor Scicluna	10,500
Peter Paul Testaferrata Moroni Viani	9,500
Saviour sive Sonny Portelli	2,500
Total	43,250

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

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

Executive Directors may be entitled to HSBC Holdings share options as detailed in note 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.

Report of the Independent Auditors to the Shareholders of HSBC Bank Malta p.l.c. pursuant to Listing Rule 8.31 issued by the Listing Authority

Listing Rules 8.29 and 8.30 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 8.31, 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 14 to 17 provides the disclosures required by the Listing Rules 8.29 and 8.30 issued by the Listing Authority.

Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pietà PTA 4904
Malta

16 February 2007

Preparation of Financial Statements and Directors' Responsibilities

The Companies Act, 1995 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the bank and the group as at the end of the financial year and of the results of their operations and their cash flows for that year.

In preparing such financial statements, Article 14 of the Third Schedule to the Companies Act, 1995, 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 Companies Act, 1995 and the Banking Act, 1994.

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

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

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the bank's and the group's business. This responsibility includes establishing and maintaining controls pertaining to the bank's objective of preparing financial statements as required by the Companies Act, 1995 and the Banking Act, 1994 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 2007 by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

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

Report on the financial statements

We have audited the accompanying financial statements of HSBC Bank Malta p.l.c. (the 'bank'), and of the group of which the bank is the parent (the 'financial statements') set out on pages 23 to 79, which comprise the balance sheets as at 31 December 2006, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

As described on page 20, management is responsible for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU and of the bank in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

- of the financial position of the group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- of the financial position of the bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Report on other legal and regulatory requirements

Auditor's responsibility

The Banking Act, 1994 requires us to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion, proper books of account have been kept by HSBC Bank Malta p.l.c. so far as appears from our examination thereof, whether the financial statements are in agreement with the books and whether these give the information required by any law in force in the manner so required and give a true and fair view.

We are also required to state whether the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995.

Opinion

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

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

Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pietà PTA 4904
Malta

16 February 2007

Income Statement for the year 1 January 2006 to 31 December 2006

		Group		Bank	
		2006	2005	**2006**	2005
	Note	**Lm000**	Lm000	**Lm000**	Lm000
Interest receivable and similar income					
– on loans and advances, balances with Central Bank of Malta and Treasury Bills	*3*	**72,103**	60,994	**71,285**	58,048
– on debt and other fixed income instruments	*3*	**8,772**	10,890	**9,209**	12,196
Interest payable	*4*	**(33,913)**	(27,327)	**(34,378)**	(27,648)
Net interest income		**46,962**	44,557	**46,116**	42,596
Fees and commissions receivable		**13,848**	11,866	**10,831**	9,342
Fees and commissions payable		**(1,175)**	(814)	**(987)**	(686)
Net fee and commission income	*5*	**12,673**	11,052	**9,844**	8,656
Dividend income	*6*	**113**	142	**2,169**	22,604
Trading profits	*7*	**7,335**	7,206	**7,335**	7,215
Net income from insurance financial instruments designated at fair value through profit or loss		**4,768**	11,169	**–**	–
Net gains on sale of financial investments	*8*	**2,719**	1,204	**2,719**	1,266
Net earned insurance premiums	*9*	**16,536**	16,236	**–**	–
Other operating income		**2,308**	723	**715**	24
Total operating income		**93,414**	92,289	**68,898**	82,361
Net insurance claims incurred and movement in policyholders' liabilities	*10*	**(17,846)**	(23,661)	**–**	–
Net operating income		**75,568**	68,628	**68,898**	82,361
Employee compensation and benefits	*11*	**(21,249)**	(20,132)	**(20,357)**	(19,203)
General and administrative expenses		**(10,036)**	(9,075)	**(9,543)**	(8,527)
Depreciation		**(2,406)**	(2,197)	**(2,388)**	(2,157)
Amortisation of intangible assets		**(547)**	(635)	**(464)**	(556)
Other operating charges		**(109)**	(26)	**(9)**	(6)
Net operating income before impairment reversals and provisions		**41,221**	36,563	**36,137**	51,912
Net impairment reversals	*12*	**181**	142	**141**	121
(Provisions)/reversals of provisions for liabilities and other charges		**(7)**	1	**(7)**	1
Profit before tax	*13*	**41,395**	36,706	**36,271**	52,034
Tax expense	*14*	**(14,572)**	(12,642)	**(12,366)**	(17,854)
Profit for the year		**26,823**	24,064	**23,905**	34,180
Profit attributable to shareholders of the bank		**26,810**	24,057	**23,905**	34,180
Profit attributable to minority interest		**13**	7	**–**	–
Earnings per share	*15*	**9.2c**	8.2c	**8.2c**	11.7c

Balance Sheet at 31 December 2006

		Group		*Bank*	
		2006	2005	**2006**	2005
	Note	**Lm000**	Lm000	**Lm000**	Lm000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*16*	**130,569**	77,121	**130,569**	77,118
Cheques in course of collection		**10,535**	9,727	**10,535**	9,727
Financial assets held for trading	*17*	**10,396**	3,907	**10,399**	3,907
Financial assets designated at fair value through profit or loss	*18*	**112,476**	93,131	**–**	–
Financial investments	*19*	**168,138**	224,500	**168,123**	254,468
Loans and advances to banks	*20*	**256,060**	162,882	**256,042**	202,332
Loans and advances to customers	*21*	**1,126,126**	1,016,084	**1,126,126**	937,813
Shares in subsidiary companies	*22*	**–**	–	**9,682**	20,350
Intangible assets	*23*	**10,899**	9,433	**794**	829
Property, plant and equipment	*24*	**28,612**	29,746	**28,632**	29,755
Investment property	*25*	**3,417**	961	**2,456**	–
Assets held for sale	*26*	**3,978**	4,918	**4,042**	5,864
Current tax recoverable		**806**	1,895	**780**	1,607
Deferred tax assets	*31*	**–**	–	**724**	–
Other assets	*27*	**10,713**	8,701	**2,984**	2,699
Prepayments and accrued income	*28*	**14,589**	12,868	**13,630**	12,945
Total assets		**1,887,314**	1,655,874	**1,765,518**	1,559,414
Liabilities					
Financial liabilities held for trading	*17*	**10,643**	4,050	**10,693**	4,050
Amounts owed to banks	*29*	**126,328**	22,667	**126,328**	22,667
Amounts owed to customers	*30*	**1,475,450**	1,367,214	**1,487,906**	1,381,683
Debt securities in issue		**–**	12	**–**	–
Deferred tax liabilities	*31*	**4,606**	3,843	**–**	349
Liabilities to customers under investment contracts	32	**9,153**	8,297	**–**	–
Liabilities under insurance contracts issued	*33*	**102,770**	86,275	**–**	–
Other liabilities	*34*	**13,816**	16,755	**13,003**	16,192
Accruals and deferred income	*35*	**18,147**	15,035	**17,936**	14,942
Provisions for liabilities and other charges	*36*	**32**	25	**32**	25
Total liabilities		**1,760,945**	1,524,173	**1,655,898**	1,439,908
Equity					
Called up share capital	*37*	**36,480**	9,120	**36,480**	9,120
Revaluation reserves	*38*	**10,629**	13,105	**10,629**	13,041
Other reserve	*38*	**242**	4,242	**227**	4,242
Retained earnings		**79,018**	104,906	**62,284**	93,103
Equity attributable to shareholders		**126,369**	131,373	**109,620**	119,506
Minority interest		**–**	328	**–**	–
Total equity		**126,369**	131,701	**109,620**	119,506
Total liabilities and equity		**1,887,314**	1,655,874	**1,765,518**	1,559,414
Memorandum items					
Contingent liabilities	*39*	**59,578**	51,513	**59,588**	51,523
Commitments	*40*	**456,899**	401,216	**456,899**	412,044

The financial statements on pages 23 to 79 were approved by the Board of Directors on 16 February 2007 and signed on its behalf by:

Albert Mizzi, *Chairman*

Shaun Wallis, *Chief Executive Officer*

Statement of Changes in Equity for the year 1 January 2006 to 31 December 2006

	Attributable to shareholders of the bank						
	Called up share capital	*Revaluation reserves*	*Other reserve*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group							
At 1 January 2005	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
Income and expenses recognised directly in equity	–	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 42)	–	–	–	(28,525)	(28,525)	–	(28,525)
At 31 December 2005	9,120	13,105	4,242	104,906	131,373	328	131,701
At 1 January 2006	**9,120**	**13,105**	**4,242**	**104,906**	**131,373**	**328**	**131,701**
Release of net gains on available-for-sale assets transferred to the income statement on disposal	**–**	**(796)**	**–**	**(973)**	**(1,769)**	**–**	**(1,769)**
Net fair value adjustments on investments	**–**	**(1,668)**	**–**	**–**	**(1,668)**	**–**	**(1,668)**
Release of revaluation reserve on disposal of property	**–**	**(12)**	**–**	**18**	**6**	**–**	**6**
Income and expenses recognised directly in equity	**–**	**(2,476)**	**–**	**(955)**	**(3,431)**	**–**	**(3,431)**
Share capital of subsidiary	**–**	**–**	**–**	**–**	**–**	**91**	**91**
Disposal of subsidiary company	**–**	**–**	**–**	**–**	**–**	**(432)**	**(432)**
Bonus share issue	**27,360**	**–**	**(4,242)**	**(23,118)**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**26,810**	**26,810**	**13**	**26,823**
Share based payments	**–**	**–**	**242**	**493**	**735**	**–**	**735**
Dividends (note 42)	**–**	**–**	**–**	**(29,118)**	**(29,118)**	**–**	**(29,118)**
At 31 December 2006	**36,480**	**10,629**	**242**	**79,018**	**126,369**	**–**	**126,369**

Statement of Changes in Equity for the year 1 January 2006 to 31 December 2006 (continued)

	Called up share capital	*Revaluation reserves*	*Other reserve*	*Retained earnings*	*Total equity*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Bank					
At 1 January 2005	9,120	11,479	4,242	87,493	112,334
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
Income and expenses recognised directly in equity	–	1,562	–	(45)	1,517
Profit for the year	–	–	–	34,180	34,180
Dividends (note 42)	–	–	–	(28,525)	(28,525)
At 31 December 2005	9,120	13,041	4,242	93,103	119,506
At 1 January 2006	**9,120**	**13,041**	**4,242**	**93,103**	**119,506**
Release of net gains on available-for-sale assets transferred to the income statement on disposal	**–**	**(796)**	**–**	**(973)**	**(1,769)**
Net fair value adjustments on investments	**–**	**(1,604)**	**–**	**–**	**(1,604)**
Release of revaluation reserve on disposal of properties	**–**	**(12)**	**–**	**18**	**6**
Income and expenses recognised directly in equity	**–**	**(2,412)**	**–**	**(955)**	**(3,367)**
Bonus share issue	**27,360**	**–**	**(4,242)**	**(23,118)**	**–**
Effect of amalgamation of subsidiary	**–**	**–**	**–**	**(1,995)**	**(1,995)**
Profit for the year	**–**	**–**	**–**	**23,905**	**23,905**
Share based payments	**–**	**–**	**227**	**462**	**689**
Dividends (note 42)	**–**	**–**	**–**	**(29,118)**	**(29,118)**
At 31 December 2006	**36,480**	**10,629**	**227**	**62,284**	**109,620**

Cash Flow Statement for the year 1 January 2006 to 31 December 2006

		Group		*Bank*	
		2006	2005	**2006**	2005
	Note	**Lm000**	Lm000	**Lm000**	Lm000
Cash flows from operating activities					
Interest and commission receipts		**112,416**	103,910	**87,824**	77,419
Interest and commission payments		**(36,601)**	(30,381)	**(33,491)**	(28,359)
Payments to employees and suppliers		**(31,952)**	(29,547)	**(28,770)**	(27,938)
Operating profit before changes in operating assets/liabilities		**43,863**	43,982	**25,563**	21,122
(Increase)/decrease in operating assets:					
Trading instruments		**(19,451)**	(11,329)	**(724)**	419
Reserve deposit with Central Bank of Malta		**(6,618)**	(1,823)	**(6,618)**	(1,823)
Loans and advances to customers and banks		**(198,898)**	(46,366)	**(203,229)**	(59,490)
Treasury Bills with contractual maturity of over three months		**(12,089)**	42,144	**(12,089)**	42,144
Other receivables		**(1,035)**	(5,475)	**(1,070)**	(5,511)
Increase/(decrease) in operating liabilities:					
Customer accounts and amounts owed to banks		**198,053**	44,564	**196,360**	50,963
Other payables		**(2,397)**	2,444	**(2,674)**	3,002
Net cash from/(used in) operating activities before tax		**1,428**	68,141	**(4,481)**	50,826
Tax paid		**(10,976)**	(9,784)	**(10,840)**	(8,953)
Net cash (used in)/from operating activities		**(9,548)**	58,357	**(15,321)**	41,873
Cash flows from investing activities					
Dividends received		**74**	93	**1,874**	14,798
Interest received from financial investments		**11,333**	11,799	**11,752**	13,149
Proceeds from sale and maturity of financial investments		**88,891**	57,205	**118,877**	57,061
Proceeds on sale of property, plant and equipment and intangible assets		**80**	264	**80**	255
Purchase of financial investments		**(37,851)**	(37,330)	**(37,851)**	(37,330)
Purchase of property, plant and equipment, investment property and intangible assets		**(2,311)**	(2,855)	**(2,289)**	(1,974)
Proceeds on sale of shares in subsidiary company		**450**	–	**450**	–
Purchase of shares in subsidiary companies		**–**	–	**–**	(1,500)
Net cash from investing activities		**60,666**	29,176	**92,893**	44,459
Cash flows from financing activities					
Dividends paid		**(29,118)**	(28,525)	**(29,118)**	(28,525)
Maturity of debt securities in issue		**(12)**	–	**–**	–
Maturity of subordinated loan stock		**–**	(19,914)	**–**	(20,000)
Issue of units to minority interest		**91**	321	**–**	–
Net cash used in financing activities		**(29,039)**	(48,118)	**(29,118)**	(48,525)
Effect of amalgamation of subsidiary company on cash and cash equivalents		**–**	–	**(65,840)**	–
Increase/(decrease) in cash and cash equivalents		**22,079**	39,415	**(17,386)**	37,807
Effect of exchange rate changes on cash and cash equivalents		**(7,014)**	2,558	**(7,014)**	2,558
Net increase/(decrease) in cash and cash equivalents		**29,093**	36,857	**(10,372)**	35,249
		22,079	39,415	**(17,386)**	37,807
Cash and cash equivalents at beginning of year		**136,468**	97,053	**175,915**	138,108
Cash and cash equivalents at end of year	*43*	**158,547**	136,468	**158,529**	175,915

Notes on the Accounts

1 Reporting entity and 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 for the year ended 31 December 2006 comprise the bank and its subsidiary undertakings (together referred to as 'the group') as disclosed in note 22.

a *Statement of compliance*

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

Notwithstanding the above, there were no incompatibilities between the provisions of the Companies Act, 1995 and the requirements of the Regulation in relation to the preparation of these financial statements.

In preparing these financial statements, the group has adopted IFRS 7, 'Financial Instruments: Disclosures' prior to its required application date of 1 January 2007. The adoption of IFRS 7 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the group.

The group has chosen not to early adopt the amendments to IAS 1, 'Presentation of Financial Statements' – Capital Disclosures. These amendments are applicable for accounting periods beginning on or after 1 January 2007.

During the year the group adopted the amendments to IAS 19, 'Employee Benefits', which increased the level of disclosure in respect of defined benefit plans, but had no impact on the reported profits or financial position of the group. In accordance with the transitional requirements of the amendments, the group has provided full comparative information.

The financial statements were approved by the Board of Directors on 16 February 2007.

b *Basis of measurement*

The financial statements are prepared on the historical cost basis except that:

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

c *Functional and presentation currency*

The financial statements are presented in Maltese Liri, which is the bank's functional currency.

d *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 23, 33 and 51.

2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by group entities.

a *Basis of consolidation*

i Subsidiaries

Subsidiaries are entities controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that 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 Fund management

The group manages and administers assets held in collective investment schemes on behalf of unit holders. The financial statements of these entities are not included in these consolidated financial statements except when the group controls the entity.

iii 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.

b *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 transaction costs taken directly to profit or loss. All changes in fair value are recognised in the income statement.

Trading assets and liabilities are those assets and liabilities that the group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are not reclassified subsequent to initial recognition.

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(g)).

Other financial instruments held by the group (excluding investment in subsidiaries (see note 2(c)) are classified as 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.

The group has designated financial instruments at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Notes on the Accounts (continued)

2 Significant accounting policies *(continued)*

b *Financial instruments (continued)*

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(g)).

iv Financial liabilities

The group's financial liabilities, other than customers' liabilities under unit-linked investment contracts (see note 2(h)(iv)) comprise amounts owed to banks and customers. These are recognised when the group becomes a party to the contractual provisions of the instrument. 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 the initial amount recognised 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.

vi Offsetting financial instruments

Financial assets and liabilities are set off and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

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.

---

c *Investment in subsidiaries*

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

2 Significant accounting policies *(continued)*

d *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(d)(iv)) and impairment losses (see note 2(g)).

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(q).

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

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

e *Intangible assets*

Intangible assets include software and the value of in-force long-term assurance business (see note 2(h)(iii)).

Software acquired by the group is initially measured at cost and subsequently stated net of accumulated amortisation and impairment losses (see note 2(g)). 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 the estimated useful life of software, from the date it is available for use. The estimated useful life of software is four years.

f *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.

Notes on the Accounts (continued)

2 Significant accounting policies *(continued)*

g *Impairment*

The carrying amounts of the group's assets, other than investment property (note 2(f)) and deferred tax assets (note 2(r)), 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(g)(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(g)(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.

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.

2 Significant accounting policies *(continued)*

g *Impairment (continued)*

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 occuring 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.

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.

---

h *Insurance and investment contracts*

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

Insurance contracts are accounted for as follows:

i Premiums

Premiums for life 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.

Notes on the Accounts (continued)

2 Significant accounting policies *(continued)*

h *Insurance and investment contracts (continued)*

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 Present value of in-force 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

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

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

i *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.

j *Dividends payable*

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

k *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.

2 Significant accounting policies *(continued)*

l *Financial guarantees*

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within amounts owed to customers.

---

m *Interest income and expense*

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

---

n *Non-interest income*

i Net fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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.

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

ii Dividend income

Dividend income is recognised 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.

iii Net income from insurance financial instruments designated at fair value

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss. Interest income and expense and dividend income arising on these financial instruments are also included.

---

o *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 12 months after the balance sheet date are discounted using rates reflecting market yields on government bonds which have a remaining maturity consistent with the estimated term of the termination benefits.

2 Significant accounting policies *(continued)*

o *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.

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

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

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.

p *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.

q *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 expense and the reduction of the outstanding liability. The finance expense 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.

r *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 substantively 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 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.

2 Significant accounting policies *(continued)*

s *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.

t *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

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
On loans and advances to banks	**9,117**	3,871	**9,464**	5,127
On loans and advances to customers	**59,796**	54,945	**58,631**	50,743
On balances with Central Bank of Malta	**3,020**	1,640	**3,020**	1,640
On Treasury Bills	**170**	538	**170**	538
	72,103	60,994	**71,285**	58,048
On debt and other fixed income instruments	**9,627**	11,736	**10,082**	12,988
Net amortisation of premiums	**(855)**	(846)	**(873)**	(792)
	8,772	10,890	**9,209**	12,196
	80,875	71,884	**80,494**	70,244
Interest receivable and similar income from:				
– Group companies	**5,806**	2,225	**5,806**	2,225
– subsidiary companies	**–**	–	**788**	2,646

Interest receivable on loans and advances to customers includes Lm280,000 (2005: Lm94,000) in respect of interest accrued on impaired loans and advances to customers (see note 21).

4 Interest payable

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
On amounts owed to banks	**2,992**	921	**2,992**	921
On amounts owed to customers	**30,881**	25,555	**31,346**	25,877
On debt securities in issue	**–**	1	**–**	–
On subordinated liabilities	**–**	657	**–**	657
On finance leases	**12**	19	**12**	19
	33,885	27,153	**34,350**	27,474
On derivative financial instruments	**28**	174	**28**	174
	33,913	27,327	**34,378**	27,648
Interest payable to:				
– Group companies	**224**	294	**224**	294
– subsidiary companies	**–**	–	**465**	324

Notes on the Accounts (continued)

5 Net fee and commission income

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Net fee and commission income that is not an integral part of the effective interest method on:				
– financial assets or liabilites not at fair value through profit or loss	**7,530**	6,778	**7,468**	6,650
– trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals and other institutions	**4,817**	3,877	**1,572**	1,264
– other	**326**	397	**804**	742
	12,673	11,052	**9,844**	8,656
Net fee and commission income from:				
– Group companies	**524**	506	**125**	209
– subsidiary companies	**–**	–	**1,615**	1,284

6 Dividend income

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
From equity shares	**113**	142	**113**	142
From subsidiary companies	**–**	–	**2,056**	22,462
	113	142	**2,169**	22,604

7 Trading profits

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Profit on foreign exchange activities	**6,955**	7,020	**6,955**	7,029
Price movements on trading financial instruments	**313**	132	**313**	132
Net gains on sale of trading financial instruments	**67**	54	**67**	54
	7,335	7,206	**7,335**	7,215

Included in trading profits are unrealised gains relating to trading financial instruments amounting to Lm530,000 (2005: Lm131,000) in respect of the group and the bank.

8 Net gains on sale of financial investments

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

9 Net earned insurance premiums

	Group	
	2006	2005
	Lm000	Lm000
Life insurance		
Gross earned premium	**17,657**	17,014
Reinsurance paid	**(1,121)**	(778)
	16,536	16,236

10 Net insurance claims incurred and movement in policyholders' liabilities

	Group					
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
	2006	**2006**	**2006**	2005	2005	2005
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Life insurance						
Claims paid	**3,700**	**(488)**	**3,212**	2,334	(320)	2,014
Change in technical provision	**16,656**	**(2,022)**	**14,634**	23,848	(2,201)	21,647
	20,356	**(2,510)**	**17,846**	26,182	(2,521)	23,661

11 Employee compensation and benefits

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Wages, salaries and allowances	**18,993**	18,038	**18,160**	17,172
Defined contribution social security costs	**1,011**	980	**968**	934
Retirement benefits	**862**	815	**862**	815
Share-based payments	**383**	299	**367**	282
	21,249	20,132	**20,357**	19,203
	Number	*Number*	***Number***	*Number*
Average number of employees				
– executive and senior managerial	**227**	215	**213**	203
– other managerial, supervisory and clerical	**1,258**	1,264	**1,211**	1,213
– others	**72**	79	**72**	79
	1,557	1,558	**1,496**	1,495

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

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

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

Notes on the Accounts (continued)

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.

	Group			
	Options	*Weighted average exercise price (Lm)*	*Options*	*Weighted average exercise price (Lm)*
	2006	**2006**	2005	2005
Savings related Share Option Plans				
Outstanding at 1 January	**561,712**	**3.65**	761,189	3.63
Granted during the year	**103,270**	**4.89**	97,610	4.18
Forfeited during the year	**(7,671)**	**3.98**	(28,804)	3.64
Exercised during the year	**(225,855)**	**3.53**	(266,871)	3.79
Expired during the year	**(336)**	**3.84**	(1,412)	3.53
Outstanding at 31 December	**431,120**	**4.08**	561,712	3.65
Exercisable at 31 December	**915**	**3.64**	4,153	3.77

	Group			
	Options	*Weighted average exercise price (Lm)*	*Options*	*Weighted average exercise price (Lm)*
	2006	**2006**	2005	2005
Group Share Option Plans				
Outstanding at 1 January	**628,300**	**4.87**	628,300	4.87
Exercised during the year	**(74,200)**	**4.40**	–	–
Outstanding at 31 December	**554,100**	**4.94**	628,300	4.87
Exercisable at 31 December	**214,050**	**4.40**	–	–

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

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

Fair value of share option 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.

11 Employee compensation and benefits *(continued)*

The significant weighted average assumptions used to estimate the fair value of the options granted in 2006 are as follows:

	1 year savings-related share option schemes	*3 year savings-related share option schemes*	*5 year savings-related share option schemes*
Risk-free interest rate (%)	**4.7**	**4.8**	**4.7**
Expected volatility (%)	**17**	**17**	**17**
Expected life (years)	**1**	**3**	**5**

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

Share awards

During the year, 47 (2005: 40) share awards with a weighted average fair value of Lm2,709 (2005: Lm3,000) were granted to employees of the group.

12 Net impairment reversals

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Write-downs				
Loans and advances to customers				
– specific allowances	**(964)**	(1,602)	**(964)**	(1,600)
– collective allowances	**(38)**	–	**(71)**	–
– bad debts written off	**(1,575)**	(4,069)	**(1,574)**	(4,059)
	(2,577)	(5,671)	**(2,609)**	(5,659)
Reversals of write-downs				
Loans and advances to customers				
– specific allowances	**2,699**	5,104	**2,691**	5,090
– collective allowances	**–**	676	**–**	657
– bad debts recovered	**59**	33	**59**	33
	2,758	5,813	**2,750**	5,780
Net impairment reversals	**181**	142	**141**	121

13 Profit before tax

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Profit before tax is stated after charging:				
Directors' emoluments				
– fees	**43**	46	**43**	46
– other emoluments	**424**	319	**424**	319
	467	365	**467**	365

Profit before tax is also stated after charging auditors' remuneration in relation to statutory audit amounting to Lm50,000.

Notes on the Accounts (continued)

14 Tax expense

	Group		Bank	
	2006	2005	**2006**	2005
	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	**12,242**	9,337	**11,836**	16,462
– deferred	**2,330**	3,305	**530**	1,392
	14,572	12,642	**12,366**	17,854

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Profit on ordinary activities before tax	**41,395**	36,706	**36,271**	52,034
Tax at the applicable rate of 35%	**14,488**	12,847	**12,695**	18,212
Tax effect of non-taxable income	**(142)**	(481)	**(142)**	(471)
Tax effect of profits taxed at different rates	**(28)**	–	**(378)**	(105)
Tax effect of non-deductible expenses	**96**	94	**56**	63
Tax effect of depreciation charges not deductible by way of capital allowances	**141**	113	**141**	113
Tax effect of taxable temporary differences not previously recognised	**142**	136	**(2)**	63
Tax effect of additional deductions	**(125)**	(67)	**(4)**	(21)
Tax on profit on ordinary activities	**14,572**	12,642	**12,366**	17,854

15 Earnings per share

The calculation of earnings per share of the group and the bank is based on the profit attributable to shareholders of the bank as shown in the income statement, divided by the number of shares in issue as at 31 December 2006. Comparative earnings per share have been restated to reflect the bonus issue effected on 18 April 2006.

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Balances with Central Bank of Malta	**90,586**	63,427	**90,586**	63,425
Malta Government Treasury Bills	**25,945**	1,967	**25,945**	1,967
Cash	**14,038**	11,727	**14,038**	11,726
	130,569	77,121	**130,569**	77,118

Balances with Central Bank of Malta include a reserve deposit, required in terms of Article 37 of the Central Bank of Malta Act. The average reserve deposit requirement as at year end was Lm66,746,000 in respect of the group and bank (2005: Lm54,968,000).

17 Financial instruments held for trading

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Financial assets held for trading				
Equity and other non-fixed income instruments	**357**	344	**357**	344
Derivative financial instruments	**10,039**	3,563	**10,042**	3,563
	10,396	3,907	**10,399**	3,907
Financial liabilities held for trading				
Derivative financial instruments	**10,643**	4,050	**10,693**	4,050

a *Equity and other non-fixed income instruments*

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Issued by other issuers				
– local banks	**184**	218	**184**	218
– local others	**173**	126	**173**	126
	357	344	**357**	344

b *Derivative financial instruments*

	Notional amount with remaining life of:					
	Less than 3 months	*Between 3 months & 1 year*	*More than 1 year*	*Total*	**2006** *Fair value assets*	**2006** *Fair value liabilities*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group						
Interest rate derivatives						
Over the counter products						
– interest rate swaps	**–**	**2,207**	**10,043**	**12,250**	**183**	**–**
Currency derivatives						
Over the counter products						
– forward exchange contracts	**22,950**	**39,102**	**12,247**	**74,299**	**518**	**1,305**
– foreign exchange options purchased	**86,204**	**–**	**–**	**86,204**	**5,445**	**–**
– foreign exchange options written	**(86,204)**	**–**	**–**	**(86,204)**	**–**	**5,445**
Equity derivatives						
Over the counter products						
– equity index options purchased	**–**	**1,016**	**10,182**	**11,198**	**3,893**	**–**
– equity index options written	**–**	**(1,016)**	**(10,182)**	**(11,198)**	**–**	**3,893**
					10,039	**10,643**

Notes on the Accounts (continued)

17 Financial instruments held for trading *(continued)*

b *Derivative financial instruments (continued)*

	Notional amount with remaining life of: Less than 3 months	Between 3 months & 1 year	More than 1 year	Total	2006 Fair value assets	2006 Fair value liabilities
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Bank						
Interest rate derivatives						
Over the counter products						
– interest rate swaps	**–**	**2,207**	**10,043**	**12,250**	**183**	**–**
Currency derivatives						
Over the counter products						
– forward exchange contracts	**24,719**	**40,713**	**12,751**	**78,183**	**521**	**1,355**
– foreign exchange options purchased	**86,204**	**–**	**–**	**86,204**	**5,445**	**–**
– foreign exchange options written	**(86,204)**	**–**	**–**	**(86,204)**	**–**	**5,445**
Equity derivatives						
Over the counter products						
– equity index options purchased	**–**	**1,016**	**10,182**	**11,198**	**3,893**	**–**
– equity index options written	**–**	**(1,016)**	**(10,182)**	**(11,198)**	**–**	**3,893**
					10,042	**10,693**

	Notional amount with remaining life of: Less than 3 months	Between 3 months & 1 year	More than 1 year	Total	2005 Fair value assets	2005 Fair value liabilities
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Group/Bank						
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

18 Financial assets designated at fair value through profit or loss

	Group	
	2006	2005
	Lm000	Lm000
Debt and other fixed income instruments	**59,342**	49,504
Equity and other non-fixed income instruments	**53,134**	43,627
	112,476	93,131

a *Debt and other fixed income instruments*

	Group	
	2006	2005
	Lm000	Lm000
Issued by public bodies		
– local government	**50,006**	43,764
– foreign government	**963**	–
Issued by other issuers		
– local banks	**153**	162
– foreign banks	**2,787**	1,634
– others local	**1,805**	2,227
– others foreign	**3,628**	1,717
	59,342	49,504
Listing status		
– listed on the Malta Stock Exchange	**51,362**	46,050
– listed elsewhere	**7,378**	3,351
– local unlisted	**602**	103
	59,342	49,504
At 1 January	**49,504**	42,125
Exchange adjustments	**(12)**	(18)
Acquisitions	**11,798**	13,334
Disposals	**(1,039)**	(7,236)
Changes in fair value	**(909)**	1,299
At 31 December	**59,342**	49,504

b *Equity and other non-fixed income instruments*

	Group	
	2006	2005
	Lm000	Lm000
Issued by other issuers		
– local banks	**2,517**	2,737
– others local	**12,771**	12,435
– others foreign	**37,846**	28,455
	53,134	43,627
Listing status		
– listed on the Malta Stock Exchange	**15,288**	15,172
– listed elsewhere	**37,846**	28,455
	53,134	43,627

Notes on the Accounts (continued)

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

b *Equity and other non-fixed income instruments (continued)*

	Group	
	2006	2005
	Lm000	Lm000
At 1 January	**43,627**	30,408
Exchange adjustments	**(980)**	562
Acquisitions	**15,599**	8,172
Disposals	**(9,082)**	(2,218)
Changes in fair value	**3,970**	6,703
At 31 December	**53,134**	43,627

19 Financial investments

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Debt and other fixed income instruments				
– available-for-sale	**119,061**	137,766	**119,061**	137,766
– held-to-maturity	**46,798**	82,837	**46,798**	112,807
Equity and other non-fixed income instruments				
– available-for-sale	**2,279**	3,897	**2,264**	3,895
	168,138	224,500	**168,123**	254,468

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

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Issued by public bodies				
– local government	**72,480**	105,330	**72,480**	105,330
Issued by other issuers				
– foreign banks	**40,288**	31,346	**40,288**	31,346
– foreign others	**6,293**	1,090	**6,293**	1,090
	119,061	137,766	**119,061**	137,766
Amounts include:				
– issued by Group companies	**3,735**	3,156	**3,735**	3,156
Listing status				
– listed on the Malta Stock Exchange	**72,480**	105,330	**72,480**	105,330
– listed elsewhere	**40,949**	31,615	**40,949**	31,615
– foreign unlisted	**5,632**	821	**5,632**	821
	119,061	137,766	**119,061**	137,766
At 1 January	**137,766**	113,916	**137,766**	113,916
Exchange adjustments	**156**	1,644	**156**	1,644
Amortisation	**(438)**	(473)	**(438)**	(473)
Acquisitions	**37,851**	37,330	**37,851**	37,330
Disposals	**(53,500)**	(14,616)	**(53,500)**	(14,616)
Changes in fair value	**(2,774)**	(35)	**(2,774)**	(35)
At 31 December	**119,061**	137,766	**119,061**	137,766

Debt instruments with a nominal value of Lm35,962,000 (2005: Lm46,642,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2006 no balances were outstanding against these credit lines.

19 Financial investments *(continued)*

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

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Issued by public bodies				
– foreign government	**–**	1,450	**–**	1,450
Issued by other issuers				
– local banks	**400**	400	**400**	30,370
– foreign banks	**32,640**	65,006	**32,640**	65,006
– local others	**3,804**	3,799	**3,804**	3,799
– foreign others	**9,954**	12,182	**9,954**	12,182
	46,798	82,837	**46,798**	112,807
Amounts include:				
– issued by Group companies	**1,504**	1,502	**1,504**	1,502
– issued by subsidiary companies				
– unsubordinated	**–**	–	**–**	29,970
Listing status				
– listed on the Malta Stock Exchange	**4,404**	4,399	**4,404**	4,399
– listed elsewhere	**41,994**	77,329	**41,994**	77,329
– local unlisted	**400**	400	**400**	30,370
– foreign unlisted	**–**	709	**–**	709
	46,798	82,837	**46,798**	112,807
At 1 January	**82,837**	120,933	**112,807**	150,849
Exchange adjustments	**(2,835)**	3,633	**(2,835)**	3,633
Amortisation	**4**	(22)	**22**	32
Redemptions	**(33,208)**	(41,707)	**(63,196)**	(41,707)
At 31 December	**46,798**	82,837	**46,798**	112,807

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

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Issued by other issuers				
– local banks	**1,665**	3,562	**1,665**	3,562
– local others	**319**	321	**319**	319
– foreign others	**295**	14	**280**	14
	2,279	3,897	**2,264**	3,895
Amounts include:				
– issued by Group companies	**249**	–	**234**	–
Listing status				
– listed on the Malta Stock Exchange	**1,665**	3,563	**1,665**	3,562
– listed elsewhere	**249**	–	**234**	–
– local unlisted	**319**	320	**319**	319
– foreign unlisted	**46**	14	**46**	14
	2,279	3,897	**2,264**	3,895
At 1 January	**3,897**	3,597	**3,895**	3,461
Acquisitions	**244**	–	**229**	–
Disposals	**(2,183)**	(882)	**(2,181)**	(738)
Changes in fair value	**321**	1,182	**321**	1,172
At 31 December	**2,279**	3,897	**2,264**	3,895

Notes on the Accounts (continued)

20 Loans and advances to banks

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Repayable on call and at short notice	**12,476**	8,485	**12,458**	47,935
Term loans and advances	**243,584**	154,397	**243,584**	154,397
	256,060	162,882	**256,042**	202,332
Amounts include:				
– due from Group companies	**155,943**	95,259	**155,943**	95,259
– due from subsidiary companies				
– unsubordinated	**–**	–	**–**	39,167

21 Loans and advances to customers

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Repayable on call and at short notice	**221,937**	232,086	**221,937**	232,087
Term loans and advances	**917,846**	799,632	**917,846**	721,217
Gross loans and advances to customers	**1,139,783**	1,031,718	**1,139,783**	953,304
Allowances for uncollectability	**(13,657)**	(15,634)	**(13,657)**	(15,491)
Net loans and advances to customers	**1,126,126**	1,016,084	**1,126,126**	937,813
Amounts include:				
– due from Group companies	**8**	–	**8**	–
– due from subsidiary companies				
– unsubordinated	**–**	–	**–**	1
Allowances for uncollectability				
– specific allowances	**8,178**	11,670	**8,178**	11,595
– collective allowances	**5,479**	3,964	**5,479**	3,896
	13,657	15,634	**13,657**	15,491
The following industry concentrations are considered significant:				
– agriculture	**1,937**	2,156	**1,937**	2,156
– fishing	**988**	623	**988**	623
– mining and quarrying	**3,261**	3,033	**3,261**	3,033
– manufacturing	**64,046**	84,086	**64,046**	84,050
– electricity, gas and water supply	**36,812**	27,697	**36,812**	27,697
– construction	**150,470**	131,264	**150,470**	131,263
– wholesale and retail trade; repairs	**161,898**	165,546	**161,898**	165,411
– hotels and restaurants; excluding related construction activities	**87,946**	88,706	**87,946**	88,601
– transport, storage and communication	**38,218**	41,064	**38,218**	40,999
– financial intermediation	**6,376**	6,215	**6,376**	6,216
– real estate, renting and business activities	**32,662**	22,603	**32,662**	22,603
– public administration	**27,626**	2,858	**27,626**	2,858
– education	**889**	1,296	**889**	1,296
– health and social work	**11,082**	11,528	**11,082**	11,528
– community, recreational and personal service activities	**8,543**	5,469	**8,543**	5,469
– household and individuals	**507,029**	437,574	**507,029**	359,501
Gross loans and advances to customers	**1,139,783**	1,031,718	**1,139,783**	953,304

21 Loans and advances to customers *(continued)*

	Group		*Bank*	
	Specific allowances	*Collective allowances*	*Specific allowances*	*Collective allowances*
	2006	**2006**	**2006**	**2006**
	Lm000	**Lm000**	**Lm000**	**Lm000**
Change in allowances for uncollectability:				
At 1 January	**11,670**	**3,964**	**11,595**	**3,896**
Additions	**964**	**38**	**964**	**71**
Reversals	**(2,699)**	**–**	**(2,691)**	**–**
Discount unwind	**(280)**	**–**	**(280)**	**–**
Taken over on amalgamation of subsidiary company	**–**	**–**	**67**	**35**
Transfer between allowances	**(1,477)**	**1,477**	**(1,477)**	**1,477**
At 31 December	**8,178**	**5,479**	**8,178**	**5,479**

	Group		*Bank*	
	Specific allowances	*Collective allowances*	*Specific allowances*	*Collective allowances*
	2005	2005	2005	2005
	Lm000	Lm000	Lm000	Lm000
Change in allowances for uncollectability:				
At 1 January	15,250	4,640	15,163	4,553
Additions	1,602	–	1,600	–
Reversals	(5,104)	(676)	(5,090)	(657)
Discount unwind	(94)	–	(94)	–
Exchange adjustments	16	–	16	–
At 31 December	11,670	3,964	11,595	3,896

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Analysis of balances of loans and advances, which are past due at the reporting date but not impaired, is as follows:				
– past due up to 29 days	**27,780**	18,746	**27,780**	18,727
– past due 30 to 59 days	**4,515**	5,441	**4,515**	5,427
– past due 60 to 89 days	**1,451**	1,020	**1,451**	1,012
– past due 90 to 179 days	**1,297**	6,075	**1,297**	6,075
– past due over 180 days but less than 1 year	**7,541**	2,395	**7,541**	2,395
– past due more than 1 year	**4**	5	**4**	5
	42,588	33,682	**42,588**	33,641
The analysis of loans and advances that were individually determined to be impaired by industry sector is as follows:				
– personal banking	**7,095**	8,585	**7,095**	6,143
– commercial and industrial	**24,353**	25,476	**24,353**	25,454
– commercial real estate and construction	**8,122**	11,841	**8,122**	11,774
– financials	**81**	–	**81**	–
– other	**4,080**	5,672	**4,080**	5,672
	43,731	51,574	**43,731**	49,043

Notes on the Accounts (continued)

21 Loans and advances to customers *(continued)*

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 Lm52,390,000 (2005: Lm61,681,000) in respect of the group and Lm52,390,000 (2005: Lm58,793,000) 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 Lm8,659,000 (2005: Lm10,107,000) in respect of the group and Lm8,659,000 (2005: Lm9,750,000) in respect of the bank.

22 Shares in subsidiary companies

Bank

Name of company	*Incorporated in*	*Nature of business*	*Current equity interest*	**2006**	2005
			%	**Lm000**	Lm000
HSBC Life Assurance (Malta) Limited	Malta	Life assurance	**99.99**	**7,122**	7,122
HSBC Fund Management (Malta) Limited	Malta	Management of collective investment schemes	**99.99**	**2,550**	2,550
HSBC Stockbrokers (Malta) Limited	Malta	Stockbroking services	**99.99**	**10**	10
HSBC Home Loans (Malta) Limited	Malta	Finance for housing	**99.99**	**–**	10,668
				9,682	20,350

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.

HSBC Home Loans (Malta) Limited was amalgamated with HSBC Bank Malta p.l.c. on 21 April 2006. The total assets and liabilities taken over on amalgamation amounted to Lm74,688,000 and Lm66,014,000 respectively.

23 Intangible assets

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Software	**972**	1,077	**794**	829
Present value of in-force long-term assurance business	**9,927**	8,356	**–**	–
	10,899	9,433	**794**	829

23 Intangible assets *(continued)*

a *Software*

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Cost				
At 1 January	**4,607**	4,336	**3,987**	3,822
Additions	**462**	712	**449**	421
Disposals	**(1,217)**	(441)	**(1,217)**	(256)
Taken over on amalgamation of subsidiary company	**–**	–	**185**	–
At 31 December	**3,852**	4,607	**3,404**	3,987
Depreciation				
At 1 January	**3,530**	3,314	**3,158**	2,858
Charge for the year	**547**	635	**464**	556
Disposals	**(1,197)**	(419)	**(1,197)**	(256)
Taken over on amalgamation of subsidiary company	**–**	–	**185**	–
At 31 December	**2,880**	3,530	**2,610**	3,158
Carrying amount at 1 January	**1,077**	1,022	**829**	964
Carrying amount at 31 December	**972**	1,077	**794**	829

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

	Group	
	2006	2005
	Lm000	Lm000
At 1 January	**8,356**	7,760
Addition from current year new business	**1,221**	931
Movement from in-force business	**350**	(335)
At 31 December	**9,927**	8,356

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

	Group	
	2006	2005
	%	%
Risk free rate	**4.50**	4.25
Risk adjusted discount rate	**8.00**	12.00
Expenses inflation	**3.00**	3.00
Lapse rate	**6.00**	15.00

The positive impact on embedded value profits resulting from the reduction in the risk adjusted discount rate to 8 per cent is Lm790,000.

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

Assumptions	*Movement*	*PVIF Impact*	
		2006	2005
		Lm000	Lm000
As published			
Risk free rate	+100 basis points	**393**	442
Risk free rate	-100 basis points	**(428)**	(420)
Risk adjusted discount rate	+100 basis points	**(210)**	(171)
Risk adjusted discount rate	-100 basis points	**172**	185
Expenses inflation	+100 basis points	**(178)**	(143)
Expenses inflation	-100 basis points	**106**	131
Lapse rate	+100 basis points	**(81)**	(14)
Lapse rate	-100 basis points	**35**	17

Notes on the Accounts (continued)

24 Property, plant and equipment

	Land and buildings	*Computer equipment*	*Others*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Group				
Cost/revaluation				
At 1 January 2005	19,045	6,989	17,119	43,153
Acquisitions	94	629	840	1,563
Disposals	(206)	(613)	(224)	(1,043)
At 31 December 2005	18,933	7,005	17,735	43,673
Depreciation				
At 1 January 2005	657	5,037	6,812	12,506
Charge for the year	238	504	1,455	2,197
Disposals	(1)	(562)	(213)	(776)
At 31 December 2005	894	4,979	8,054	13,927
Carrying amount at 1 January 2005	18,388	1,952	10,307	30,647
Carrying amount at 31 December 2005	18,039	2,026	9,681	29,746
Cost/revaluation				
At 1 January 2006	**18,933**	**7,005**	**17,735**	**43,673**
Acquisitions	**10**	**320**	**1,009**	**1,339**
Disposals	**(28)**	**(1,025)**	**(265)**	**(1,318)**
At 31 December 2006	**18,915**	**6,300**	**18,479**	**43,694**
Depreciation				
At 1 January 2006	**894**	**4,979**	**8,054**	**13,927**
Charge for the year	**236**	**658**	**1,512**	**2,406**
Disposals	**–**	**(1,017)**	**(234)**	**(1,251)**
At 31 December 2006	**1,130**	**4,620**	**9,332**	**15,082**
Carrying amount at 1 January 2006	**18,039**	**2,026**	**9,681**	**29,746**
Carrying amount at 31 December 2006	**17,785**	**1,680**	**9,147**	**28,612**

	Group	
	2006	2005
	Lm000	Lm000
Carrying amount of land and buildings occupied for own activities	**17,785**	18,039
Future capital expenditure		
– contracted but not provided in the financial statements	**619**	588
– authorised by the directors but not yet contracted	**1,347**	515
	1,966	1,103

24 Property, plant and equipment *(continued)*

	Land and buildings	*Computer equipment*	*Others*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**
Bank				
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 1 January 2005	18,475	1,903	10,242	30,620
Carrying amount at 31 December 2005	18,126	1,997	9,632	29,755
Cost/revaluation				
At 1 January 2006	**18,927**	**6,842**	**17,100**	**42,869**
Acquisitions	**10**	**316**	**1,006**	**1,332**
Disposals	**(28)**	**(1,025)**	**(265)**	**(1,318)**
Taken over on amalgamation of subsidiary company	**–**	**–**	**74**	**74**
At 31 December 2006	**18,909**	**6,133**	**17,915**	**42,957**
Depreciation				
At 1 January 2006	**801**	**4,845**	**7,468**	**13,114**
Charge for the year	**236**	**650**	**1,502**	**2,388**
Disposals	**–**	**(1,017)**	**(234)**	**(1,251)**
Taken over on amalgamation of subsidiary company	**–**	**–**	**74**	**74**
At 31 December 2006	**1,037**	**4,478**	**8,810**	**14,325**
Carrying amount at 1 January 2006	**18,126**	**1,997**	**9,632**	**29,755**
Carrying amount at 31 December 2006	**17,872**	**1,655**	**9,105**	**28,632**

	Bank	
	2006	2005
	Lm000	Lm000
Carrying amount of land and buildings occupied for own activities	**17,872**	18,126
Future capital expenditure		
– contracted but not provided in the financial statements	**619**	588
– authorised by the directors but not yet contracted	**1,347**	515
	1,966	1,103

The carrying amount of land and buildings that would have been included in the financial statements had these assets been carried at cost less depreciation is Lm8,832,000 (2005: Lm9,068,000) for the group and the bank.

Notes on the Accounts (continued)

25 Investment property

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2006	**2006**	2005	2005
	Lm000	**Lm000**	Lm000	Lm000
Group				
Freehold land and buildings				
As at 1 January	**961**	**893**	346	313
Additions	**2,007**	**2,007**	580	580
Fair value adjustments	**449**	**–**	35	–
At 31 December	**3,417**	**2,900**	961	893

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2006	**2006**	2005	2005
	Lm000	**Lm000**	Lm000	Lm000
Bank				
Freehold land and buildings				
Additions	**2,007**	**2,007**	–	–
Fair value adjustments	**449**	**–**	–	–
At 31 December	**2,456**	**2,007**	–	–

26 Assets held for sale

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Assets acquired in satisfaction of debt	**3,381**	4,918	**3,445**	4,864
Other	**597**	–	**597**	1,000
	3,978	4,918	**4,042**	5,864

27 Other assets

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Acceptances and endorsements	**1,338**	1,536	**1,338**	1,536
Reinsurance assets	**7,764**	5,781	**–**	–
Other	**1,611**	1,384	**1,646**	1,163
	10,713	8,701	**2,984**	2,699

28 Prepayments and accrued income

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Accrued income	**13,799**	12,569	**12,841**	12,647
Prepayments	**790**	299	**789**	298
	14,589	12,868	**13,630**	12,945
Amounts include:				
– due from Group companies	**688**	706	**670**	688
– due from subsidiary companies	**–**	–	**190**	1,398

29 Amounts owed to banks

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Term deposits	**108,958**	10,112	**108,958**	10,112
Repayable on demand	**17,370**	12,555	**17,370**	12,555
	126,328	22,667	**126,328**	22,667
Amounts include:				
– due to Group companies	**25,872**	9,864	**25,872**	9,864

30 Amounts owed to customers

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Term deposits	**849,504**	757,851	**858,754**	770,002
Repayable on demand	**625,946**	609,363	**629,152**	611,681
	1,475,450	1,367,214	**1,487,906**	1,381,683
Amounts include:				
– due to Group companies	**94**	–	**94**	–
– due to subsidiary companies	**–**	–	**12,456**	14,507

31 Deferred tax

	Group					
	Assets	*Liabilities*	*Net*	*Assets*	*Liabilities*	*Net*
	2006	**2006**	**2006**	2005	2005	2005
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Deferred tax (assets) and liabilities are attributable to the following:						
– excess of capital allowances over depreciation	**(12)**	**567**	**555**	(7)	593	586
– allowances for uncollectibility	**(4,878)**	**–**	**(4,878)**	(5,472)	–	(5,472)
– property sales tax consequences	**–**	**2,540**	**2,540**	–	2,248	2,248
– fair value movements on investments	**–**	**1,182**	**1,182**	–	3,038	3,038
– unrelieved tax losses	**(64)**	**–**	**(64)**	(1,925)	–	(1,925)
– value of in-force life assurance business	**–**	**3,475**	**3,475**	–	2,925	2,925
– fair value movement on policyholders' investments	**–**	**1,785**	**1,785**	–	2,402	2,402
– other	**(1,215)**	**1,226**	**11**	(1,037)	1,078	41
	(6,169)	**10,775**	**4,606**	(8,441)	12,284	3,843

Notes on the Accounts (continued)

31 Deferred tax *(continued)*

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

	Group			
	At 1 January 2005	*Recognised in income*	*Recognised in equity*	*At 31 December 2005*
	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 sales tax consequences	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

	Bank					
	Assets	*Liabilities*	*Net*	*Assets*	*Liabilities*	*Net*
	2006	**2006**	**2006**	2005	2005	2005
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Deferred tax (assets) and liabilities are attributable to the following:						
– excess of capital allowances over depreciation	**(12)**	**564**	**552**	–	590	590
– allowances for uncollectibility	**(4,878)**	**–**	**(4,878)**	(5,422)	–	(5,422)
– property sales tax consequences	**–**	**2,425**	**2,425**	–	2,133	2,133
– fair value movements on investments	**–**	**1,182**	**1,182**	–	3,038	3,038
– unrelieved tax losses	**(64)**	**–**	**(64)**	(72)	–	(72)
– other	**(1,167)**	**1,226**	**59**	(996)	1,078	82
	(6,121)	**5,397**	**(724)**	(6,490)	6,839	349

31 Deferred tax *(continued)*

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

	Bank			
	At 1 January 2005	*Recognised in income*	*Recognised in equity*	*At 31 December 2005*
	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 sales tax consequences	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

32 Liabilities to customers under investment contracts

	Group	
	2006	2005
	Lm000	Lm000
At 1 January	**8,297**	7,140
Premiums received	**519**	72
Accounts balances paid on surrender and other termination during the year	**(342)**	(263)
Changes in unit prices and other movements	**679**	1,348
At 31 December	**9,153**	8,297

Notes on the Accounts (continued)

33 Liabilities under insurance contracts issued

	Group	
	Gross	*Gross*
	2006	2005
	Lm000	Lm000
Life insurance (non-linked)		
Provisions for policyholders	**75,542**	66,179
Outstanding claims	**423**	434
Total non-linked	**75,965**	66,613
Life insurance (linked)		
Provisions for policyholders	**26,792**	19,639
Outstanding claims	**13**	23
Total linked	**26,805**	19,662
Total liabilities under insurance contracts	**102,770**	86,275

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the group's estimation process in respect of its life assurance contracts. The table presented below demonstrates the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

		Movement	*Reported value of liabilities*
		2006	**2006**
		Lm000	**Lm000**
Base stress		**–**	**83,035**
Interest rates	+100 basis points	**(2,729)**	**80,306**
Interest rates	-100 basis points	**4,857**	**87,892**
Mortality and morbidity rates	+10%	**323**	**83,358**
Mortality and morbidity rates	-10%	**(197)**	**82,838**
All expenses	+10%	**–**	**83,035**
All expenses	-10%	**–**	**83,035**

The analysis above has been prepared for a change in variable with all other assumptions remaining constant and ignores changes in the value of related assets.

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

33 Liabilities under insurance contracts issued *(continued)*

	Group				
	Non-linked business			Linked Business	All Business
	Provisions for policy-holders	Outstanding claims	Total	Total	Total
	2005	2005	2005	2005	2005
	Lm000	Lm000	Lm000	Lm000	Lm000
At 1 January	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

34 Other liabilities

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Bills payable	**7,890**	8,634	**7,890**	8,634
Cash collateral for commitments	**70**	347	**70**	347
Obligations under finance leases	**180**	222	**180**	222
Share-based payments liabilities	**124**	483	**118**	458
Acceptances and endorsements	**1,338**	1,536	**1,338**	1,536
Other	**4,214**	5,533	**3,407**	4,995
	13,816	16,755	**13,003**	16,192

35 Accruals and deferred income

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Accrued interest	**10,123**	8,189	**10,307**	8,414
Other	**8,024**	6,846	**7,629**	6,528
	18,147	15,035	**17,936**	14,942
Amounts include:				
– due to Group companies	**1,684**	561	**1,656**	561
– due to subsidiary companies	**–**	–	**184**	227

Notes on the Accounts (continued)

36 Provisions for liabilities and other charges

	Group		*Bank*	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
At 1 January	**25**	26	**25**	26
Provisions made during the year	**133**	–	**33**	–
Provisions reversed during the year	**(126)**	(1)	**(26)**	(1)
At 31 December	**32**	25	**32**	25

37 Share capital

	2006		2005	
	Shares of 12.5c each		*Shares of 12.5c each*	
	000s	**Lm000**	000s	Lm000
Authorised				
Ordinary shares	**320,000**	**40,000**	320,000	40,000
Issued and fully paid up				
Ordinary shares	**291,840**	**36,480**	72,960	9,120

On 18 April 2006 the bank transferred Lm4,242,000 and Lm23,118,000 from other reserve and retained earnings respectively to share capital in terms of a three for one bonus share issue.

38 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 net of deferred tax effect. The revaluation reserves are not available for distribution.

b *Other reserve*

At 31 December 2005, this reserve represented 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 was not available for distribution.

Following approval obtained from the Central Bank of Malta during 2006, this reserve was made available for distribution and was subsequently transferred to share capital (see note 37).

At 31 December 2006, this reserve represents the recognition through equity of the fair value of shares in HSBC Holdings plc acquired to meet eventual cash-settled share-based payments against which no financial liabilities arise.

39 Contingent liabilities

	Group Contract amount		Bank Contract amount	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Guarantees and assets pledged as collateral security				
– guarantees	**42,686**	33,787	**42,696**	33,797
– standby letters of credit	**16,892**	17,726	**16,892**	17,726
	59,578	51,513	**59,588**	51,523
Amounts include:				
– in favour of Group companies	**5,937**	539	**5,937**	539
– in favour of subsidiary companies	**–**	–	**10**	10

40 Commitments

	Group Contract amount		Bank Contract amount	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Documentary credits	**11,191**	5,526	**11,191**	5,526
Undrawn formal standby facilities, credit facilities and other commitments to lend	**445,707**	395,689	**445,707**	406,517
Uncalled share capital in other companies	**1**	1	**1**	1
	456,899	401,216	**456,899**	412,044
Amounts include:				
– committed to subsidiary companies	**–**	–	**–**	10,898

41 Lease commitments

a *Operating leases*

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Less than one year	**437**	385	**437**	385
Between one year and five years	**989**	384	**989**	384
More than five years	**4**	84	**4**	84
	1,430	853	**1,430**	853

b *Finance leases*

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Less than one year	**74**	65	**74**	65
Between one year and five years	**123**	186	**123**	186
Total minimum lease payments	**197**	251	**197**	251
Finance charges	**(17)**	(29)	**(17)**	(29)
Present value of minimum lease payments	**180**	222	**180**	222

Notes on the Accounts (continued)

42 Dividends

	Bank			
	2006	2005	**2006**	2005
	% per 12.5c share	% per 12.5c share	**Lm000**	Lm000
Gross of income tax				
– prior year's final	**38**	27	**13,935**	9,959
– special prior year's final	**42**	–	**15,395**	–
– interim	**42**	38	**15,468**	13,935
– special interim	**–**	55	**–**	19,991
	122	120	**44,798**	43,885
	Cents per 12.5c share	Cents per 12.5c share	**Lm000**	Lm000
Net of income tax				
– prior year's final	**3.10**	2.22	**9,058**	6,473
– special prior year's final	**3.43**	–	**10,006**	–
– interim	**3.45**	3.11	**10,054**	9,058
– special interim	**–**	4.45	**–**	12,994
	9.98	9.78	**29,118**	28,525

The Directors have proposed a final gross ordinary dividend of 5.3 cents per share and a gross special dividend of 5.3 cents per share, giving a total gross final dividend of 10.6 cents per share. The final dividend will be payable to shareholders on the bank's register as at 2 March 2007.

43 Cash and cash equivalents

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Balances of cash and cash equivalents as shown in the balance sheet are analysed below:				
Cash	**14,038**	11,727	**14,038**	11,726
Malta Government Treasury Bills	**11,735**	–	**11,735**	–
Balances with Central Bank of Malta (excluding reserve deposit)	**29,000**	8,459	**29,000**	8,457
Loans and advances to banks	**142,352**	138,293	**142,334**	177,743
Amounts owed to banks	**(38,578)**	(22,011)	**(38,578)**	(22,011)
	158,547	136,468	**158,529**	175,915
Adjustment to reflect balances with contractual maturity of more than three months	**40,168**	25,900	**40,168**	25,900
Per balance sheet	**198,715**	162,368	**198,697**	201,815
Analysed as follows:				
Cash and balances with Central Bank of Malta (excluding reserve deposit)	**43,038**	20,186	**43,038**	20,183
Malta Government Treasury Bills	**25,945**	1,967	**25,945**	1,967
Loans and advances to banks	**256,060**	162,882	**256,042**	202,332
Amounts owed to banks	**(126,328)**	(22,667)	**(126,328)**	(22,667)
	198,715	162,368	**198,697**	201,815

44 Segmental information

a *Class of business*

	Personal Financial Services		*Commercial Banking*		*Corporate, Investment Banking and Markets*		*Total*	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000	**Lm000**	Lm000	**Lm000**	Lm000
Group								
Profit before tax								
Segment operating income	**38,552**	33,732	**26,592**	23,517	**10,424**	11,379	**75,568**	68,628
Segment impairment allowances	**(144)**	(507)	**325**	649	**–**	–	**181**	142
Common costs							**(34,354)**	(32,064)
Profit before tax							**41,395**	36,706
Assets								
Segment total assets	**679,457**	582,512	**651,948**	610,844	**555,909**	462,518	**1,887,314**	1,655,874
Average total assets	**630,984**	526,728	**631,396**	631,983	**509,214**	466,209	**1,771,594**	1,624,920
Total Equity	**37,191**	38,261	**77,605**	79,806	**11,573**	13,634	**126,369**	131,701

b *Geographical segments*

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

45 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.:

	Group		*Bank*	
	2006	2005	**2006**	2005
	Balance at end of year	*Balance at end of year*	*Balance at end of year*	*Balance at end of year*
	Lm000	Lm000	**Lm000**	Lm000
Directors, connected persons and companies controlled by them				
Loans	**24,860**	34,058	**24,860**	34,058
Credit card transactions	**5**	5	**5**	5
Guarantees	**231**	448	**231**	448
Commitments to lend	**35,897**	14,072	**35,897**	14,072

Notes on the Accounts (continued)

45 Related party transactions *(continued)*

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

	Group		Bank	
	2006	2005	**2006**	2005
	Balance at end of year	*Balance at end of year*	*Balance at end of year*	*Balance at end of year*
	Lm000	Lm000	**Lm000**	Lm000
Senior executive management				
Loans	**418**	304	**356**	236
Credit card transactions	**19**	14	**17**	11
Guarantees	**4**	15	**4**	15

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

b *Compensation to Directors and key management personnel*

	Group		Bank	
	2006	2005	**2006**	2005
	Lm000	Lm000	**Lm000**	Lm000
Short-term employee benefits	**1,780**	1,702	**1,708**	1,623
Post-employment benefits	**163**	300	**163**	296
Other long-term benefits	**2**	4	**2**	4
Termination benefits	**1**	–	**–**	–
Share-based payments	**121**	76	**100**	64
	2,067	2,082	**1,973**	1,987

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 11 - employee compensation and benefits
Note 19 - financial 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 39 - contingent liabilities
Note 40 - commitments

45 Related party transactions *(continued)*

c *Transactions with other related parties (continued)*

Included in interest and similar income (note 3), the group recognised interest amounting to Lm2,443,000 on deposits placed with an intermediate parent, having an average balance of Lm50,332,000. This amount is financed by money market borrowings with similar currency and maturity terms and conditions.

Furthermore, expenditure relating to transactions with HSBC Holdings plc and its subsidiaries amounting to Lm1,781,000 (2005: Lm1,354,000) for the group and Lm1,779,000 (2005: Lm1,315,000) for the bank are included within general and administrative expenses.

46 Financial instruments and risk management

a *Use of financial instruments*

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

The group is 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 44 per cent of total loans and advances. The wholesale and retail trade sector accounts for 14 per cent, construction 13 per cent, hotels and restaurants 8 per cent, manufacturing 6 per cent, transport storage and communication 3 per cent and electricity, gas and water supply 3 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 77 per cent of the group's assets and 61 per cent of its liabilities and equity are contractually repriceable within a three-month timeframe from the current financial period end.

Notes on the Accounts (continued)

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

		Effective interest rate	*Less than three months*	*Between three months and one year*	*Between one year and five years*	*More than five years*	*Others*
	Lm000	**%**	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group							
At 31 December 2006							
Assets							
Balances with Central Bank of Malta, Treasury Bills and cash	**130,569**	**3.33**	**12,338**	**13,607**	**–**	**–**	**104,624**
Cheques in course of collection	**10,535**	**–**	**–**	**–**	**–**	**–**	**10,535**
Financial assets held for trading							
– equity and other non-fixed income instruments	**357**	**–**	**–**	**–**	**–**	**–**	**357**
– derivative financial instruments	**10,039**	**–**	**183**	**–**	**–**	**–**	**9,856**
Financial assets designated at fair value through profit or loss							
– debt and other fixed income financial instruments	**59,342**	**5.02**	**–**	**2,689**	**10,179**	**46,474**	**–**
– equity and other non-fixed income instruments	**53,134**	**–**	**–**	**–**	**–**	**–**	**53,134**
Financial investments							
– debt and other fixed income financial instruments							
– available-for-sale	**119,061**	**4.94**	**38,647**	**5,773**	**57,388**	**17,253**	**–**
– held-to-maturity	**46,798**	**4.08**	**40,991**	**990**	**4,817**	**–**	**–**
– equity and other non-fixed income instruments							
– available-for-sale	**2,279**	**–**	**–**	**–**	**–**	**–**	**2,279**
Loans and advances to banks	**256,060**	**4.15**	**236,034**	**3,086**	**16,842**	**98**	**–**
Loans and advances to customers	**1,126,126**	**5.58**	**1,117,652**	**655**	**2,033**	**5,786**	**–**
Other assets	**73,014**	**–**	**–**	**–**	**–**	**–**	**73,014**
Total assets	**1,887,314**		**1,445,845**	**26,800**	**91,259**	**69,611**	**253,799**

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

		Effective interest rate	*Less than three months*	*Between three months and one year*	*Between one year and five years*	*More than five years*	*Others*
	Lm000	**%**	**Lm000**	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group							
At 31 December 2006							
Liabilities							
Financial liabilities held for trading	**10,643**	–	–	–	–	–	**10,643**
Amounts owed to banks	**126,328**	**3.78**	**124,587**	**1,546**	–	–	**195**
Amounts owed to customers	**1,475,450**	**2.37**	**1,019,652**	**348,615**	**105,144**	**611**	**1,428**
Liabilities to customers under investment contracts	**9,153**	–	–	–	–	–	**9,153**
Liabilities under insurance contracts issued	**102,770**	–	–	–	–	–	**102,770**
Other liabilities	**36,601**	–	–	–	–	–	**36,601**
Total equity	**126,369**	–	–	–	–	–	**126,369**
Total liabilities and equity	**1,887,314**	–	**1,144,239**	**350,161**	**105,144**	**611**	**287,159**
Gap			**301,606**	**(323,361)**	**(13,885)**	**69,000**	**(33,360)**
Cumulative gap			**301,606**	**(21,755)**	**(35,640)**	**33,360**	**–**

Notes on the Accounts (continued)

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

		Effective interest rate	*Less than three months*	*Between three months and one year*	*Between one year and five years*	*More than five years*	*Others*
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
Group							
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	5.00	–	546	8,045	40,913	–
– equity and other non-fixed income instruments	43,627	–	–	–	–	–	43,627
Financial 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	68,522	–	–	–	–	–	68,522
Total assets	1,655,874		1,248,432	32,729	104,986	68,938	200,789

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

		Effective interest rate	*Less than three months*	*Between three months and one year*	*Between one year and five years*	*More than five years*	*Others*
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
Group							
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	86,275	–	–	–	–	–	86,275
Other liabilities	35,658	–	–	–	–	–	35,658
Total equity	131,701		–	–	–	–	131,701
Total liabilities and equity	1,655,874		970,141	320,847	94,970	1,081	268,835
Gap			278,291	(288,118)	10,016	67,857	(68,046)
Cumulative gap			278,291	(9,827)	189	68,046	–

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

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

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

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

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.

Notes on the Accounts (continued)

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

	Fair value adjustments	*Less than one year*	*More than one year*	*Undated*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group					
At 31 December 2006					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	–	130,569	–	–	130,569
Cheques in course of collection	–	10,535	–	–	10,535
Financial assets held for trading					
– equity and other non-fixed income instruments	(47)	–	–	404	357
– derivative financial instruments	8,441	203	1,395	–	10,039
Financial assets designated at fair value through profit or loss					
– debt and other fixed income instruments	4,752	2,557	52,033	–	59,342
– equity and other non-fixed income instruments	6,747	–	–	46,387	53,134
Financial investments					
– debt and other fixed income financial instruments					
– available-for-sale	2,244	23,081	93,736	–	119,061
– held-to-maturity	–	25,456	21,342	–	46,798
– equity and other non-fixed income instruments	1,194	–	–	1,085	2,279
Loans and advances to banks	–	239,898	16,162	–	256,060
Loans and advances to customers	–	350,401	775,725	–	1,126,126
Other assets	–	–	–	73,014	73,014
Total assets	23,331	782,700	960,393	120,890	1,887,314
Liabilities and equity					
Financial liabilities held for trading	9,045	203	1,395	–	10,643
Amounts owed to banks	–	126,133	195	–	126,328
Amounts owed to customers	–	1,378,127	97,323	–	1,475,450
Liabilities to customers under investment contracts	–	1,308	7,845	–	9,153
Liabilities under insurance contracts issued	–	(1,190)	103,960	–	102,770
Other liabilities	–	–	–	36,601	36,601
Equity attributable to shareholders	–	–	–	126,369	126,369
Total liabilities and equity	9,045	1,504,581	210,718	162,970	1,887,314

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

	Fair value adjustments	*Less than one year*	*More than one year*	*Undated*	*Total*
	Lm000	Lm000	Lm000	Lm000	Lm000
Group					
At 31 December 2005					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	–	77,121	–	–	77,121
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	46,829	–	49,504
– equity and other non-fixed income instruments	9,390	–	–	34,237	43,627
Financial investments					
– debt and other fixed income financial instruments					
– available-for-sale	6,144	17,582	114,040	–	137,766
– held-to-maturity	–	35,404	47,433	–	82,837
– equity and other non-fixed income instruments	1,182	–	–	2,715	3,897
Loans and advances to banks	–	144,429	18,453	–	162,882
Loans and advances to customers	–	331,468	684,616	–	1,016,084
Other assets	–	–	–	68,522	68,522
Total assets	21,106	616,707	912,316	105,745	1,655,874
Liabilities and equity					
Financial liabilities held for trading	2,687	418	945	–	4,050
Amounts owed to banks	–	22,472	195	–	22,667
Amounts owed to customers	–	1,270,863	96,351	–	1,367,214
Debt securities in issue	–	12	–	–	12
Liabilities to customers under investment contracts	–	12	8,285	–	8,297
Liabilities under insurance contracts issued	–	(2,717)	88,992	–	86,275
Other liabilities	–	–	–	35,658	35,658
Equity attributable to shareholders	–	–	–	131,373	131,373
Minority interest	–	–		328	328
Total liabilities and equity	2,687	1,291,060	194,768	167,359	1,655,874

Notes on the Accounts (continued)

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

	Fair value adjustments	*Less than one year*	*More than one year*	*Undated*	*Total*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Bank					
At 31 December 2006					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**–**	**130,569**	**–**	**–**	**130,569**
Cheques in course of collection	**–**	**10,535**	**–**	**–**	**10,535**
Financial assets held for trading					
– equity and other non-fixed income instruments	**(47)**	**–**	**–**	**404**	**357**
– derivative financial instruments	**8,444**	**203**	**1,395**	**–**	**10,042**
Financial investments					
– debt and other fixed income financial instruments					
– available-for-sale	**2,244**	**23,081**	**93,736**	**–**	**119,061**
– held-to-maturity	**–**	**25,456**	**21,342**	**–**	**46,798**
– equity and other non-fixed income instruments	**1,194**	**–**	**–**	**1,070**	**2,264**
Loans and advances to banks	**–**	**239,880**	**16,162**	**–**	**256,042**
Loans and advances to customers	**–**	**350,401**	**775,725**	**–**	**1,126,126**
Other assets	**–**	**–**	**–**	**63,724**	**63,724**
Total assets	**11,835**	**780,125**	**908,360**	**65,198**	**1,765,518**
Liabilities and equity					
Financial liabilities held for trading	**9,095**	**203**	**1,395**	**–**	**10,693**
Amounts owed to banks	**–**	**126,133**	**195**	**–**	**126,328**
Amounts owed to customers	**–**	**1,382,151**	**105,755**	**–**	**1,487,906**
Other liabilities	**–**	**–**	**–**	**30,971**	**30,971**
Total equity	**–**	**–**	**–**	**109,620**	**109,620**
Total liabilities and equity	**9,095**	**1,508,487**	**107,345**	**140,591**	**1,765,518**

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

	Fair value adjustments	*Less than one year*	*More than one year*	*Undated*	*Total*
	Lm000	Lm000	Lm000	Lm000	Lm000
Bank					
At 31 December 2005					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	–	77,118	–	–	77,118
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 investments					
– debt and other fixed income financial instruments					
– available-for-sale	6,144	17,582	114,040	–	137,766
– held-to-maturity	–	65,374	47,433	–	112,807
– equity and other non-fixed income instruments	1,182	–	–	2,713	3,895
Loans and advances to banks	–	183,879	18,453	–	202,332
Loans and advances to customers	–	330,742	607,071	–	937,813
Other assets	–	–	–	74,049	74,049
Total assets	9,599	684,840	787,942	77,033	1,559,414
Liabilities and equity					
Financial liabilities held for trading	2,687	418	945	–	4,050
Amounts owed to banks	–	22,472	195	–	22,667
Amounts owed to customers	–	1,285,358	96,325	–	1,381,683
Other liabilities	–	–	–	31,508	31,508
Total equity	–	–	–	119,506	119,506
Total liabilities and equity	2,687	1,308,248	97,465	151,014	1,559,414

Notes on the Accounts (continued)

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

The gross nominal outflow disclosed in the following table is the contractual, undiscounted cash flow on the financial liability or commitment. The group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

	2006				
	Less than three months	*Between three months and one year*	*Between one year and five years*	*More than five years*	*Gross nominal outflow*
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Group					
Residual contractual maturities of financial liabilities					
Amounts owed to banks	**125,732**	**1,598**	**33**	**277**	**127,640**
Amounts owed to customers	**1,034,214**	**348,072**	**105,952**	**623**	**1,488,861**
Liabilities to customers under investment contracts	**–**	**1,308**	**1,763**	**6,082**	**9,153**
Commitments	**281,210**	**28,673**	**98,678**	**48,338**	**456,899**
Total	**1,441,156**	**379,651**	**206,426**	**55,320**	**2,082,553**
Bank					
Residual contractual maturities of financial liabilities					
Amounts owed to banks	**125,732**	**1,598**	**33**	**277**	**127,640**
Amounts owed to customers	**1,038,559**	**356,581**	**105,962**	**623**	**1,501,725**
Commitments	**281,210**	**28,673**	**98,678**	**48,338**	**456,899**
Total	**1,445,501**	**386,852**	**204,673**	**49,238**	**2,086,264**

46 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.

	2006			2005		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Group						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**128,204**	**2,365**	**130,569**	75,404	1,717	77,121
Cheques in course of collection	**9,800**	**735**	**10,535**	8,934	793	9,727
Financial assets held for trading						
– equity and other non-fixed income instruments	**357**	**–**	**357**	344	–	344
– derivative financial instruments	**–**	**10,039**	**10,039**	–	3,563	3,563
Financial assets designated at fair value through profit or loss						
– debt and other fixed income instruments	**51,913**	**7,429**	**59,342**	46,094	3,410	49,504
– equity and other non-fixed income instruments	**11,933**	**41,201**	**53,134**	15,172	28,455	43,627
Financial investments						
– debt and other fixed income financial instruments						
– available-for-sale	**72,480**	**46,581**	**119,061**	105,330	32,436	137,766
– held-to-maturity	**4,804**	**41,994**	**46,798**	4,802	78,035	82,837
– equity and other non-fixed income instruments						
– available-for-sale	**1,984**	**295**	**2,279**	3,886	11	3,897
Loans and advances to banks	**4,051**	**252,009**	**256,060**	1,129	161,753	162,882
Loans and advances to customers	**1,024,563**	**101,563**	**1,126,126**	979,074	37,010	1,016,084
Other assets	**70,954**	**2,060**	**73,014**	66,764	1,758	68,522
Total assets	**1,381,043**	**506,271**	**1,887,314**	1,306,933	348,941	1,655,874

Notes on the Accounts (continued)

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

	2006			2005		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Group						
Liabilities and equity						
Financial liabilities held for trading	**–**	**10,643**	**10,643**	–	4,050	4,050
Amounts owed to banks	**13,652**	**112,676**	**126,328**	13,033	9,634	22,667
Amounts owed to customers	**1,086,585**	**388,865**	**1,475,450**	1,003,867	363,347	1,367,214
Debt securities in issue	**–**	**–**	**–**	12	–	12
Liabilities to customers under investment contracts	**9,153**	**–**	**9,153**	8,297	–	8,297
Liabilities under insurance contracts issued	**102,770**	**–**	**102,770**	86,275	–	86,275
Other liabilities	**30,704**	**5,897**	**36,601**	31,790	3,868	35,658
Equity attributable to shareholders	**126,369**	**–**	**126,369**	131,373	–	131,373
Minority interest	**–**	**–**	**–**	328	–	328
Total liabilities and equity	**1,369,233**	**518,081**	**1,887,314**	1,274,975	380,899	1,655,874

	2006			2005		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Bank						
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**128,204**	**2,365**	**130,569**	75,401	1,717	77,118
Cheques in course of collection	**9,800**	**735**	**10,535**	8,934	793	9,727
Financial assets held for trading						
– equity and other non-fixed income instruments	**357**	**–**	**357**	344	–	344
– derivative financial instruments	**–**	**10,042**	**10,042**	–	3,563	3,563
Financial investments						
– debt and other fixed income financial instruments						
– available-for-sale	**72,480**	**46,581**	**119,061**	105,330	32,436	137,766
– held-to-maturity	**4,804**	**41,994**	**46,798**	34,769	78,038	112,807
– equity and other non-fixed income instruments						
– available-for-sale	**1,984**	**280**	**2,264**	3,881	14	3,895
Loans and advances to banks	**4,033**	**252,009**	**256,042**	40,579	161,753	202,332
Loans and advances to customers	**1,024,563**	**101,563**	**1,126,126**	900,803	37,010	937,813
Other assets	**61,682**	**2,042**	**63,724**	72,308	1,741	74,049
Total assets	**1,307,907**	**457,611**	**1,765,518**	1,242,349	317,065	1,559,414

46 Financial instruments and risk management *(continued)*

c *Market and liquidity risk management (continued)*

	2006			2005		
	Maltese liri	*Other currencies*	*Total*	*Maltese liri*	*Other currencies*	*Total*
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Bank						
Liabilities and equity						
Financial liabilities held for trading	**–**	**10,693**	**10,693**	–	4,050	4,050
Amounts owed to banks	**13,652**	**112,676**	**126,328**	13,033	9,634	22,667
Amounts owed to customers	**1,096,781**	**391,125**	**1,487,906**	1,018,336	363,347	1,381,683
Other liabilities	**25,102**	**5,869**	**30,971**	27,640	3,868	31,508
Total equity	**109,620**	**–**	**109,620**	119,506	–	119,506
Total liabilities and equity	**1,245,155**	**520,363**	**1,765,518**	1,178,515	380,899	1,559,414

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 Lm46,798,000 as at 31 December 2006. Fair value based on quoted market prices at the balance sheet date without any deduction for transaction costs amounts to Lm46,940,000 as at 31 December 2006.

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

Certain unlisted equity investments are carried at cost and amount to Lm317,000. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. Discounted cash flow techniques do not provide a reliable measure of the fair value of these investments.

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 2006 the group's carrying amount was Lm1,382,186,000.

The loans and advances to customers category of asset amounts to Lm1,126,126,000. This carrying value approximates to fair value in the case of loans which are repriceable at the group's discretion. These loans constitute a significant element of the total loan portfolio.

The loans and advances to banks category of asset amounts to Lm256,060,000. For loans and advances to banks within the 'less than one year' maturity band, fair value is taken to be the amount carried at balance sheet date. As at 31 December 2006, 92 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 Lm1,601,778,000 as at 31 December 2006. Of this liability, 71 per cent has contractual repricing within the 'less than three months' band, 22 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.

47 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 2006, the total assets held by the group on behalf of customers were Lm588,242,000 (2005: Lm379,598,000).

48 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 2006* and *Annual Report and Accounts 2006* may be obtained from its registered office from 3 April 2007.

49 Events after balance sheet date

On 5 December 2006, the Board of Directors approved the issue of MTL20,000,000/EUR46,600,000, 4.6 per cent Subordinated Bond on 18 January 2007, maturing in 2017. The Bond issue was over subscribed and on 1 February 2007 MTL15,767,000 and EUR21,507,000, totalling MTL25,000,000/EUR58,234,000, were allotted to applicants.

50 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.

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

51 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, pandemic flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the group has significant exposure to mortality risk.

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

For long-term insurance contracts with fixed and guaranteed terms and with discretionary participation 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.

52 Comparatives

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

Group Capital Solvency Ratio at 31 December 2006

	Face value	*Weighted amount*
	Lm000	**Lm000**
On-balance sheet assets		
Balances with Central Bank of Malta, Treasury Bills and cash	**130,569**	**–**
Cheques in course of collection	**10,535**	**2,107**
Loans and advances to banks	**256,060**	**51,212**
Loans and advances to customers	**1,131,605**	**845,020**
Debt securities and equities	**280,614**	**89,268**
Property, plant and equipment	**32,029**	**32,029**
Other assets	**25,536**	**25,536**
Prepayments and accrued income	**14,589**	**7,295**
	1,881,537	**1,052,467**
Off-balance sheet items		
Contingent liabilities and commitments	**516,477**	**49,999**
Total adjusted assets and off-balance sheet items		**1,102,466**
Own funds		
Original own funds	**105,177**	
Additional own funds	**15,357**	
Total own funds	**120,534**	
Capital solvency ratio at 31 December 2006		**10.93%**
Capital solvency ratio at 31 December 2005		12.93%

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

	2006	2005	2004	2003	2002
	Lm000	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income	**80,875**	71,884	68,807	69,360	76,105
Interest payable	**(33,913)**	(27,327)	(27,413)	(34,660)	(42,778)
Net interest income	**46,962**	44,557	41,394	34,700	33,327
Net non-interest income	**28,606**	24,071	18,706	18,668	18,282
Operating expenses	**(34,347)**	(32,065)	(31,560)	(30,581)	(28,879)
Net impairment reversals/(losses)	**181**	142	4,012	3,386	(1,515)
(Provisions)/reversals of provisions for liabilities and other charges	**(7)**	1	301	(9)	(89)
Profit before tax	**41,395**	36,706	32,853	26,164	21,126
Tax expense	**(14,572)**	(12,642)	(10,843)	(9,383)	(5,762)
Profit for the year	**26,823**	24,064	22,010	16,781	15,364
Profit attributable to shareholders of the bank	**26,810**	24,057	22,010	16,781	15,364
Profit attributable to minority interest	**13**	7	–	–	–
Earnings per share	**9.2c**	8.2c	7.5c	5.8c	5.3c

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

Group Balance Sheet: Five-Year Comparison

	2006	2005	2004	2003	2002
	Lm000	Lm000	Lm000	Lm000	Lm000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**130,569**	77,121	106,806	133,574	171,501
Cheques in course of collection	**10,535**	9,727	4,458	5,637	3,986
Financial assets held for trading	**10,396**	3,907	4,826	2,444	2,779
Financial assets at fair value through profit and loss	**112,476**	93,131	72,533	–	–
Financial investments	**168,138**	224,500	238,446	235,059	263,912
Loans and advances to banks	**256,060**	162,882	131,283	130,700	146,000
Loans and advances to customers	**1,126,126**	1,016,084	976,296	922,526	890,664
Intangible assets	**10,899**	9,433	8,782	1,762	630
Property, plant and equipment	**28,612**	29,746	30,647	30,511	28,965
Investment property	**3,417**	961	346	346	346
Assets held for sale	**3,978**	4,918	3,150	–	–
Current tax recoverable	**806**	1,895	1,372	–	–
Deferred tax assets	**–**	–	–	1,607	6,011
Other assets	**10,713**	8,701	6,692	58,756	37,281
Prepayments and accrued income	**14,589**	12,868	16,486	16,062	18,258
Total assets	**1,887,314**	1,655,874	1,602,123	1,538,984	1,570,333
Liabilities					
Financial liabilities held for trading	**10,643**	4,050	9,917	8,611	6,402
Amounts owed to banks	**126,328**	22,667	48,336	32,367	64,563
Amounts owed to customers	**1,475,450**	1,367,214	1,288,618	1,267,378	1,303,140
Debt securities in issue	**–**	12	12	12	12
Deferred tax liabilities	**4,606**	3,843	2,251	–	–
Liabilities to customers under investment contracts	**9,153**	8,297	–	–	–
Liabilities under insurance contracts issued	**102,770**	86,275	68,973	–	–
Other liabilities	**13,816**	16,755	14,522	62,080	39,780
Accruals and deferred income	**18,147**	15,035	15,101	15,676	17,848
Provisions for liabilities and other charges	**32**	25	26	1,698	1,591
Subordinated liabilities	**–**	–	19,914	20,000	20,000
Total liabilities	**1,760,945**	1,524,173	1,467,670	1,407,822	1,453,336
Equity attributable to shareholders	**126,369**	131,373	134,453	131,162	116,997
Minority interest	**–**	328	–	–	–
Total equity	**126,369**	131,701	134,453	131,162	116,997
Total liabilities and equity	**1,887,314**	1,655,874	1,602,123	1,538,984	1,570,333
Memorandum items					
Contingent liabilities	**59,578**	51,513	44,127	38,818	47,634
Commitments	**456,899**	401,216	330,584	297,631	287,605

Group Cash Flow Statement: Five-Year Comparison

	2006	2005	2004	2003	2002
	Lm000	Lm000	Lm000	Lm000	Lm000
Net cash (used in)/from operating activities	**(9,548)**	58,357	8,180	(51,991)	(17,628)
Cash flows from investing activities					
Dividends received	**74**	93	323	125	122
Interest received from financial investment	**11,333**	11,799	12,512	13,279	19,151
Proceeds from sale and maturity of financial investments	**88,891**	57,205	81,302	82,574	99,772
Proceeds on sale of property, plant and equipment and intangible assets	**80**	264	57	26	51
Purchase of financial investments	**(37,851)**	(37,330)	(93,137)	(52,107)	(71,123)
Purchase of property, plant and equipment, investment property and intangible assets	**(2,311)**	(2,855)	(1,376)	(5,352)	(6,525)
Proceeds on sale of shares in subsidiary company	**450**	–	–	–	–
Net cash from /(used in) investing activities	**60,666**	29,176	(319)	38,545	41,448
Cash flows from financing activities					
Dividends paid	**(29,118)**	(28,525)	(18,827)	(5,691)	(3,794)
Maturity of debt securities in issue and subordinated loan stock	**(12)**	(19,914)	–	–	–
Issue of units to minority interest	**91**	321	–	–	–
Cash used in financing activities	**(29,039)**	(48,118)	(18,827)	(5,691)	(3,794)
Increase/(decrease) in cash and cash equivalents	**22,079**	39,415	(10,966)	(19,137)	20,026

Group Accounting Ratios: Five-Year Comparison

	2006	2005	2004	2003	2002
	%	%	%	%	%
Net interest income and other operating income to total assets	**4.0**	4.1	3.8	3.5	3.3
Operating expenses to total assets	**1.8**	1.9	2.0	2.0	1.8
Profit before tax to total assets	**2.2**	2.2	2.1	1.7	1.3
Return on capital employed before tax	**32.8**	27.9	24.4	19.1	16.6
Profit after tax to equity	**21.2**	18.3	16.4	12.8	13.1

	2006	2005	2004	2003	2002
Shares in issue (millions)	**291.8**	73.0	36.5	36.5	36.5
Net assets per 12.5 cents share (cents)*	**43.3**	45.1	46.1	44.9	40.1
Earnings per 12.5 cents share (cents)*	**9.2**	8.2	7.5	5.8	5.3
Dividend per 12.5 cents share (cents)*					
– gross	**15.4**	15.0	9.9	3.0	2.0
– net	**10.0**	9.8	6.5	2.0	1.3
Dividend cover	**0.9**	0.8	1.2	2.9	4.0

* Comparative ratios have been restated to reflect the number of shares in issue as at 31 December 2006.

Group Financial Highlights in Major Currencies

	2006	2005	**2006**	2005
	€000	€000	**US$000**	US$000
Income statement				
Net operating income	**176,026**	159,860	**231,946**	210,644
Operating expenses	**(80,007)**	(74,691)	**(105,424)**	(98,419)
Net impairment reversals	**422**	331	**556**	436
(Provisions)/reversals of provisions for liabilities and other charges	**(16)**	2	**(21)**	3
Profit before tax	**96,425**	85,502	**127,057**	112,664
Tax expense	**(33,944)**	(29,448)	**(44,727)**	(38,803)
Profit for the year	**62,481**	56,054	**82,330**	73,861
Profit attributable to shareholders of the bank	**62,451**	56,038	**82,290**	73,840
Profit attributable to minority interest	**30**	16	**40**	21
Balance sheet				
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**304,144**	179,644	**400,764**	236,713
Cheques in course of collection	**24,540**	22,658	**32,336**	29,856
Financial assets held for trading	**24,216**	9,101	**31,909**	11,992
Financial assets at fair value through profit or loss	**261,999**	216,937	**345,230**	285,853
Financial investments	**391,656**	522,944	**516,077**	689,073
Loans and advances to banks	**596,459**	379,413	**785,942**	499,945
Loans and advances to customers	**2,623,169**	2,366,838	**3,456,496**	3,118,735
Intangible assets	**25,388**	21,973	**33,453**	28,953
Property, plant and equipment	**66,648**	69,290	**87,821**	91,301
Investment property	**7,959**	2,239	**10,488**	2,950
Assets held for sale	**9,266**	11,456	**12,210**	15,095
Current tax recoverable	**1,877**	4,414	**2,474**	5,816
Other assets	**24,955**	20,268	**32,882**	26,707
Prepayments and accrued income	**33,983**	29,974	**44,779**	39,497
Total assets	**4,396,259**	3,857,149	**5,792,861**	5,082,486
Liabilities and equity				
Financial liabilities held for trading	**24,792**	9,434	**32,667**	12,431
Amounts owed to banks	**294,264**	52,800	**387,747**	69,572
Amounts owed to customers	**3,436,873**	3,184,752	**4,528,699**	4,196,482
Debt securities in issue	**–**	28	**–**	37
Deferred tax liabilities	**10,729**	8,952	**14,138**	11,796
Liabilities to customers under investment contracts	**21,321**	19,327	**28,094**	25,467
Liabilities under insurance contracts issued	**239,390**	200,967	**315,439**	264,810
Other liabilities	**32,183**	39,029	**42,406**	51,427
Accruals and deferred income	**42,271**	35,022	**55,700**	46,148
Provisions for liabilities and other charges	**75**	58	**98**	77
Subordinated liabilities	**–**	–	**–**	–
Called up share capital	**84,976**	21,244	**111,971**	27,993
Revaluation reserves	**24,759**	30,526	**32,624**	40,224
Other reserve	**564**	9,881	**743**	13,020
Retained earnings	**184,062**	244,365	**242,535**	321,995
Minority interest	**–**	764	**–**	1,007
Total liabilities and equity	**4,396,259**	3,857,149	**5,792,861**	5,082,486

The euro exchange rate ruling on 31 December 2006 was €1 = Lm0.4293. The US dollar exchange rate ruling on the same date was US$1 = Lm0.3258. 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 2006

Philip Farrugia Randon	6,400 shares

Mr Albert Mizzi has a non-beneficial interest in the company of 177,480 ordinary shares through the shareholding held by Finco Control Co Limited in HSBC Bank Malta p.l.c. and a non-beneficial interest in the company of 366,000 ordinary shares through the shareholding of Finco Treasury Management Limited in HSBC Bank Malta p.l.c.

Mr Charles John Farrugia has a non-beneficial interest in the company of 7,337,455 ordinary shares through the shareholding held by Amalgamated Investments Sicav p.l.c. in HSBC Bank Malta p.l.c.

Mr Peter Paul Testaferrata Moroni Viani has a beneficial interest in the company of 58,800 ordinary shares through the shareholding of MacApps Limited in HSBC Bank Malta p.l.c. He also has a non-beneficial interest in the company of 272,160 ordinary shares through the shareholding of Santumas Shareholdings p.l.c. in HSBC Bank Malta p.l.c.

Changes to directors interests in the share capital of the company from 31 December 2006 to 2 March 2007

Shaun Wallis acquired 2,000 shares.

Shareholders holding 5% or more of the equity capital at 2 March 2007

HSBC Europe B.V.	70.03%

Number of shareholders at 2 March 2007

One class of shares (All shares have equal voting rights)	9,619 shareholders

Number of shareholders analysed by range

	31 December 2006		2 March 2007	
Range of shareholding	**Total shareholders**	**Shares**	**Total shareholders**	**Shares**
1 - 500	1,982	618,974	2,043	635,905
501 - 1,000	1,461	1,184,694	1,514	1,230,823
1,001 - 5,000	3,652	9,201,903	3,724	9,382,944
5,001 and over	2,322	280,834,429	2,338	280,590,328

Company Secretary

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

Branches and Offices

MALTA OFFICES

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

Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 0000 Fax: 2380 4923

Hexagon House, Spencer Gardens
Blata l-Bajda MRS 1990
Tel: 2293 0000 Fax: 2293 3684

Card Products Division
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 5983 Fax: 2380 4924

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

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

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

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

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

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

Premier Centre
Hexagon House, Spencer Gardens
Blata l-Bajda MRS 1990
Tel: 2293 2904 Fax: 2293 2219

Securities Centre
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 5900 Fax: 2380 4842

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

Wealth Management Office
Hexagon House, Spencer Gardens
Blata l-Bajda MRS 1990
Tel: 2293 2900 Fax: 2293 2926

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

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

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

Birkirkara *(Commercial Centre)*
1 Naxxar Road BKR 9049
Tel: 2334 1671 Fax: 2334 1691

Birżebbuġa
2 Birżebbuġa Road BBG 1508
Tel: 2380 2380 Fax: 2361 4790

Buġibba
Bay Square SPB 2511
Tel: 2380 2380 Fax: 2334 7390

Cospicua
50 Pilgrimage Street BML 1580
Tel: 2380 2380 Fax: 2293 4090

Fgura
Council of Europe Square FGR 1254
Tel: 2380 2380 Fax: 2361 8790

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

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

Gżira
196 The Strand GZR 1023
Tel: 2380 2380 Fax: 2324 3990

Hamrun
121 St. Joseph Road HMR 1017
Tel: 2380 2380 Fax: 2597 2390

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

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

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

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

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

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

Mosta *(Commercial Centre)*
63 Constitution Street MST 9058
Tel: 2334 6174 Fax: 2334 6191

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

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

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

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

Paola
12 Antoine De Paule Square PLA 1261
Tel: 2380 2380 Fax: 2361 1390

Paola *(Commercial Centre)*
12 Antoine De Paule Square PLA 1261
Tel: 2361 1360 Fax: 2361 1392

Qormi
38 St. Sebastian Street QRM 2331
Tel: 2380 2380 Fax: 2380 5490

Rabat
12 Saqqajja Square RBT 1190
Tel: 2380 2380 Fax: 2334 5890

San Ġwann
198 Naxxar Road SGN 9030
Tel: 2380 2380 Fax: 2324 7590

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

St. Julians
St. George's Road STJ 3202
Tel: 2380 2380 Fax: 2324 2090

St. Paul's Bay
St. Paul's Street SPB 3419
Tel: 2380 2380 Fax: 2334 6490

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

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

Sliema *(Commercial Centre)*
High Street SLM 1549
Tel: 2324 6071 Fax: 2324 6092

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

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

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

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

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

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

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

Valletta *(Commercial Centre)*
233 Republic Street VLT 1116
Tel: 2597 3365 Fax: 2597 3342

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

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

Valletta *(Commercial Branch)*
233 Republic Street VLT 1116
Tel: 2597 3407 Fax: 2597 3697

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

Żebbug
254 Main Street ZBG 1304
Tel: 2380 2380 Fax: 2293 4490

Żejtun
25th November Avenue ZTN 2018
Tel: 2380 2380 Fax: 2361 5690

Żurrieq
38 High Street ZRQ 1318
Tel: 2380 2380 Fax: 2361 7890

Branches and Offices (continued)

GOZO OFFICES

Victoria
90 Republic Street VCT 1017
Tel: 2380 2380 Fax: 2293 7192

Victoria
Wealth Management Centre
43 Republic Street VCT 1016
Tel: 2156 5752, 2156 5753, 2156 5247
Fax: 2156 5754

Victoria ShareShop
90 Republic Street VCT 1016
Tel: 2293 7103
Fax: 2293 7192

Nadur *(Agency)*
18 St. Peter & St. Paul Square NDR 1010
Tel: 2155 6362 Fax: 2155 6362

Xaghra *(Agency)*
8th September Avenue XRA 1011
(Corner with Victory Street)
Tel: 2155 6313 Fax: 2155 6313

Xlendi *(Automated Office)*
Calleja Flats, Flat 1
Rabat Road XLN 1104

SUBSIDIARY COMPANIES

HSBC Fund Management (Malta) Ltd
Hexagon House, Spencer Gardens
Blata l-Bajda MRS 1990
Tel: 2293 5126 Fax: 2293 5190

HSBC Life Assurance (Malta) Ltd
Hexagon House, Spencer Gardens
Blata l-Bajda MRS 1990
Tel: 2293 8699 Fax: 2293 8690

HSBC Stockbrokers (Malta) Ltd
233 Republic Street, Valletta VLT 1116
Tel: 2597 2241 Fax: 2597 2494

Published by HSBC Bank Malta p.l.c., Valletta.

Cover designed by Addison Corporate Marketing Limited, London; text pages designed by Group Public Affairs, The Hongkong and Shangai Banking Corporation Limited, Hong Kong; compiled by BPC International Limited, Pietà, Malta.

Printed by Gutenberg Press, Gudja Malta on Hanno Art silk paper. Made in Germany by Hannover Mill, this paper is totally chlorine free. Hannover Mill is certified by the Forest Stewardship Council (FSC), an international organisation that brings people together to find solutions which promote responsible stewardship of the world's forests.

ISSN 1811-7570

ISBN 978-99932-12-08-9

Photography credits

Pages 2-3-4-5-7-8: Domenic Aquilina

HSBC Bank Malta p.l.c.
233 Republic Street, Valletta VLT 1116, Malta
Telephone: 356 2597 0000   Customer Service: 356 2380 2380   Facsimile: 356 2380 4923
www.hsbc.com.mt