HSBC Bank Malta p.l.c.
Annual Report and Accounts 2015

HSBC

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2015 was a challenging year for the bank, as well for the banking sector throughout the Eurozone and beyond. This situation is likely to persist in the medium term, exacerbated by sluggish performance of economies in the Eurozone, in China, and in a number of other key markets.

Low interest rates and continuing increases in costs, resulting primarily from the regulatory and compliance environments, have impacted negatively the results of most banks. In the absence of an improvement in the Eurozone's macro-economic environment, this performance will most likely continue for some time ahead.

Closer to home, the performance of the Maltese economy remained robust throughout 2015, and forecasts for 2016 are generally positive. For these reasons I feel justified in expecting that the performance of the local economy will provide the right opportunities for the bank to look ahead with optimism.

Results

Profit before tax for the year under review was €47m, a decrease of 10% when compared to the 2014 results. However, the underlying profit before tax, after excluding the cost of the Early Voluntary Retirement programme, was up 17.9% reflecting a strong performance by the bank.

During 2015, the bank continued to build a strong capital base, placing itself in a sound position to increase the dividend pay-out ratio to 65%, an increase of 10 percentage points over previous years. During the year the Board also agreed to increase the General Banking Risk Reserve by a further €1m. This represents the final tranche in the transitional arrangement provided by Banking Rule 09 for the setting up of this Reserve. After adjusting for this Reserve, the effective dividend pay-out rate will be 62% compared to 45% paid out in 2014.

L-2015 kienet sena oħra ta' sfida għall-bank, kif ukoll għas-settur bankarju fiż-Żona Ewro u lil hinn. Din is-sitwazzjoni x'aktarx li ser tippersisti fit-terminu medju, minħabba andament rallentat tal-ekonomija fiż-Żona Ewro, fiċ-Ċina, u fi swieq oħra ewlenin.

Ir-riżultati ta' ħafna banek ġew milquta minn rati baxxi ta' imgħax u żidiet kontinwi fl-ispejjeż minħabba pressjoni regolatorja u ta' konformità. Jekk ma jkunx hemm titjib fl-ekonomija in ġenerali fiż-Żona Ewro, x'aktarx li din is-sitwazzjoni se tippersisti għal xi żmien.

Iżjed qrib tagħna – l-ekonomija ta' Malta baqgħet b'saħħitha fl-2015 u l-prospetti għall-2016 jidhru pożittivi. Għaldaqstant, wieħed ikollu raġun jistenna li l-ekonomija lokali ser toffri opportunitajiet biex il-bank iħares 'il quddiem b'ottimiżmu.

Riżultati

Il-profitt irrapportat qabel it-taxxa kien ta' €47m, tnaqqis ta' 10% meta mqabbel mar-riżultat tal-2014. Madankollu, il-prestazzjoni bażika tal-2015 kienet waħda soda; infatti l-profitt qabel it-taxxa – wara li tneħħi l-ispejjeż tal-programm għall-Irtirar Kmieni Volontarju – tela' bi 17.9%, li jirrifletti prestazzjoni b'saħħitha mill-bank.

Matul l-2015, il-bank kompla jibni bażi kapitali u saħħaħ il-pożizzjoni tiegħu biex seta' jgħolli l-ammont imħallas bħala dividend għal 65% tal-profitt wara t-taxxa, żieda ta' 10 punti perċentwali fuq is-snin ta' qabel. Matul is-sena, il-Bord qabel ukoll li jgħolli r-Riserva tal-General Banking Risk b'€1m ieħor. Dan jirrappreżenta l-aħħar parti tal-arranġament transizzjonali pprovdut mir-Regola Bankarja 09 sabiex titwaqqaf din ir-Riserva. Wara l-aġġustament għal din ir-Riserva, ir-rata effettiva tad-dividend imħallas se tkun ta' 62%, imqabbla mal-45% tal-2014.

Profit attributable to shareholders amounted to €29.5m, resulting in earnings per share of 8.5 cent (9.7 cent in 2014). The Board is recommending a final gross dividend of 2.6 cent per share (1.7 cent per share net of tax). Together with the interim dividend paid in September 2015, the total gross dividend for the year therefore will be 7.7 cent per share (5.0 cent per share net of tax), representing a 20% increase when compared to the dividend paid out in 2014 (adjusted for the bonus share issue in April 2015). The final dividend will be paid, if approved by the shareholders, on 19 April 2016, to those shareholders who are on the bank's register of shareholders on the 16 March 2016.

Our regulatory environment

The regulatory environment within which the bank operates continued to evolve throughout 2015, presenting the Board and the Management of the bank with new challenges. To meet and overcome these challenges, the Bank deployed significant human and financial resources.

Some of the more significant regulatory change projects which the bank implemented or commenced during 2015, were:

- Completing the processes required for compliance with the Capital and Liquidity Regulation, the Bank Recovery and Resolution Directive (BRRD), The Depositor Guarantee Scheme Directive; and Solvency II;
- Complying with International Tax Regulation including the Common Reporting Standards (CRS) and the US Foreign Account Tax Compliance Act;
- Complying with EBA Guidelines on the Security of Internet and The Interchange Fee Regulation and Payment Accounts Directive;
- Complying with The Markets and Consumer Protection Regulation, the Mortgage Credit Directive, the Market Abuse Directive and Regulation, the Markets in Financial Instruments Directive and Regulation and the Insurance Distribution Directive;
- Complying with the requirements of The Fourth Anti-Money Laundering Directive, which is aimed at strengthening the fight against money laundering and terrorist financing.

Il-profitt attribbwibbli lill-azzjonisti kien ta' €29.5m, li jġib qligħ għal kull sehem ta' 8.5 ċenteżmi (9.7 ċenteżmi fl-2014). Il-Bord jirrakkomanda dividend gross finali ta' 2.6 ċenteżmi kull sehem (1.7 ċenteżmi kull sehem wara t-taxxa). Magħdud mad-dividend interim imħallas f'Settembru 2015, id-dividend gross totali għas-sena jkun ta' 7.7 ċenteżmi kull sehem (5.0 ċenteżmi kull sehem wara t-taxxa), li jirrappreżenta żieda ta' 20% meta mqabbel mad-dividend tal-2014 kif aġġustat għall-ħruġ tal-ishma bonus f'April 2015. Jekk jiġi approvat mill-azzjonisti, id-dividend finali jitħallas fid-19 ta' April 2016 lill-azzjonisti kollha li jidhru fuq ir-reġistru tal-azzjonisti tal-bank fis-16 ta' Marzu 2016.

L-ambjent regolatorju

L-ambjent regolatorju li fih jopera l-bank kompla jevolvi matul l-2015, u dan ippreżenta sfidi ġodda għall-Bord tad-Diretturi u l-Management tal-bank. Sabiex jilqa' u jegħleb dawn l-isfidi ġew allokati numru sostanzjali ta' riżorsi umani u finanzjarji.

Fost l-iżjed proġetti sinifikanti fit-tibdil regolatorju li l-bank implimenta jew nieda fl-2015, hemm:

- Lestejna l-proċess biex niġu konformi mal-Capital and Liquidity Regulation, il-Bank Recovery and Resolution Directive (BRRD), id-Depositor Guarantee Scheme Directive; u s-Solvency II;
- Ġejna konformi mar-regolamenti dwar it-Taxxa Internazzjonali li jinkludi l-Common Reporting Standards (CRS), u l-US Foreign Account Tax Compliance Act;
- Ġejna konformi mal-Linji Gwida tal-Awtorità Bankarja Ewropea (l-EBA) dwar is-Sigurtà tal-Internet għall-użu bankarju, u tal-Interchange Fee Regulation u l-Payment Accounts Directive;
- Ġejna konformi mal-Markets and Consumer Protection Regulation, il-Mortgage Credit Directive, il-Market Abuse Directive and Regulation, il-Markets in Financial Instruments Directive and Regulation, u l-Insurance Distribution Directive;
- Ġejna konformi mal-Fourth Anti-Money Laundering Directive immirata biex issaħħaħ il-ġlieda kontra l-ħasil tal-flus u l-iffinanzjar tat-terroriżmu.

During 2015, the bank continued to build a strong capital base, placing itself in a sound position to increase the dividend.

In November 2014, the European Central Bank (ECB) assumed a new supervisory role for 'significant' banks operating in the Eurozone. As a result, HSBC Bank Malta p.l.c., together with two other local banks, was determined by the ECB to be a systemically important bank for our country, and thereby falling under the responsibility of the ECB's Joint Supervisory Team (the JST) for the purposes of banking supervision.

During 2015, the JST carried out a series of tests on the bank, and I am pleased to report that the bank performed well throughout these tests, and was found to be in compliance.

During 2015, our Common Equity Tier 1 capital ratio continued to strengthen, and is above the regulatory requirements set by the regulator. I am also pleased to report that this important milestone was reached well ahead of the deadline set by the regulators.

These results represent a significant achievement by the management team, and by our people. Each have, individually and collectively, demonstrated a degree of expertise, professionalism and commitment, which easily places them among the best of their peers within the Eurozone.

F'Novembru tal-2014, il-Bank Ċentrali Ewropew (ECB) assuma doveri ta' sorveljanza ġodda għal-banek 'sinifikanti' li joperaw fiż-Żona Ewro. B'riżultat ta' dan, l-HSBC Bank Malta p.l.c. flimkien ma' żewġ banek oħra lokali, ġew identifikati bħala ta' importanza sistemika għal pajjiżna u issa jaqa' direttament taħt ir-responsabbiltà tal-Joint Supervisory Team (JST) fi ħdan l-ECB għal skopijiet ta' sorveljanza bankarja.

Matul l-2015, il-JST għamlu numru ta' testijiet fuq il-bank, u għandi pjaċir nirraporta li l-bank ħareġ b'riżultati mill-aqwa, u nstab konformi mas-sistemi u l-proċessi kollha.

Matul is-sena, komplejna nsaħħu l-Common Equity Tier 1 capital ratio tagħna, u dan issa jinsab 'il fuq mir-rekwiżiti regolatorji stipulati mill-JST. Għandi pjaċir inħabbar ukoll li lħaqna dan kollu qabel iż-żmien stipulat mir-regolaturi.

Dan jirrifletti x-xogħol eċċezzjonali tal-management teams u l-ħaddiema kollha tagħna. Kull wieħed u waħda minnhom, kemm b'mod individwali kif wkoll b'mod kollettiv, urew li huma esperti u professjonisti f'xogħolhom. Bl-impenn u l-ħila tagħhom iħabbtuha sew mal-aqwa kollegi tagħhom fiż-Żona Ewro.

Our responsibility towards the community

We continue to recognise that we have a role within, and responsibility towards, the community we serve. To discharge these roles and responsibilities, during 2015, the bank continued to utilise its resources in order to carry out a series of initiatives and projects, designed to provide value to various sectors within the community. Some of the more significant of these initiatives were:

- The HSBC Malta Foundation continued its work in various sectors of Maltese society, in particular those concerned with the education of children, the protection of the environment and the safeguarding of our heritage. Work was also continued on some of our projects which had commenced during previous years, such as the Notarial Archives, and the restoration of the Church of Our Lady of Victories in Valletta.

- During November 2015, the bank actively participated in the introduction, by HRH the Prince of Wales, of His 'Prince's Trust' to Malta. Through this initiative, Malta became the first country, outside the UK, to benefit from the Prince's Trust's well known and highly successful educational programmes for disadvantaged young people, in secondary and technical schools. In the process, the HSBC Malta Foundation became the first international partner in the newly established Prince's Trust International, and will participate in the extension of the reach of the Trust to other countries within the Commonwealth.

Ir-responsabbiltà tagħna lejn il-komunità

Komplejna nirrikonoxxu li għandna rwol imporanti, u responsabbilità lejn l-komunità li naqdu. Għalhekk, biex nerfgħu din ir-responsabbilità, matul l-2015 il-bank kompla juża r-riżorsi tiegħu għal inizjattivi u proġetti li jappoġġjaw setturi varji fil-komunità. Fost l-inizjattivi iktar importanti nsibu li:

- L-HSBC Malta Foundation kompliet taħdem f'setturi varji tas-soċjetà Maltija, prinċipalment fl-edukazzjoni tat-tfal, fil-protezzjoni tal-ambjent u fil-ħarsien tal-wirt storiku. Kompliet ukoll il-ħidma fuq xi proġetti li bdew fis-snin ta' qabel li jinkludu l-Arkivji Notarili u r-restawr tal-Knisja tal-Vitorja fil-Belt.

- F'Novembru 2015, il-bank kellu sehem attiv fl-introduzzjoni, mill-Prinċep ta' Wales, tal-Prince's Trust f'Malta. Permezz ta' din l-inizjattiva, Malta saret l-ewwel pajjiż barra r-Renju Unit li ser tgawdi mill-programmi li l-Prince's Trust iħaddem fl-edukazzjoni fl-iskejjel sekondarji u tekniċi għal żgħażagħ żvantaġġati. F'dan il-proċess, l-HSBC Malta Foundation saret l-ewwel sieħeb internazzjonali tal-Prince's Trust International, u b'hekk l-HSBC ser jipparteċipa biex it-Trust jilħaq pajjiżi oħra tal-Commonwealth.

HRH Prince Charles paid a special tribute to HSBC Malta for making a 'tremendous commitment' to the society as a 'very caring bank I have come across'.

- During 2015, the bank continued to act as the driver of its principal environmental initiative: the 'Catch the Drop Campaign', supported by a €500,000 grant from the HSBC Group, under the HSBC Water Programme. Now in its second year, the initiative pursues the goal of reaching every student in the country over a period of three years.

I avail myself of this opportunity to thank, on your behalf, the many among our people who have enthusiastically supported these initiatives, by devoting significant portions of their spare time, and capabilities, in order to ensure the success of these projects. Their contributions were very useful and admirable.

Our Board of Directors

During 2015, there were two changes in the membership of the Board of Directors of the bank.

Mr Brian Robertson retired from the Board. Mr Robertson possesses a wealth of knowledge and experience in the banking sector accumulated during a lifetime in the sector. His contribution to the bank was significant throughout the period of his appointment. On your behalf I thank Mr Robinson and wish him success in his future initiatives.

- Matul l-2015, l-inizjattiva ewlenija tal-bank fil-qasam ambjentali kienet il-kampanja Catch the Drop, sostnuta minn għotja ta' €500,000 maħruġa mill-Grupp HSBC taħt l-HSBC Water Programme. Fit-tieni sena tagħha din l-inizjattiva mxiet 'il quddiem fil-mira li tilħaq lill-istudenti kollha ta' Malta u Għawdex fuq medda ta' tliet snin.

Nieħu l-opportunità biex f'isimkom, nirringrazzja lin-numru kbir ta' impjegati li ħadmu volontarjament u għenu fil-ħafna inizjattivi ta' sostenibilità tal-bank, fil-ħin liberu tagħhom matul is-sena. Kontribuzzjoni bħal din ta' min wieħed jammiraha u tghin ħafna biex proġetti bħal dawn ikunu ta' suċċess.

Il-Bord tad-Diretturi

Fl-2015 saru żewġ bidliet fil-Bord tad-Diretturi tal-bank.

Is-Sur Brian Robertson irtira mill-Bord. Is-Sur Robertson għandu għarfien u esperjenza kbira fis-settur bankarju li akkumula matul karriera twila f'dan is-settur. Il-kontribuzzjoni tiegħu lejn il-bank kienet sinifikanti matul il-perjodu tal-kariga tiegħu. F'ismikom nixtieq nirringrazzjah u nixtieqlu suċċess fl-inizjattivi futuri tiegħu.

A group of six HSBC Malta employees travelled to Ghana and witnessed in person the remarkable difference the HSBC Water Programme initiatives are making in the daily lives of the community in the northern region of the country.

HSBC Malta rallied thousands of students and dozens of local councils across Malta and Gozo to come on board and conserve the planet's most precious commodity, water.

Mr Mark Watkinson, who served both as Director as well as the Chief Executive Officer of the bank, stepped down from the Board on being redeployed to duties as the Chief Executive Officer of HSBC Bank in Bermuda. Mark was an able leader of the bank and served well and with distinction throughout the three years he spent in Malta. He saw the bank through many challenging situations, and left a robust and well-functioning organisation behind. To Mark Watkinson go the grateful thanks of all at the bank together with best wishes for continued success in his duties at the bank in Bermuda.

Mr Andrew Beane assumed the position of Chief Executive Officer of the Bank in November 2015 and will join the Board of Directors, as soon as all the relevant regulatory processes are completed. Mr Beane joined HSBC in 2002 and he assumes the leadership of the bank after periods of service in the United Kingdom, Malta, the United Arab Emirates, Hong Kong and the United States. Mr Beane brings with him a wealth of experience, and a large reserve of enthusiasm, which cannot but be of great value as he leads the bank forward, during these challenging times. On your behalf, and on behalf of all our people, I warmly welcome Mr Beane and wish him all possible success.

In September 2015, we were all greatly saddened with the news of the demise of my predecessor in the Chair of the bank, Mr Albert Mizzi. Bertie, as he was widely known, served the bank for many years with a unique mixture of competence, business acumen, and professionalism, acquired during many years of activity as one of the most successful Maltese businessmen ever. Bertie will be missed by all at the bank, and by the large numbers within the Maltese community who knew

Is-Sur Mark Watkinson, li serva kemm bħala Direttur kif ukoll bħala Chief Executive Officer tal-bank, irriżenja mill-Bord meta nħatar Chief Executive Officer tal-HSBC Bank Bermuda. Mark kien mexxej kapaċi li ggwida 'l-bank b'mod għaqli matul it-tliet snin li huwa qatta' Malta. Bis-saħħa tiegħu, il-bank irnexxielu jilqa' diversi sfidi, u ħalla warajh organizzazzjoni b'saħħitha u li tiffunzjona tajjeb. Żgur li kull wieħed u waħda minna jirringrazzja lil Mark Watkinson u jawguralu l-isbaħ xewqat għas-suċċess kontinwu fid-dmirijiet tiegħu fil-bank fil-Bermuda.

Is-Sur Andrew Beane assuma l-pożizzjoni ta' Chief Executive Officer tal-bank f'Novembru tal-2015 u ser jingħaqad mal-Bord tad-Diretturi, kif il-proċessi regolatorji relevanti jitlestew. Is-Sur Beane ssieħeb mal-HSBC fl-2002 u ħa tmexxija tal-bank wara perjodi ta' servizz fir-Renju Unit, Malta, l-Emirati Għarab Magħquda, Hong Kong u l-Istati Uniti. Is-Sur Beane ġab miegħu ħafna esperjenza u entużjażmu li ser jgħinuh biex imexxi l-bank 'il quddiem waqt dawn iż-żminijiet ta' sfida. Għan-nom tagħkhom, u f'isem l-impjegati kollha tagħna, nilqgħuh bi pjaċir u nixtiequlu kull suċċess possibbli.

F'Settembru 2015, konna kollha mnikkta ħafna bl-aħbar tal-mewt tal-predeċessur tiegħi bħala Chairman tal-bank, is-Sur Albert Mizzi. Bertie, kif kien magħruf, serva l-bank għal ħafna snin b'kompetenza, dehen fin-negozju, u professjonaliżmu, miksuba matul bosta snin ta' attività bħala wieħed minn negozjanti ewlenin ta' suċċess f'Malta. It-telfa ta' Bertie ser tinħass minn kulħadd fil-bank, minn għadd kbir fi ħdan il-komunità Maltija, u minn dawk kollha li ħadmu miegħu. Il-kondoljanzi ta' kulħadd fl-HSBC Malta, kif ukoll tagħkom l-azzjonisti, li tant ħadem ghalikom matul tant snin, imorru għall-familja Mizzi.

him, worked with him, or joined him in his countless activities. To Bertie's family go the condolences of all of us at HSBC Malta, as well, I am sure, of all of you the shareholders of the bank for which Bertie strove so much, and for so long.

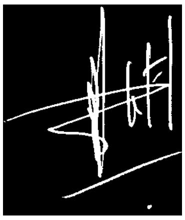
I am truly privileged to be the Chairman of a Board whose members possess a wealth of knowledge and experience, at both the local and international levels. They contribute to the guidance and oversight of the bank, consistently deploying their vast experience and expertise in many different fields. I am also very proud of our highly competent management team, who work diligently, with courage and integrity, in order to ensure that the bank performs well during these unusually challenging times.

Looking ahead

As I look forward, I see more challenges and the need for more transformation for the bank. However, I am encouraged by the knowledge that this bank is blessed with a devoted, competent, experienced, and dedicated group of people, who are among the best this country possesses. As they have invariably done in the past, I have no doubt they will continue in the future, and rise to meet every challenge coming this bank's way. On your behalf I want to express my gratitude to all of them.

My gratitude also goes to you our shareholders, for the continued support and commitment to this bank. We will continue to strive to deliver to you the best results possible.

Finally, I want to thank our clients, who day in and day out, trust and support this bank. They ensure the continued existence of this bank. To them goes my unbounded gratitude, as well as the commitment of the Board, the management team, and all our people, to continue to strive to deliver the best and safest quality of service possible, with integrity, professionalism, and enthusiasm.



Sonny Portelli, *Chairman*
22 February 2016

Għandi l-privileġġ li jiena ċ-Chairman tal-Bord fejn il-membri għandhom għerf siewi u esperjenza vasta fuq livell lokali, kif ukoll internazzjonali. Huma jikkontribwixxu fit-tmexxija u s-sorveljanza tal-bank, u b'mod konsistenti jużaw l-esperjenza tagħhom u l-kompetenza fl-oqsma differenti. Jien ukoll kburi ħafna bil-management tagħna, li jaħdmu b'mod diliġenti, b'kuraġġ u b'integrità, sabiex il-bank jimxi 'l quddiem matul dawn iż-żminijiet ta' sfidi.

Inħarsu 'l quddiem

Meta nħares 'il quddiem, nara aktar sfidi u ħtieġa ta' aktar trasformazzjoni fil-bank. Madankollu, nagħmel kuraġġ għax naf li l-bank għandu grupp ta' nies iddedikati, kompetenti, u b'esperjenza. Kif għamlu fil-passat, m'għandi l-ebda dubju li ser ikompli fil-futur u jilqgħu kull sfida li jistgħu jiffaċċjaw. Għan-nom tagħkom nixtieq nesprimi l-gratitudni tiegħi lejn kull wieħed u waħda minnhom.

Nirringrazzja wkoll lill-azzjonisti tagħna għall-appoġġ u impenn kontinwu lejn il-bank. Aħna nkomplu nirsistu biex nagħtukom l-aħjar riżultati possibbli.

Finalment, nixtieq nirringrazzja lill-klijenti tagħna, li jum wara jum, jibqgħu jagħtuna fiduċja u appoġġ. Huma jiżguraw l-eżistenza kontinwa ta' dan il-bank. Apparti mill-gratitudini tagħna, nassigurahom l-impenn tal-Bord, tal-management, u tal-impjegati kollha tagħna. Aħna ser inkomplu nirsistu biex nagħtu l-aħjar kwalità ta' servizz possibbli b'mod sikur, b'integrità, bi professjonalità u b'entużjażmu.

Chief Executive Officer's Review

In 2015, the operating environment for Eurozone banks remained difficult with record low interest rates and higher operating costs, principally driven by the impact of new regulation. HSBC Malta's underlying profitability was strong and our signature capital strength and conservative risk appetite enabled the bank to perform well in the European Central Bank's regulatory assessment.

Since I became Chief Executive in November 2015, my focus has been on reviewing the bank's strategy and re-focusing the business to restore growth. Our priorities are to better serve our customers in order to grow revenue, to maintain strict cost discipline to reduce the impact of ongoing cost inflation in our industry and to operate to the highest regulatory standards. In 2015, we made significant progress; we took decisive action to reduce costs; took the necessary steps to resolve a long-running industrial dispute which we concluded in early 2016; and made a number of key leadership appointments.

Against this backdrop, our strong balance sheet enabled the bank, with no objection from the regulator, not only to take these decisive actions to improve future profitability but also to increase the dividend pay-out ratio from 55% to 65% so that a greater share of profits is returned to our owners.

Fl-2015, l-ambjent li kellhom joperaw fih il-banek taż-Żona Ewro baqa' diffiċli, bir-rati tal-imgħax jinżlu għal livell rekord u l-ispejjeż tal-operat jogħlew, prinċipalment riżultat tal-impatt ta' regoli ġodda. Il-profittabilità bażika tal-HSBC Malta kienet b'saħħitha. B'kapital qawwi, li hu l-marka tagħna, u b'dispożizzjoni konservattiva għar-riskju, il-bank seta' jġib riżultati tajbin fl-ispezzjonijiet regolatorji tal-Bank Ċentrali Ewropew.

Mindu lħaqt jien Kap Eżekuttiv f'Novembru 2015 ikkonċentrajt l-aktar fuq l-istrateġija tal-bank sabiex nerġa' niddirieġi n-negozju lejn tkabbir mill-ġdid. Il-prijoritajiet tagħna huma li naqdu aħjar lill-klijenti biex inkabbru d-dħul, li nżommu rażan strett fuq l-ispejjeż biex innaqqsu l-effett tal-inflazzjoni fl-industrija tagħna, u li noperaw bl-ogħla standards regolatorji. Fl-2015 għamilna progress ġmielu; ħadna azzjoni deċiżiva biex innaqqsu l-ispejjeż, ħadna l-passi neċessarji biex insolvu tilwima industrijali li kienet ilha għaddejja u għalaqnieha fil-bidu tal-2016, u għamilna numru ta' ħatriet importanti fit-tmexxija.

Fuq dan l-isfond, bis-saħħa tal-karta tal-bilanċ soda tagħna u mingħajr oġġezzjoni tar-regolatur, mhux biss ħadna azzjoni deċiżiva biex intejbu l-profittabilità fil-futur imma wkoll żidna l-proporzjon maħruġ bħala dividend minn 55% għal 65%, biex hekk ikun hemm sehem akbar mill-profitti li jmur lura għand is-sidien.

Performance

HSBC Bank Malta p.l.c. reported a profit before tax of €46.8m for the year ended 31 December 2015. This represents a decline of €5.3m or 10% on the previous year.

Andament

L-HSBC Bank Malta p.l.c. irrapportat profitt qabel it-taxxa ta' €46.8m għas-sena li għalqet fil-31 ta' Diċembru 2015. Dan ifisser tnaqqis ta' €5.3m jew 10% fuq is-sena ta' qabel.

This result was achieved in an environment characterised by unprecedented low levels of interest rates, deflationary pressures and slow growth in the Eurozone and expanded regulatory demands.

On an adjusted basis, excluding the effect of non-recurring expenses for the early voluntary retirement provision, profit before tax was up €9m or 18% on the previous year.

	2015	2014
	€000	€000
Reported profit before tax	**46,772**	52,121
Provision for early voluntary retirement	**14,668**	–
Adjusted profit before tax	**61,440**	52,121

During the year the bank continued to build a sound regulatory capital base. Its common equity Tier 1 capital increased to 12.4% from 10.6% at the end of 2014. At this level, the bank performed strongly against our regulatory capital requirements. As explained in the Chairman's statement, this created a capacity for the bank to increase the dividend payout ratio to 65% of the profit after tax this year, up 10 percentage points from 55% in 2014.

Net interest income was up by 4% to €127m compared with €122.6m in 2014. The dynamics in net interest income were largely impacted by the prevailing low interest rate environment – lending margins on both retail and commercial loan portfolios were under pressure, yields on the investment portfolio declined despite the growing portfolio balance as maturing higher yielding bonds could be replaced only at significantly lower rates. The drop in interest income was offset by the reduction in the cost of funding as deposit rates continued declining and more customers moved to shorter-dated deposits.

Net fee income increased by 2% compared with 2014. The Group earned higher asset management fees in the insurance subsidiary although this was offset by a decrease in the commission income from custody, fund administration and stock brokerage as a result of the bank's strategy to scale down in these areas due to the risk profile they presented.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €8.8m, which is in line with the profit reported in 2014.

A lower gain of €0.7m on the sale of financial investments was reported in 2015 compared to €1.7m in 2014, reflecting limited re-investment opportunities in the environment characterised by low interest rates.

Dan ir-riżultat inkiseb f'ambjent ikkaratterizzat minn rati ta' imgħax li qatt qabel ma kienu daqshekk baxxi, flimkien ma' pressjoni deflazzjonarja u tkabbir kajman fiż-Żona Ewro u obbligi regolatorji aktar wiesgħa.

Meta l-profitt qabel it-taxxa jiġi aġġustat biex jeskludi l-effett tal-ispiża ta' darba għall-provvediment għall-irtirar kmieni volontarju, dan jitla' għal €9m jew 18% aktar mis-sena ta' qabel.

	2015	2014
	€000	€000
Profitt irrapportat qabel it-taxxa	**46,772**	52,121
Provvediment għall-irtirar kmieni volontarju	**14,668**	–
Profitt aġġustat qabel it-taxxa	**61,440**	52,121

Matul is-sena l-bank kompla jibni bażi kapitali soda, u rnexxielu jtella' l-kapital tal-Ewwel Saff għal 12.4% minn 10.6% fl-aħħar tal-2014. B'dan ir-riżultat il-bank qed juri livell ta' kapital aqwa milli mitlub mir-rekwiżiti regolatorji. Kif fisser iċ-Chairman fil-messaġġ tiegħu, dan wassal biex il-bank ikun jista' jżid il-proporzjon tal-ħlas tad-dividend għal 65% tal-profitt wara t-taxxa, titjib ta' 10 punti perċentwali fuq il-55% tal-2014.

Id-dħul nett mill-imgħax tela' b'4% għal €127m imqabbel mal-€122.6m tal-2014. Id-dinamika fid-dħul nett mill-imgħax kienet milquta bil-kbir mill-ambjent prevalenti tar-rati baxxi tal-imgħax – il-marġni fir-rati tas-self, sew fil-portafoll ta' self kummerċjali kemm personali, kienu taħt pressjoni, u r-rendità fuq il-portafolji tal-investiment tbaxxiet minkejja li l-bilanċ fil-portafoll żdied, minħabba li l-kapital tal-bonds b'rati għoljin li kienu qed jimmaturaw seta' jiġi investit biss b'rati ħafna aktar baxxi. Il-waqgħa fid-dħul mill-imgħax kienet kompensata bi tnaqqis fl-ispejjeż tal-finanzjament, peress li r-rati għad-depożiti baqgħu neżlin u l-klijenti marru aktar għal depożiti ta' terminu qasir.

Id-dħul nett minn drittijiet għal servizzi żdied bi 2% imqabbel mal-2014. Il-Grupp qala' aktar fi drittijiet tal-immaniġġjar tal-assi fis-sussidjarja tal-assigurazzjoni għalkemm dan tpatta bi tnaqqis fil-kummissjoni li daħlet għal servizzi ta' kustodja, amministrazzjoni ta' fondi u stock brokerage. Dan ġara riżultat tal-istrateġija tal-bank li jirriduċi l-ħidma f'dawn l-oqsma minħabba l-profil riskjuż li għandhom.

L-HSBC Life Assurance (Malta) Limited irrapportat profitt qabel it-taxxa ta' €8.8m, li jsegwi l-profitt irrapportat fl-2014.

Fil-bejgħ tal-investimenti finanzjarji ġie rrapportat qligħ ta' €0.7m fl-2015 li hu inqas mill-€1.7m tal-2014. Dan jirrifletti l-opportunitajiet limitati ta' ri-investiment f'ambjent ikkaratterizzat b'rati baxxi ta' mgħax.

The Maltese economy is poised to continue its growth streak in the coming years.

Operating expenses of €118.8m were €20.2m or 20% higher compared with the previous year. The early voluntary retirement programme launched at the end of the year under review, as part of the bank's efforts to improve productivity and cost effectiveness, was the main driver for the increase in 2015 costs.

Excluding this one-off investment that is expected to yield sustainable savings in future years, operating expenses were up 6% compared with 2014. Underlying expenses increased due to additional compliance and regulatory costs associated with further strengthening of the compliance function and new regulatory obligations – contribution to the Single Resolution Fund and new supervisory fees of the Single Supervisory Mechanism established in the end of 2014. Furthermore, the increased cost of outsourced services as a result of currency fluctuations and new services related to the transferred insurance portfolio affected 2015 costs.

The adjusted cost efficiency ratio, that compares normalised operating expenses to net operating income, was at 59% compared with 57% in 2014.

Loan impairment charges were €10.8m compared to €22.5m in 2014. In line with last year, the Board maintained a cautious approach to provisioning for non-performing loans. In particular, in 2015 a decision was taken to set aside impairment provision for retail exposures which have been non-performing for a certain number of years. These exposures are well covered by collateral. The Board felt that it would be prudent to provide for these loans due to the long legal process to repossess collateral. The level of loan impairment

L-ispejjeż tal-operat kienu ta' €118.8m, jiġifieri €20.2m jew 20% ogħla meta mqabbla mas-sena ta' qabel. Il-programm ta' rtirar kmieni volontarju, li tnieda fl-aħħar tas-sena li qed nitkellmu fuqha bħala parti mill-isforz tal-bank biex itejjeb il-produttività u l-effettività tal-ispejjeż, kien il-mutur ewlieni li mbotta 'l fuq l-ispejjeż tal-2015.

Jekk inħallu barra dan l-investiment ta' darba, li mistenni jirrendi tifdil sostenibbli fis-snin li ġejjin, l-ispejjeż tal-operat jiġu li telgħu 6% mqabbla mal-2014. L-ispejjeż bażiċi għolew minħabba li żdiedu l-ispejjeż ta' osservanza u dawk regolatorji, li huma assoċjati ma' tisħiħ addizzjonali tal-funzjoni tal-osservanza u ma' obbligi regolatorji ġodda li jinkludu l-kontribuzzjoni għall-Fond Uniku ta' Riżoluzzjoni u d-drittijiet ġodda tal-Mekkaniżmu Uniku ta' Sorveljanza li twaqqaf fl-aħħar tal-2014. Barra minn hekk l-ispejjeż fl-2015 kienu milquta miż-żieda fl-ispiża tas-servizzi mogħtija barra b'kuntratt li rriżultat miċ-ċaqliq fil-kambju, u mill-ispiża ta' servizzi ġodda marbuta mat-trasferiment tal-portafoll tal-assigurazzjoni.

Ir-relazzjoni aġġustata tal-effiċjenza tal-ispejjeż, li tqabbel l-ispejjeż normalizzati tal-operat mad-dħul nett mill-operat, kienet ta' 59% mqabbla ma' 57% fl-2014.

Id-debitu għall-indeboliment fil-kwalità tas-self kien ta' €10.8m mqabbel ma' €22.5m fl-2014. B'konsistenza ma' dak li għamel is-sena ta' qabel, il-Bord żamm ruħu kawt meta ġie biex jipprovdi għal self li ma kienx qed jagħti riżultat. B'mod partikolari, ittieħdet deċiżjoni fl-2015 biex jitwarrab provvediment għall-indeboliment ta' somom ta' self personali li kien ilhom snin ma jirrendu. Dawn is-somom huma koperti tajjeb b'sigurtà

RBWM further enhanced the branch network and opened its International Banking Centre in Sliema to give a specialised service to international clientele.

charges was also affected by a technical change in the accounting methodology for suspended interest in 2015. Instead of reversing the accrued interest related to newly downgraded facilities from the income statement, the bank started recognising additional impairment charges. While the effect of the old and the new methodology on the profit is the same, the new approach results in a higher level of interest income but also higher impairment charges.

Despite the total drawdowns of nearly €550m during 2015, net loans and advances to customers at €3,285m were only 0.35% up on 2014. The higher pace of early repayments observed in the last two years in both the commercial and retail loan books continued in 2015. Supported by government incentives for first time buyers, the mortgage book, the bank's largest lending portfolio, continued to perform well resulting in a net growth of over €60m in 2015. This, however, was offset by the reduction in corporate lending where repayments were higher as a result of the persistent low interest rate environment.

Asset quality improved during 2015 with non-performing exposures at 7% of gross loans compared to 7.7% in 2014. The percentage of tangible security held against the bank's loan portfolio remains high.

Customer accounts continued to grow in the year under review and reached €4,950m, an increase of 1.7% from 31 December 2014. Notably, deposits from retail customers, the most stable funding base, demonstrated robust growth and increased by 6.5%. During 2015, liquidity position of the bank remained solid with an advances-to-deposits ratio of 66.4%.

kollaterali. Il-Bord ħass li jkun prudenti li jipprovdi għal dawn is-somom mislufa minħabba li l-proċess legali biex il-bank jieħu possess tal-kollaterali qed jieħu fit-tul. L-ammont tad-debitu għall-indeboliment tas-self fl-2015 kien milqut ukoll minn bidla teknika fil-metodoloġija tal-kontabilità għall-imgħax sospiż. Minflok ma l-imgħax dovut għar-rigward tas-self indebolit jitreġġa' lura mid-dħul muri fir-rapport tad-dħul, il-bank beda jirrikonoxxih bħala debitu addizzjonali għall-indeboliment. L-effett taż-żewġ metodoloġiji fuq il-profitt huwa l-istess, imma l-metodu l-ġdid juri dħul ogħla mill-imgħax u fl-istess ħin debitu ogħla għall-indeboliment.

Minkejja li nġibdu kważi €550m mill-kontijiet ta' self fl-2015, it-total ta' €3,285m bilanċ nett ta' self lill-klijenti kien biss 0.35% ogħla minn tal-2014. Il-pass aktar mgħaġġel li nnotajna dawn l-aħħar sentejn fil-ħlas lura ta' self sew kummerċjali kemm personali baqa' jippersisti fl-2015. L-inċentivi tal-gvern għal min jixtri l-ewwel dar għenu biex il-portafoll tas-self għall-proprjetà, l-akbar settur ta' self għall-bank, ikompli sejjer tajjeb, b'riżultat ta' tkabbir nett ta' iżjed minn €60m fl-2015. Mill-banda l-oħra kien hemm tnaqqis fis-self lill-kumpaniji fejn il-ħlasijiet lura kienu ogħla, riżultat tar-rati baxxi persistenti tal-imgħaxijiet.

Il-kwalità tal-assi marret għall-aħjar matul l-2015. Is-self li ma jirrendix kien f'livell ta' 8% tas-self gross, imqabbel ma' 8.9% fl-2014. Il-perċentwal ta' sigurtà tanġibbli miżmuma kontra l-portafoll tas-self tal-bank għadu għoli.

The financial investments portfolio increased 4.3% year on year. The bank maintains this portfolio of highly rated instruments well diversified and conservatively positioned.

All three main business lines – Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets – were profitable during the year under review.

Retail Banking and Wealth Management ('RBWM')

The continued low interest rate environment made 2015 a challenging year for the RBWM franchise. Despite these conditions, RBWM achieved a stronger revenue performance year on year. Our customers continued to save and invest their money with HSBC resulting in a further increase in deposits compared to the previous year, confirming the trust and confidence placed in the bank by our depositors.

There was also a continued strong performance in new lending. This was predominantly driven by an outstanding performance in home loans as we have helped well over 2,000 of our customers to buy a home or to make improvements to their current residence.

Throughout the year various product initiatives were launched, most noticeably the ability for customers to open a credit card application fully online, the innovative home loan campaigns, and the effective use of digital marketing.

In 2015, RBWM further enhanced the branch network and opened its International Banking Centre in Sliema to give a specialised one-stop-shop service to our international clientele. We opened two assisted self service branches in Fgura and Buġibba and introduced customer Wifi in all branches.

The HSBC mobile app downloads grew by 54% last year with usage increasing by 40% and we expect increasing adoption of digital services to continue.

Il-kontijiet tal-klijenti komplew jikbru matul is-sena u laħqu €4,950m, żieda ta' 1.7% mill-31 ta' Diċembru 2014. Huwa notevoli li d-depożiti minn klijenti personali, li huma l-aktar sors stabbli ta' fondi, kibru b'mod robust u żdiedu b'6.5%. Matul l-2015, il-likwidità tal-bank baqgħet solida, b'relazzjoni bejn is-self u d-depożiti ta' 66.4%.

Il-portafoll tal-investimenti finanzjarji żdied b'4.3% sena wara sena. Il-bank dejjem jara li dan il-portafoll ta' strumenti kklassifikati b'rata għolja jkun diversifikat u f'pożizzjoni konservattiva.

It-tliet linji ewlenin tan-negozju tal-bank – Retail Banking and Wealth Management, Commercial Banking u Global Banking and Markets – kollha ħallew profitt matul is-sena.

Servizzi Bankarji Personali (RBWM)

Ir-rati baxxi tal-imgħax li baqgħu jiddominaw fl-2015 għamluha sena ta' sfida għax-xogħol tal-RBWM. Minkejja dawn il-kondizzjonijiet, l-RBWM kiseb riżultati ta' dħul aqwa minn tas-sena ta' qabel. Il-klijenti tagħna baqgħu jfaddlu u jinvestu flushom mal-HSBC, bid-depożiti jkomplu jiżdiedu fuq is-sena ta' qabel. Dan jikkonferma r-rabta u l-fiduċja li d-depożitanti għandhom fil-bank.

Kompliet ukoll il-prestazzjoni qawwija fejn jidħol self ġdid. Dan kien imbuttat l-aktar minn attività straordinarja fuq self għad-djar, fejn kienu 'l fuq sew minn 2,000 klijent li rċevew għajnuna mingħandna biex jixtru darhom jew iwettqu alterazzjonijiet fil-post fejn joqogħdu.

Matul is-sena tnedew inizjattivi varji ta' prodotti ġodda. Dawk li jispikkaw fosthom kienu l-faċilità li biha l-klijenti jistgħu jiftħu applikazzjoni għal karta ta' kreditu totalment *online*, il-kampanji innovattivi tas-self għad-djar, u l-użu effettiv tal-*marketing* diġitali.

Fl-2015, l-RBWM kompla jwessa' l-firxa tal-fergħat billi fetaħ l-International Banking Centre f'Tas-Sliema biex ikun jista' jagħti servizz speċjalizzat fuq bażi ta' *one-stop-shop* lill-klijentela internazzjonali. Ftaħna żewġ fergħat *self-service* assistiti fil-Fgura u f'Buġibba u daħħalna l-Wifi għall-klijenti fil-fergħat kollha.

In-numru ta' drabi li tniżżel l-*app* tal-*mobile* tal-HSBC żdied b'54% s-sena l-oħra, u l-użu tiegħu żdied b'40%. Nistennew illi l-użu tas-servizzi diġitali jibqa' jikber b'ritmu mgħaġġel.

The Malta Trade for Growth Fund continued to attract the interest of a range of stakeholders, from businesses to trade organisations.

Commercial Banking ('CMB')

Whilst 2015 was another challenging year CMB improved its profitability compared to the previous year. Despite the increased competition which adversely affected margins, the commercial banking business, increased the level of loan and overdraft approvals, whilst improving the credit profile of our book.

The Malta Trade for Growth (MTFG) II initiative and the €75m Fund launched last June built on the success of the first €50m fund, and has been well-received by a range of stakeholders, from businesses, authorities and local trade organisations. By January 2016, more than half of the fund had already been utilised and the success of MTFG is also reflecting in increased off-balance sheet assets.

During the year we continued to work with key stakeholders on Malta's potential to become a major logistics hub in the centre of the Mediterranean. Malta's strategic location with close proximity to the European and North African markets offers a real opportunity for broad based long-term economic growth.

In 2015, we continued to invest in our people through attendance at local and overseas courses and programmes, as well as hosting international training events in Malta. For customers we organised several thought leadership events such as 'Trade Chart Book – the Power of Corridors' and part sponsored the E&Y Malta Attractiveness Conference. These events are opportunities for the bank to demonstrate its commitment to the Maltese business community and to continue position HSBC Malta as the first choice for international business.

Servizzi Bankarji Kummerċjali (CMB)

Minkejja l-isfida li ġabet is-sena 2015 is-CMB tejjeb il-profittabilità meta kkumparat mas-sena ta' qabel. Għalkemm il-kompetizzjoni kienet aktar ħarxa u kellha effett ħażin fuq il-marġni, is-CMB kellu livell ogħla ta' self approvat, sew fiss kemm kurrenti, u r-reġistru tas-self spiċċa bi profil ta' kreditu aħjar.

L-inizjattiva Malta Trade for Growth (MTFG) II bil-fond ta' €75m li kien varat f'Ġunju li għadda bniet fuq is-suċċess li kellu l-ewwel fond ta' €50m, u ntlaqgħet tajjeb mill-partijiet varji interessati, inklużi n-negozji, l-awtoritajiet u l-organizzazzjonijiet lokali tal-kummerċ. Sa Jannar 2016 diġà kien ittieħed nofs il-fond u s-suċċess tal-MTFG qed ikun rifless ukoll f'żieda fl-assi li ma jidhrux fil-karta tal-bilanċ.

Matul is-sena komplejna naħdmu ma' partijiet ewlenin interessati fil-potenzjal ta' Malta bħala ċentru importanti loġistiku f'nofs il-Mediterran. Il-pożizzjoni strateġika ta' Malta li tinsab qrib sew tas-swieq tal-Ewropa min-naħa u tal-Afrika ta' Fuq min-naħa l-oħra toffri opportunità reali għal tkabbir ekonomiku wiesgħa u fit-tul.

Fl-2015, komplejna ninvestu fin-nies tagħna billi nibagħtuhom fi programmi u korsijiet f'Malta u barra, u billi nospitaw attivitajiet internazzjonali ta' taħriġ f'Malta. Għall-klijenti organizzajna diversi sessjonijiet ta' *thought leadership*, pereżempju it-'Trade Chart Book – the Power of Corridors', u sponsorjajna in parti l-E&Y Malta Attractiveness Conference. Dawn l-avvenimenti huma opportunitajiet fejn il-bank juri l-impenn tiegħu lejn il-komunità kummerċjali Maltija u jkomplu jsaħħu lill-HSBC Malta fil-pożizzjoni tal-ewwel għażla għall-kummerċ internazzjonali.

Global Banking and Markets ('GB&M')

The overall performance of GB&M was down in 2015 due to lower AFS sales and an unprecedented negative interest rate environment. However trading profits were in line with those earned in 2014. Underlying foreign exchange sales remained strong notwithstanding fierce competition and these were helped by the introduction of new digital solutions. Collaboration with CMB remained an important source of revenue as CMB clients benefited from the product expertise of GBM, particularly for foreign exchange and interest rate risk management.

In Balance Sheet Management, which deploys the bank's surplus liquidity, the available-for-sale portfolio is invested in investment grade securities rated BBB+ or higher. This continues to serve the business well and reflects our conservative risk appetite.

HSBC Operations, Services & Technology ('HOST')

In the spirit of finding simpler, better and faster ways of working, HOST restructured its teams to reflect the three principal things we do: running customer operations for the businesses; delivering and managing technology and; providing professional services for the Bank like procurement and real estate management.

The operations team continued to find ways to simplify the way we serve our customers transaction needs better through automation, streamlining and eliminating waste and unnecessary process steps. The migration of paper advices and statements to electronic format continued throughout this year with an aim to move towards a digitised environment. E-statements for mortgages and HSBC Life customers resulted in a reduction of 190,000 paper statements and generated a substantial cost save.

In a bid to promote the use of electronic channels to increase the efficiency of payments and to reduce risk for customers and for the bank, an initiative was launched to eliminate the processing of manual outward payments. With the use of e-channels, volumes of manual payments have diminished significantly with a view of being eliminated completely by mid-2016.

IT has also been involved in a number of systems and infrastructure upgrades to keep up with the latest technologies in line with HSBC Group standards and more cost-efficient solutions, such as multi-function managed print services which improve security while reducing paper costs for printing.

Servizzi Bankarji u Swieq Globali (GB&M)

Il-prestazzjoni ġenerali tal-GB&M marret lura fl-2015 minħabba li kien hemm inqas bejgħ fl-AFS u minħabba l-ambjent negattiv tar-rati tal-imgħax li qatt qabel ma kellna bħalu. Madankollu l-profitti żammew l-istess livell ta' dawk tal-2014. Il-bejgħ tal-kambju baqa' b'saħħtu minkejja l-kompetizzjoni ħarxa, u kienet ukoll ta' għajnuna l-introduzzjoni ta' soluzzjonijiet diġitali ġodda. Il-kollaborazzjoni mas-CMB kompliet tkun għajn importanti ta' dħul, peress li l-klijenti tas-CMB setgħu jibbenefikaw mill-għajnuna tal-GB&M bħala esperti tal-prodotti, speċjalment dwar materji ta' kambju u fl-immaniġġar tar-riskju miċ-ċaqliq fir-rati tal-imgħax.

Fil-ġestjoni tal-karta tal-bilanċ, li tinvolvi l-pjazzament tal-likwidità żejda tal-bank, il-portafoll *available-for-sale* huwa investit f'titoli ta' grad ta' investiment ikklassifikati BBB+ jew ogħla. Din l-istrateġija qed taqdina tajjeb u tirrifletti id-dispożizzjoni konservattiva tagħna lejn ir-riskju.

L-Operazzjonijiet, is-Servizzi u t-Teknoloġija tal-HSBC ('HOST')

Fl-ispirtu ta' simplifikazzjoni u biex jinstabu metodi aħjar u eħfef kif isir ix-xogħol, il-HOST irristruttura d-dipartiment b'mod li jirrifletti t-tliet affarijiet prinċipali li jagħmel: jieħu ħsieb l-operazzjonijiet tal-klijenti għan-negozji tagħna; iwasslilna u jħaddmilna t-teknoloġija; u jipprovdilna servizzi professjonali bħall-akkwist tal-bżonnijiet u l-amministrazzjoni tal-proprjetà.

It-tim tal-Operazzjonijiet komplew isibu modi aktar sempliċi kif naqdu aħjar il-ħtiġijiet tranżazzjonali tal-klijenti b'mezzi awtomatiċi, b'razjonalizzazzjoni, u bit-tnaqqis tal-ħela u l-eliminazzjoni ta' proċessi żejda. Kompliet matul is-sena l-migrazzjoni ta' notifiki u rendikonti fuq il-karta għal forma elettronika bil-għan li nimxu għall-ambjent diġitizzat. Il-ħruġ ta' rendikonti elettroniċi għall-klijenti b'self għad-dar u dawk tal-HSBC Life wassal biex jonqsu 190,000 rendikont fuq il-karta u ġġenera tifdil sostanzjali mill-ispejjeż iffrankati.

Fi sforz biex inħajru l-użu ta' mezzi elettroniċi biex il-pagamenti jsiru b'iżjed effiċjenza u biex jitnaqqas ir-riskju sew għall-klijenti kemm għall-bank, tnediet inizjattiva biex jinqata' l-ipproċessar bl-idejn tal-pagamenti 'l barra. Bl-użu tal-elettronika, il-volum ta' pagamenti manwali naqas sew u l-mira hi li jinqatgħu għal kollox sa nofs l-2016.

In-nies tal-IT kienu mdaħħlin ukoll f'xogħlijiet varji ta' titjib ta' sistemi u ta' infrastruttura biex jaġġornawhom skont l-aktar teknoloġija reċenti konformi mal-istandards tal-Grupp HSBC, u biex idaħħlu soluzzjonijiet ta' nefqa aktar effiċjenti, bħal ma huma s-servizzi ta' stampar multi-funzjonali li jżidu s-sigurtà fl-istampar waqt li jnaqqsu l-ispiża tal-karta.

Our IT and Operations teams were instrumental in implementing various mandatory regulatory upgrades and reporting enhancements to ensure the bank meets regulatory requirements. Malta has been chosen as a pilot site for the implementation of OWS (Oracle Watchlist Screening) which is a Group Standard Technology to enable consistent compliance with Sanctions Regulation. The successful pilot in Malta led to the rollout of the system to other Group members.

Tapping into the HSBC Eco-Efficiency fund and having procured seven electric cars last year, HOST implemented the second phase of Simply Electric programme by installing 483 photovoltaic panels at 10 of our branches and offices. The energy generated by these panels is enough to power up the offsite ATMs network and the fleet of electric vehicles. This project also shows the bank's commitment to operate using more energy efficient sources.

Our people

During 2015 we continued to invest in our people. We launched a number of activities and initiatives to help employees achieve a better work-life balance. We also implemented flexible working and organised well-being events for our people.

In addition we continued to roll out a number of high quality training programmes for all employees, known as 'At our Best', a one day training course, already attended by over 700 members of staff by February 2016. The course supports our people to work more effectively and make better decisions based on HSBC's values. The bank is committed to recognising its people when they have gone the extra mile and held our successful annual Employee Excellence Awards.

During the year we have kept the communication open with our union representatives and worked towards the effective conclusion of the collective agreement negotiations, which was signed in February 2016. We remain a people-focused organisation, with our people dedicated to delivering results and exceeding customer expectations.

It-timijiet fl-IT u fl-Operazzjonijiet kienu strumentali fl-implimentazzjoni ta' diversi tibdiliet ta' aġġornament regolatorju mandatorju u biex jirranġaw ċerti rapporti ħalli nassiguraw li l-bank ikun konformi ma' dak li jitolbu r-regolamenti. Malta ntgħażlet bħala sit pilota għall-implimentazzjoni tal-OWS (Oracle Watchlist Screening) li hi teknoloġija standard tal-Grupp li tgħin biex ir-Regolament dwar is-Sanzjonijiet jiġi mħares b'mod konsistenti. Is-suċċess tal-proġett pilota f'Malta wassal biex is-sistema titqassam għall-użu fost membri oħra tal-Grupp.

B'finanzjament mill-fond tal-Eko-effiċjenza tal-HSBC, u wara li daħħal seba' karozzi elettriċi s-sena l-oħra, il-HOST beda jħaddem it-tieni fażi tal-programm Simply Electric billi installa 483 pannelli fotovoltajċi f'għaxar fergħat u uffiċji. L-enerġija ġġenerata minn dawn il-pannelli hija biżżejjed biex tħaddem l-ATMs kollha li qegħdin *offsite* flimkien mal-flotta ta' karozzi elettriċi. Dan il-proġett juri wkoll kemm il-bank huwa impenjat li jopera b'sorsi li jaħlu inqas enerġija.

In-nies tagħna

Matul l-2015 komplejna ninvestu fin-nies tagħna. Nedejna għadd ta' attivitajiet u inizjattivi biex ngħinu lill-impjegati jilħqu bilanċ tajjeb bejn ix-xogħol u l-ħajja privata. Daħħalna wkoll l-orarju flessibbli u organizzajna attivitajiet ta' rilassament għan-nies tagħna.

Barra minn hekk komplejna għaddejin b'serje ta' programmi ta' taħriġ ta' kwalità għolja għall-impjegati, imsejħa 'At our Best', li hu kors ta' jum li sa Frar 2016 diġà attendewh 'il fuq minn 700 impjegat. Il-kors jgħin lill-ħaddiema jagħmlu xogħolhom b'mod aktar effettiv u jieħdu deċiżjonijiet aħjar ibbażati fuq il-valuri tal-HSBC. Il-bank huwa kommess li jirrikonoxxi meta n-nies tiegħu jagħmlu dak l-isforz żejjed, kif deher meta bħal kull sena sar b'suċċess l-Employee Excellence Awards.

Matul is-sena żammejna miftuħa l-komunikazzjoni mar-rappreżentanti tal-union u ħdimna biex nikkonkludu effettivament in-negozjati għall-ftehim kollettiv, li ġie ffirmat fi Frar 2016. Aħna nibqgħu organizzazzjoni iffokata fuq in-nies, b'impjegati dedikati li jġibu r-riżultati u jeċċedu dak li hu mistenni mill-klijenti.

Executive Committee ('EXCO')

The bank's Executive Committee at the date of this report is made up of the following team members:

Andrew Beane	Chief Executive Officer
Decca Fan	Chief Operating Officer
Rashid Daurov	Chief Financial Officer
Paul Steel	Head of RBWM
Michel Cordina	Head of CMB
Wayne Spiteri	Acting Head of GB&M
Mandy Garner	Head of Human Resources
Joyce Grech	Chief Risk Officer
Anna Camilleri	Head of Internal Audit
Henry Firmstone	General Counsel
Peter G. May	Head of Financial Crime Compliance Transformation
Anthony P. Abela	Head of Regulatory Compliance
Franco Aloisio	Head of Communications

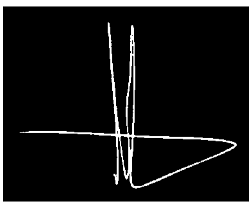
Outlook

While the global economy shows some signs of increased stress, the local outlook remains more favourable and HSBC is open for business. As CEO I am committed to ensure that HSBC facilitates growth in Malta's economy and creates value for our 10,000 local shareholders while continuing to operate to the highest regulatory standards.

We will achieve this by investing in our team of banking professionals in order to raise customer service standards, by using HSBC's unique international network to connect Malta's economy to the global financial system and by sustaining strict cost discipline. Despite the challenges our industry faces, HSBC Malta is in a strong position to navigate these and I am confident about the future.

I am confident in the bank's strategy and I am equally confident that we have the best team to execute it in your interests, our shareholders.

I would like to thank our customers, staff, shareholders, management and our Board of Directors for their support and dedication in 2015.



Andrew Beane, *Chief Executive Officer*
22 February 2016

Il-Kumitat Eżekuttiv ('EXCO')

Il-Kumitat Eżekuttiv tal-bank fid-data ta' dan ir-rapport huwa magħmul minn dawn il-membri:

Andrew Beane	Kap Eżekuttiv
Decca Fan	Kap Operattiv
Rashid Daurov	Kap tal-Finanzi
Paul Steel	Kap tal-RBWM
Michel Cordina	Kap tas-CMB
Wayne Spiteri	Aġent Kap tal-GBM
Mandy Garner	Kap tar-Riżorsi Umani
Joyce Grech	Kap tar-Riskju
Anna Camilleri	Kap tal-Verifika Interna
Henry Firmstone	Kunsill Ġenerali
Peter G. May	Kap tat-Trasformazzjoni għall-Konformità dwar Reati Finanzjarji
Anthony P. Abela	Kap tal-Osservanza Regolatorja
Franco Aloisio	Kap tal-Komunikazzjoni

Ħarsa 'l quddiem

Waqt li l-ekonomija globali qed turi sinjali ta' aktar stress, il-prospettiva lokali għadha tiffavorina u l-HSBC huwa miftuħ għan-negozju. Bħala Kap Eżekuttiv jien impenjat li nara li l-HSBC jkun ta' għajnuna fit-tkabbir tal-ekonomija Maltija u joħloq valur għall-10,000 azzjonist lokali waqt li jżomm l-operat tiegħu fl-ogħla standards regolatorji.

Dan se jirnexxilna nagħmluh billi ninvestu fit-tim tagħna ta' professjonisti bankarji biex ngħollu l-istandards tas-servizz lill-klijenti billi nibqgħu nużaw ix-xibka unika ta' kuntatti internazzjonali li għandu l-HSBC biex inqabbdu l-ekonomija ta' Malta mas-sistema finanzjarja globali; u nibqgħu nsostnu dixxiplina finanzjarja stretta. Minkejja l-isfidi li tiffaċċja l-industrija tagħna, l-HSBC Malta qiegħed f'pożizzjoni soda biex jegħlibhom u jiena fiduċjuż li mmorru tajjeb fil-futur.

Għandi fiduċja fl-istrateġija tal-bank u għandi fiduċja daqstant ieħor li għandna l-aħjar tim li jista' jħaddimha fl-interess tagħkom l-azzjonisti.

Nixtieq ngħid grazzi lill-klijenti, lill-impjegati, lill-azzjonisti, lill-management u lill-Bord tad-Diretturi tagħna għall-appoġġ u d-dedikazzjoni tagħhom fl-2015.

Board of Directors and Company Secretary

Saviour sive Sonny Portelli, NON-EXECUTIVE CHAIRMAN

Appointed Chairman of HSBC Bank Malta p.l.c. on 31 May 2013 after having served as Director on the Board since 9 October 2006. Mr Portelli also has directorships in companies forming part of the Malta University Group. He has a background in tourism, the hospitality industry, telecoms and general management, with significant international experience. In connection with these roles, Mr Portelli served on a number of Boards and trade organisations. His previous roles included being Chairman of the Board and of the Executive Committee of GO p.l.c., Executive Chairman of Air Malta p.l.c., Director of Forthnet SA (Greece), and Chairman of the Malta Council for Economic and Social Development. Mr Portelli is also former Chairman of the bank's Audit and Risk Committee and is presently Chairman of the bank's Remuneration and Nomination Committee.

Andrew Beane, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer in November 2015, and appointed Director, subject to regulatory approval. Prior to taking up his appointment in Malta, Mr Beane was Chief of Staff to the CEO of HSBC Europe, Middle East and Africa in which capacity he served as a member of the Executive and Risk Committees of HSBC Bank plc. He is also a Non-executive Director of HSBC Bank Armenia. Mr Beane has been with the HSBC Group since 2002 and his previous roles include assignments in the United Kingdom, Malta, United Arab Emirates, Hong Kong and the United States, principally in the areas of Commercial Banking and Strategy & Planning.

Tanuj Kapilashrami, NON-EXECUTIVE DIRECTOR

Appointed Director, subject to regulatory approval.

Group General Manager and Head of Human Resources (HR), HSBC Europe, Middle East, Africa and International Management since January 2014. Worked across multiple markets in HSBC in a variety of HR roles including inter alia Head of HR India, Group Head Learning and Development and Regional Head of HR, Middle East and North Africa.

Christopher Davies, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 9 May 2014. Chief Executive Officer International, HSBC Bank plc since November 2013. Mr Davies also has directorships in companies forming part of the HSBC Group. Former Deputy Chief Executive Officer and Executive Director, HSBC Bank (China) Company Limited. Prior to moving to China, Mr Davies ran HSBC's Commercial Banking business in North America, following a series of senior appointments across all of HSBC's major business lines, principally in the UK and the Americas.

Philip Farrugia Randon, NON-EXECUTIVE DIRECTOR

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 posts of Company Secretary and of Head of Group Legal Department of the bank for several years. Retired from the bank in May 2008. Member of the bank's Audit and Risk Committees and former member of the bank's Remuneration and Nomination Committee.

John Bonello, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 15 July 2013. Chairman of the bank's Audit Committee and member of the bank's Risk Committee and former Chairman of the bank's Remuneration and Nomination Committee. He is a Chartered Accountant and a Certified Public Accountant and holds one other directorship in a private company. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired in December 2009. Member of the Joint Disciplinary Board of the Accountancy Board and Fellow of the Malta Institute of Accountants. Also contact member in Malta for the Institute of Chartered Accountants in England and Wales.

Caroline Zammit Testaferrata Moroni Viani, NON-EXECUTIVE DIRECTOR

Non-Executive Director of the bank since 18 April 2013. Holds various directorships and executive positions within the Mercury Group of companies (Mercury p.l.c. being the ultimate parent company) whose main investments range from hotels and leisure oriented commercial properties to a high end business centre and portfolio investments held by a group company which is registered on the Malta Stock Exchange as a Collective Investment Scheme. A former director of HSBC Life Assurance (Malta) Limited and former member of the MTA. Currently member of the Bank's Remuneration and Nomination Committee.

Andrew Muscat, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 16 January 2014. Partner at Mamo TCV Advocates where he heads the Corporate & Banking Department. Professor at the Faculty of Laws of the University of Malta. Professor Muscat also has two directorships in two different groups of companies and two other directorships in other companies. Former Director of Mid-Med Bank p.l.c. and also former member of the Board of Governors of the Malta Financial Services Authority. Presently member of the Bank's Remuneration and Nomination Committee.

Juanito A. Camilleri, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 5 September 2014. Chairman of the bank's Risk Committee and member of the bank's Audit Committee. Holds the post of Rector (Vice-Chancellor) of the University of Malta since July 2006. Former CEO of Mobisle Communications Ltd (GO Mobile) and of Melita Cable p.l.c. Presently Chairman of the Malta University Group of Companies, Chairman of the Centre for Entrepreneurship and Business Incubation, and Chairman of PTL International. He also has directorships in two other companies.

George Brancaleone, COMPANY SECRETARY

Company Secretary of HSBC Bank Malta p.l.c. since June 2004. Joined the bank in 1980, graduated LL.D. in 1988 and read a MA Degree in Contemporary European Studies (Sussex University 1993). Company Secretary of various HSBC subsidiaries in Malta since 2001. Registered office 116, Archbishop Street, Valletta. Tel: 2380 2404.

Executive Committee

Andrew Beane, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer in November 2015, and appointed Director, subject to regulatory approval. Prior to taking up his appointment in Malta, Mr Beane was Chief of Staff to the CEO of HSBC Europe, Middle East and Africa in which capacity he served as a member of the Executive and Risk Committees of HSBC Bank plc. He is also a Non-executive Director of HSBC Bank Armenia. Mr Beane has been with the HSBC Group since 2002 and his previous roles include assignments in the United Kingdom, Malta, United Arab Emirates, Hong Kong and the United States, principally in the areas of Commercial Banking and Strategy & Planning.

Decca Fan, CHIEF OPERATING OFFICER

Decca Fan was appointed as Chief Operating Officer for HSBC Bank Malta p.l.c. on 1 March 2014. She has been with the HSBC Group for over 27 years, having worked in Retail Banking and Wealth Management in Hong Kong, as Head of Operations at the Shanghai Processing Centre, Head of Operations at the Group Service Centre in Malaysia and recently as Managing Director of Group Service Centre in Sri Lanka before moving to Malta.

Rashid Daurov, CHIEF FINANCIAL OFFICER

Appointed Chief Financial Officer on 29 November 2014. Holds an MSc degree in Management from University of Bristol, UK and is a Certified Public Accountant (US). Mr Daurov joined HSBC in 2010 and worked as Head of Group Reporting and Planning in Kazakhstan and most recently as Chief Financial Officer for HSBC Kazakhstan. Prior to HSBC, Mr Daurov worked in audit and financial advisory with Ernst and Young and Deloitte.

Paul Steel, HEAD OF RBWM

Appointed in the current role in October 2011. Previously the Head of Retail Distribution for Continental Europe, based out of Paris, managing countries such as Russia, Kazakhstan, Poland, France and Turkey. Prior to this, he was Deputy Head of Retail Banking and Wealth Management in France as well as Head of Network. Mr Steel has been with HSBC for 9 years.

Michel Cordina, HEAD OF CMB

Appointed Head of Commercial Banking on 1 June 2011. Prior to taking up this appointment, Mr Cordina was Deputy Head of CMB. Mr Cordina is a banking professional and has over 31 years experience with HSBC. He has worked in the United Kingdom as the Head of Sales Performance for CMB, in the branch network in Malta for both retail and commercial banking and in a number of Head Office departments, where he was Deputy Head of Operations and Head of Business Transformation.

Wayne Spiteri, ACTING HEAD OF GB&M

Appointed Acting Head of Global Banking and Markets on 1 October 2015. Mr Spiteri joined HSBC in London 2008 where he worked in Global Markets, initially in Product Control and subsequently in the Global Markets Management Office. In 2012 he returned to Malta to manage GBM Treasury Services and subsequently moved to the GBM Business Management and Development. Prior to joining HSBC Mr Spiteri held a number of senior positions at Societe Generale Corporate, Investment Bank and Deloitte. Mr Spiteri holds a number of qualifications including BA (Hons) Accountancy from the University of Malta and is a Fellow of the Malta Institute of Accountants.

Mandy Garner, HEAD OF HUMAN RESOURCES

With 22 years of experience in human resources, Ms Mandy Garner moved to Malta in July 2013 from HSBC in Jersey Channel Islands, where she supported the expat business and took a lead role on all HR issues across the Channel Islands and Isle of Man. Ms Garner previously worked for Santander and the UK National Health Service and was educated in the UK, holding an MA in Law and Employee Relations and is also a Member of the Institute of Personnel and Development.

Joyce Grech, CHIEF RISK OFFICER

Appointed Chief Risk Officer in April 2013. Ms Grech has worked with HSBC for 19 years. During her career, Ms Grech has undertaken a number of roles, principally in Malta. Ms Grech started her career in Trade Finance and Commercial Banking before moving to the bank's Credit department where she spent over five years, the last three of which she was the Deputy Head of Credit. Before taking up her role as Chief Risk Officer she worked in the bank's Retail Banking and Wealth Management division where she headed the Customer Value Management department.

Anna Camilleri, HEAD OF INTERNAL AUDIT

Appointed as Head of Internal Audit on 16 November 2015. Prior to joining the bank Ms Camilleri held the post of Senior Manager – Governance, Risk & Compliance Services at PricewaterhouseCoopers. Ms Camilleri is a fellow of the Association of Chartered Certified Accountants, holds a Maltese Practising Certificate in Auditing and is a retired Information Systems and Controls specialist. She has a strong auditing background and has managed numerous complex internal audit and business process re-engineering assignments both in Malta and internationally.

Henry Firmstone, GENERAL COUNSEL

Appointed General Counsel on 1 June 2013. Prior to taking up his appointment in Malta, Mr Firmstone was General Counsel for HSBC New Zealand for 10 years including five years as Head of Compliance. He has also worked for HSBC in Hong Kong and Barclays Bank in London. Mr Firmstone has been a lawyer for 27 years.

Peter G. May, HEAD OF FINANCIAL CRIME COMPLAINCE TRANSFORMATION

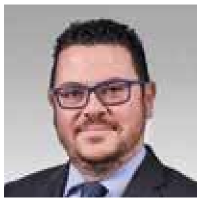
Appointed in the current role in November 2015. Mr May joined Midland Bank in 1997 and has worked in Retail Banking, Securities Services, Operations, Global Banking and Markets and Asset Management in both Relationship Management and Risk roles. Since 2008, Mr May has held Regional Risk roles in Asia Pacific, Europe and Latin America and was based in Vietnam for two years as Head of Wholesale and Market Risk. Prior to joining HSBC Bank Malta p.l.c., Mr May was the Global Head of Operational Risk for the Trade and Receivables Finance business, based in London.

Anthony P. Abela, HEAD OF REGULATORY COMPLIANCE

Appointed as Head of Regulatory Compliance for HSBC Bank Malta p.l.c. in March 2014. With 20 years experience in banking and financial services at HSBC, Mr Abela held senior management positions in fund management, securities services, internal audit and compliance. He holds a bachelor's degree in economics and psychology, and a master's degree in business administration.

Franco Aloisio, HEAD OF COMMUNICATIONS

With close to 20 years of experience in communications, marketing, media and market research, Mr Franco Aloisio joined HSBC Malta in 2011 as Head of Communications responsible for the bank's internal and external relations, as well as supporting the bank's investor relations activities. Mr Aloisio previously worked with GO p.l.c. and its mobile arm – GO Mobile. He also worked with Global Capital plc and, in his early part of his career, Mr Aloisio was a senior journalist with The Malta Business Weekly and The Malta Independent on Sunday. He holds a BA Hons. degree in Sociology.



Results for 2015

HSBC Bank Malta p.l.c. (the 'bank') and its subsidiaries (collectively referred to as the 'local group') reported a profit before tax of €46.8m for the year under review. The local group's profit attributable to shareholders was €29.5m.

A gross interim ordinary dividend of 5.1 cent per share was paid on 10 September 2015. The Directors have proposed a gross final dividend of 2.6 cent per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 16 March 2016.

Further information about the results of the local group is provided in the income statement and the statement of comprehensive income on pages 45 and 46 respectively.

Principal activities

Principal activities of HSBC Bank Malta p.l.c.

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

The bank is authorised to carry on the business of banking, under the Banking Act, 1994 as a credit institution. It is also 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 investment services to third parties and custodian services for collective investment schemes respectively.

The local group comprised the following subsidiaries at 31 December 2015: HSBC Life Assurance (Malta) Limited, HSBC Global Asset Management (Malta) Limited, HSBC Stockbrokers (Malta) Limited and HSBC Insurance Management Services (Europe) Limited. HSBC Stockbrokers (Malta) Limited is undergoing a voluntary winding up process.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Limited is authorised by the Malta Financial Services Authority to carry on business of insurance in Malta under the Insurance Business Act, 1998. It offers a range of protection and investment life assurance products distributed mainly through HSBC Bank Malta p.l.c. which is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Limited under the Insurance Intermediaries Act, 2006.

HSBC Insurance Management Services (Europe) Limited is authorised by the Malta Financial Services Authority to act as an insurance manager and provides operational support to HSBC Life Assurance (Malta) Limited.

HSBC Global Asset Management (Malta) Limited is the investment solutions provider of the HSBC Group in Malta. It manages an array of funds which have exposure to both Maltese and international financial markets. HSBC Global Asset Management (Malta) Limited specialises in the provision of tailor-made discretionary portfolio management services for institutions and family offices.

Additional regulatory disclosures

Banking Rule 07 (Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994) partly repealed by certain provisions in Regulation (EU) No 575/2013 (CRR) is related to market discipline and aims to make credit institutions more transparent by requiring them to publish specific disclosures on the credit institution's risk and capital management under the Basel III framework. However the local group is considered as a significant subsidiary of HSBC Holdings plc and therefore exempt, in terms of Article 24 of the revised BR 07 and Article 13 of CRR, from certain risk disclosure requirements under Pillar 3, on the basis that such disclosures are required at the consolidated level which is HSBC Holdings plc level. HSBC Holdings plc publishes full Pillar 3 disclosures as a separate document on the Group Investor Relations website.

Shareholder register information pursuant to Listing Rule 5.64

The bank's authorised share capital is €141,000,000. The issued and fully paid up capital is €108,091,829.70 divided into 360,306,099 Ordinary shares of a nominal value of 30 cent each. The issued share capital consists of one class of ordinary shares with equal voting rights attached and are freely transferable.

The largest single shareholder of the bank, provided it holds at least thirty three per cent (33%) of the ordinary issued share capital of the bank, shall be entitled to appoint the Chairman from amongst the Directors appointed or elected to the Board.

Every shareholder owning eleven per cent (11%) of the ordinary issued share capital, shall be entitled to appoint one Director for each and every eleven per cent (11%) of the ordinary issued share capital of the bank owned by such shareholder. Any fractional shareholding not so utilised in the appointment of Director(s) shall be entitled to participate in the voting for the election of further Directors.

There is a Restricted Share Awards scheme in existence whereby employees in the GCB3 grade and higher can be awarded shares in HSBC Holdings plc. Share awards will be released to the individual staggered over three years, provided the participant remains continuously employed within the Group. Vesting of these awards are generally not subject to performance conditions. During the 3-year period the employee has no voting rights whatsoever.

The rules governing the appointment of Board members are contained in Articles 77 to 80 of the bank's Articles of Association. An extraordinary resolution approved by the shareholders in the general meeting is required to amend the Articles of Association.

The powers of the Directors are outlined in Articles 73, 74 and 85 of the bank's Articles of Association. In terms of Article 12 of the said Articles of Association, the bank may, subject to the provisions of the Companies Act, 1995, acquire or hold any of its shares.

The Collective Agreement regulates redundancies, early retirement, resignation or termination of employment of employees. There are no contracts between the bank and the Directors on the bank's Board providing for compensation on resignation or termination of directorship.

It is hereby declared that the requirements pursuant to Listing Rules 5.64.7 and 5.64.10 that deal with agreements pertaining to changes in control of the bank did not apply to the bank as at 31 December 2015.

Shareholder register information

Directors' interest in the share capital of the bank at 31 December 2015 was as follows:

Saviour sive Sonny Portelli	5,804 shares
Philip Farrugia Randon	7,903 shares
John Bonello	40,742 shares

Mrs Caroline Zammit Testaferrata Moroni Viani has a beneficial interest of 72,594 ordinary shares in the bank through the shareholding of Testaferrata Moroni Viani (Holdings) Limited, 49,384 ordinary shares through the shareholding of Testaferrata Moroni Viani Limited and 6,174 ordinary shares through the shareholding of Sales and Letting Limited.

None of the shares in the bank's subsidiary companies were held by directors.

There were no changes to Directors' interest from 31 December 2015 to 31 January 2016.

Shareholders holding five per cent (5%) or more of the equity capital at 31 January 2016:

HSBC Europe B.V.	70.03%

Number of shareholders at 31 January 2016:

One class of shares (All shares have equal voting rights)	9,996 shareholders

Number of shareholders analysed by range

	31 January 2016	
Range of shareholding	Total shareholders	Shares
1 – 500	1,532	473,191
501 – 1,000	1,284	968,172
1,001 – 5,000	4,200	10,599,035
5,001 and over	2,980	348,265,701
Total shareholding	9,996	360,306,099

Standard licence conditions applicable under the Investment Services Act, 1994

In accordance with SLC 7.35 of the Investment Services Rules for Investment Services Providers regulated by the Malta Financial Services Authority, licence holders are required to include breaches of standard licence conditions applicable under the Investment Services Act, 1994, in the Report of the Directors. Accordingly, the Directors confirm that no breaches of the standard licence conditions and no other breach of regulatory requirements under the Investment Services Act, 1994, which were subject to administrative penalty or regulatory sanction, were reported.

Board of Directors

The Directors who served during the year and up till the date of this report are as follows:

Saviour sive Sonny Portelli
Mark Watkinson (resigned on 20 November 2015)
Brian Robertson (resigned on 10 December 2015)
Philip Farrugia Randon
Caroline Zammit Testaferrata Moroni Viani
John Bonello
Andrew Muscat
Christopher Davies
Juanito Camilleri

Executive Committee

As at 31 December 2015, the bank's Executive Committee of the local group was composed of the following:

Andrew Beane	Chief Executive Officer
Decca Fan	Chief Operating Officer
Rashid Daurov	Chief Financial Officer
Paul Steel	Head of RBWM
Michel Cordina	Head of CMB
Wayne Spiteri	Acting Head of GB&M
Mandy Garner	Head of Human Resources
Joyce Grech	Chief Risk Officer
Anna Camilleri	Head of Internal Audit
Henry Firmstone	General Counsel
Peter G. May	Head of Financial Crime Complaince Transformation
Anthony P. Abela	Head of Regulatory Compliance
Franco Aloisio	Head of Communications

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the bank and the local group and a resolution proposing their reappointment will be put at the forthcoming Annual General Meeting.

Going concern

As required by Listing Rule 5.62, upon due consideration of the bank's profitability and statement of financial position, capital adequacy and solvency, the Directors confirm the bank's ability to continue operating as a going concern for the foreseeable future.

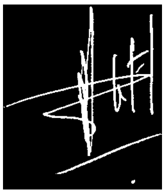
Statement by the Directors pursuant to Listing Rule 5.70.1

Pursuant to Listing Rule 5.70.1 there were no material contracts to which the bank, or anyone of its subsidiary undertakings, was party to and in which anyone of the Directors was directly or indirectly interested.

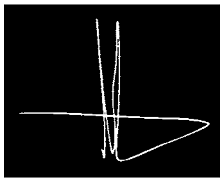
Statement by the Directors pursuant to Listing Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank and its subsidiaries and that this report includes a fair review of the development and performance of the business and the position of the bank and its subsidiaries, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board on 22 February 2016 by:



Sonny Portelli, *Chairman*



Andrew Beane, *Chief Executive Officer*

Directors' Responsibilities Statement

The Companies Act, 1995 requires the Directors of HSBC Bank Malta p.l.c. to prepare financial statements which give a true and fair view of the financial position of the local group and the bank as at the end of each period and of the profit or loss for that period. In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with the requirements of International Financial Reporting Standards as adopted by the EU;
- ensuring that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994;
- selecting and applying consistently suitable accounting policies;
- making accounting judgments and estimates that are reasonable; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the local group and the bank will continue in business as a going concern.

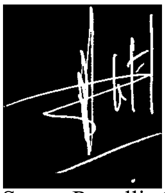
The Directors also assume responsibility for publishing Additional Regulatory Disclosure prepared in accordance with Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 07 (Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994) and Regulation (EU) No 575/2013 (Capital Requirements Regulation). The local group is exempt from full regulatory disclosure requirements on the basis that such disclosures are required on a consolidated basis at the level of HSBC Holdings plc.

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

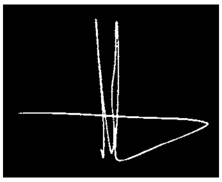
Through oversight of management, the Directors are responsible for ensuring that the bank and the local group establish and maintain internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and as far as possible, the orderly and efficient conduct of the local group's business. This responsibility includes establishing and maintaining controls pertaining to the preparation of financial statements and for managing risks that may give rise to material misstatements in those financial statements, whether due to fraud or error.

The financial statements of HSBC Bank Malta p.l.c. for the year ended 31 December 2015 are included in the Annual Report 2015, which is being published in printed form and made available on the bank's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Signed on behalf of the Board of Directors by:



Sonny Portelli, *Chairman*



Andrew Beane, *Chief Executive Officer*

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

The Board of Directors (the 'Board') of HSBC Bank Malta p.l.c. is committed to the HSBC global values of dependability, openness to different ideas and cultures, and connection with customers, communities, regulators and each other. The Board ensures that each employee, through ongoing training, is aware of the obligation to ensure that his or her conduct consistently matches the bank values so as to serve positively the customers who entrust their financial needs to HSBC.

The Board is proud of the fact that the bank and its subsidiaries (the 'local group') has a solid corporate governance framework that is built around the principles of control and accountability. This culture stems from a philosophy that puts the protection of investors and the interest of customers at the forefront.

Corporate governance is subject to regulation by the Malta Financial Services Authority Listing Rules. As a company whose equity securities are listed on a regulated market, HSBC Bank Malta p.l.c. endeavours to adopt the Code of Principles of Good Corporate Governance (the 'Code' or 'Principles') embodied in Appendix 5.1 to Chapter 5 of the Listing Rules.

In terms of Listing Rule 5.94, the bank is obliged to disclose compliance and non-compliance with the provisions of the said Code. The bank strives to maintain the highest standards of disclosure in reporting the effective measures adopted to ensure compliance with the Principles, and to explain the instances of non-compliance.

Compliance with the Code

Principle 1: The Board

The bank is headed by an effective Board that leads and controls the business. The Board is composed of members who are honest, competent and solvent, and thus fit and proper to direct the business of the bank. Directors, individually and collectively, are of the appropriate calibre, having the necessary skills and experience to provide leadership, integrity and judgement in directing the bank. The courageous integrity, honesty and diligence of the Directors guarantee that the bank adheres to HSBC Group's (the 'Group') highly ethical business values and this is reflected in the bank's decision and policy-making process. Through their effective contribution Directors enhance shareholders value, protect the bank's assets and safeguard the interest of third parties.

Board members are accountable for their performance and that of their delegates to shareholders and relevant stakeholders. Besides having a broad knowledge of the bank's business they are also conversant with the statutory and regulatory requirements regulating this business.

The Board determines the bank's strategic aims and organisational structures and regularly reviews management performance. It ensures that the bank has the appropriate financial and human resources to meet its objectives. Moreover, it exercises prudent and effective controls which enable risk to be assessed and managed in order to achieve the short and long-term sustainability of the business.

During the year the Board delegated specific responsibilities to a number of committees, namely the Audit and Risk Committee, the Remuneration and Nomination Committee and the Executive Committee. Further detail in relation to the committees and their responsibilities can be found under principle 4 of this statement.

The process of appointment of Directors is conducted in terms of the Memorandum and Articles of Association of the company which state that the Board is to consist 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 bank) is entitled to appoint a Chairman from amongst the Directors appointed or elected to the Board.

Principle 2: Chairman and Chief Executive Officer

The position of the Chairman and that of the Chief Executive Officer are occupied by different individuals. There is a clear division of responsibilities between the running of the Board and the Chief Executive Officer's responsibility in managing the bank's business. This separation of roles of the Chairman and Chief Executive Officer avoids concentration of authority and power in one individual and differentiates leadership of the Board from the running of the business.

The Chairman exercises independent judgement even though he is appointed by the majority shareholder. He leads the Board, sets the agenda and ensures that the Directors receive precise, timely and objective information and at the same time ensures effective communication with shareholders. During Board meetings, he encourages active engagement by all Board members for the discussion of complex and contentious issues and ensures that Directors constructively challenge senior management.

The Chief Executive Officer develops, drives and delivers performance within strategic goals, commercial objectives and business plans agreed by the Board. He effectively leads the senior management in the day-to-day running of the bank, ensures compliance with appropriate policies and procedures and maintains an effective framework of internal controls over risk in relation to the business. He is also responsible for the recruitment and appointment of senior management, after consultation with the Remuneration and Nomination Committee.

Principle 3: Composition of the Board

Experience has shown that the size of the Board is appropriate to ensure the effective management and oversight over the bank's operations. For the major part of the year the Board was composed of nine Directors. As noted under Principle 5, late in 2015 two Directors appointed by the majority shareholder resigned. At year end their proposed replacements were still awaiting regulatory approval. Each of the Directors is skilful, competent, knowledgeable and experienced to fulfil one's role diligently. The Directors who held office during the year possess the requisite ability to assess business risk and to identify key performance indicators.

In terms of the Board Diversity Policy, board appointments are based on merit and potential board members are considered against objective criteria, having due regard for the benefits of diversity on the Board.

As at 31 December 2015 the Board was composed of a non-executive Chairman and six non-executive Directors, five of whom are deemed to be independent. The non-executive Directors bring an external perspective to the Board when they constructively challenge and help develop proposals on strategy, scrutinise the performance of management, and monitor the risk profile and the reporting of performance.

In accordance with the Code Provision 3.2, the independent non-executive Directors as at 31 December 2015 were the following:

Sonny Portelli
Philip Farrugia Randon
Caroline Zammit Testaferrata Moroni Viani
John Bonello
Andrew Muscat
Juanito Camilleri

In determining the independence or otherwise of its Directors, the Board has considered, inter alia, the principles relating to independence embodied in the Code, the local group's own practice as well as general principles of good practice.

The Board has determined that the fact that:

- Mr Portelli, Dr Farrugia Randon and Professor Muscat are appointed by the majority shareholder;
- the law firm of which Professor Muscat is a partner, provides legal services to the bank; and
- Mrs Zammit Testaferrata Moroni Viani has directorships in a number of companies which form part of a group of companies which has a business relationship with the bank;

does not in any way impair these Directors' ability to consider appropriately the issues which are brought before the Board. On the other hand, in accordance with Code Provision 3.2.1, the Board believes that Chris Davies' employment with the Group renders this director non-independent from the bank. This should not however, in any manner, detract from the non-independent Directors' ability to maintain independence of free judgement and character at all times.

In terms of Principle 3.4, each non-executive Director has confirmed in writing to the Board that he/she undertook:

a. to maintain in all circumstances his/her independence of analysis, decision and action;
b. not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
c. to clearly express his/her opposition in the event that he/she finds that a decision of the Board may harm the bank.

Principle 4: The Responsibilities of the Board

The Board develops the bank's strategy, policies and business plans. During 2015, two board meetings were held with strategy review and development being their main agenda item. The Board of Directors monitors effectively the implementation of strategy and policy by management within the parameters of all relevant laws, regulations and codes of best practice. The Board ensures that a balance is maintained between enterprise and control.

The evaluation of management's implementation of corporate strategy and financial obligations is based on the use of key performance indicators enabling the bank to adopt expedient corrective measures. These key business risk and performance indicators are benchmarked against industry norms so as to ensure that the bank's performance is effectively evaluated.

The Board ensures that the bank has appropriate policies and procedures in place that guarantee that the bank and its employees adhere to the highest standards of corporate conduct and comply with the applicable laws, regulations, business and ethical standards.

The Board ensures that its level of power is known by all Directors and the senior management of the bank. Any delegation of responsibility and functions is clearly documented in the Terms of Reference (TOR) embodied in the corporate governance framework.

The Board delegates specific responsibilities to Committees, which operate under their respective formal TOR:

Audit and Risk Committee

The TOR of this Committee are modelled on the recommendations in the Cadbury Report, the UK Walker Review, and are compliant with the Listing Rules.

The Committee protects the interests of the bank's shareholders. As the name of the Committee suggests, this Committee has a dual function: that of audit and that of risk. This Committee has non-executive responsibility for oversight of, and advice to, the Board on matters relating to financial reporting. From a risk aspect, this Committee is responsible for advising the Board on high level risk related matters. In providing such oversight and advice to the Board, the Committee shall oversee: current and forward looking risk exposures, the bank's risk's appetite and future risk strategy, including capital and liquidity management strategy, and management of risk within the bank.

The Audit and Risk Committee scrutinises and approves related party transactions. It considers the materiality and the nature of the related party transactions carried out by the bank to ensure that the arms' length principle is adhered to at all times.

The Committee met six times during 2015. The members of the Audit and Risk Committee were Mr John Bonello (Chairman), Dr Philip Farrugia Randon LL.D. and Mrs Caroline Zammit Testaferrata Moroni Viani who was substituted by Professor Juanito Camilleri.

Attendance at the meetings of this Committee was as follows:

Members	*Attended*
John Bonello	6 out of 6
Philip Farrugia Randon	5 out of 6
Caroline Zammit Testaferrata Moroni Viani	2 out of 2
Juanito Camilleri	4 out of 4

Senior Managers of the bank are invited to attend any of the meetings as directed by the Committee. The Chief Executive Officer, the Chief Risk Officer, the Chief Finance Officer and representatives of the external auditors are invited to attend the meetings. In line with Listing Rule 5.131, the Head of Internal Audit is always present for its meetings and has a right of direct access to the Chairman of the Committee at all times.

Mr Bonello was appointed by the Board as the Director who is independent and competent in accounting and/or auditing in terms of Listing Rule 5.117 on the basis that he is a Fellow of the Institute of Chartered Accountants in England and Wales and is also a Certified Public Accountant, Auditor and Fellow of the Malta Institute of Accountants. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired in 2009.

In terms of Listing Rule 5.127.7, the Audit and Risk Committee is responsible for developing and implementing policy on the engagement of the external auditor to supply non-audit services. Since HSBC Holdings plc is a Securities Exchange Commission (SEC) registered company, non-audit services provided by the external auditor are regulated in terms of the SEC rules.

With effect from 1 January 2016 this Committee was split into two separate Committees: the Audit Committee and the Risk Committee. The Audit Committee is chaired by Mr John Bonello, with Dr Philip Farrugia Randon and Professor Juanito Camilleri as members. The Risk Committee is chaired by Professor Juanito Camilleri, with Dr Philip Farrugia Randon and Mr John Bonello as members.

Remuneration and Nomination Committee (REMNOM Committee)
The remuneration aspect of this Committee is dealt with under the Remuneration Report, which also includes the Remuneration Statement in terms of Code Provision 8.A.4.

In its nomination function, the Committee is primarily tasked with identifying and nominating new Board and Board Committees' candidates for the approval of the Board and to periodically assess the structure, size, composition and performance of the Board and make recommendations to the Board with regard to any changes. It is also tasked with considering issues related to succession planning and reviewing the policy of the Board for selection and appointment of senior management. This Committee is also responsible to periodically assess the skills, knowledge and experience of individual directors and report on this to the Board.

Executive Committee (EXCO)
EXCO meets on a monthly basis to oversee the overall day-to-day management of the bank in accordance with such policies and directions as the Board may from time to time determine. The Chief Executive Officer chairs this Committee which is composed of the Chief Operating Officer together with the senior management of the bank. EXCO is empowered by its TOR to sub-delegate its powers to sub-committees:

- **The Risk Management Committee**
  This Committee meets on a monthly basis and is chaired by the Chief Risk Officer, with the Chief Executive Officer as alternate chairman. Membership also includes the Chief Operating Officer, the Chief Financial Officer, the Head of Retail Banking and Wealth Management, the Head of Commercial Banking, the Head of Global Banking and Markets, the Head of Wholesale and Markets Risk, the Head of Internal Audit, General Counsel, Head of Regulatory Compliance and Head of Financial Crime Compliance. Other regular attendees are the Head of Credit Risk Management, Analytics and Systems, the Head of Security and Fraud Risk, Senior Manager Assurance and Oversight and Head of Communications.

  The objective of this Committee is to exercise oversight of the risk/reward framework for the bank and its subsidiaries.

  This Committee is responsible for all risks in all businesses, functions and subsidiaries under the ownership of HSBC Bank Malta p.l.c., including inter alia Credit Risk, Market Risk, Operational Risk, Concentration Risk, Legal and Regulatory Risk, Security and Fraud Risk and Reputational Risk. The Risk Management Committee is also responsible for the setting and monitoring of a Risk Appetite Framework for EXCO and Board approval, signing off on material credit risk models, and consideration of top and emerging risks and scenario analysis. Individual risk acceptance and approval is not within the TOR of the Committee, and continues to be approved under existing delegated authorities within the management structure of the bank.

  Minutes of meetings of this Committee are circulated to the members of the Board. The Chief Risk Officer is also invited to attend Board meetings and meetings of the Audit and Risk Committee in which representations are made about the overall risk profile associated with the business including a comprehensive assessment of the bank's management of risk.

- **The Asset and Liability Management Committee (ALCO)**
  ALCO is responsible for managing the balance sheet with a view to achieve efficient allocation and utilisation of all resources.

  This Committee reviews the financial risks of the local group and oversees the prudent management of interest rate risk, liquidity and funding risk, capital, foreign exchange risk, solvency risk, market sector risk and country risk. Furthermore, ALCO monitors the external environment and measures the impact on profitability of factors such as interest rate volatility, market liquidity, exchange rate volatility, monetary and fiscal policies and competitor banks' activity. ALCO monitors the capital adequacy making use of capital forecasts to ensure that enough capital is readily available at all times to meet the demand arising from business expansion and regulation. ALCO monitors and reviews the duration and cash flow matching of insurance assets and liabilities.

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: commercial banking, retail banking and wealth management, global banking and markets, finance, insurance services, asset and liability capital management, customer value management and payments and cash management. ALCO, which is chaired by the Chief Financial Officer and deputised by the Chief Operating Officer, meets once a month. The Chief Accounting Officer is also a member of this Committee.

- **The Financial Crime Compliance EXCO (FCC EXCO)**
  This Committee was established in order to provide on-going oversight, management and communication of Financial Crime Compliance (FCC) risks, issues and changes impacting the business lines. FCC includes Anti-Money Laundering (AML), Sanctions, Anti-Bribery and Corruption.

  The membership of this Committee, which is chaired by the bank's Chief Executive Officer, is composed of all the bank's EXCO team, the Head of Anti Money Laundering / Money Laundering Reporting Officer and the Sanctions and Anti-Bribery and Corruption Lead.

Principle 5: Board Meetings

The Board meets as often and as frequently required to discharge its duties effectively. During the period under review the Board held eight meetings.

The Chairman ensures that all relevant issues are on the agenda and supported by all the available information. The agenda strikes a balance between long-term strategic objectives and short term performance issues. Notice of the dates of Board meetings together with supporting materials are circulated to the Directors well in advance of the meetings.

During the meetings Board members have ample opportunity to discuss issues set on the board agenda, convey their opinions and challenge management. The Chairman facilitates presentation of views pertinent to the relevant issues on the agenda. Moreover, Directors are encouraged to discuss any issue which they deem appropriate.

Minutes are prepared during Board meetings that record faithfully attendance, discussed matters and decisions. These minutes are subsequently circulated to all the Directors as soon as practicable after the meeting.

Besides attending formal Board meetings and Committee meetings of which they form part, Directors attend on frequent and regular basis meetings where their presence is required for the proper discharge of their duties. All the Directors dedicate the necessary time and attention to their duties as Directors of the bank.

Directors' Attendance at Board Meetings:

Members	*Attended*
Saviour sive Sonny Portelli	8 out of 8
Mark Watkinson (resigned on 20/11/2015)	7 out of 7
Christopher Davies	3 out of 8
Brian Robertson (resigned on 10/12/2015)	4 out of 8
Philip Farrugia Randon	7 out of 8
Caroline Zammit Testaferrata Moroni Viani	7 out of 8
John Bonello	8 out of 8
Andrew Muscat	6 out of 8
Juanito Camilleri	8 out of 8

Principle 6: Information and Professional Development

The Board appoints the Chief Executive Officer of the bank upon guidance and recommendation by the HSBC Group and by the REMNOM Committee. The Board, through the REMNOM Committee, is actively involved in the appointment of other members of senior management. In this regard the bank benefits from the vast wealth of competence, talent and experience found across the Group.

Full, formal and tailored induction programmes, with particular emphasis on the systems of risk management and internal controls are arranged for newly appointed Directors. The programmes consist of a series of meetings with senior executives to enable new Directors to familiarise themselves with the bank's strategy, risk appetite, operations and internal controls. Directors also receive comprehensive guidance on Directors' duties and liabilities.

Directors also have access to the advice and services of the Company Secretary who is responsible for adherence to Board procedures as well as for effective information flows within the Board, its Committees and with senior management.

Directors are given opportunities to update and develop their skills and knowledge, through briefings by senior executives and externally-run seminars throughout their directorship. Moreover, Directors have access to independent professional advice, at the bank's expense.

The Chairman of the Board and the Chairman of the Audit and Risk Committee attend on an annual basis the Group Chairman's Non-Executive Directors' Forum and the Audit Committee Chairmen Forum where they are updated on the latest Group's strategy and global financial and economic developments.

As part of succession planning and talent management, the Board and the Chief Executive Officer ensure that the bank implements appropriate schemes to recruit, retain and motivate high quality executive officers. They also encourage members of management to move to the higher ranks within the organisation and seek to maintain high morale amongst the bank's personnel.

Principle 7: Evaluation of the Board Performance

Vide note under Non-Compliance with the Code section.

Principle 8: Committees

The Remuneration and Nomination Committee is covered under Principle 4 and in the Remuneration Report, which also includes the Remuneration Statement in terms of Code provisions 8.A.4.

Principles 9 and 10: Relations with Shareholders, with the Market, and with Institutional Shareholders

The bank maintains on-going communication with its shareholders and the market on its strategy and performance in order to enhance trust and confidence in the bank. During the period under review the bank issued various company announcements and media releases to explain ongoing corporate developments and material events and transactions which have taken place and their impact on the financial position of the bank.

The bank communicates with shareholders in the following ways:

- through the 'Annual Report and Accounts' which is mailed to every shareholder and is available on the bank's website;
- through the publication of company announcements and media releases; and
- at the Annual General Meeting and Extraordinary General Meetings (further detail is provided under the section 'General Meetings').

The bank also holds meetings for stockbrokers, financial intermediaries and the media to explain the salient features of the interim and annual financial results.

The bank maintains an open channel of communication with its shareholders through the Company Secretarial Office and through the Head of Communications.

The Chairman ensures that the views of shareholders are communicated to the Board. Moreover, the Chairmen of the Audit and Risk Committee and the REMNOM Committee are available to answer questions during the Annual General Meeting. The conduct of the meeting is conducive to valid discussion and appropriate decision making.

In terms of the bank's Articles of Association, the Directors shall, on the request of members of the company holding not less than one-tenth of the paid up share capital, proceed duly to convene an Extraordinary General Meeting of the bank.

Principle 11: Conflicts of Interests

Directors are aware that their primary responsibility is always to act in the interest of the bank and its shareholders as a whole, irrespective of who appointed them to the Board. This requires that they avoid conflicts of interest at all times and that their personal interests never take precedence over those of the bank and its shareholders.

In line with HSBC Group best practice, the Board operates a Conflicts Policy. In terms of this policy a Director is to avoid situations in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the bank. This policy stipulates that there is a basic assumption that any position outside the HSBC Group held in the financial services sector will be assumed to be in conflict unless separately approved by the Chairman together with an explanation as to why no conflict would be deemed to exist.

By virtue of the bank's Articles of Association a Director is bound not to vote at a Board meeting on any contract or arrangement or any other proposal in which he has a material interest, either directly or indirectly.

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 advance notices to the Chairman by a Director who intends to deal in the bank's shares has been endorsed by the Board in line with the Principles, the Listing Rules and the internal Code of Dealing.

Principle 12: Corporate Sustainability

HSBC's Corporate Sustainability ('CS') activities take place within the context of the Group wide strategy. Sustainability is core to the way the local group operates and it is recognised that the bank has a responsibility that spreads far wider. In Malta the bank fulfils the Group's CS strategy primarily through the HSBC Malta Foundation (the 'Foundation').

The three pillars of the HSBC Malta Foundation aim to improve the quality of life and education for children, especially those disadvantaged, to promote and work towards a more sustainable environment and to preserve Malta's rich and unique historical heritage.

Voluntary work is highly encouraged and pride is taken in HSBC staff who contribute to the charities and causes that they feel passionate about and are encouraged to take an active role in initiatives supported by the Foundation with an extra day's leave granted for voluntary work. HSBC staff are divided into five teams under the "HSBC Cares" to help to drive our commitment and passion for assisting in the community with the key objective of taking part and broadening the involvement level across the bank. Sustainability and our role as a good corporate citizen remains a core part of HSBC.

In October 2013, The HSBC Malta Water Programme – Catch the Drop Campaign was launched and this will reach every student in Malta and Gozo with the main emphasis on water shortage, water consumption reduction and water harvesting over a three year period. Our employees are at the heart of this campaign with over 500 members of staff volunteering to deliver the information sessions in the various schools. The HSBC Malta Water Programme is aimed at achieving two vital objectives: raising awareness about water conservation among people from all strata of society, and mobilising students through water projects to encourage their development as pro-active citizens for water conservation and environmental sustainability.

The HSBC Water Programme is a five year, US$100m partnership with Earthwatch, WaterAid and WWF, three nongovernment organisations that rank amongst the world's most respected environmental and sustainable development organisations. The programme promotes sustainable water use through education and donations to specific water projects.

A group of six HSBC Malta employees visited Ghana for a week and brought back with them the remarkable tales of remote areas lacking basic amenities such as water and the resilience of the people who face living with such challenges. The HSBC Water Programme has been implementing projects in Ghana since 2012 where it has been working with the global NGO, WaterAid, to improve access to safe water, sanitation and hygiene. The facilities installed were a solar powered mechanised water pump, a biogas system, new toilet blocks and rainwater harvesting tanks. These facilities were installed after HSBC employees in Malta collected €33,000 through various staff fundraising activities held over the past two years, and HSBC Malta matched this sum to reach the total project cost of €66,000.

In November 2015, via the HSBC Malta Foundation, Malta became the first country outside of the UK to introduce one of The Prince's Trust's long-standing educational programmes in its secondary schools. In the UK, The Prince's Trust is dedicated to helping young people, aged 13 to 30, to get into jobs, education and training. The Prince's Trust works in partnership with over 500 schools and centres in the UK and has, so far, transformed more than 87,000 young lives to date. This support for young people has now been extended to Malta. One of its most successful programmes, xl programme, is now available to young people in Malta to help them to develop the skills and confidence they need to reach a positive future, through relevant, engaging and informal learning. The xl programme has initially been introduced in seven schools across Malta and Gozo with the full support of the Minister for Education Evarist Bartolo.

Non-Compliance with the Code

Principle 4 (Code Provision 4.2.7)

Code Provision 4.2.7 recommends 'the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility'. The bank discloses that it never formalised a Board succession policy. However, in practice the REMNOM Committee is actively involved in the board succession, specifically in recommending the appointment of new members and also by evaluating any newly proposed appointees.

Principle 7: Evaluation of the Board Performance

During the year the Board undertook an evaluation of its own performance, the chairman's performance and that of its Committees through a Board Effectiveness Questionnaire modelled on Questionnaire adopted by Group. This process was conducted by the Company Secretary rather than by a Committee chaired by a Non-Executive Director as required by the Code.

No material changes in the governance structures and organisation resulted from this Board evaluation exercise.

Principle 9 (Code Provision 9.2)

This Code Provision recommends the bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. Although the bank does not have such mechanism in place there is ongoing open dialogue between the bank's senior management and the non-executive Directors to ensure that no such conflicts arise.

In terms of Code Provision 9.4 minority shareholders should be allowed to formally present an issue to the Board of Directors. The bank discloses that it does not have a policy in terms of this code provision.

Listing Rule 5.97.4

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 and mitigate 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.

The Group has reviewed the risk management and internal control structure referred to as the 'three lines of defence' to ensure we achieve our commercial aims while meeting regulatory, legal as well as Group requirements. It is a key part of our operational risk management framework.

- First line – The First Line of Defence consists of 'Risk Owners' and 'Control Owners'. The bank's Global business employees are the 'Risk Owners'. They own the risk, set the risk appetite and are accountable for managing the risk associated with their commercial activities. In managing the risk they are responsible to both manage their own controls and work closely with other Control Owners who sit outside of their area. 'Control Owners' exist in global Businesses, global functions and HTS (HSBC Technology Services). They are accountable for the controls required to manage the risk associated with our commercial activities. They are required to monitor and provide an opinion on the effectiveness of the controls relied upon by the Risk Owners to manage their risk(s).

- Second line – The Second Line of Defence consists of 'Risk Stewards' and their teams. It is made up in part (but not exclusively) by leaders within Global Risk and other Global Functions. They set policy, give advice and provide independent challenge. In doing this, they oversee and assess the risk management activities carried out by the First Line. The Risk Stewards set the overall maximum risk appetite for their particular risk type (e.g. financial crime risk, regulatory compliance risk, legal risk, tax risk, accounting risk, people risk, fraud risk) and support the Risk Owners with setting their risk appetite within Group's overall risk appetite.
- Third line – The Third Line of Defence is Global Internal Audit, and it independently assures that the design and operating effectiveness of Group's framework of risk management, governance and internal control are adequate.

The local group's key risk management and internal control procedures include the following:
- Global standards. Functional, operating, financial reporting and certain management reporting standards are established by global function management committees, for application throughout HSBC globally. These are supplemented by operating standards set by functional and local management as required for the type of business and geographical location of each subsidiary.
- Delegation of authority within limits set by the Board. The Board has delegated specific, clear and unequivocal authority to the Chief Executive Officer to manage the day-to-day affairs of the business for which he is accountable within limits set by the Board. Delegation of authority from the Board requires the CEO to maintain appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to the business.
- Risk identification and monitoring. Systems and procedures are in place to identify, control and report on the major risks facing the bank including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability and operational (including accounting, tax, legal, compliance, fiduciary, information, external fraud, internal fraud, political, physical, business continuity, systems operations, project and people risk). Exposure to these risks is monitored by the Risk Management Committee, Asset and Liability Committee and Executive Committee.
- Changes in market conditions/practices. Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the bank to heightened risk of loss or reputational damage. During 2015, attention remained focused on: regulatory developments including the first year of the single Supervisory Mechanism; regulatory commitments and consent orders including the Deferred Prosecution Agreement; challenges to achieving our strategy in a downturn; internet crime and fraud; social media risk; level of change creating operational complexity and heightened execution risk; information security risk.
- IT operations. Centralised functional control is exercised over all IT developments and operations. In order to ensure consistency and benefit from economies of scale Common Group systems are employed for similar business processes wherever practicable.
- Comprehensive annual financial plans are prepared, reviewed and approved by the Board. Results are monitored and progress reports are prepared on a monthly basis to enable comparisons with plan. Financial accounting and management reporting standards have been established.
- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to executive management. In addition, functional management in the bank has been given the responsibility to implement HSBC policies, procedures and standards for business and product lines; finance; legal and regulatory compliance; internal audit; human resources; credit risk; market risk; operational risk; computer systems and operations and property management.
- The Chief Risk Officer is responsible for the management of specific risks within the bank including credit risk in the wholesale and retail portfolios, compliance risks, markets risk and operational risk. Risks are monitored via regular Risk Management Committee meetings and via reporting to the Executive Committee, the Audit and Risk Committee and to the Board.
- Internal Audit. The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Internal Audit function reports to the Board. It provides independent and objective assurance in respect of adequacy of the design and operating effectiveness of the bank's framework of risk management, control and governance processes focusing on the areas of greatest risk to the bank using a risk-based approach. The Head of Internal Audit also reports to the Head of Global Internal Audit in so far as independence and resourcing are concerned.
- Internal Audit recommendations. Executive management is responsible for ensuring that recommendations made by the Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Internal Audit.

- The bank's Compliance Department ensures that the local group maintains the highest standards of corporate conduct including compliance with all the local and international regulatory obligations and HSBC Group ethical standards and regulations.
- Through the Audit and Risk 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.

Listing Rule 5.97.5

The information required by this Listing rule is found in the Directors' Report.

General meetings

The General Meeting is the highest decision making body of the bank. A General Meeting is called by twenty-one days' notice and it is conducted in accordance with the Articles of Association of the bank.

The Annual General Meeting deals with what is termed as 'ordinary business', namely the receiving or adoption of the annual financial statements, the declaration of a dividend, the appointment and remuneration of the Board (which may or may not involve an election), the appointment of the external auditors and the grant of the authority to the Board to fix the external auditors' emoluments. Other business which may be transacted at a General Meeting will be dealt with as Special Business.

All shareholders registered in the shareholders' Register on the record date as defined in the Listing Rules, have the right to attend, participate and vote in the General Meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the General Meeting may request the bank to include items on the agenda of a General Meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the bank at least forty-six days before the date set for the relative General Meeting.

A shareholder who is unable to participate in the General Meeting can appoint a proxy by written or electronic notification to the bank. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the General Meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for that purpose.

Governance

Role of the Remuneration Committee

The bank's Remuneration and Nomination Committee (the Committee) within its remuneration oversight responsibilities is primarily responsible for making recommendations on the reward policy, on fixed and variable pay, and for ensuring their implementation.

The Committee works in conjunction with the HSBC Group Remuneration Committee (the 'Group's Committee'). However it has its own Terms of Reference, which sets out its key responsibilities in relation to HSBC Bank Malta p.l.c.

Membership & Meetings

At the beginning of the year, the Committee was composed of Mr John Bonello as Chairman and Dr Philip Farrugia Randon and Professor Juanito Camilleri as members. During 2015, the members of the Committee stepped down to pursue other roles within the local group, and were replaced by Mr Saviour sive Sonny Portelli as Chairman and Mrs Caroline Zammit Testaferrata Moroni Viani and Professor Andrew Muscat as members.

Four meetings were held by the Committee during 2015 and were attended as follows:

John Bonello	(2 out of 2)
Philip Farrugia Randon	(2 out of 2)
Juanito Camilleri	(2 out of 2)
Saviour sive Sonny Portelli	(2 out of 2)
Caroline Zammit Testaferrata Moroni Viani	(2 out of 2)
Andrew Muscat	(1 out of 2)

During the year, the Chief Executive Officer attended all the Committee's meetings. The Head of HR and the Chief Risk Officer attended some of the meetings of the Committee when deemed appropriate. None of the executives participated in the discussion regarding their own remuneration.

In 2015, the Committee did not engage any external adviser. It will only seek specific legal and/or remuneration advice independently as and when it considers this to be necessary.

Remuneration Strategy and Policy, and the link to Performance and Risk

HSBC Bank Malta p.l.c. remuneration policy

The bank's remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to a long-term career with the HSBC Group in the long-term interests of our shareholders.

In 2014, new regulatory requirements were introduced under the EU's Capital Requirements Directive ('CRD') IV. The consequential changes to the remuneration rules have influenced the bank's remuneration policy, particularly with respect to those employees identified as having a material impact on the bank's risk profile, being termed as Material Risk Takers ('MRTs').

Accordingly, during 2015, the policy was updated to include reference to the remuneration guidelines with respect to Material Risk Takers in terms of the CRDIV and the approach to Performance Management. No material changes to the remuneration policy are being envisaged during 2016.

The bank's reward policy is aligned to Banking Rule 12, the Capital Requirements Directive and the Group's reward strategy.

In determining remuneration levels for 2015, the Committee applied the bank's remuneration strategy and policy, which takes into account the interests of shareholders, HSBC Group and the broader external context.

The Bank's Reward Strategy

The quality and long-term commitment of all employees is fundamental to the bank's success. The bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a long-term career with the bank, and who will perform their role in the long-term interests of the shareholders. HSBC's reward package comprises three key elements:

a. Fixed Pay;
b. Benefits; and
c. Variable Pay.

These elements support the achievement of the bank's objectives through balancing reward for both short-term and long-term sustainable performance. This strategy is designed to reward only success, and aligns employees' remuneration with the bank's risk framework and risk outcomes.

For senior employees, where appropriate, part of their reward is deferred, and thereby subject to malus, that is, it can be cancelled if warranted by events. In order to ensure alignment between what the bank pays its employees and the bank's business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarised in performance scorecards. This assessment also takes into account adherence to the HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is therefore judged not only on what is achieved over the short and long term but also importantly on how it is achieved, as the bank believes the latter contributes to the long-term sustainability of the business.

Structure of Remuneration

The following table shows the purpose and relevant features of each of the three key elements of the HSBC's reward package. For the purposes of the Annual Variable Pay element, Material Risk Takers represent those members of staff whose professional activities have a material impact on the risk profile of the bank.

Description	Purpose, relevant features and link to strategy	Senior management	Non-executive directors
Fixed Pay	Fixed pay reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a fixed pay allowance and/or a pension.		
	Base salary Base salaries are paid in cash on a monthly basis and are benchmarked on an annual basis against relevant comparator groups.	Y	
	Fixed pay allowance This is typically paid in cash on a monthly basis.	Y	
	Pensions These consist of cash allowances in lieu of personal/ occupational pension arrangements of international assignees appointed to Senior Executive position.	Y	
	Non-executive directors' fees These refer to fees payable to non-executive directors and reflect the time commitment and responsibilities required of them. Fees are determined by benchmark against other companies and banks.		Y
Benefits	Benefits take account of local market practice and include the provision of medical insurance, health assessment, life assurance, car lease allowance and tax assistance where appropriate.	Y	

Description	Purpose, relevant features and link to strategy	Senior management	Non-executive directors
Variable Pay – annual incentive	Drives and rewards performance against annual financial and nonfinancial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy and aligns to shareholder interests. Performance targets are set taking into account the economic environment, strategic priorities and risk appetite. Variable pay is delivered in the form of cash and shares. Where variable pay for Material Risk Takers is more than €100,000 or for lower values more than 100% of fixed pay, a minimum of 50% of awards are made in shares. Total awards are subject to deferral and vest over a period of three years or such other period as determined by the Committee, and hence subject to malus or clawback provisions. The award is non-pensionable.	Y	

Variable Pay Funding

Funding of the bank's annual variable pay pool is determined in the context of profitability and affordability. The Committee considers many factors in approving the overall variable pay pool. These include, but are not limited to, the performance of the bank and the performance of the HSBC Group, considered within the context of the bank's risk appetite. The variable pay pool is also shaped by risk considerations and factors that may arise from any local or Group-wide notable events. The commercial requirement to remain competitive in the market is also taken into account.

Performance Measurement and Risk Adjustment

Under the bank's remuneration framework, decisions relating to remuneration of individuals are made based on a combination of: performance against objectives, general individual performance of the role, and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards.

In order to reward genuine performance, individual awards are made on the basis of a risk adjusted view of both financial and non-financial performance. In light of this, the bank has discretion to reduce an employee's current year variable pay to reflect detrimental conduct or involvement in Group-wide notable events or local issues.

The Committee can also seek advice from the Group Remuneration Committee, at the level of HSBC Holdings plc, to reduce or cancel all or part of any unvested deferred award under the applicable malus and clawback provision. Appropriate circumstances include (but are not limited to) conduct detrimental to the business; past performance being materially worse than originally understood; restatement, correction or amendment of any financial statements; or improper or inadequate risk management. The Group Remuneration Committee can also recommend the forfeiture of unvested awards granted in prior years.

Adjustments would generally be made to the current year variable pay before application of malus and clawback is considered. Details of the circumstances where an adjustment, malus and/or clawback will be considered are set out below:

Type of action	Type of variable pay award affected	Circumstances where it may apply (including, but not limited to):
Adjustment	Current year variable pay	• Detrimental conduct or conduct which brings the business into disrepute. • Involvement in Group-wide events resulting in significant operational losses, including events which have caused or have the potential to cause significant harm to HSBC. • Non-compliance with HSBC Values and other mandatory requirements. • For specified individuals, insufficient yearly progress in developing an effective AML and sanctions compliance programme or non-compliance with the DPA and other relevant orders.
Malus	Unvested deferred awards granted in prior years	• Detrimental conduct or conduct which brings the business into disrepute. • Past performance being materially worse than originally reported. • Restatement, correction or amendment of any financial statements. • Improper or inadequate risk management.
Clawback	Vested or paid awards	• Participation in or responsibility for conduct which results in significant losses. • Failing to meet appropriate standards of fitness and propriety. • Reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment. • HSBC or a business unit suffers a material failure of risk management within the context of Group risk management standards, policies and procedures.

Remuneration Policy – Non Executive Directors

Non-executive Directors are not employees and receive a fee for their services as Directors. In addition, it is common practice for non-executive Directors to be reimbursed expenses incurred in performing their role and any related tax. They are not eligible to receive a base salary, fixed pay allowance, benefits, pension or any variable pay.

The fee levels payable reflect the time commitment and responsibilities required of a non-executive Director. Fees are determined by reference to other Maltese companies and comparable entities within the HSBC Group.

The Board reviews each component of the fees periodically to assess whether, individually and in aggregate, they remain competitive and appropriate in light of changes in roles, responsibilities, and/or the time commitment required for the non-executive Directors and to ensure that individuals of the appropriate calibre are retained or can be appointed. The Board may approve changes to the fees within the aggregate amount approved by the shareholders at the Annual General Meeting. The Board may also introduce any new component of fee for non-executive Directors subject to the principles, parameters and other requirements set out in the remuneration policy.

The Director’s fees are approved in aggregate by the shareholders at the Annual General Meeting.

Remuneration amounts – Non Executive Directors

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

	€
Saviour sive Sonny Portelli	44,000
Caroline Zammit Testaferrata Moroni Viani	25,000
Philip Farrugia Randon	31,000
John Bonello	42,000
Andrew Muscat	22,000
Brian Robertson	18,825
Juanito Camilleri	28,000
Total	210,825

Directors who are employed with the bank or with HSBC Group are not paid any fees for their directorship.

Remuneration Policy – Material Risk Takers including Executive Directors and Senior Management

Individuals have been identified as MRTs based on qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 that came into force in June 2014. Amongst others, MRTs include all Executive Committee members, members of the ALCO and the Risk Management Committee as well as staff that have the authority to approve or veto a decision on any credit transaction representing 0.5% of the bank's CET 1 capital.

Standard contracts for Senior Executives and other Material Risk Takers employed locally would generally be indefinite. Normal retirement from the bank would be in line with local legislation. A three month notice period is required for Senior Executives, who would similarly be entitled to a notice of a minimum of three months in the event that the bank terminates the employment on grounds of redundancy.

International assignees appointed to Senior Executive positions are covered by the standard Group contracts policy. The period of notice required to be given to terminate by either party can be up to six months.

For the purposes of information provided hereunder 'Senior Executives'/'Senior Management' shall mean Executive Committee members.

Remuneration amounts – MRTs

The aggregate remuneration expenditure in the table below includes salary and incentives awarded in respect of performance in the year 2015 (including deferred component) and any pension or benefits outside of policy.

	Global business aligned				
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	**Non-global business aligned**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Aggregate remuneration expenditure	2,064	696	817	4,161	7,738

Remuneration – fixed and variable amounts

	2015		
	Senior management	MRTs (non-senior management)	Total
Number of MRTs	16	50	66
	€000	**€000**	**€000**
Fixed Pay			
Cash-based remuneration	2,083	2,627	4,710
Other remuneration			
– Pensions	128	93	221
– Benefits	758	587	1,345
Total fixed pay	2,969	3,307	6,276
Variable pay			
Cash	549	473	1,022
Non-deferred shares	149	32	181
Deferred cash	99	22	121
Deferred shares	116	22	138
Total variable pay	913	549	1,462
Total remuneration	3,882	3,856	7,738

All MRTs are remunerated less than €1 million per annum.

Deferred remuneration

	2015		
	Senior management	MRTs (non-senior management)	Total
	€000	€000	€000
Deferred remuneration at 31 December 2015			
Outstanding, unvested	386	85	471
Awarded during the year	234	46	280
Paid out	325	86	411
Reduced through malus	–	–	–

Deferred remuneration is typically granted through a Restricted Share Awards scheme, whereby MRTs are awarded ordinary shares in HSBC Holdings plc to which the employee will become entitled, generally between one and three years from the date of the award, and normally subject to the individual remaining in employment.

Sign-on and severance payments

During 2015, the bank made a severance payment of €120,000 to 1 beneficiary. No sign-on payments were made during the year.

Payments to past Directors

During 2015, no payments were made to past Directors.

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

Report on the Financial Statements for the year ended 31 December 2015

We have audited the consolidated and stand-alone parent company financial statements of HSBC Bank Malta p.l.c. (together the 'financial statements') on pages 45 to 142 which comprise the consolidated and parent company statements of financial position as at 31 December 2015, and the consolidated and parent company statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more comprehensively in the Directors' Responsibilities Statement for the financial statements on page 26, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Banking Act, 1994 and the Companies Act, 1995, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, 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 on financial statements

In our opinion, the financial statements:

- give a true and fair view of the financial position of the local group and the bank as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Banking Act, 1994 and the Companies Act, 1995.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Banking Act, 1994

In our opinion:

- 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;
- proper books of account have been kept by the bank, so far as appears from our examination of those books;
- the bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

Matters on which we are required to report by exception

We also read other information contained in the Annual Report and considered whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement, the Chief Executive Officer's Review, the Report of the Directors and the Directors' Responsibilities Statement and the Remuneration Report and the additional Regulatory Disclosures. Our responsibilities do not extend to any other information.

We also have responsibilities under:

- The Companies Act, 1995 to report to you if, in our opinion:
  - the information given in the Report of the Directors is not consistent with the financial statements;
  - proper returns adequate for our audit have not been received from branches not visited by us; and
  - if certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- The Listing Rules to review the statement made by the Directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

Report on the Statement of Compliance with the Code of Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the Directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

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

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the bank's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 27 to 36 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

F Axisa

Fabio Axisa (Partner) for and on behalf of

PricewaterhouseCoopers
Registered Auditors
78 Mill Street
Qormi
Malta

22 February 2016

Income Statements for the year ended 31 December 2015

		Group		*Bank*	
		2015	2014	**2015**	2014
	Note	**€000**	€000	**€000**	€000
Interest and similar income					
– on loans and advances, balances with Central Bank of Malta and Treasury Bills	*7*	**134,294**	138,634	**134,601**	138,724
– on debt and other fixed income instruments	*7*	**16,273**	17,155	**15,921**	16,646
Interest expense	*8*	**(23,531)**	(33,227)	**(23,634)**	(33,351)
Net interest income		**127,036**	122,562	**126,888**	122,019
Fee and commission income		**29,072**	28,405	**23,423**	25,583
Fee and commission expense		**(2,509)**	(2,354)	**(1,801)**	(1,688)
Net fee and commission income	*9*	**26,563**	26,051	**21,622**	23,895
Net trading income	*10*	**8,390**	8,785	**8,390**	8,785
Net income from financial instruments designated at fair value attributable to insurance operations		**31,999**	48,642	**–**	–
Net gains on sale of available-for-sale financial investments	*11*	**682**	1,719	**683**	1,719
Dividend income	*12*	**–**	–	**1,231**	20,462
Net insurance premium income	*13*	**55,243**	57,729	**–**	–
Movement in present value of in-force long-term insurance business		**(3,017)**	(11,486)	**–**	–
Net other operating income	*14*	**549**	1,584	**502**	1,689
Total operating income		**247,445**	255,586	**159,316**	178,569
Net insurance claims, benefits paid and movement in liabilities to policyholders	*15*	**(71,090)**	(82,326)	**–**	–
Net operating income before loan impairment charges		**176,355**	173,260	**159,316**	178,569
Loan impairment charges	*16*	**(10,826)**	(22,545)	**(10,826)**	(22,545)
Net operating income		**165,529**	150,715	**148,490**	156,024
Employee compensation and benefits	*17*	**(68,485)**	(51,744)	**(65,267)**	(49,123)
General and administrative expenses		**(43,554)**	(40,298)	**(39,115)**	(37,293)
Depreciation of property, plant and equipment	*32*	**(3,575)**	(3,460)	**(3,567)**	(3,449)
Amortisation of intangible assets	*33*	**(3,143)**	(3,092)	**(3,089)**	(3,036)
Profit before tax	*18*	**46,772**	52,121	**37,452**	63,123
Tax expense	*19*	**(17,292)**	(18,504)	**(13,991)**	(22,741)
Profit for the year		**29,480**	33,617	**23,461**	40,382
Earnings per share	*20*	**8.5c**	9.7c		

The notes on pages 51 to 142 are an integral part of these financial statements.

Statements of Comprehensive Income for the year ended 31 December 2015

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Profit for the year	**29,480**	33,617	**23,461**	40,382
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specified conditions are met:				
Available-for-sale investments:				
– fair value gains	**4,938**	13,656	**5,187**	13,810
– fair value gains reclassified to profit or loss on disposal	**(682)**	(1,719)	**(683)**	(1,719)
– income taxes	**(1,489)**	(4,178)	**(1,576)**	(4,232)
	2,767	7,759	**2,928**	7,859
Items that will not be reclassified subsequently to profit or loss:				
Properties:				
– revaluation	–	(28)	–	(28)
– income taxes determined on the basis applicable to disposals	**1,199**	3	**1,201**	3
	1,199	(25)	**1,201**	(25)
Other comprehensive income for the year, net of tax	**3,966**	7,734	**4,129**	7,834
Total comprehensive income for the year	**33,446**	41,351	**27,590**	48,216

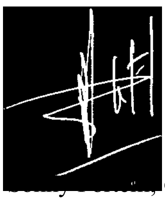
The notes on pages 51 to 142 are an integral part of these financial statements.

Statements of Financial Position at 31 December 2015

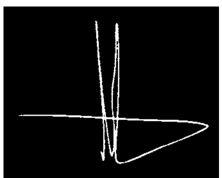
		Group		*Bank*	
		2015	2014	**2015**	2014
	Note	**€000**	€000	**€000**	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*21*	**187,563**	118,033	**187,563**	118,033
Items in the course of collection from other banks		**12,559**	10,990	**12,559**	10,990
Financial assets designated at fair value attributable to insurance operations	*22*	**1,372,484**	1,421,580	**–**	–
Held for trading derivatives	*23*	**11,492**	13,170	**10,897**	13,098
Loans and advances to banks	*24*	**841,411**	875,095	**728,918**	796,257
Loans and advances to customers	*25*	**3,284,615**	3,273,381	**3,292,815**	3,284,881
Available-for-sale financial investments	*26*	**1,203,638**	1,153,884	**1,198,792**	1,137,697
Prepayments and accrued income	*27*	**40,863**	44,730	**31,305**	35,898
Current tax assets		**11,792**	8,833	**2,356**	3,258
Reinsurance assets	*28*	**83,088**	85,337	**–**	–
Non-current assets held for sale	*29*	**11,347**	9,297	**11,347**	9,297
Investments in subsidiaries	*30*	**–**	–	**34,541**	34,541
Investment property	*31*	**15,458**	16,326	**10,876**	11,667
Property, plant and equipment	*32*	**58,559**	59,481	**58,659**	59,573
Intangible assets	*33*	**69,653**	73,971	**7,610**	8,989
Deferred tax assets	*34*	**18,343**	13,612	**18,291**	13,602
Other assets	*35*	**13,959**	21,267	**8,124**	8,946
Total assets		**7,236,824**	7,198,987	**5,614,653**	5,546,727
Liabilities					
Deposits by banks	*36*	**14,286**	59,848	**14,286**	59,848
Customer accounts	*37*	**4,950,257**	4,867,124	**5,028,318**	4,931,485
Held for trading derivatives	*23*	**11,732**	13,870	**11,630**	13,419
Accruals and deferred income	*38*	**30,073**	27,514	**23,898**	26,070
Current tax liabilities		**3,508**	172	**–**	–
Liabilities under investment contracts	*39*	**987,008**	1,030,928	**–**	–
Liabilities under insurance contracts	*40*	**616,657**	592,378	**–**	–
Provisions for liabilities and other charges	*41*	**17,133**	2,417	**16,609**	2,417
Deferred tax liabilities	*34*	**27,950**	28,244	**–**	–
Subordinated liabilities	*42*	**87,363**	87,284	**88,146**	88,093
Other liabilities	*43*	**29,741**	44,103	**26,359**	30,138
Total liabilities		**6,775,708**	6,753,882	**5,209,246**	5,151,470
Equity					
Called up share capital	*44*	**108,092**	97,281	**108,092**	97,281
Revaluation reserve	*45*	**46,476**	42,510	**46,268**	42,139
Retained earnings	*45*	**306,548**	305,314	**251,047**	255,837
Total equity		**461,116**	445,105	**405,407**	395,257
Total liabilities and equity		**7,236,824**	7,198,987	**5,614,653**	5,546,727
Memorandum items					
Contingent liabilities	*46*	**133,771**	133,448	**133,771**	135,151
Commitments	*47*	**1,292,605**	1,291,225	**1,292,802**	1,295,275

The notes on pages 51 to 142 are an integral part of these financial statements.

The financial statements on pages 45 to 142 were approved and authorised for issue by the Board of Directors on 22 February 2016 and signed on its behalf by:



[redacted], *Chairman*



Andrew Beane, *Chief Executive Officer*

Statements of Changes in Equity for the year ended 31 December 2015

	Note	*Share capital* €000	*Revaluation reserve* €000	*Retained earnings* €000	*Total equity* €000
Group					
At 1 January 2015		**97,281**	**42,510**	**305,314**	**445,105**
Profit for the year		–	–	**29,480**	**29,480**
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		–	**3,211**	–	**3,211**
– fair value gains reclassified to profit or loss on disposal, net of tax		–	**(444)**	–	**(444)**
Properties:					
– deferred taxes on reduction determined on the basis applicable to disposals		–	**1,199**	–	**1,199**
Total other comprehensive income		–	**3,966**	–	**3,966**
Total comprehensive income for the year		–	**3,966**	**29,480**	**33,446**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		–	–	**20**	**20**
– dividends	*49*	–	–	**(17,455)**	**(17,455)**
– bonus issue		**10,811**	–	**(10,811)**	–
Total contributions by and distributions to owners		**10,811**	–	**(28,246)**	**(17,435)**
At 31 December 2015		**108,092**	**46,476**	**306,548**	**461,116**
At 1 January 2014		87,552	35,107	300,325	422,984
Profit for the year		–	–	33,617	33,617
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		–	8,877	–	8,877
– fair value gains reclassified to profit or loss on disposal, net of tax		–	(1,118)	–	(1,118)
Properties:					
– transfer of revaluation reserve on disposal, net of tax		–	(331)	331	–
– revaluation of properties, net of tax		–	(25)	–	(25)
Total other comprehensive income		–	7,403	331	7,734
Total comprehensive income for the year		–	7,403	33,948	41,351
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		–	–	119	119
– dividends	*49*	–	–	(19,349)	(19,349)
– bonus issue	*44*	9,729	–	(9,729)	–
Total contributions by and distributions to owners		9,729	–	(28,959)	(19,230)
At 31 December 2014		97,281	42,510	305,314	445,105

The notes on pages 51 to 142 are an integral part of these financial statements.

	Note	Share capital €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
Bank					
At 1 January 2015		**97,281**	**42,139**	**255,837**	**395,257**
Profit for the year		**–**	**–**	**23,461**	**23,461**
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		**–**	**3,372**	**–**	**3,372**
– fair value gains reclassified to profit or loss on disposal, net of tax		**–**	**(444)**	**–**	**(444)**
Properties:					
– deferred taxes on reduction determined on the basis applicable to disposals		**–**	**1,201**	**–**	**1,201**
Total other comprehensive income		**–**	**4,129**	**–**	**4,129**
Total comprehensive income for the year		**–**	**4,129**	**23,461**	**27,590**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		**–**	**–**	**15**	**15**
– dividends	*49*	**–**	**–**	**(17,455)**	**(17,455)**
– bonus issue		**10,811**	**–**	**(10,811)**	**–**
Total contributions by and distributions to owners		**10,811**	**–**	**(28,251)**	**(17,440)**
At 31 December 2015		**108,092**	**46,268**	**251,047**	**405,407**
At 1 January 2014		87,552	34,636	244,094	366,282
Profit for the year		–	–	40,382	40,382
Other comprehensive income					
Available-for-sale investments:					
– fair value gains, net of tax		–	8,977	–	8,977
– fair value gains reclassified to profit or loss on disposal, net of tax		–	(1,118)	–	(1,118)
Properties:					
– transfer of revaluation reserve on disposal, net of tax		–	(331)	331	–
– revaluation of properties, net of tax		–	(25)	–	(25)
Total other comprehensive income		–	7,503	331	7,834
Total comprehensive income for the year		–	7,503	40,713	48,216
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payments		–	–	108	108
– dividends	*49*	–	–	(19,349)	(19,349)
– bonus issue	*44*	9,729	–	(9,729)	–
Total contributions by and distributions to owners		9,729	–	(28,970)	(19,241)
At 31 December 2014		97,281	42,139	255,837	395,257

The notes on pages 51 to 142 are an integral part of these financial statements.

Statements of Cash Flows for the year ended 31 December 2015

		Group		*Bank*	
		2015	2014	**2015**	2014
	Note	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Interest, commission and premium receipts		**243,524**	241,480	**171,969**	172,609
Interest, commission and claims payments		**(173,162)**	(87,678)	**(28,489)**	(37,839)
Payments to employees and suppliers		**(90,812)**	(89,873)	**(85,804)**	(85,113)
Cash flows (used in)/from operating activities before changes in operating assets/liabilities		**(20,450)**	63,929	**57,676**	49,657
Decrease/(increase) in operating assets:					
Financial assets designated at fair value		**108,101**	14,835	**–**	–
Reserve deposit with Central Bank of Malta		**(1,594)**	(3,206)	**(1,594)**	(3,206)
Loans and advances to customers and banks		**(85,835)**	1,262	**(82,779)**	3,870
Treasury Bills		**(51,000)**	44,227	**(51,000)**	44,227
Other receivables		**6,625**	(40,824)	**(1,109)**	(576)
Increase/(decrease) in operating liabilities:					
Customer accounts and deposits by banks		**40,730**	354,261	**55,303**	382,507
Other payables		**(24,699)**	35,343	**(5,468)**	(3,583)
Net cash (used in)/from operating activities before tax		**(28,122)**	469,827	**(28,971)**	472,596
Tax paid		**(25,566)**	(21,529)	**(18,153)**	(20,875)
Net cash (used in)/from operating activities		**(53,688)**	448,298	**(47,124)**	452,021
Cash flows from investing activities					
Dividends received		**–**	–	**–**	14,370
Interest received from financial investments		**54,037**	39,435	**25,223**	23,792
Purchase of other available-for-sale financial investments		**(301,583)**	(413,566)	**(301,614)**	(413,566)
Proceeds on sale and maturity of financial investments		**312,413**	217,133	**300,985**	212,926
Purchase of property, plant and equipment, investment property and intangible assets		**(4,640)**	(5,264)	**(4,585)**	(3,546)
Proceeds on sale of property, plant and equipment and intangible assets		**3**	81	**2**	56
Net cash flows from/(used in) investing activities		**60,230**	(162,181)	**20,011**	(165,968)
Cash flows from financing activities					
Dividends paid		**(17,455)**	(19,349)	**(17,455)**	(19,349)
Net (decrease)/increase in cash and cash equivalents		**(10,913)**	266,768	**(44,568)**	266,704
Cash and cash equivalents at beginning of year		**827,685**	521,411	**748,847**	521,295
Effect of exchange rate changes on cash and cash equivalents		**(23,104)**	(39,152)	**(23,104)**	(39,152)
		793,668	749,027	**681,175**	748,847
Cash balance on portfolio transfer by subsidiary company		**–**	78,658	**–**	–
Cash and cash equivalents at end of year	*50*	**793,668**	827,685	**681,175**	748,847

The notes on pages 51 to 142 are an integral part of these financial statements.

1 Reporting entity

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

The consolidated financial statements of the local group as at and for the year ended 31 December 2015 comprise the bank and its subsidiaries. All amounts have been rounded to the nearest thousand, unless otherwise stated.

2 Basis of preparation

a *Compliance with IFRSs as adopted by the EU*

These consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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

b *Historical cost convention*

These financial statements have been prepared on the historical cost basis, except for the intangible asset reflecting the present value of in-force long-term insurance business, and the following items that are measured at fair value:

– Held for trading derivatives;

– Financial assets designated at fair value through profit or loss;

– Available-for-sale financial investments;

– Property within 'Property, plant and equipment' and 'Investment property'; and

– Liabilities under investment contracts.

c *New and amended standards adopted by the group*

During 2015, the bank adopted a number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements of the local group and the separate financial statements of the bank.

d *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the local group.

IFRS 9 'Financial Instruments'

These principally comprise IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on the local group's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through other comprehensive income. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in an entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

2 Basis of preparation *(continued)*

d *New standards and interpretations not yet adopted (continued)*

Impairment *(continued)*

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date.

The local group is assessing the impact that IFRS 9 will have on the financial statements through a Group-wide project which has been in place, but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationships, it is not possible at this stage to quantify the potential effect.

There are no other standards that are not yet effective and that would be expected to have a material impact on the local group in the current or future reporting periods and on foreseeable future transactions.

e *Functional and presentation currency*

The functional currency of the bank is euro, which is also the presentation currency of the consolidated financial statements of the local group.

f *Critical accounting estimates and judgements*

The preparation of financial information in accordance with the requirements of IFRSs as adopted by the EU requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2015 Financial Statements. Management's selection of the local group's accounting policies which contain critical estimates and judgements is listed below; it reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation uncertainty involved:

– Impairment of loans and advances: Note 3(d)(ii) and Note 16;

– Valuation of financial instruments: Note 5;

– Policyholder claims and benefits: Note 3(n)(ii) and Note 15;

– Present value of in-force long-term assurance business (PVIF): Note 3(n)(iv) and Note 33.

2 Basis of preparation *(continued)*

f *Critical accounting estimates and judgements (continued)*

Further information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment, related to the matters highlighted above, is included in note 57.

In management's view, apart from judgements involving estimations as reflected above, there are no significant or critical judgements made in the process of applying the local group's accounting policies that have a more significant effect on the amounts recognised in the financial statements.

3 Significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

a *Basis of consolidation*

i Consolidation

HSBC Bank Malta p.l.c. controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup. The local group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities. For the local group to have power over an entity, it must have the practical ability to exercise those rights.

Where an entity is governed by voting rights, the group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over the relevant activities or holding the power as agent or principal. The local group may have power over an entity even though it holds less than a majority of the voting rights, if it holds additional rights arising through other contractual arrangements or substantive potential voting rights which give it power.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in profit or loss in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of the local group's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed. On an acquisition-by-acquisition basis, the amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. For acquisitions achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in profit or loss.

Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity owners of the local group and the net impact is reported within equity.

Subsidiaries are fully consolidated from the date on which control is transferred to the local group. They are deconsolidated from the date that control ceases.

ii Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Structured entities often have restricted activities and a narrow and well defined objective.

Structured entities are assessed for consolidation in accordance with the local group's accounting policy set out above.

When assessing whether to consolidate HSBC managed investment funds, the local group reviews all facts and circumstances to determine whether the local group, as fund manager, is acting as agent or principal. The local group may be deemed to be a principal, and hence would control and consolidate the funds, i) when it acts as fund manager and cannot be removed without cause, ii) has variable returns through significant unit holdings and/or a guarantee provided, and iii) is able to influence the returns of the funds by exercising its power.

3 Significant accounting policies *(continued)*

a *Basis of consolidation (continued)*

iii Transactions eliminated on consolidation

All intra-group balances and income and expenses arising from intra-group transactions, are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment of the transferred asset.

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b *Financial assets*

i Initial recognition

The local group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the local group commits to purchase or sell the asset. Accordingly, the local group uses trade date accounting for regular way contracts when recording financial asset transactions.

ii Classification

The local group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the local group as at fair value through profit or loss upon initial recognition.

a Held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and considered effective as hedging instruments.

b Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception. The local group designates financial instruments at fair value when the designation:

– eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial instruments (financial assets or financial liabilities), or recognising gains and losses from related positions, on different bases. Under this criterion, the financial instruments designated by the local group comprise financial assets under unit-linked insurance contracts and unit-linked investment contracts and financial liabilities under unit-linked investment contracts.

  Liabilities to customers under unit-linked contracts are determined based on the fair value of the assets held in the linked funds, with changes recognised in profit or loss. If no fair value designation was made for the assets related to these customer liabilities, the assets would be classified as available-for-sale, with the changes in fair value recorded in other comprehensive income. The related financial assets and financial liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities under investment contracts allows the changes in fair values to be recorded in profit or loss and presented in the same line.

– applies to groups of financial instruments (financial assets, financial liabilities or combinations thereof) that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Certain financial assets held to meet liabilities under non-linked insurance contracts are the main class of financial instruments designated at fair value through profit or loss under this criterion. The local group has documented risk management and investment strategies designed to manage and monitor market risk of those assets on a net basis after considering non-linked liabilities.

3 Significant accounting policies *(continued)*

b *Financial assets (continued)*

ii Classification (continued)

1 Financial assets at fair value through profit or loss (continued)

b Financial instruments designated at fair value through profit or loss *(continued)*

Financial instruments classified within this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Subsequent to initial recognition, changes in fair values are recognised in profit or loss within 'Net income from financial instruments designated at fair value attributable to insurance operations'.

2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

– those that the local group intends to sell immediately or in the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

– those that the local group upon initial recognition designates as available-for-sale; or

– those for which the holders may not recover substantially all of their initial investment, other than because of credit deterioration.

The local group's loans and receivables principally comprise loans and advances to banks and customers. Loans and receivables are recognised when cash is advanced to a borrower or funds placed with a counterparty. They are initially recorded at fair value – which is the case consideration to originate or purchase the loan – plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

3 Available-for-sale financial investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables or financial assets at fair value through profit or loss. Treasury Bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale.

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value, and changes therein are recognised in other comprehensive income until the financial assets are either sold or become impaired. When available-for-sale financial investments are sold, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss as 'Net gains on sale of available-for-sale financial investments'.

Interest income is recognised in profit or loss over the debt asset's expected life using the effective interest method. Premiums and/or discounts arising on the purchase of dated debt securities are included in the interest recognised. Dividends from equity assets are recognised in profit or loss when the right to receive payment is established. Foreign currency gains and losses arising on retranslation of monetary assets classified as available-for-sale are recognised in profit or loss.

Unquoted equity securities, the fair value of which cannot be reliably measured, are carried at cost less impairment.

iii Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired or when the local group has transferred its contractual right to receive the cash flows of the financial assets, and either

– substantially all the risks and rewards of ownership have been transferred; or

– the local group has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

3 Significant accounting policies *(continued)*

c *Derivative financial instruments*

Derivatives are initially recognised and are subsequently re-measured at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Embedded derivatives are bifurcated from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host non-derivative contract, their contractual terms would otherwise meet the definition of a stand-alone derivative and the combined contract is not held for trading or designated at fair value through profit or loss. The bifurcated embedded derivatives are measured at fair value with changes therein recognised in profit or loss.

All the local group's derivative financial instruments are designated as held for trading as they are not designated as hedging instruments in accordance with the requirements of IAS 39.

Accordingly, all gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss. These gains and losses are reported in Net trading income, except where derivatives are managed in conjunction with financial instruments designated at fair value through profit or loss in which case gains and losses are reported in 'Net income/(expense) from financial instruments designated at fair value attributable to insurance operations'.

d *Impairment of financial assets*

i Financial investments: available-for-sale securities

Available-for-sale financial assets are assessed at each reporting date for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in profit or loss, is reclassified from other comprehensive income and recognised in profit or loss as a reclassification adjustment.

In assessing objective evidence of impairment at the reporting date in relation to available-for-sale debt securities, the local group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

The primary indicators of potential impairment are considered to be adverse fair value movements and the disappearance of an active market for a security, while changes in credit ratings are of secondary importance.

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the equity security classified as available-for-sale below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

3 **Significant accounting policies** *(continued)*

d *Impairment of financial assets (continued)*

i Financial investments: available-for-sale securities (continued)

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the type of asset:

– for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in profit or loss when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, or the instrument is no longer impaired, the impairment loss is reversed through profit or loss.

– for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in profit or loss, to the extent that further cumulative impairment losses have been incurred.

ii Loans and receivables

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively, are recorded as charges in profit or loss, and are recorded against the carrying amount of impaired loans through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include:

– the size of the loan;

– the number of loans in the portfolio; and

– the importance of the individual loan relationship, and how this is managed.

Loans that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology.

For all loans that are considered individually significant, the local group considers on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used by the local group to make this assessment include:

– known cash flow difficulties experienced by the borrower;

– contractual payments of either principal or interest being past due for more than 90 days;

– the probability that the borrower will enter bankruptcy or other financial realisation;

– a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and

– there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For loans where objective evidence of impairment exists, impaired losses are determined considering the following factors:

– the local group's aggregate exposure to the customer;

– the viability of the customer's business model and their capability to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;

– the amount and timing of expected receipts and recoveries;

– the likely dividend available on liquidation or bankruptcy;

– the extent of other creditors' commitments ranking ahead of, or pari passu with, the local group and the likelihood of other creditors continuing to support the customer;

3 Significant accounting policies *(continued)*

d *Impairment of financial assets (continued)*

ii Loans and receivables (continued)

Individually assessed loans and advances (continued)

– 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 costs of obtaining and selling collateral as part of foreclosure.

Determination of the realisable value of security is based on the current market value when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions, such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least annually and more regularly when circumstances necessitate review. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances

Impairment is assessed on a collective basis:

– to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and

– for homogeneous groups of loans that are not considered individually significant.

a Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. These credit risk characteristics may include type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the local group has incurred as a result of events occurring before the reporting date, which the local group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses would only be identified individually in the future. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis.

The collective impairment allowance is determined after taking into account:

– historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);

– the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period between a loss occurring and its identification may vary over time as these factors change.

b Homogeneous groups of loans and advances

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

3 Significant accounting policies *(continued)*

d *Impairment of financial assets (continued)*

ii Loans and receivables (continued)

Collectively assessed loans and advances (continued)

– When appropriate empirical information is available, the local group utilises roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of the loans that will eventually be written off as a result of the events occurring before the reporting date but which the group is not able to identify individually. Individual loans are grouped using ranges of past due days; statistical analysis is then used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

– When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the local group adopts a formulaic approach based on historical loss rate experience. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is explicitly estimated by local management.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the reporting date.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The reversal is recognised in profit or loss.

Renegotiated loans

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Any new agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

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e *Financial liabilities*

The local group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The local group's financial liabilities are classified into two categories: i) financial liabilities which are designated at fair value through profit or loss and ii) other liabilities (not at fair value through profit or loss). The criteria for designating financial liabilities at fair value and their measurement are described in Note 3(b)(ii).

Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest rate method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

3 Significant accounting policies *(continued)*

e *Financial liabilities (continued)*

The local group derecognises a financial liability from its statement of financial position when it is extinguished, that is the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally subordinated liabilities, deposits by banks and customer accounts.

f *Reverse repurchase and repurchase agreements*

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the statement of financial position and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell are not recognised on the statement of financial position and the right to receive back the initial consideration paid is recorded in 'Loans and advances to banks' or 'Loans and advances to customers' as appropriate. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement, for loans and advances to banks and customers. Securities lending and borrowing transactions are generally secured against cash or non-cash collateral. Securities lent or borrowed do not normally result in derecognition or recognition on the statement of financial position. Cash collateral advanced or received is recorded as an asset or a liability respectively.

g *Offsetting financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

h *Investments in subsidiaries*

The local group classifies investments in entities which it controls as subsidiaries.

The bank's investments in subsidiaries are stated at cost less impairment losses. Impairment losses recognised in prior periods are reversed through profit or loss if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

i *Intangible assets*

Intangible assets are recognised when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Where intangible assets have a finite useful life, except for 'Present value of in-force long-term insurance business', they are stated at cost less accumulated amortisation and impairment losses.

Intangible assets with finite useful lives, such as purchased computer software, are amortised, on a straight line basis, over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The estimated useful life of purchased software ranges between 3–5 years. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

The accounting policy in respect of the present value of in-force long-term insurance business is reflected within note 3(n)(iv).

j *Property, plant and equipment*

All property, plant and equipment is initially recorded at historical cost, including transaction costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold and long leasehold properties (land and buildings) are subsequently measured at fair value based on periodic valuations by external professionally qualified and independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is subsequently stated at historical cost less accumulated depreciation and impairment losses.

3 Significant accounting policies *(continued)*

j *Property, plant and equipment (continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the local group and the cost of the item can be measured reliably. The carrying amount of any part accounted for separately is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged to other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on all other assets recognised in profit or loss is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– long leaseholds, freehold buildings and improvements 50 years;

– short leaseholds and improvements to rented property over term of lease; and

– equipment, furniture and fittings 3 – 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 3(l)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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k *Investment property*

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

Investment properties are measured initially at historical cost, including transaction costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent to initial recognition, investment properties are stated at fair value, representing open market value determined annually, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the local group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

The fair value of investment properties is based on the nature, location and condition of the specific asset. Fair values are determined by external professionally qualified and independent valuers who apply recognised valuation techniques. Any gain or loss on the disposal of an investment property is recognised in profit or loss. When the use of property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its carrying amount for subsequent accounting.

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l *Impairment of non-financial assets*

The carrying amounts of the local group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash inflows (cash-generating units). An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss, unless the asset is carried at a revalued amount.

3 Significant accounting policies *(continued)*

l *Impairment of non-financial assets (continued)*

The recoverable amount of non-financial assets is the greater of their fair value less cost to sell 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss on non-financial assets 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.

m *Non-current assets held for sale*

Non-current assets are classified as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use, they are available-for-sale in their present condition and their sale is highly probable. Immediately before the initial classification as held for sale, the carrying amount of the assets is measured in accordance with the local group's accounting policies. Non-current assets classified as held for sale are generally measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses for any initial or subsequent write-down of an asset to fair value less costs to sell are recognised in profit or loss. Gains for any subsequent increase in fair value less costs to sell of an asset are recognised only up to the extent of the cumulative impairment loss recognised, and are reflected within profit or loss.

n *Insurance and investment contracts*

Through its insurance subsidiary, the local group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the local 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.

i Net insurance premium income

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

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

ii Net insurance claims, benefits paid and movement in liabilities to policyholders

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. Claims arising during the year include maturities, surrenders and death claims. Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

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

iii Liabilities under insurance contracts

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

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

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

3 Significant accounting policies *(continued)*

n *Insurance and investment contracts (continued)*

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

The value placed on insurance contracts that are classified as long-term insurance business and are in force at the reporting date, is recognised as an asset.

The asset represents the present value of the equity holders' interest in the issuing insurance company's profits expected to emerge from these contracts written at the reporting date. The PVIF is determined by discounting the equity holders' interest in future profits expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Movement in present value of in-force long-term insurance business' on a gross of tax basis.

v Investment contracts

Investment contracts are those contracts where there is no significant insurance risk. A contract under which the local group accepts insignificant insurance risk from another party is not classified as an insurance contract, but is accounted for as a financial liability.

Customer liabilities under unit-linked investment contracts and the linked financial assets are designated at fair value through profit or loss, and the movements in fair value are recognised in profit or loss in 'Net income from financial instruments designated at fair value attributable to insurance operations'. Liabilities under unit-linked investment contracts are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices.

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

Investment management fees receivable are recognised in profit or loss over the period of the provision of the investment management services in 'Net fee and commission income'.

The incremental costs directly related to the acquisition of new investment contracts or renewal of existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

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o *Provisions*

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made. A provision for restructuring is recognised when the local group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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p *Contingent liabilities*

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, as well as contingent liabilities related to legal proceedings or regulatory matters, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the local group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

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q *Financial guarantee contracts*

Financial guarantees are contracts that require the local 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.

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. The initial fair value is amortised over the term of the financial guarantee contract. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

3 Significant accounting policies *(continued)*

r *Interest income and expense*

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the local group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all fees and points paid or received by the local group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

s *Non-interest income*

i Net fee and commission income

Fee income is earned from a diverse range of services provided by the local group to its customers. Fee income is accounted for as follows:

– income earned on the execution of a significant act is recognised as revenue when the act is completed;

– income earned from the provision of services is recognised as revenue as the services are provided; and

– income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

ii Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

iii Net income from financial instruments designated at fair value attributable to insurance operations

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, including liabilities under investment contracts; and

– interest income and expense and dividend income in respect of financial assets and financial liabilities designated at fair value through profit or loss.

t *Employee benefits*

i Contributions to defined contribution pension plan

The local group contributes towards the State defined contribution pension plan in accordance with local legislation in exchange for services rendered by employees and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as an employee benefit in profit or loss in the periods during which services are rendered by employees.

ii Termination benefits

The local group recognises a liability and expense for termination benefits when the local group can no longer withdraw the offer of those benefits. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when the group can no longer withdraw the offer of termination benefits is the earlier of:

1 when the employee accepts the offer; and

2 when a restriction on the group's ability to withdraw the offer takes effect.

3 **Significant accounting policies** *(continued)*

t *Employee benefits (continued)*

ii Termination benefits (continued)

For termination benefits payable as a result of the local group's decision to terminate an employee's employment, the local group can no longer withdraw the offer when it has communicated to the affected employees a plan of termination meeting all of the following criteria:

1 actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

2 the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and the expected completion date; and

3 the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

iii Share-based payments

The local group enters into equity-settled share-based payment arrangements with its employees as compensation for services provided by employees.

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to retained earnings.

Fair value is determined by using appropriate valuation models. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of the award at the date of the award. Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction.

HSBC Holdings is the grantor of its equity instrument for all share awards and share options across the Group. The credit to retained earnings over the vesting period on expensing an award represents the effective capital contribution from HSBC Holdings. To the extent the local group will be, or has been, required to fund a share-based payment arrangement, this capital contribution is reduced and the fair value of shares expected to be released to employees is recorded within liabilities.

u *Operating Leases*

All leases which do not transfer to the lessee substantially all the risks and rewards incidental to the ownership of assets are classified as operating leases. As a lessor, the local group presents assets subject to operating leases within the statement of financial position. Impairment losses are recognised to the extent that the carrying values are not fully recoverable. As a lessee, leased assets are not recognised on the statement of financial position with the exception of long leasehold interests.

Rentals payable and receivable under operating leases are spread on a straight-line basis over the lease periods and are recognised in 'General and administrative expenses' and in 'Net other operating income' respectively.

v *Foreign currencies*

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in profit or loss depending where the gain or loss on the underlying non-monetary item is recognised.

3 Significant accounting policies *(continued)*

w *Income tax*

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the local group intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled based on tax rates and laws enacted, or substantively enacted, by the reporting date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the local group has a legal right to offset.

x *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances, highly liquid investments and deposits with contractual maturity of three months or less. Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition. 'Loans and advances to banks' and 'Deposits by banks' that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the local group's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

y *Segment analysis*

Measurement of segmental assets, liabilities, income and expenses is in accordance with the local group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made.

z *Equity instruments*

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

4 Financial risk management

a *Introduction*

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

The local group is exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on local group financial performance and position.

All of the local group's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks.

An established risk governance framework and ownership structure ensures oversight of and accountability for the effective management of risk. The local group's risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

The local group's risk management framework is designed to provide appropriate risk monitoring and assessment. The bank's Risk Committee (previously the 'Audit and Risk Committee') focuses on risk governance and provides a forward-looking view of risks and their mitigation.

The Risk Committee is a committee of the Board and has responsibility for oversight and advice to the Board on, inter alia, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance.

The Risk Committee maintains and develops a supportive culture in relation to the management of risk, appropriately embedded by executive management through procedures, training and leadership actions.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Head of Compliance, together with other business functions on risks within their respective areas of responsibility.

The most important types of risk include financial risk, which comprises credit risk, market risk and liquidity risk. These categories of risk in relation to life insurance business are described in note 4(e).

b *Credit risk excluding Insurance credit risk which is reported under 4(e)*

i Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance and treasury business, mainly through the holdings of debt securities but also from off-balance sheet products such as guarantees. The local group has standards, policies and procedures dedicated to control and monitor the risk arising from all such activities.

Within the overall framework of the local group policy, the local group has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis which includes the management of adverse trends. Management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentrations by market sector and product.

The bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly.

The principal objectives of the local group's credit risk management are:

– to maintain a strong culture of responsible lending and a robust risk policy and control framework;

– to both partner and challenge global businesses in defining, implementing, and continually re-evaluating risk appetite under actual and scenario conditions; and

– to ensure there is independent, expert scrutiny of credit risks.

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

i Credit risk management (continued)

Within the bank, the credit risk function's responsibilities include:

– formulating credit policy;

– guiding business on appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;

– undertaking an independent review and objective assessment of risk and exposures over designated limits, prior to the facilities being committed to customers or transactions being undertaken;

– monitoring the performance and management of portfolios;

– controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities;

– setting policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the capital base, and remain within internal and regulatory limits;

– maintaining and developing the risk rating framework and systems and overseeing risk rating system governance for both wholesale and retail businesses; and

– reporting on retail portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results.

Special attention is paid to problem exposures in order to accelerate remedial action. The local group uses specialist units to provide customers with support in order to help them avoid default wherever possible.

Internal approval limits are in place depending on the magnitude and particular risks attached to the respective facility. The bank has set limits of authority for the business and the credit risk functions, ensuring segregation of duties so as to maintain independence during the approval process. The local group structures the level of credit risk it undertakes by placing limits in relation to products, counterparties, sectors and other parameters. Certain actual exposures against limits are monitored at end of day and on a real-time basis too.

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees granted, it is the maximum amount that the local group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Balances with Central Bank of Malta and Treasury Bills	**152,256**	86,100	**152,256**	86,100
Items in the course of collection from other banks	**12,559**	10,990	**12,559**	10,990
Held for trading derivatives	**11,492**	13,170	**10,897**	13,098
Loans and advances to banks	**841,411**	875,095	**728,918**	796,257
Loans and advances to customers	**3,284,615**	3,273,381	**3,292,815**	3,284,881
Available-for-sale financial investments	**1,203,638**	1,153,884	**1,198,792**	1,137,697
Other assets	**53,427**	64,360	**38,110**	43,234
Off-balance sheet				
– guarantees and assets pledged as collateral security	**133,771**	133,448	**133,771**	135,151
– undrawn formal standby facilities, credit lines and other commitments to lend	**1,292,605**	1,291,225	**1,292,802**	1,295,275
	6,985,774	6,901,653	**6,860,920**	6,802,683

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

ii Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The local group uses a number of controls and measures to minimise undue concentration of exposure in its portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Available-for-sale financial investments

The local group's holdings of available-for-sale debt securities are spread across a range of issuers in both 2015 and 2014, with the exception of 56% (2014: 50%) invested in local government debt securities.

Derivatives

The bank participates in transactions exposing it to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before completing the satisfactory settlement of the transaction, which varies in value by reference to a market factor such as interest rate or exchange rate. It arises principally from OTC derivatives.

Derivative assets were €11,492,000 at 31 December 2015 (2014: €13,170,000).

Items in the course of collection from other banks

Settlement risk arises in any situation where a payment in cash, securities or equities is made with the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate amount of transactions with each counterparty on any single day.

The local group substantially mitigates settlement risk on many transactions, particularly those involving securities and equities, by settling through assured payment systems, or on a delivery-versus-payment basis.

Loans and advances to customers

The following table analyses the bank's loans and advances by business segment.

	Gross loans and advances to customers	*Gross loans by business segment as a % of total gross loans*	*Gross loans and advances to customers*	*Gross loans by business segment as a % of total gross loans*
	2015	**2015**	2014	2014
	€000	**%**	€000	%
Personal				
– residential mortgages	**1,586,300**	**47.50**	1,524,178	45.75
– other personal lending	**326,778**	**9.79**	346,017	10.39
Corporate and commercial				
– commercial real estate and other property-related	**461,138**	**13.81**	486,389	14.59
– governments	**191,827**	**5.74**	237,450	7.13
– other commercial	**773,464**	**23.16**	737,725	22.14
Total gross loans and advances to customers	**3,339,507**	**100**	3,331,759	100
Impaired loans as a percentage of total	**6.98**		7.68	

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

ii Concentration of credit risk exposure (continued)

Loans and advances to customers (continued)

The amount of gross loans and advances to customers of the local group stood at €3,331,307,000 (2014: €3,320,259,000) at 31 December 2015. The difference of €8,200,000 (2014: €11,500,000) when compared to the amount of the bank's loans and advances to customers, is attributable to a loan which is payable to the bank by HSBC Life Assurance (Malta) Limited.

A detailed sectorial analysis of the bank's loans and advances to customers, before and after taking into account collateral held or other credit enhancements is as follows:

	Gross maximum exposure	*Net maximum exposure*	*Gross maximum exposure*	*Net maximum exposure*
	2015	**2015**	2014	2014
	€000	**€000**	€000	€000
Electricity, gas, water supply and waste management	**165,982**	**97,662**	128,823	17,367
Construction, real estate activities and accommodation	**468,946**	**147,381**	491,349	188,313
Wholesale and retail trade and repairs	**333,239**	**195,036**	354,895	187,196
Services activities	**360,922**	**191,067**	387,185	199,445
Manufacturing, agriculture and fishing	**98,656**	**40,302**	100,817	52,642
Household and individuals	**1,911,762**	**133,834**	1,868,690	145,781
	3,339,507	**805,282**	3,331,759	790,744

iii Credit quality of financial assets

As outlined previously, the local group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss. The credit quality of unimpaired loans is assessed by reference to the local group's standard credit rating system.

The four credit quality classifications below describe the credit quality of the local group's lending, debt securities and derivatives.

– Strong: exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Personal accounts operate within product parameters and only exceptionally show any period of delinquency.

– Medium: exposures require closer monitoring and demonstrate an average to good capacity to meet financial commitments, with low to moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.

– Sub-standard: exposures require varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

– Impaired: exposures have been assessed, individually or collectively as impaired.

As illustrated in the table below, these classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and personal lending business as well as external rating grades, attributed by external agencies to debt securities. There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

Quality classification	*Debt securities and other bills – External credit rating*	*Wholesale and retail lending – Internal credit rating*
Strong	A- and above	CRR 1 to CRR 2
Medium	BBB+ to B and unrated	CRR 3 to CRR 5
Sub-standard	B- and below	CRR 6 to CRR 8
Impaired	Impaired	CRR 9 to CRR 10

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

The Customer Risk Rating ('CRR') 10-grade scale assigned to corporate and personal lending business summarises a more granular underlying CRR scale for these customer segments; this combines obligor and facility/product risk factors in a composite measure.

For debt securities and certain other financial instruments, external ratings have been aligned to the four quality classifications.

Distribution of financial instruments by credit quality

	Performing			*Non-performing*		
	Strong	*Medium*	*Sub-Standard*	*Impaired*	*Impairment Allowances*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2015						
Balances with Central Bank of Malta and Treasury Bills	**152,256**	**–**	**–**	**–**	**–**	**152,256**
Items in the course of collection from other banks	**12,559**	**–**	**–**	**–**	**–**	**12,559**
Held for trading derivatives	**3,803**	**7,094**	**–**	**–**	**–**	**10,897**
Loans and advances to banks	**728,918**	**–**	**–**	**–**	**–**	**728,918**
Loans and advances to customers	**1,003,877**	**1,977,981**	**124,632**	**233,017**	**(46,692)**	**3,292,815**
Available-for-sale financial investments	**522,488**	**676,304**	**–**	**–**	**–**	**1,198,792**
Accrued income	**39,468**	**–**	**–**	**–**	**–**	**39,468**
Other assets	**13,959**	**–**	**–**	**–**	**–**	**13,959**
	2,477,328	**2,661,379**	**124,632**	**233,017**	**(46,692)**	**5,449,664**
As at 31 December 2014						
Balances with Central Bank of Malta and Treasury Bills	86,100	–	–	–	–	86,100
Items in the course of collection from other banks	10,990	–	–	–	–	10,990
Held for trading derivatives	5,205	7,893	–	–	–	13,098
Loans and advances to banks	775,155	21,102	–	–	–	796,257
Loans and advances to customers	1,009,904	1,861,903	203,925	256,027	(46,878)	3,284,881
Available-for-sale financial investments	573,030	564,667	–	–	–	1,137,697
Accrued income	43,093	–	–	–	–	43,093
Other assets	21,267	–	–	–	–	21,267
	2,524,744	2,455,565	203,925	256,027	(46,878)	5,393,383

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

a Past due but not impaired gross loans and advances to customers

Past due but not impaired loans and advances to customers are those loans where although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria described below.

Ageing analysis of days past due but not impaired gross loans and advances to customers:

	2015	2014
	€000	€000
Personal		
Past due by up to 29 days	**37,897**	50,539
Past due by up to 59 days	**9,207**	18,116
Past due by up to 89 days	**6,021**	10,608
Corporate and commercial		
Past due by up to 29 days	**60,965**	12,724
Past due by up to 59 days	**2,645**	10,022
Past due by up to 89 days	**1,466**	4,560
	118,201	106,569

b Impaired loans and advances to customers

Impaired loans and advances are those that are classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the local group.

Impaired loans and advances also include renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the bank would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment.

Impairment allowance on loans and advances to customers by business segment:

	Individually assessed	*Collectively assessed*	*Total*	*Individually assessed*	*Collectively assessed*	*Total*
	2015	**2015**	**2015**	2014	2014	2014
	€000	**€000**	**€000**	€000	€000	€000
Personal	**5,944**	**2,954**	**8,898**	4,902	1,834	6,736
Corporate and commercial	**33,561**	**4,233**	**37,794**	34,430	5,712	40,142
As at 31 December	**39,505**	**7,187**	**46,692**	39,332	7,546	46,878

Renegotiated loans and advances to customers and forbearance

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. The bank classifies and reports loans on which concessions have been granted under conditions of credit distress as 'renegotiated loans' when their contractual payment terms have been modified, because the bank has significant concerns about the borrowers' ability to meet contractual payments when due.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and recognised as a new loan, for accounting purposes. However, newly recognised loans retain the 'renegotiated loans' classification.

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

b Impaired loans and advances to customers (continued)

Renegotiated loans and advances to customers and forbearance (continued)

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and other forms of loan modifications and re-ageing.

The bank's policies and practices are based on criteria which enable management to judge whether repayment is likely to continue. These typically provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations.

For personal lending the bank's credit risk management policy sets out restrictions on the number and frequency of renegotiations, the minimum period an account must have been opened before any renegotiation can be considered and the number of qualifying payments that must be received.

When the bank grants a concession to a customer that the bank would not otherwise consider, as a result of their financial difficulty, this is objective evidence of impairment and impairment losses are measured accordingly. A renegotiated loan is presented as impaired when there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full. Accordingly, where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the renegotiation, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as impaired, unless the concession granted is insignificant. The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Unimpaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is disclosed as renegotiated. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the bank considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

b Impaired loans and advances to customers (continued)

Renegotiated loans and advances to customers and forbearance (continued)

The following tables show the gross carrying amounts of the bank's holdings of renegotiated loans and advances to customers by industry sector and credit quality classification:

	Neither past due nor impaired	*Past due but not impaired*	*Impaired*	*Total*
	€000	**€000**	**€000**	**€000**
At 31 December 2015				
Personal				
– residential mortgages	**–**	**–**	**60,016**	**60,016**
– other personal lending	**1,856**	**224**	**3,668**	**5,748**
Corporate and commercial				
– commercial real estate and other property-related	**1,350**	**841**	**67,104**	**69,295**
– other commercial	**42,351**	**244**	**66,956**	**109,551**
	45,557	**1,309**	**197,744**	**244,610**
% of loans and advances				**7.33**
Total impairment allowances for renegotiated loans				
– individually assessed	**–**	**–**	**24,251**	**24,251**
– collectively assessed	**98**	**3**	**425**	**526**
	98	**3**	**24,676**	**24,777**
Collateral held	**7,356**	**205**	**80,550**	**88,111**
At 31 December 2014				
Personal				
– residential mortgages	25,848	13,921	6,449	46,218
– other personal	3,000	613	5,102	8,715
Corporate and commercial				
– commercial real estate and other property-related	4,062	1,748	60,768	66,578
– other commercial	47,501	3,311	70,826	121,638
	80,411	19,593	143,145	243,149
% of loans and advances				7.30
Total impairment allowances for renegotiated loans				
– individually assessed	–	–	25,143	25,143
– collectively assessed	182	44	324	550
	182	44	25,467	25,693
Collateral held	41,796	17,163	88,327	147,286

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

b Impaired loans and advances to customers (continued)

Renegotiated loans and advances to customers and forbearance (continued)

	2015	*2014*
	€000	€000
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers	**7.34%**	7.20%
Interest income recognised in respect of forborne assets	**3,271**	6,988

Movement in forbearance activity during the year:

	2015	*2014*
	€000	€000
1 January	**243,149**	208,901
Loans renegotiated without derecognition	**81,094**	62,839
Repayments/amounts written off	**(79,633)**	(28,591)
At 31 December	**244,610**	243,149

Impairment of loans and advances to customers

The tables below analyses the loan impairment charges for the year and the impairment allowances recognised for impaired loans and advances that are either individually assessed or collectively assessed, and collectively impairment allowances on loans and advances classified as not impaired.

Movement in impairment allowances accounts for loans and advances to customers

	Individually assessed	*Collectively assessed*	*Individually assessed*	*Collectively assessed*
	2015	**2015**	2014	2014
	€000	**€000**	€000	€000
At 1 January	**39,332**	**7,546**	21,577	13,219
Amounts written off	**(11,223)**	**811**	(8,288)	–
Recoveries of amounts written off in previous years	**3,078**	**–**	508	–
Discount unwind	**(2,893)**	**–**	(2,515)	–
Exchange	**270**	**–**	92	–
Loan impairment charge	**10,941**	**(1,170)**	27,958	(5,673)
At 31 December	**39,505**	**7,187**	39,332	7,546
Personal	**5,944**	**2,954**	4,902	1,834
Corporate and commercial	**33,561**	**4,233**	34,430	5,712
At 31 December	**39,505**	**7,187**	39,332	7,546

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

b Impaired loans and advances to customers (continued)

In 2015, interest income amounting to €2,894,000 (2014: €2,515,000) was recognised in profit or loss on loans for which individually assessed impairment provisions existed.

Loan impairment charge to income statement by business segment.

	Individually assessed	*Collectively assessed*	*Individually assessed*	*Collectively assessed*
	2015	**2015**	2014	2014
	€000	**€000**	€000	€000
New allowance	**35,676**	**2,817**	33,609	352
Release of allowance no longer required	**(21,657)**	**(3,987)**	(5,143)	(6,025)
Recoveries of amounts previously written off	**(3,078)**	**–**	(508)	–
Total loan impairment charge at 31 December	**10,941**	**(1,170)**	27,958	(5,673)
Personal				
– residential mortgages	**2,962**	**(93)**	1,136	–
– other personal lending	**649**	**1,213**	6,326	(5,173)
Corporate and commercial				
– commercial real estate	**1,103**	**1,285**	13,568	376
– other corporate lending	**6,227**	**(3,575)**	6,928	(876)
Total loan impairment charge at 31 December	**10,941**	**(1,170)**	27,958	(5,673)

Collateral and other credit enhancements

It is the local group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

The principal collateral types are as follows:

- In the personal sector, mortgages over residential properties, cash and securities; and
- In the commercial real estate sector, charges over the properties being financed;

The local group is required to implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and determine suitable valuation parameters. Such parameters are expected to be conservative, reviewed regularly and supported by empirical evidence. Security structures and legal covenants are required to be subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

Depending on the customer's standing and the type of product, facilities may be provided unsecured. For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the local group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

The tables below show loans and advances to customers by level of collateral. The collateral measured in the tables below consists of fixed first charges on real estate and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis; no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value.

4 **Financial risk management** *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

b Impaired loans and advances to customers (continued)

Corporate and commercial lending (continued)

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility.

Where collateral assets are shared by multiple loans and advances, the collateral value is pro-rated across the loans and advances protected by the collateral. Other types of collateral which are commonly taken for corporate and commercial lending such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the tables below. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The value of real estate collateral is determined by using a combination of professional and internal valuations and physical inspections. Revaluations are sought with greater frequency as concerns over the performance of the collateral or the direct obligor increase.

Corporate and commercial lending

	2015	2014
	€000	€000
Non-impaired loans and advances (CRR 1 to 8)		
Not collateralised	**517,066**	525,151
Fully collateralised		
– 51% to 75% LTV	**463,657**	465,425
– 76% to 90% LTV	**10,476**	24,664
– 91% to 100% LTV	**145,765**	159,158
	619,898	649,247
Partially collateralised		
– greater than 100% LTV	**124,552**	82,309
– of which:		
collateral value	**67,878**	43,932
Impaired loans and advances (CRR 9 to 10)		
– Not collateralised	**67,160**	87,871
Fully collateralised		
– 51% to 75% LTV	**66,827**	82,537
– 76% to 90% LTV	**2,527**	11,863
– 91% to 100% LTV	**10,922**	2,479
	80,276	96,879
Partially collateralised		
– greater than 100% LTV	**17,477**	20,107
– of which:		
collateral value	**6,534**	10,418
At 31 December	**1,426,429**	1,461,564

4 Financial risk management *(continued)*

b *Credit risk excluding Insurance credit risk which is reported under 4(e) (continued)*

iii Credit quality of financial assets (continued)

b Impaired loans and advances to customers (continued)

Personal lending

	2015	2014
	€000	€000
Non-impaired loans and advances (CRR 1 to 8)		
Not collateralised	**132,263**	133,191
Fully collateralised		
– Less than 50% LTV	**707,495**	738,882
– 51% to 75% LTV	**526,892**	537,648
– 76% to 90% LTV	**386,410**	316,915
– 91% to 100% LTV	**83,871**	79,029
	1,704,668	1,672,474
Partially collateralised		
– greater than 100% LTV	**8,043**	13,360
– of which:		
collateral value	**3,988**	6,712
Impaired loans and advances (CRR 9 to 10)		
– Not collateralised	**3,708**	4,313
Fully collateralised		
– Less than 50% LTV	**29,209**	21,621
– 51% to 75% LTV	**26,694**	18,224
– 76% to 90% LTV	**5,675**	4,205
– 91% to 100% LTV	**1,301**	1,589
	62,879	45,639
Partially collateralised		
– greater than 100% LTV	**1,517**	1,218
– of which:		
collateral value	**845**	715
At 31 December	**1,913,078**	1,870,195

The local group typically does not hold collateral against financial assets designated at fair value, financial investments and loans to banks, and no such collateral was held at 31 December 2015 and 2014.

c Treasury Bills and debt securities

Debt securities and other bills by rating agency (S&P Rating Agency) designation of the local group excluding HSBC Life Assurance (Malta) Limited, are reported in the table below. Information relating to the HSBC Life insurance business is disclosed in note 4(e)ii.

	Treasury Bills	*Debt securities*	*Total*
	€000	**€000**	**€000**
At 31 December 2015			
AAA	**–**	**448,588**	**448,588**
AA- to AA+	**–**	**73,899**	**73,899**
A- to BBB-	**103,998**	**669,208**	**773,206**
	103,998	**1,191,695**	**1,295,693**
At 31 December 2014			
AAA	–	509,039	509,039
AA- to AA+	–	63,991	63,991
A- to BBB-	31,496	564,648	596,144
	31,496	1,137,678	1,169,174

c *Liquidity risk*

Liquidity risk is the risk that the local group does not have sufficient financial resources to meet its financial obligations when they fall due or will have to do so at excessive cost. This risk principally arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

The objective of the local group's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To this end, the local group maintains a diversified and stable funding base. The funding base comprises core personal and corporate customer deposits, wholesale funding and portfolios of highly liquid assets with the objective of enabling the local group to respond quickly and smoothly to unforeseen liquidity requirements.

The bank maintains strong liquidity positions and manages the liquidity profiles of assets, liabilities and commitments with the objective of ensuring that cash flows are balanced appropriately and that all anticipated obligations can be met when due.

The bank employs a number of measures to monitor liquidity risk. The local group also manages its intra-day liquidity positions so that it is able to meet payment and settlement obligations on a timely basis. Expected peak payment flows and large time-critical payments are monitored during the day.

The local group's liquidity and funding management processes include:

– projecting cash flows by major currency under various stress scenarios considering the level of liquid assets necessary in relation thereto;

– monitoring liquidity ratios against internal and regulatory requirements;

– maintaining a diverse range of funding sources with adequate back-up facilities;

– managing the concentration and profile of debt maturities;

– monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and

– maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crisis while minimising adverse long-term implications for the business.

Primary sources of funding

Customer deposits in the form of current accounts and savings deposits payable on demand or at short notice form a significant part of the local group's funding, and thus considerable importance is placed on maintaining their stability. For deposits, stability depends upon maintaining depositor confidence in the local group's capital strength and liquidity, and on competitive and transparent pricing.

The local group also accesses the local wholesale funding market by issuing unsecured debt securities to align asset and liability maturities and to maintain a presence in the local wholesale market.

Management of liquidity and funding risk

The bank's liquidity and funding risk management framework employs two key measures to define, monitor and control the liquidity and funding risk. The 'Advances to core funding' ratio is used to monitor the structural long-term funding position of the bank, and the 'Stressed operational cash flow projections' measure, incorporating Group-defined stress scenarios, is used to monitor the resilience to severe to severe liquidity stresses. The bank also monitors the contractual maturity ladder, which provides insight into the extent to which the bank relies on maturity transformation in respect of contractual cash flows. More precisely, the maturity ladder is used by the bank to determine the availability of liquid assets to meet the liquidity gaps for diverse time horizons.

The bank's ALCO focuses on the management process with respect to liquidity and funding risks. Compliance with established limits is monitored by the local ALCO.

4 Financial risk management *(continued)*

c *Liquidity risk (continued)*

i Advances to core funding ratio

The local group emphasises the importance of core customer deposits as a source of funds to finance lending to customers and discourages reliance on short-term wholesale funding. This is achieved by placing limits on which restrict the ability to increase loans and advances to customers without corresponding growth in core customer deposits or long-term debt funding. This measure is referred to as the 'advances to core funding' ratio.

ACF ratio limits are set by HSBC Holdings plc. The ratio describes current loans and advances to customers as a percentage of the total of core customer deposits and term funding with a remaining term to maturity in excess of one year.

The table below shows the extent to which loans and advances to customers were financed by reliable and sustainable sources of funding.

	2015	2014
	%	%
Year-end	**88**	86
Maximum	**88**	93
Minimum	**83**	86
Average	**86**	91

ii Stressed operational cash flow projections

Stressed operational cash flow projections are derived from stressed cash flow scenario analyses over various time horizons.

The stressed cash inflows include:

– inflows (net of assumed haircuts) expected to be generated from the realisation of liquid assets; and

– contractual cash inflows from maturing assets that are not already reflected as a utilisation of liquid assets.

In line with the approach adopted for the advances to core funding ratio, customer loans are generally assumed not to generate any cash inflows under stress scenarios and are therefore excluded from the stressed coverage ratio, irrespective of the contractual maturity date.

For the purposes of projecting stressed cash flows, the local group uses a number of standard Group scenarios designed to model combined market-wide and HSBC-specific liquidity crisis scenarios, and market-wide liquidity crisis scenarios, which are determined by applying a standard set of prescribed stress assumptions to the local group's cash flow model.

4 **Financial risk management** *(continued)*

c *Liquidity risk (continued)*

iii Contractual maturity ladder

The following is an analysis of financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) by remaining contractual maturities at the reporting date. Information relating to HSBC Life insurance business is disclosed in note 4(e)(ii):

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*No maturity date*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Group							
At 31 December 2015							
Assets							
Balances with Central Bank of Malta and Treasury Bills	**152,256**	**–**	**–**	**–**	**–**	**–**	**152,256**
Items in the course of collection from other banks	**12,559**	**–**	**–**	**–**	**–**	**–**	**12,559**
Loans & advances to banks	**609,222**	**3,907**	**8,306**	**107,483**	**–**	**–**	**728,918**
Loans & advances to customers	**272,645**	**63,962**	**72,936**	**365,289**	**2,509,783**	**–**	**3,284,615**
Available-for-sale financial investments	**21,292**	**25,003**	**158,760**	**803,420**	**89,322**	**–**	**1,097,797**
Other assets	**50,261**	**–**	**–**	**–**	**–**	**69,301**	**119,562**
Total assets	**1,118,235**	**92,872**	**240,002**	**1,276,192**	**2,599,105**	**69,301**	**5,395,707**
Liabilities							
Deposits by banks	**13,354**	**488**	**444**	**–**	**–**	**–**	**14,286**
Customer accounts	**3,587,175**	**186,087**	**554,732**	**351,934**	**270,329**	**–**	**4,950,257**
Other liabilities	**24,747**	**–**	**449**	**100**	**–**	**54,647**	**79,943**
Subordinated liabilities	**–**	**–**	**–**	**88,146**	**–**	**–**	**88,146**
Total liabilities	**3,625,276**	**186,575**	**555,625**	**440,180**	**270,329**	**54,647**	**5,132,632**
Notional value:							
Liquidity gap	**(2,507,041)**	**(93,703)**	**(315,623)**	**836,012**	**2,328,776**		
Cumulative liquidity gap	**(2,507,041)**	**(2,600,744)**	**(2,916,367)**	**(2,080,355)**	**248,421**		

4 Financial risk management *(continued)*

c *Liquidity risk (continued)*

iii Contractual maturity ladder (continued)

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*No maturity date*	*Total*
	€000	€000	€000	€000	€000	€000	€000
Group							
At 31 December 2014							
Assets							
Balances with Central Bank of Malta and Treasury Bills	86,100	–	–	–	–	–	86,100
Items in the course of collection from other banks	10,990	–	–	–	–	–	10,990
Loans & advances to banks	738,901	15,948	3,633	37,775	–	–	796,257
Loans & advances to customers	454,505	68,305	28,891	464,721	2,256,959	–	3,273,381
Available-for-sale financial investments	114,395	17,763	49,821	788,520	81,588	–	1,052,087
Other assets	48,728	47	–	–	–	72,364	121,139
Total assets	1,453,619	102,063	82,345	1,291,016	2,338,547	72,364	5,339,954
Liabilities							
Deposits by banks	58,595	686	126	441	–	–	59,848
Customer accounts	3,900,047	284,559	549,834	112,556	20,128	–	4,867,124
Other liabilities	28,882	–	377	–	–	44,082	73,341
Subordinated liabilities	–	–	–	88,093	–	–	88,093
Total liabilities	3,987,524	285,245	550,337	201,090	20,128	44,082	5,088,406
Notional value:							
Liquidity gap	(2,533,905)	(183,182)	(467,992)	1,089,926	2,318,419		
Cumulative liquidity gap	(2,533,905)	(2,717,087)	(3,185,079)	(2,095,153)	223,266		

4 Financial risk management *(continued)*

c *Liquidity risk (continued)*

iii Contractual maturity ladder (continued)

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*No maturity date*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Bank							
At 31 December 2015							
Assets							
Balances with Central Bank of Malta and Treasury Bills	**152,256**	**–**	**–**	**–**	**–**	**–**	**152,256**
Items in the course of collection from other banks	**12,559**	**–**	**–**	**–**	**–**	**–**	**12,559**
Loans & advances to banks	**609,222**	**3,907**	**8,306**	**107,483**	**–**	**–**	**728,918**
Loans & advances to customers	**272,645**	**63,962**	**72,936**	**373,490**	**2,509,782**	**–**	**3,292,815**
Available-for-sale financial investments	**21,292**	**25,003**	**158,760**	**803,420**	**89,322**	**–**	**1,097,797**
Other assets	**50,261**	**–**	**–**	**–**	**–**	**68,970**	**119,231**
Total assets	**1,118,235**	**92,872**	**240,002**	**1,284,393**	**2,599,104**	**68,970**	**5,403,576**
Liabilities							
Deposits by banks	**13,354**	**488**	**444**	**–**	**–**	**–**	**14,286**
Customer accounts	**3,665,236**	**186,087**	**554,732**	**351,934**	**270,329**	**–**	**5,028,318**
Other liabilities	**24,747**	**–**	**449**	**100**	**–**	**53,199**	**78,495**
Subordinated liabilities	**–**	**–**	**–**	**88,146**	**–**	**–**	**88,146**
Total liabilities	**3,703,337**	**186,575**	**555,625**	**440,180**	**270,329**	**53,199**	**5,209,245**
Notional value:							
Liquidity gap	**(2,585,102)**	**(93,703)**	**(315,623)**	**844,213**	**2,328,775**		
Cumulative liquidity gap	**(2,585,102)**	**(2,678,805)**	**(2,994,428)**	**(2,150,215)**	**178,560**		

4 Financial risk management *(continued)*

c *Liquidity risk (continued)*

iii Contractual maturity ladder (continued)

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*No maturity date*	*Total*
	€000	€000	€000	€000	€000	€000	€000
Bank							
At 31 December 2014							
Assets							
Balances with Central Bank of Malta and Treasury Bills	86,100	–	–	–	–	–	86,100
Items in the course of collection from other banks	10,990	–	–	–	–	–	10,990
Loans & advances to banks	738,901	15,948	3,633	37,775	–	–	796,257
Loans & advances to customers	454,505	68,305	28,891	476,221	2,256,959	–	3,284,881
Available-for-sale financial investments	114,395	17,763	49,821	788,487	81,588	–	1,052,054
Other assets	42,728	47	–	–	–	72,520	115,295
Total assets	1,447,619	102,063	82,345	1,302,483	2,338,547	72,520	5,345,577
Liabilities							
Deposits by banks	58,595	686	126	441	–	–	59,848
Customer accounts	3,964,408	284,559	549,834	112,556	20,128	–	4,931,485
Other liabilities	28,882	–	377	–	–	42,785	72,044
Subordinated liabilities	–	–	–	88,093	–	–	88,093
Total liabilities	4,051,885	285,245	550,337	201,090	20,128	42,785	5,151,470
Notional value:							
Liquidity gap	(2,604,266)	(183,182)	(467,992)	1,101,393	2,318,419		
Cumulative liquidity gap	(2,604,266)	(2,787,448)	(3,255,440)	(2,154,047)	164,372		

Current accounts and savings deposits payable on demand or at short notice amounted to €3,576 million at 31 December 2015 (2014: €3,370 million). This amount is disclosed within the 'Not more than 3 months' maturity grouping. However, in practice these deposits are maintained with the bank for longer periods; hence the effective date of repayment is later than the contractual date. This form represents a significant part of the local group's funding. The local group places considerable importance on maintaining the stability of these deposits.

Overdraft and debt balances amounted to €297 million at 31 December 2015 (2014: €351 million). This amount is disclosed within the 'Not more than 3 months' maturity grouping.

4 Financial risk management *(continued)*

c *Liquidity risk (continued)*

The following is an analysis by relevant maturity groupings of undiscounted cash flows payable under the principal non-derivative financial liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) by remaining contractual maturities at the reporting date. Information relating to HSBC Life insurance business is disclosed in note 4(e)(ii):

i Cash flows payable by the local group under financial liabilities by remaining maturities

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal inflow/ outflow*	*Carrying amount*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Group						
At 31 December 2015						
Financial liabilities						
Deposits by banks	**14,667**	**451**	**93**	**–**	**15,211**	**14,286**
Customer accounts	**3,587,581**	**742,216**	**356,954**	**271,307**	**4,958,058**	**4,950,257**
Subordinated liabilities	**1,339**	**3,109**	**93,114**	**–**	**97,562**	**88,146**
Other financial liabilities	**24,747**	**449**	**100**	**–**	**25,296**	**25,296**
	3,628,334	**746,225**	**450,261**	**271,307**	**5,096,127**	**5,077,985**
Commitments	**792,449**	**159,128**	**341,014**	**14**	**1,292,605**	
At 31 December 2014						
Financial liabilities						
Deposits by banks	60,232	128	442	–	60,802	59,848
Customer accounts	3,903,817	839,812	116,039	20,142	4,879,810	4,867,124
Subordinated liabilities	1,339	3,109	97,562	–	102,010	88,093
Other financial liabilities	28,882	377	–	–	29,259	29,259
	3,994,270	843,426	214,043	20,142	5,071,881	5,044,324
Commitments	921,653	100,211	269,361	–	1,291,225	
Bank						
At 31 December 2015						
Financial liabilities						
Deposits by banks	**14,667**	**451**	**93**	**–**	**15,211**	**14,286**
Customer accounts	**3,665,830**	**742,216**	**356,954**	**271,307**	**5,036,307**	**5,028,318**
Subordinated liabilities	**1,339**	**3,109**	**93,114**	**–**	**97,562**	**88,146**
Other financial liabilities	**24,747**	**449**	**100**	**–**	**25,296**	**25,296**
	3,706,583	**746,225**	**450,261**	**271,307**	**5,174,376**	**5,156,046**
Commitments	**792,646**	**159,128**	**341,014**	**14**	**1,292,802**	
At 31 December 2014						
Financial liabilities						
Deposits by banks	60,232	128	442	–	60,802	59,848
Customer accounts	3,968,317	839,812	116,039	20,142	4,944,310	4,931,485
Subordinated liabilities	1,339	3,109	97,562	–	102,010	88,093
Other financial liabilities	28,882	377	–	–	29,259	29,259
	4,058,770	843,426	214,043	20,142	5,136,381	5,108,685
Commitments	925,703	100,211	269,361	–	1,295,275	

4 Financial instruments and risk management *(continued)*

c *Liquidity risk (continued)*

i Cash flows payable by the local group under financial liabilities by remaining maturities (continued)

Cash flows payable by the local group under investment contracts and insurance contracts issued are disclosed in note 4e(iii).

The balances in the above table do not agree with the balances in the 'Statement of financial position' as the table incorporates all cash flows, on an undiscounted basis, related to principal as well as those associated with all future interest payments.

The following is an analysis by relevant maturity groupings of undiscounted cash flows relating to the local group's derivative financial instruments by remaining contractual maturities at the reporting date:

Contracted undiscounted cash flows

	Less than three months	*Between three months and one year*	*Between one year and five years*	*Over five years*	*Total*
	2015	**2015**	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**	**€000**
Group/Bank					
As at 31 December					
Inflows	**105,380**	**146,587**	**7,163**	**3,070**	**262,200**
Outflows	**(105,333)**	**(146,502)**	**(7,058)**	**(3,022)**	**(261,915)**
	47	**85**	**105**	**48**	**285**

	Less than three months	*Between three months and one year*	*Between one year and five years*	*Over five years*	*Total*
	2014	2014	2014	2014	2014
	€000	€000	€000	€000	€000
Group/Bank					
As at 31 December					
Inflows	75,856	128,950	4,105	508	209,419
Outflows	(75,836)	(128,887)	(4,105)	(508)	(209,336)
	20	63	–	–	83

d *Market risk*

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and market prices will impact the local group's income or the value of its portfolios. Exposure to market risk arises from positions that primarily arise from the interest rate management of the local group's retail and commercial banking assets and liabilities and financial investments designated as available-for-sale.

The objective of the local group's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the local group's status as a premier provider of financial products and services.

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

Market risk is managed and controlled through limits approved by HSBC Holdings and the global businesses. These limits are allocated across business lines and agreed with the Group's legal entities. The management of market risk is principally undertaken using risk limits allocated from the risk appetite. Limits are set for portfolios, products and risk types, with market liquidity being a principal factor in determining the level of limits set. Risk, as an independent function, is responsible for market risk management and measurement techniques. The bank has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with policies, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Each line of business is requested to assess the market risks which arise on each product in the business and, where there is a risk that can be hedged in the markets, this is transferred to the local Global Banking and Markets Unit for management. Where market risk is identified but there is no viable hedge in the market then the risk is managed under the local ALCO.

Monitoring and limiting market risk exposure

The bank uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ('VaR'), and stress testing.

i Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices such as the impact of a one basis point change in yield. The bank uses sensitivity measures to monitor the market risk positions within each risk type, for example, the present value of a basis point movement in interest rates for interest rate risk. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

ii Value at risk ('VaR')

VaR is a technique that estimates the potential losses on risk positions in a portfolio as a result of movement in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management.

The VaR model used by the local group is based predominantly on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The historical simulation models used incorporate the following features:

– historical market rates and prices are calculated with reference to foreign exchange rates interest rates, equity prices and the associated volatilities;

– potential market movements utilised for VaR are calculated with reference to data from the past two years; and

– VaR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

The nature of VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions. The local group routinely validates the accuracy of the VaR models by back-testing the hypothetical daily results. Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

– the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99 per cent confidence level, by definition does not take into account losses that might occur beyond this level of confidence;

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

ii Value at risk ('VaR') (continued)

– VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and

– VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The local group recognises these limitations and thus resorts to the use of other tools.

The VaR for the bank was as follows:

	2015	2014
	€000	€000
At 31 December	**968**	590
Average	**988**	656
Minimum	**998**	581
Maximum	**977**	819

The increase in VaR as at 31 December 2015 compared with 31 December 2014 was mainly due to the acquisition of Malta Government Stocks for the amount of €58,000,000 maturing in 2020.

iii Stress testing

Stress testing is an important tool that is integrated into the local group's market risk management to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling. A standard set of scenarios is utilised consistently across the Group, which are however tailored in order to capture the relevant events or market movements happening locally. The risk appetite around potential stress losses is set and monitored against referral limits.

iv Interest rate risk

Interest rate risk in the bank's portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

Interest rate risk is assessed and managed according to 'business as usual' conditions. The bank's aim in this respect is to mitigate the effect of prospective interest rate movements which could reduce future net interest income. The bank's ALCO is responsible for oversight over the bank's interest rate risk management process and monitors actively the interest rate risk measures utilised.

Sensitivity of net interest income

A principal element of the local group's management of interest rate risk is monitoring the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The local group applies a combination of scenarios and assumptions which are required throughout the HSBC Group.

Projected net interest income sensitivity figures represent the effect of the pro forma movements in net interest income based on the projected yield curve scenarios and the current interest rate risk profile. This effect, however, does not incorporate actions which would probably be taken by the local group to mitigate the effect of interest rate risk. In reality, the local group seeks actively to change the interest rate risk profile to minimise losses and optimise net revenues.

The net interest income sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. Rates are not assumed to become negative in the 'down-shock' scenario which may, in certain currencies, effectively result in non-parallel shock. In addition, the net interest income sensitivity calculations take account of the effect on net interest income of anticipated differences in changes between interbank interest rates and interest rates over which the bank has discretion in terms of the timing and extent of rate changes.

The table below sets out the impact on future net income of an incremental 100 basis points parallel fall or rise in yield curves based on current financial position/risk profiles and current managed interest rate policy. This calculation is taking into account the bank's strategy that negative rates are never passed through to customers.

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv *Interest rate risk (continued)*

Sensitivity of net interest income (continued)

	Impact on profit for the year	*Impact on profit for the year*
	2015	2014
	€000	€000
Group/Bank		
+ 100 basis points	**(6,799)**	(781)
- 100 basis points	**(29,996)**	(27,254)

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) are next reset to market rates on a contractual basis or, if earlier, the dates on which the instruments mature as at 31 December. Information relating to HSBC Life insurance business is disclosed in note 4(e)(ii). Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour of financial assets and liabilities.

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Group						
At 31 December 2015						
Assets						
Balances with Central Bank of Malta and Treasury Bills	**152,256**	**–**	**–**	**–**	**–**	**152,256**
Items in the course of collection from other banks	**12,559**	**–**	**–**	**–**	**–**	**12,559**
Loans & advances to banks	**609,222**	**3,907**	**8,306**	**107,483**	**–**	**728,918**
Loans & advances to customers	**1,618,017**	**24,003**	**644,409**	**960,875**	**37,311**	**3,284,615**
Available-for-sale financial investments	**27,426**	**25,003**	**178,113**	**871,071**	**97,179**	**1,198,792**
Total assets	**2,419,480**	**52,913**	**830,828**	**1,939,429**	**134,490**	**5,377,140**
Liabilities						
Deposits by banks	**13,354**	**488**	**444**	**–**	**–**	**14,286**
Customer accounts	**3,587,175**	**186,087**	**554,732**	**351,934**	**270,329**	**4,950,257**
Subordinated liabilities	**–**	**–**	**–**	**88,146**	**–**	**88,146**
Total liabilities	**3,600,529**	**186,575**	**555,176**	**440,080**	**270,329**	**5,052,689**
Interest rate sensitivity gap	**(1,181,049)**	**(133,662)**	**276,652**	**1,499,349**	**(135,839)**	
Cumulative interest rate sensitivity gap	**(1,181,049)**	**(1,314,711)**	**(1,038,059)**	**461,290**	**325,451**	

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv Interest rate risk (continued)

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*Total*
	€000	€000	€000	€000	€000	€000
Group						
At 31 December 2014						
Assets						
Balances with Central Bank of Malta and Treasury Bills	86,100	–	–	–	–	86,100
Items in the course of collection from other banks	10,990	–	–	–	–	10,990
Loans & advances to banks	738,901	15,948	3,633	37,775	–	796,257
Loans & advances to customers	1,954,594	311,789	853,014	119,304	34,680	3,273,381
Available-for-sale financial investments	124,530	17,763	56,311	851,184	87,909	1,137,697
Total assets	2,915,115	345,500	912,958	1,008,263	122,589	5,304,425
Liabilities						
Deposits by banks	58,595	686	126	441	–	59,848
Customer accounts	3,900,047	284,559	549,834	112,556	20,128	4,867,124
Subordinated liabilities	–	–	–	88,093	–	88,093
Total liabilities	3,958,642	285,245	549,960	201,090	20,128	5,015,065
Interest rate sensitivity gap	(1,043,527)	60,255	362,998	807,173	102,461	
Cumulative interest rate sensitivity gap	(1,043,527)	(983,272)	(620,274)	186,899	289,360	

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv *Interest rate risk (continued)*

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Bank						
At 31 December 2015						
Assets						
Balances with Central Bank of Malta and Treasury Bills	**152,256**	**–**	**–**	**–**	**–**	**152,256**
Items in the course of collection from other banks	**12,559**	**–**	**–**	**–**	**–**	**12,559**
Loans & advances to banks	**609,222**	**3,907**	**8,306**	**107,483**	**–**	**728,918**
Loans & advances to customers	**1,618,017**	**24,003**	**644,409**	**969,075**	**37,311**	**3,292,815**
Available-for-sale financial investments	**27,426**	**25,003**	**178,493**	**871,071**	**96,799**	**1,198,792**
Total assets	**2,419,480**	**52,913**	**831,208**	**1,947,629**	**134,110**	**5,385,340**
Liabilities						
Deposits by banks	**13,354**	**488**	**444**	**–**	**–**	**14,286**
Customer accounts	**3,665,236**	**186,087**	**554,732**	**351,934**	**270,329**	**5,028,318**
Subordinated liabilities	**–**	**–**	**–**	**88,146**	**–**	**88,146**
Total liabilities	**3,678,590**	**186,575**	**555,176**	**440,080**	**270,329**	**5,130,750**
Interest rate sensitivity gap	**(1,259,110)**	**(133,662)**	**276,032**	**1,507,549**	**(136,219)**	
Cumulative interest rate sensitivity gap	**(1,259,110)**	**(1,392,772)**	**(1,116,740)**	**390,809**	**254,590**	

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

iv Interest rate risk (continued)

	Not more than 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Between 1 and 5 years*	*More than 5 years*	*Total*
	€000	€000	€000	€000	€000	€000
Bank						
At 31 December 2014						
Assets						
Balances with Central Bank of Malta and Treasury Bills	86,100	–	–	–	–	86,100
Items in the course of collection from other banks	10,990	–	–	–	–	10,990
Loans & advances to banks	738,901	15,948	3,633	37,775	–	796,257
Loans & advances to customers	1,954,594	311,789	853,014	130,804	34,680	3,284,881
Available-for-sale financial investments	124,530	17,763	56,311	851,151	87,942	1,137,697
Total assets	2,915,115	345,500	912,958	1,019,730	122,622	5,315,925
Liabilities						
Deposits by banks	58,595	686	126	441	–	59,848
Customer accounts	3,964,408	284,559	549,834	112,556	20,128	4,931,485
Subordinated liabilities	–	–	–	88,093	–	88,093
Total liabilities	4,023,003	285,245	549,960	201,090	20,128	5,079,426
Interest rate sensitivity gap	(1,107,888)	60,255	362,998	818,640	102,494	
Cumulative interest rate sensitivity gap	(1,107,888)	(1,047,633)	(684,635)	134,005	236,499	

A positive interest rate sensitivity gap exists where more assets than liabilities re-price during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within re-pricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

v Foreign exchange risk

Foreign exchange risk arises principally from the local group's exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below shows an analysis of financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) between balances denominated in euro and those denominated in other currencies. Information relating to HSBC Life insurance business is disclosed in note 4(e)(ii).

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

v *Foreign exchange risk (continued)*

	Reporting currency	*In USD*	*In GBP*	*Other currencies*	*Total*
	2015	**2015**	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**	**€000**
Group					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**185,059**	**1,355**	**940**	**209**	**187,563**
Items in the course of collection from other banks	**12,331**	**84**	**134**	**10**	**12,559**
Held for trading derivatives	**7,027**	**3,811**	**94**	**560**	**11,492**
Available-for-sale financial investments	**858,514**	**185,489**	**149,756**	**5,033**	**1,198,792**
Loans and advances to banks	**577,658**	**133,802**	**36,872**	**93,079**	**841,411**
Loans and advances to customers	**3,248,564**	**29,465**	**4,596**	**1,990**	**3,284,615**
Other assets	**166,691**	**1,248**	**106**	**–**	**168,045**
Total assets	**5,055,844**	**355,254**	**192,498**	**100,881**	**5,704,477**
Liabilities					
Held for trading derivatives	**7,267**	**4,320**	**109**	**36**	**11,732**
Deposits by banks	**3,254**	**10,955**	**–**	**77**	**14,286**
Customer accounts	**4,333,265**	**331,349**	**186,197**	**99,446**	**4,950,257**
Subordinated liabilities	**87,363**	**–**	**–**	**–**	**87,363**
Other liabilities	**103,169**	**3,062**	**2,115**	**59**	**108,405**
Total liabilities	**4,534,318**	**349,686**	**188,421**	**99,618**	**5,172,043**
Net open position	**521,526**	**5,568**	**4,077**	**1,263**	

	Reporting currency	*In USD*	*In GBP*	*Other currencies*	*Total*
	2014	2014	2014	2014	2014
	€000	€000	€000	€000	€000
Group					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	115,895	1,157	803	178	118,033
Items in the course of collection from other banks	10,755	87	138	10	10,990
Held for trading derivatives	6,886	5,364	132	788	13,170
Available-for-sale financial investments	760,934	205,377	165,813	5,573	1,137,697
Loans and advances to banks	437,108	222,191	61,230	154,566	875,095
Loans and advances to customers	3,240,543	26,839	4,186	1,813	3,273,381
Other assets	170,923	2,632	224	–	173,779
Total assets	4,743,044	463,647	232,526	162,928	5,602,145

4 Financial instruments and risk management *(continued)*

d *Market risk (continued)*

v *Foreign exchange risk (continued)*

	Reporting currency	*In USD*	*In GBP*	*Other currencies*	*Total*
	2014	2014	2014	2014	2014
	€000	€000	€000	€000	€000
Group					
Liabilities					
Held for trading derivatives	6,864	6,778	171	57	13,870
Deposits by banks	16,632	42,914	–	302	59,848
Customer accounts	4,113,761	404,586	227,351	121,426	4,867,124
Subordinated liabilities	87,284	–	–	–	87,284
Other liabilities	96,606	3,418	2,361	65	102,450
Total liabilities	4,321,147	457,696	229,883	121,850	5,130,576
Net open position	421,897	5,951	2,643	41,078	

	Reporting currency	*In USD*	*In GBP*	*Other currencies*	*Total*
	2015	**2015**	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**	**€000**
Bank					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**185,059**	**1,355**	**940**	**209**	**187,563**
Items in the course of collection from other banks	**12,331**	**84**	**134**	**10**	**12,559**
Held for trading derivatives	**6,984**	**3,811**	**94**	**8**	**10,897**
Available-for-sale financial investments	**858,514**	**185,489**	**149,756**	**5,033**	**1,198,792**
Loans and advances to banks	**465,165**	**133,802**	**36,872**	**93,079**	**728,918**
Loans and advances to customers	**3,256,764**	**29,465**	**4,596**	**1,990**	**3,292,815**
Other assets	**58,723**	**1,247**	**106**	**–**	**60,076**
Total assets	**4,843,540**	**355,253**	**192,498**	**100,329**	**5,491,620**
Liabilities					
Held for trading derivatives	**7,264**	**4,258**	**98**	**10**	**11,630**
Deposits by banks	**3,254**	**10,955**	**–**	**77**	**14,286**
Customer accounts	**4,399,423**	**338,224**	**191,219**	**99,452**	**5,028,318**
Subordinated liabilities	**88,146**	**–**	**–**	**–**	**88,146**
Other liabilities	**62,766**	**2,650**	**1,394**	**56**	**66,866**
Total liabilities	**4,560,853**	**356,087**	**192,711**	**99,595**	**5,209,246**
Net open position	**282,687**	**(834)**	**(213)**	**734**	

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

d *Market risk (continued)*

v Foreign exchange risk (continued)

	Reporting currency	*In USD*	*In GBP*	*Other currencies*	*Total*
	2014	2014	2014	2014	2014
	€000	€000	€000	€000	€000
Bank					
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	115,895	1,157	803	178	118,033
Items in the course of collection from other banks	10,755	87	138	10	10,990
Held for trading derivatives	6,882	6,054	149	13	13,098
Available-for-sale financial investments	760,934	205,377	165,813	5,573	1,137,697
Loans and advances to banks	401,874	200,071	55,134	139,178	796,257
Loans and advances to customers	3,252,053	26,839	4,186	1,803	3,284,881
Other assets	58,849	2,631	224	–	61,704
Total assets	4,607,242	442,216	226,447	146,755	5,422,660
Liabilities					
Held for trading derivatives	6,845	6,411	148	15	13,419
Deposits by banks	16,632	42,914	–	302	59,848
Customer accounts	4,178,122	405,164	229,064	119,135	4,931,485
Subordinated liabilities	88,093	–	–	–	88,093
Other liabilities	52,781	3,777	1,987	80	58,625
Total liabilities	4,342,473	458,266	231,199	119,532	5,151,470
Net open position	264,769	(16,050)	(4,752)	27,223	

The bank essentially manages this risk by matching asset and liability positions in each respective foreign currency, as much as is practicable. The bank maintains exposures to foreign currencies within prescribed limits. The bank's ALCO is responsible for oversight over the foreign currency risk management process, whereby oversight and intra-day net positions are monitored.

e *Insurance risk*

The local group operates an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom the local group has a banking relationship. Insurance products are sold through all global businesses, predominantly by RBWM and CMB. The subsidiary also holds a portfolio of unit-linked investment products and non-linked insurance products that were transferred from HSBC Life (Europe) Limited during 2014.

The majority of the risk in the local group's insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer, the local group's insurance subsidiary company.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the local group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year and from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. The local group uses reinsurance appropriately to reduce variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. For contracts with Discretionary Participation Feature (DPF), the participating nature of these contracts result in a significant portion of the insurance risk being shared with the insured party.

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

At present these risks do not vary significantly in relation to the location of the risk insured by the local group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of the policy. Investment contracts with DPF carry negligible insurance risk.

The local group manages its insurance risk through strict underwriting limits and claims management; approval procedures for new products and pricing reviews; close monitoring of reinsurance arrangements and monitoring of emerging issues.

The local group's underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the local group balances death risk across its portfolio. Medical selection is also included in the local group's underwriting procedures, with premium varied to reflect the health condition and family medical history of the applicants.

Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, and the variability in contract holder behaviour. The local group uses appropriate base tables of standard mortality according to the type of contract being written. The local group does not take credit for future lapses in determining the liability of long-term contracts.

The technical provisions in respect of long-term life insurance contracts are subject to quarterly valuations by the Approved Actuary based on data and information provided by the local group. The technical provisions are calculated in accordance with the Insurance Business (Assets and Liabilities) Regulations, 2007.

The following table provides an analysis of the insurance risk exposures by type of business:

	2015	2014
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**316,298**	307,243
Term assurance and other long-term contracts	**109,145**	108,595
Total non-linked	**425,443**	415,838
Life insurance (linked)	**191,214**	176,540
Liabilities under insurance contracts	**616,657**	592,378

The local group's insurance subsidiary company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligation arising from its insurance and investment contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

General nature of participation feature and unit-linked contracts

The local group offers savings with-profit policies which participate in the investment returns of the with-profit funds. At least 90% of the eligible investment return is attributed to the contract holders. Policyholders receive regular (reversionary) bonus. A Regular bonus rate is declared yearly in advance. This rate may be reviewed upwards during the course of the year based on the performance of the fund. This provides a progressive build-up of guaranteed benefits over the lifetime of the policy. Regular bonuses are set by the Board on the recommendation of the Appointed Actuary. Therefore, on assets held to back the with-profits portfolio, the local group's exposure to financial risk is limited to 10%.

For unit-linked insurance and investment contracts, the local group matches all the liabilities on which the unit prices are based with assets in the unit-linked portfolios. There is therefore no equity price, currency, credit or interest risk exposure for these contracts which is borne by the local group.

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

HSBC's life insurance business is exposed to a range of financial risks, including market risk, credit risk and liquidity risk. The nature and management of these risks is described below.

i *Market risk*

Interest rate risk

The insurance subsidiary's exposure to interest rate changes is concentrated in its non-linked investment portfolio. Changes in investment values attributable to interest rate changes are mitigated by partially offsetting changes in the economic value of insurance provisions. The local group monitors this exposure through periodic reviews of its asset and liability positions. Estimates of future cash flows, as well as the impact of interest rate fluctuations on its investment portfolio and insurance liabilities, are modelled and reviewed quarterly. Interest rate risks in the insurance subsidiary company is minimised primarily by matching estimated future cash outflows to be paid to policyholders by expected cash flows from assets. The pool of investments backing liabilities is managed within strict duration limits that ensure that the net effect of interest rate changes on assets and liabilities is manageable.

Exchange risk

The insurance subsidiary company is exposed to currency risk on its investment portfolio and to 10% of the investments backing contracts with DPF. The net exposure amounts to €4,261,000 and a sensitivity analysis is not deemed necessary.

The insurance subsidiary company hedges a selection of foreign currency-denominated securities using foreign exchange forward contracts, in order to mitigate the risk that the principal value of cash flows on these investments fluctuate as a result of changes in foreign exchange rates.

Equity price risk

The insurance subsidiary company manages the equity risk arising from its holdings of equity securities by setting limits on the maximum market value of equities that it may hold. Equity risk is also monitored by estimating the effect of predetermined movements in equity prices on the profit and total net assets of the insurance underwriting business.

Sensitivity analysis

The local group performs various sensitivity analysis on these assumptions. An immediate and permanent movement in interest yield curves or equity prices as at the reporting date would have the following impact on the profit for the year and net assets at that date:

	Impact on profits and net assets for the year	
	2015	2014
	€000	€000
+100 basis points shift in yield curves	**81**	54
-100 basis points shift in yield curves	**(283)**	(31)
+10 per cent shift in equity prices	**346**	203
-10 per cent shift in equity prices	**(347)**	(204)

The impact of the above sensitivity analysis on other comprehensive income in respect of the available-for-sale investments held by the insurance subsidiary company is negligible.

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

ii Credit risk

The main areas where the insurance subsidiary company is exposed to credit risk are:

– reinsurers' share of insurance liabilities;

– amounts due from reinsurers in respect of claims already paid;

– investment portfolios of debt securities; and

– call and term deposits.

The insurance subsidiary company structures the levels of credit risk it accepts by placing limits on its exposure to investment grade single counterparty, or groups of counterparties, and to geographical and industry segments. Investment credit exposures positions are reviewed on a quarterly basis by the insurance subsidiary company's Asset Liability Committee.

The selection of reinsurers also includes restrictions designed to minimise the risk of credit exposure.

The insurance subsidiary company currently manages the majority of reinsurance risk through using AA- reinsurers. The creditworthiness of reinsurers is confirmed from public rating information and considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The third party banks with whom cash and cash equivalents are held are rated A and above.

Investments in bonds are made within the credit limits permitted within the investment credit risk mandate conferred by HSBC Group.

The following table presents the analysis of debt securities within the insurance business by rating agency (Standard and Poor's Rating Agency):

	Debt securities – Unit linked		*Debt securities – Others*		*Total*	
	2015	2014	**2015**	2014	**2015**	2014
	€000	€000	**€000**	€000	**€000**	€000
AAA	**12,042**	17,430	**13,395**	26,515	**25,437**	43,945
AA+ to AA-	**14,217**	12,959	**74,573**	71,979	**88,790**	84,938
A- to A+	**34,946**	24,212	**46,921**	54,446	**81,867**	78,658
Lower than A-	**177,498**	237,545	**130,214**	94,009	**307,712**	331,554
Unrated	**99,005**	117,472	**10,002**	25,374	**109,007**	142,846
Total	**337,708**	409,618	**275,105**	272,323	**612,813**	681,941

iii Liquidity risk

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk. As part of the management of this exposure, estimates are prepared for most lines of insurance business of cash flows expected to arise from insurance funds at the reporting date. The insurance subsidiary company actively manages its assets in such a manner as to match the profile of liabilities while achieving a competitive rate of return within the prevailing risk objectives delineated by asset liquidity and credit quality.

4 Financial instruments and risk management *(continued)*

e *Insurance risk (continued)*

iii Liquidity risk (continued)

The following table shows the expected maturity of insurance and investment liabilities as well as the residual maturity of financial assets as at reporting date.

	Due within 3 months	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**
At 31 December 2015					
Financial investments	**789,034**	**49,046**	**189,217**	**356,869**	**1,384,166**
Reinsurance assets	**795**	**2,152**	**19,612**	**60,529**	**83,088**
Cash	**183,302**	**–**	**–**	**–**	**183,302**
	973,131	**51,198**	**208,829**	**417,398**	**1,650,556**
Liabilities to customers:					
– insurance contracts	**17,053**	**41,957**	**164,293**	**437,243**	**660,546**
– investment contracts	**419**	**3,894**	**4,939**	**983,865**	**993,117**
	17,472	**45,851**	**169,232**	**1,421,108**	**1,653,663**
At 31 December 2014					
Financial investments	829,495	68,934	189,800	354,859	1,443,088
Reinsurance assets	2,844	2,415	24,119	55,959	85,337
Cash	137,283	–	–	–	137,283
	969,622	71,349	213,919	410,818	1,665,708
Liabilities to customers:					
– insurance contracts	22,195	45,645	156,432	423,540	647,812
– investment contracts	332	975	3,261	1,027,135	1,031,703
	22,527	46,620	159,693	1,450,675	1,679,515

The methodology used for estimating liquidity risk can be found below:

– Linked Insurance Reserves are derived via undiscounted cash flows on a statutory basis. No future premiums are assumed and investment returns are not included in the provisions. All decrements are considered.

– Linked Investment Reserves are also derived via undiscounted cash flows on a statutory basis but only consider contractual maturities and no other form of decrement.

– Non-Linked Reserve is derived via undiscounted statutory reserves run-off on a reporting basis. All future premiums are considered and provisions based on all expected decrements. The timing of cash flows is based on the expected run-off of the reserve.

5 Fair value of financial and non-financial instruments

i Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the local group recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the local group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC manages a group of financial assets and liabilities according to its net market or credit risk exposure, the local group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria as described in Note 3(g).

ii Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the local group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

– the extent to which prices may be expected to represent genuine traded or tradable prices;

– the degree of similarity between financial instruments;

– the degree of consistency between different sources;

– the process followed by the pricing provider to derive the data;

– the elapsed time between the date to which the market data relates and the reporting date; and

– the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and, where possible, (iv) model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

iii Fair value hierarchy

Fair values are determined according to the following hierarchy:

a *Level 1 – quoted market price:* financial instruments with quoted prices for identical instruments in active markets.

b *Level 2 – valuation technique using observable inputs:* financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

c *Level 3 – valuation technique with significant unobservable inputs:* financial instruments valued using models where one or more significant inputs are unobservable.

iv Critical accounting estimates and judgements

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell.

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes is considered. In addition, the value of some products are dependent on more than one market factor, and in these cases is typically necessary to consider how movements in one market factor may affect the other market factors.

The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations, prepayment and default rates.

The majority of valuation techniques employ only observable market data. However certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

5 Fair value of financial and non-financial instruments *(continued)*

v Disclosures in respect of fair values of financial instruments carried at fair value

The following table sets out the financial instruments by fair value hierarchy:

	Valuation techniques			
	Quoted market price	*Using observable inputs*	*With significant unobservable inputs*	
	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**
Group				
At 31 December 2015				
Assets				
Treasury bills	**–**	**103,998**	**–**	**103,998**
Held for trading derivatives	**–**	**11,492**	**–**	**11,492**
Financial assets designated at fair value attributable to insurance operations	**1,206,807**	**163,276**	**2,401**	**1,372,484**
Available-for-sale financial investments	**1,196,538**	**7,078**	**22**	**1,203,638**
	2,403,345	**285,844**	**2,423**	**2,691,612**
Liabilities				
Held for trading derivatives	**–**	**11,732**	**–**	**11,732**
Liabilities under investment contracts	**819,918**	**164,688**	**2,402**	**987,008**
	819,918	**176,420**	**2,402**	**998,740**
At 31 December 2014				
Assets				
Treasury bills	–	31,496	–	31,496
Held for trading derivatives	–	13,170	–	13,170
Financial assets designated at fair value attributable to insurance operations	1,207,613	207,414	6,553	1,421,580
Available-for-sale financial investments	1,153,884	–	–	1,153,884
	2,361,497	252,080	6,553	2,620,130
Liabilities				
Held for trading derivatives	–	13,870	–	13,870
Liabilities under investment contracts	807,006	207,035	16,887	1,030,928
	807,006	220,905	16,887	1,044,798
Bank				
At 31 December 2015				
Assets				
Treasury bills	**–**	**103,998**	**–**	**103,998**
Held for trading derivatives	**–**	**10,897**	**–**	**10,897**
Available-for-sale financial investments	**1,191,695**	**7,097**	**–**	**1,198,792**
	1,191,695	**121,992**	**–**	**1,313,687**
Liabilities				
Held for trading derivatives	**–**	**11,630**	**–**	**11,630**
	–	**11,630**	**–**	**11,630**
At 31 December 2014				
Assets				
Treasury bills	–	31,496	–	31,496
Held for trading derivatives	–	13,098	–	13,098
Available-for-sale financial investments	1,137,697	–	–	1,137,697
	1,137,697	44,594	–	1,182,291
Liabilities				
Held for trading derivatives	–	13,419	–	13,419
	–	13,419	–	13,419

5 Fair value of financial and non-financial instruments *(continued)*

v *Disclosures in respect of fair values of financial instruments carried ai fair value (continued)*

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2015 and 2014. The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy:

	2015	2014
	€000	€000
Level 3		
Financial assets designated at fair value through profit or loss		
At 1 January	**6,553**	–
Disposal of assets	**(4,195)**	–
Acquired on portfolio transfer	**–**	6,536
Gains recognised in profit or loss – offset through loss on linked liabilities	**44**	17
At 31 December	**2,402**	6,553

The assets categorised within Level 3 comprise holding of units in collective investment schemes which were acquired by HSBC Life Assurance (Malta) Limited as part of the portfolio transfer of unit linked investment contracts from HSBC Life (Europe) Limited, effective on 30 November 2014. These holdings consist of shares in alternative funds which are unlisted and have illiquid price sources. In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians, which is not supported by audited financial statements.

The units in collective investment schemes categorised as Level 3 are held to cover linked liabilities and accordingly, corresponding liabilities to customers under investment contracts are also categorised as Level 3. Investment risk attributable to these Level 3 assets is borne by the policyholder in view of the policyholder's decision to invest in such assets. Accordingly, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant.

vi *Disclosures in respect of fair values of non-financial instruments carried at fair value*

Fair valuation of property

The local group's land and buildings within property, plant and equipment and investment property, were revalued on 31 December 2015 by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The Directors have reviewed the carrying amounts of the properties as at 31 December 2015, on the basis of the valuations carried out by the independent property valuers.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites together with their development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

As reflected in Note 32 'Property, plant and equipment', adjustments to the carrying amounts of the local group's land and buildings within property, plant and equipment as at 31 December 2015 were not deemed necessary. The carrying amount of investment property at 31 December 2015 was adjusted to reflect the properties' estimated open market value on an individual asset level.

The local group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined above as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

5 Fair value of financial and non-financial instruments *(continued)*

vi Disclosures in respect of fair values of non-financial instruments carried at fair value (continued)

Fair valuation of property (continued)

The local group's land and buildings, within property, plant and equipment, comprised, commercial branches, bank offices and other operational premises. Investment property comprises commercial property leased out as offices to third parties including the local group's intermediate parent (Note 52). All the recurring property fair value measurements at 31 December 2015 and 2014 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The local group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2015 and 2014.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy for both owner occupied and investment property is reflected in the tables in Notes 31 and 32 respectively.

Valuation Processes

The valuations of the properties are performed regularly on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

– information provided by the local group which is derived from the bank's financial systems and is subject to the bank's overall control environment; and

– assumptions and valuation models used by the valuers – the assumptions are typically market-related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Financial Officer (CFO). This includes a review of fair value movements over the period. When the CFO considers that the valuation report is appropriate, the valuation report is recommended to the Audit Committee. The Audit Committee considers the valuation report as part of its overall responsibilities.

At the end of every reporting period, the CFO assesses whether any significant changes or developments have been experienced since the last external valuation. This is supported by an assessment performed by the independent firm of property valuers. The CFO reports to the Audit Committee on the outcome of this assessment.

Valuation Techniques

The external valuations of the Level 3 property have been performed using predominantly the traditional investment method of valuation based on the capitalised rentals approach. In view of the limited market information available, the valuations have been performed using unobservable inputs. In relation to the capitalised rentals approach, the significant unobservable inputs include a capitalisation rate applied at 5.80% – 9.22% (2014: 4.75% – 6.75%), which is effectively the discount rate adjusted for anticipated growth, and the expected annual rental value (ERV) taking into account the rental rate per square metre for comparable properties located in proximity to the local group's property with adjustments for differences in the size, age, exact location and condition of the property. Effectively, the capitalisation rate indicates the return the investor expects to receive through annual rental value.

5 Fair value of financial and non-financial instruments *(continued)*

vi Disclosures in respect of fair values of non-financial instruments carried at fair value (continued)

Valuation Techniques (continued)

	At 31 December 2015			
Description by class based on highest and best use	*Fair value*	*Valuation technique*	*Significant unobservable input*	*Range of unobservable inputs (weighted average)*
	€000			**€**
Current use as commercial branches, bank offices and other related premises	**30,020**	Capitalised Rental Approach	Rental Rate per square metre	40 – 200 (120)
Current use as third party offices	**10,667**	Capitalised Rental Approach	Rental Rate per square metre	(150)

	At 31 December 2014			
Description by class based on highest and best use	*Fair value*	*Valuation technique*	*Significant unobservable input*	*Range of unobservable inputs (weighted average)*
	€000			€
Current use as commercial branches, bank offices and other related premises	29,298	Capitalised Rental Approach	Rental Rate per square metre	45 – 200 (123)
Current use as third party offices	11,667	Capitalised Rental Approach	Rental Rate per square metre	(143)

The higher the rental rate per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate the higher the fair value. The highest and best use of the properties reflected in the tables above is equivalent to their current use.

5 Fair value of financial and non-financial instruments *(continued)*

vii Disclosures in respect of fair values of financial instruments not carried at fair value

Certain financial assets and liabilities are either carried at amortised cost or cost less impairment. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

The following table sets out the carrying amounts of these financial assets and liabilities:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta and cash	**83,565**	86,537	**83,565**	86,537
Items in the course of collection from other banks	**12,559**	10,990	**12,559**	10,990
Loans and advance to banks	**841,411**	875,095	**728,918**	796,257
Loans and advance to customers	**3,284,615**	3,273,381	**3,292,815**	3,284,881
Accrued interest	**37,852**	40,824	**28,475**	31,704
Other assets	**13,959**	21,267	**8,124**	8,946
	4,273,961	4,308,094	**4,154,456**	4,219,315
Liabilities				
Deposits by banks	**14,286**	59,848	**14,286**	59,848
Customer accounts	**4,950,257**	4,867,124	**5,028,318**	4,931,485
Subordinated liabilities	**87,363**	87,284	**88,146**	88,093
Accrued interest	**7,718**	10,807	**7,701**	10,808
Other liabilities	**29,741**	44,103	**26,359**	30,138
	5,089,365	5,069,166	**5,164,810**	5,120,372

Loans and advances to banks and customers

Fair values are estimated using discounted cash flows, applying market rates, and are fairly close to carrying amounts principally in view of the local group's ability to reprice at its discretion. These estimates are considered Level 2 fair value estimates.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value. These are considered Level 2 fair value estimates.

Subordinated liabilities

The fair value of these liabilities based on quoted market prices at the reporting date, without deduction for transaction costs, amounts to €90,712,865 as at 31 December 2015 (2014: €93,717,122). The fair value is determined under Level 1 of the fair value hierarchy.

6 Capital risk management

The local group's approach to capital management is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which it operates. The local group's objective is to maintain a strong capital base to support the risks inherent in its business and to meet regulatory capital requirements at all times. To achieve this, the local group manages capital within the context of an annual capital plan which is approved by the Board and which determines the optimal amount and mix of capital required to support planned business growth and meet regulatory capital requirements. Capital generated in excess of planned requirements is returned to shareholders in the form of dividends.

The impact of the local group's capital plan on shareholder returns is therefore recognised by the level of equity capital employed for which the local group seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity from increased leverage.

The local group manages its capital requirements based on internal targets, which are set above the prescribed minimum levels established within the CRR.

6 Capital risk management *(continued)*

For regulatory purposes, the local group's capital base is divided into two main categories, namely Common Equity Tier 1 (CET1) capital and Tier 2 capital, depending on the degree of permanency and loss absorbency exhibited. CET 1 capital is the highest quality form of capital, comprising shareholders' equity. Under the CRR various capital deductions and regulatory adjustments are made and which are treated differently for the purposes of capital adequacy – these include deductions for intangible assets and deferred tax assets that rely on future profitability. Tier 2 capital comprises eligible subordinated debt issued.

The local group's assessment and measurement of capital adequacy is aligned with regulatory requirements and with the bank's assessment of risk, including credit, market and operational risks. To determine the capital required for Pillar 1 risks, the local group utilises the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the Standardised Approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as S&P or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the bank allocates capital for operational risk by taking 15% of the average gross income, while the Basic Method requires the bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

The local group conducts an internal capital adequacy assessment process ('ICAAP') to determine a forward looking assessment of our capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates the risk management processes and governance framework. A range of stress tests are applied to the base capital plan.

The ICAAP is examined by a joint supervisory team appointed under the SSM regulation as part of its supervisory review and evaluation process, which occurs periodically to enable the regulator to define the individual capital guidance or minimum capital requirements for the bank and the capital planning buffer where required.

Compliance with the capital plan as well as with regulatory capital measures is monitored by the Asset Liability and Capital Management team and reported to ALCO on a monthly basis.

The following is an analysis of the local group's capital base in accordance with the CRR's requirements. 'Group' figures in the table below represent the consolidated capital position of the local group within the meaning of the CRR, which differs from the scope of consolidation for financial reporting under IFRSs. For regulatory reporting purposes, subsidiaries engaged in insurance activities are excluded from the regulatory consolidation and deducted from regulatory capital subject to thresholds.

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Common Equity Tier 1 (CET1) capital				
Called up share capital	**108,092**	97,281	**108,092**	97,281
Retained earnings	**306,548**	305,314	**251,047**	255,837
Revaluation reserve	**18,713**	–	**18,507**	–
Adjustments:				
– Depositor Compensation Scheme	**(30,831)**	(28,551)	**(30,831)**	(28,551)
– Intangible assets	**(7,610)**	(8,989)	**(7,610)**	(8,989)
– Expected final dividend	**(6,231)**	(5,446)	**(6,231)**	(5,446)
– Retained earnings – HSBC Life Assurance (Malta) Limited	**(55,905)**	(50,211)	**–**	–
– Investment property revaluation reserve	**(2,710)**	(3,360)	**(2,710)**	(3,360)
– Other	**(118)**	(352)	**244**	(362)
	329,948	305,686	**330,508**	306,410
Tier 2 capital				
Subordinated loan capital	**28,390**	45,841	**28,390**	45,841
Revaluation reserve	**46,476**	42,510	**46,268**	42,139
Subordinated loan to HSBC Life Assurance (Malta) Limited	**(8,200)**	(11,500)	**(8,200)**	(11,500)
Transitional adjustments to Tier 2 capital:				
– Property revaluation reserve	**(9,910)**	(4,715)	**(9,910)**	(4,715)
– Unrealised gains and losses	**(8,805)**	(4,084)	**(8,597)**	(3,713)
– Investment property revaluation reserve	**1,626**	2,684	**1,626**	2,684
	49,577	70,736	**49,577**	70,736
Total own funds	**379,525**	376,422	**380,085**	377,146

7 Interest and similar income

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
On loans and advances to banks	**1,209**	1,488	**1,209**	1,476
On loans and advances to customers	**133,068**	136,749	**133,375**	136,851
On balances with Central Bank of Malta	**17**	97	**17**	97
On Treasury Bills	**–**	300	**–**	300
	134,294	138,634	**134,601**	138,724
On debt and other fixed income instruments	**25,833**	24,863	**25,425**	24,334
Amortisation of net premiums	**(9,560)**	(7,708)	**(9,504)**	(7,688)
	16,273	17,155	**15,921**	16,646
	150,567	155,789	**150,522**	155,370
Interest and similar income from:				
– Group companies	**1,202**	1,493	**1,202**	1,473
– subsidiary companies	**–**	–	**307**	102

Interest income recognised on impaired loans and advances, which is entirely included in interest income on loans and advances to customers, amounted to €2,894,000 (2014: €2,515,000).

8 Interest expense

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
On deposits by banks	**184**	39	**184**	39
On customer accounts	**18,901**	28,739	**19,004**	28,863
On subordinated liabilities	**4,446**	4,449	**4,446**	4,449
	23,531	33,227	**23,634**	33,351
Interest payable to:				
– Group companies	**65**	19	**64**	19
– subsidiary companies	**–**	–	**104**	124

9 Net fee and commission income

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Fee and commission income earned on:				
– financial assets or liabilities not at fair value through profit or loss, other than fees included in effective interest rate calculations	**16,242**	16,389	**18,704**	19,031
– trust and other fiduciary activities where the local group holds or invests in assets on behalf of its customers	**9,675**	7,879	**2,089**	3,271
– other	**3,155**	4,137	**2,630**	3,281
	29,072	28,405	**23,423**	25,583
Fee and commission expense	**(2,509)**	(2,354)	**(1,801)**	(1,688)
	26,563	26,051	**21,622**	23,895
Net fee and commission income from:				
– Group companies	**1,286**	1,192	**648**	514
– subsidiary companies	**–**	–	**3,171**	3,320

Net fee and commission income amounting to €2,059,000 (2014: €2,945,000) are derived from the investment services activities of the local group and the bank respectively.

10 Net trading income

	2015	2014
	€000	€000
Group/Bank		
Net income from foreign exchange activities	**8,834**	8,741
Net (loss)/income from held for trading financial instruments	**(444)**	44
	8,390	8,785

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

These represent net fair value gains on available-for-sale investments originally recognised in other comprehensive income which have been reclassified to profit or loss upon the sale of the investments.

12 Dividend income

Dividend income for the bank amounts to €1,231,000 (2014: €20,462,000) and represents dividend received from a subsidiary company.

13 Net insurance premium income

	Non-linked life insurance	*Linked life insurance*	*Total*
	€000	**€000**	**€000**
Gross insurance premium income	**36,944**	**22,895**	**59,839**
Reinsurers' share of gross premium income	**(4,596)**	**–**	**(4,596)**
Year ended 31 December 2015	**32,348**	**22,895**	**55,243**
Gross insurance premium income	38,612	23,808	62,420
Reinsurers' share of gross premium income	(4,691)	–	(4,691)
Year ended 31 December 2014	33,921	23,808	57,729

14 Net other operating income

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Operating income				
Rental income from investment property	**910**	927	**806**	819
Gains arising on disposal of re-possessed properties	**377**	–	**377**	–
Gains arising on liquidation of subsidiary	**–**	–	**–**	559
Other income	**268**	805	**325**	446
	1,555	1,732	**1,508**	1,824
Operating expenses	**(6)**	(148)	**(6)**	(135)
Fair value changes in respect of investment property	**(1,000)**	–	**(1,000)**	–
	549	1,584	**502**	1,689
Operating income from:				
– Group companies	**1,106**	1,595	**1,106**	1,192
– subsidiary companies	**–**	–	**–**	603

15 Net insurance claims, benefits paid and movement in liabilities to policyholders

	2015	2014
	€000	€000
Group		
Claims, benefits and surrenders paid	**46,384**	51,220
Movement in liabilities	**24,278**	66,109
Gross claims, benefits paid and movement in liabilities	**70,662**	117,329
Reinsurers' share of claims, benefits and surrenders paid	**(1,889)**	(1,551)
Reinsurers' share in movement in liabilities	**2,317**	(33,452)
Reinsurers' share of claims, benefits paid and movement in liabilities	**428**	(35,003)
	71,090	82,326

16 Loan impairment charges

	2015	2014
	€000	€000
Group/Bank		
Write-downs		
Loans and advances to customers		
– specific allowances	**(24,453)**	(25,321)
– collective allowances	**(7,187)**	(7,546)
– bad debts written off	**(11,223)**	(8,288)
	(42,863)	(41,155)
Other assets		
– individual allowances	**(244)**	(260)
Reversals of write-downs		
Loans and advances to customers		
– specific allowances	**21,657**	5,143
– collective allowances	**7,546**	13,219
– bad debts recovered	**3,078**	508
	32,281	18,870
	(10,826)	(22,545)

17 Employee compensation and benefits

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Wages, salaries and allowances	**47,666**	46,843	**45,006**	44,374
Defined contribution social security costs	**2,696**	2,631	**2,560**	2,500
Termination benefits	**17,623**	1,943	**17,209**	1,943
Share-based payments	**500**	327	**492**	306
	68,485	51,744	**65,267**	49,123
	Number	*Number*	***Number***	*Number*
Average number of employees				
– executive and senior managerial	**299**	284	**277**	266
– other managerial, supervisory and clerical	**1,090**	1,077	**1,038**	1,029
– others	**25**	28	**25**	28
	1,414	1,389	**1,340**	1,323

17 Employee compensation and benefits *(continued)*

During the year ended 31 December 2015, the local group introduced an early retirement scheme for employees. The estimated expenditure attributable to this scheme, recognised in profit or loss during the year and reflected within termination benefits in the table above, amounts to €14,668,000 for the local group and €14,255,000 for the bank. The amount comprises the estimated payments to the affected individual employees, which are approximately 130 applicants.

Termination benefits also comprise payments and other costs attributable to other employees that opted for voluntary early retirement prior to the scheme referred to above, together with related expenditure.

The charge for the year in respect of early voluntary retirement charges amounts to €15,584,000 (2014: €1,674,000) for the bank and €15,998,000 (2014: €1,674,000) for the local group.

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 local group employees under all-employee share plans and achievement shares awarded to local group senior management under discretionary incentive plans. The local group offered share options to its employees under savings related share option plans and HSBC Holdings Group share option plans.

In view of the fact that these share option plans are expiring and will be replaced by Share Match (refer to note below), the share-based payment income statement charge attributable to these share option plans is insignificant. Accordingly, the disclosures required by IFRS 2 in relation to these option plans have not been deemed necessary taking cognisance of the impact of these plans on the financial results and financial position of the local group.

Awards to local group employees also comprise restricted share awards (including Group Performance Share Plans 'GPSP'). An assessment of performance over the relevant period is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred annual incentive awards generally vest over a period of three years and GPSP awards vest after five years. Vested shares may be subject to a retention requirement (restriction) post vesting. GPSP awards are retained until cessation of employment.

In view of the insignificant impact of HSBC restricted share awards on the local group's income statement charge, the other IFRS 2 disclosure requirements attributable to share-based payment arrangements are not being presented in these financial statements.

During the current financial year, the local group's employees were invited to join Share Match, the new HSBC International Employee Share Purchase Plan to acquire shares in HSBC Holdings plc. Under this Plan, HSBC Holdings plc commenced granting matching award shares to the local group's employees subject to a three year service condition. The share-based payment is classified as equity-settled since the share-based payment transactions with the employees are settled by the transfer of shares of HSBC Holdings plc. An employee is required to specify a monthly deduction (subject to a cap) from the salary or buying shares on a quarterly basis at the then current fair value (investment shares). For every three investment shares bought, the employees will receive an additional free share (matching share) on the third anniversary of the scheme (the vesting date) provided the employee remains employed and retains the investment shares until the end of the three-year holding period. The impact of this plan on the local group's financial results and financial position is insignificant, and accordingly the disclosures required by IFRS 2 in relation to share-based payment arrangements have been deemed necessary.

18 Profit before tax

Profit before tax is stated after charging the following fees (excluding VAT) in relation to services provided by the external auditors:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
– auditors' fees	**220**	180	**158**	126
– other assurance services fees	**–**	27	**–**	22
– tax advisory services fees	**–**	12	**–**	10
– other non-audit services fees	**–**	34	**–**	9
	220	253	**158**	167

All auditor's fees relating to the year ended 31 December 2014 are attributable to the preceding auditors.

General and administration expenses are analysed as follows:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Premises and equipment costs	**4,979**	4,816	**4,979**	4,816
IT support and telecommunication costs	**9,163**	8,080	**8,642**	7,928
Insurance, security and maintenance costs	**14,995**	14,281	**14,995**	14,281
Investment management and administrator fees	**1,635**	680	**–**	–
Actuarial services	**812**	657	**–**	–
Other administrative expenses	**11,970**	11,784	**10,499**	10,268
	43,554	40,298	**39,115**	37,293

Other administrative expenses mainly comprise professional expenses, licences and permits, and other services or expense items which are incurred in the course of the operations of the local group and the bank.

19 Tax expense

The local group's and the bank's tax expense recognised in profit or loss is analysed below:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
– current tax	**22,607**	20,720	**19,055**	28,068
– deferred tax	**(5,315)**	(2,216)	**(5,064)**	(5,327)
	17,292	18,504	**13,991**	22,741

19 Tax expense *(continued)*

The tax recognised in profit or loss on the local group's and the bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Profit before tax	**46,772**	52,121	**37,452**	63,123
Tax at the applicable rate of 35%	**16,370**	18,242	**13,108**	22,093
Tax effect of:				
Income taxed at different rates	**(8)**	(7)	**–**	–
Non-deductible expenses	**483**	66	**484**	502
Temporary differences arising on depreciation of property, plant and equipment	**189**	199	**189**	199
Deferred taxation on fair value gains arising on property determined on the basis applicable to property disposals	**58**	10	**36**	–
Further allowances on rental income	**(56)**	(55)	**(56)**	(55)
Others	**256**	49	**230**	2
Tax on profit	**17,292**	18,504	**13,991**	22,741

The tax impacts, which are entirely attributable to deferred taxation, relating to components of other comprehensive income and accordingly presented directly in equity are as follows:

	2015			2014		
	Before tax	*Tax (charge) /credit*	*Net of tax*	*Before tax*	*Tax (charge) /credit*	*Net of tax*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Group						
Fair valuation of available for sale investments:						
– Net changes in fair value	**4,938**	**(1,727)**	**3,211**	13,656	(4,779)	8,877
– Fair value gains reclassified to profit or loss on disposal	**(682)**	**238**	**(444)**	(1,719)	601	(1,118)
Fair valuation of properties	**–**	**1,199**	**1,199**	(28)	3	(25)
	4,256	**(290)**	**3,966**	11,909	(4,175)	7,734
Bank						
Fair valuation of available for sale investments:						
– Net changes in fair value	**5,187**	**(1,815)**	**3,372**	13,810	(4,833)	8,977
– Fair value gains reclassified to profit or loss on disposal	**(683)**	**239**	**(444)**	(1,719)	601	(1,118)
Fair valuation of properties	**–**	**1,201**	**1,201**	(28)	3	(25)
	4,504	**(375)**	**4,129**	12,063	(4,229)	7,834

20 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the local group by the weighted average number of ordinary shares in issue during the year. The profit attributable to equity holders of the local group amounted to €29,480,000 (2014: €33,617,000), while the weighted average number of ordinary shares in issue were 354,614,103. The basic earnings per share of the local group amounted to 8.5c (2014: 9.7c). The comparative information has been restated to reflect the bonus share issue effected during the current financial year and the impact on the number of shares in issue, referred to in note 44, retrospectively. The local group has no instruments or arrangements which give rise to dilutive potential ordinary shares, and accordingly diluted earnings per share is equivalent to basic earnings per share.

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

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Balances with Central Bank of Malta	**48,258**	54,604	**48,258**	54,604
Malta Government Treasury Bills				
– classified as available-for-sale	**103,998**	31,496	**103,998**	31,496
Cash	**35,307**	31,933	**35,307**	31,933
	187,563	118,033	**187,563**	118,033

The average reserve deposit held for the relevant maintenance period with the Central Bank of Malta in terms of Regulation (EC) No. 1745/2003 of the European Central Bank amounted to €48,350,000 (2014: €46,492,000).

As at 31 December 2014, balances with the Central Bank of Malta amounting to €8,000,000 had been pledged in favour of the Depositor Compensation Scheme (refer to Note 45).

22 Financial assets designated at fair value attributable to insurance operations

	Group	
	2015	2014
	€000	€000
Debt, Treasury Bills and other fixed income instruments	**607,970**	664,981
Equity and other non-fixed income instruments	**782,267**	770,440
Policy loans	**(17,753)**	(13,841)
	1,372,484	1,421,580

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

	Group	
	2015	2014
	€000	€000
Issued by public bodies		
– local government	**98,836**	85,094
– foreign governments	**117,164**	153,843
Issued by other bodies		
– local banks	**3,640**	3,551
– foreign banks	**133,675**	200,523
– other local issuers	**5,810**	5,400
– other foreign issuers	**248,845**	216,570
	607,970	664,981
Listing status		
– listed on the Malta Stock Exchange	**108,285**	94,045
– listed on other recognised exchanges	**434,684**	478,230
– foreign unlisted	**65,001**	92,706
	607,970	664,981
At 1 January	**664,981**	251,305
Acquisitions	**185,518**	449,875
Disposals	**(208,871)**	(62,843)
Changes in fair value	**(33,658)**	26,644
At 31 December	**607,970**	664,981

22 Financial assets designated at fair value attributable to insurance operations *(continued)*

b *Equity and other non-fixed income instruments*

	Group	
	2015	2014
	€000	€000
Issued by other bodies		
– local banks	**173**	139
– foreign banks	**8,870**	14,158
– other local issuers	**84,437**	70,687
– other foreign issuers	**688,787**	685,456
	782,267	770,440
Listing status		
– listed on the Malta Stock Exchange	**16,007**	9,930
– listed on other recognised exchanges	**156,817**	700,190
– local unlisted	**68,602**	–
– foreign unlisted	**540,841**	60,320
	782,267	770,440
At 1 January	**770,440**	226,040
Acquisitions	**205,454**	588,699
Disposals	**(227,709)**	(53,029)
Changes in fair value	**34,082**	8,730
At 31 December	**782,267**	770,440

As at 31 December 2015 and 2014, the bank had no financial assets designated at fair value through profit or loss.

23 Held for trading derivatives

The local group transacts derivatives primarily to create risk management solutions for clients. This includes the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. As part of this process, the local group considers the customers' suitability in respect of the respective risks involved and the business purpose underlying the transaction. The local group's derivative instruments also comprise contracts managed in conjunction with financial instruments designated at fair value, which are attributable to insurance operations.

The local group manages its derivative risk positions principally through offsetting derivative transactions with HSBC Group entities. For accounting purposes, all derivative instruments are classified as held either for trading or hedging.

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Derivative assets				
Held for trading	**11,492**	13,170	**10,897**	13,098
Held for trading and fair value hedging instruments are held with:				
– Group companies	**3,803**	5,207	**3,803**	5,205
Derivative liabilities				
Held for trading	**11,732**	13,870	**11,630**	13,419
Held for trading instruments held with:				
– Group companies	**7,818**	8,226	**7,818**	8,226

23 Held for trading derivatives *(continued)*

Derivatives held for trading

	Notional	*Fair value assets*	*Notional*	*Fair value liabilities*
	2015	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**
Group				
Foreign exchange derivatives				
Currency forwards	**159,853**	**3,170**	**218,751**	**3,325**
Currency options	**21,980**	**868**	**21,980**	**870**
		4,038		**4,195**
Interest rate derivatives				
Interest rate swaps	**210,796**	**6,258**	**210,796**	**6,840**
Equity derivatives				
Equity-indexed options	**34,376**	**1,196**	**27,413**	**697**
Total derivatives		**11,492**		**11,732**

	Notional	*Fair value assets*	*Notional*	*Fair value liabilities*
	2014	2014	2014	2014
	€000	€000	€000	€000
Group				
Foreign exchange derivatives				
Currency forwards	79,291	5,269	239,492	5,328
Currency options	27,909	1,246	28,074	1,249
		6,515		6,577
Interest rate derivatives				
Interest rate swaps	74,797	5,516	74,797	5,760
Equity derivatives				
Equity-indexed options	39,390	1,139	39,604	1,533
Total derivatives		13,170		13,870

23 Held for trading derivatives *(continued)*

Derivatives held for trading (continued)

	Notional	*Fair value assets*	*Notional*	*Fair value liabilities*
	2015	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**
Bank				
Foreign exchange derivatives				
Currency forwards	**102,922**	**3,096**	**102,966**	**3,245**
Currency options	**21,980**	**868**	**21,980**	**870**
		3,964		**4,115**
Interest rate derivatives				
Interest rate swaps	**210,796**	**6,258**	**210,796**	**6,840**
Equity derivatives				
Equity-indexed options	**20,449**	**675**	**20,449**	**675**
Total derivatives		**10,897**		**11,630**

	Notional	*Fair value assets*	*Notional*	*Fair value liabilities*
	2014	2014	2014	2014
	€000	€000	€000	€000
Bank				
Foreign exchange derivatives				
Currency forwards	70,529	5,198	70,611	5,275
Currency options	27,909	1,246	27,909	1,246
		6,444		6,521
Interest rate derivatives				
Interest rate swaps	74,797	5,516	74,797	5,760
Equity derivatives				
Equity-indexed options	39,390	1,138	39,390	1,138
Total derivatives		13,098		13,419

Currency forwards represent commitments to purchase and sell pre-established amounts of currencies, and are gross settled.

Currency options are contractual agreements under which the local group grants the customer the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a pre-determined price. These options are negotiated between the local group and customers (OTC).

Interest rate swaps are commitments to exchange one set of cash flows for another (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

Most of these positions are covered by back-to-back derivative transactions with HSBC Group entities, managing the market risk arising from these positions. Any market risk retained locally is managed within approved local trading mandates.

The local group also enters into equity indexed options to hedge the risk arising from structured deposits which pay a participation reflecting the growth in specific equity indices. The table above includes both the derivatives embedded within the structured deposits, which are separated from the host contract, in accordance with the requirements of IAS 39 as well as the derivatives entered into with HSBC Group entities to offset the financial risks to the local group from such structured deposits.

24 Loans and advances to banks

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Repayable on call and at short notice	**715,664**	647,388	**603,171**	568,550
Term loans and advances	**125,747**	227,707	**125,747**	227,707
	841,411	875,095	**728,918**	796,257
Amounts include:				
– due from Group companies	**736,428**	787,517	**722,103**	775,156

25 Loans and advances to customers

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Repayable on call and at short notice	**297,472**	351,021	**297,472**	351,021
Term loans and advances	**3,033,835**	2,969,238	**3,042,035**	2,980,738
Gross loans and advances to customers	**3,331,307**	3,320,259	**3,339,507**	3,331,759
Allowances for uncollectibility	**(46,692)**	(46,878)	**(46,692)**	(46,878)
Net loans and advances to customers	**3,284,615**	3,273,381	**3,292,815**	3,284,881
Allowances for uncollectibility				
– individually assessed allowances	**39,505**	39,332	**39,505**	39,332
– collectively assessed allowances	**7,187**	7,546	**7,187**	7,546
	46,692	46,878	**46,692**	46,878
Amounts include				
– due from subsidiary companies	**–**	–	**8,200**	11,500

Interest in suspense as at the end of the reporting period amounted to €38,985,000 (2014: €43,634,000).

Loans with a carrying amount of €90,496,000 (2014: €103,438,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2015, no balances were outstanding against these credit lines.

26 Available-for-sale financial investments

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Debt securities and other fixed income instruments	**1,196,538**	1,153,862	**1,191,695**	1,137,678
Equity and other non-fixed income instruments	**7,100**	22	**7,097**	19
	1,203,638	1,153,884	**1,198,792**	1,137,697

26 Available-for-sale financial investments *(continued)*

a *Debt securities and other fixed income instruments*

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Issued by public bodies				
– local government	**669,208**	575,780	**669,208**	564,648
– foreign governments	**158,918**	90,871	**154,075**	88,399
Issued by other bodies				
– foreign banks	**109,392**	189,403	**109,392**	189,371
– other foreign issuers	**259,020**	297,808	**259,020**	295,260
	1,196,538	1,153,862	**1,191,695**	1,137,678
Listing status				
– listed on the Malta Stock Exchange	**669,208**	575,780	**669,208**	564,648
– listed on other recognised exchanges	**527,330**	578,082	**522,487**	573,030
	1,196,538	1,153,862	**1,191,695**	1,137,678
At 1 January	**1,153,862**	918,219	**1,137,678**	897,724
Exchange adjustments	**64,908**	33,209	**64,908**	33,139
Amortisation of premium/discount	**(9,686)**	(7,708)	**(9,630)**	(7,688)
Additions	**301,611**	413,638	**301,611**	413,638
Disposals/Redemptions	**(312,019)**	(217,137)	**(300,985)**	(212,930)
Changes in fair value	**(2,138)**	13,641	**(1,887)**	13,795
At 31 December	**1,196,538**	1,153,862	**1,191,695**	1,137,678

Debt instruments with a carrying amount of €67,451,496 (2014: €69,486,287) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2015, no balances were outstanding against these credit lines. In addition debt securities with a carrying amount of €29,980,520 (2014: €21,531,900) have been pledged in favour of the Depositors' Compensation Scheme (refer to note 45).

The financial investments which are denominated in currencies other than the reporting currency are economically hedged through balances in corresponding currencies mainly forming part of Customer accounts and Deposits by banks. Thus, the exchange adjustment reflected above does not result in an exchange gain recognised in profit or loss.

b *Equity and other non-fixed income instruments*

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks				
– local issuers	**8**	8	**5**	5
– foreign issuers	**7,092**	14	**7,092**	14
	7,100	22	**7,097**	19
At 1 January	**22**	73	**19**	70
Disposals	**–**	(347)	**–**	(347)
Impairment reversal	**–**	300	**–**	300
Other movement	**–**	(4)	**–**	(4)
Changes in fair value	**7,078**	–	**7,078**	–
At 31 December	**7,100**	22	**7,097**	19

26 Available-for-sale financial investments *(continued)*

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

During the current financial year, Visa Inc. announced its proposed acquisition of Visa Europe Limited, subject to regulatory approval. The bank is a member of Visa Europe Limited and holds one ordinary share of €10, although only limited value was attached to the share. Voting and any economic rights relating to the shares are broadly based on the sales volumes of the particular member. As set out in the announcement by Visa Inc., there is an up-front consideration receivable on completion of the transaction which comprises cash and preferred stock convertible into Visa Inc. class A common stock. Additional deferred cash consideration may also be receivable following the fourth anniversary of closing of the transaction subject to an earn-out mechanism. The preferred stock and earn-out elements of the consideration are contingent upon certain factors. As at 31 December 2015, the Bank increased the carrying amount of its €10 share in Visa Europe Limited by €7,092,000 to reflect the value emanating from the proposed transaction. The fair value of the local group's interest in VISA Europe Limited has been assessed on the basis of the expected consideration to be received from the proposed sale to VISA Inc. which transaction is expected to be completed during 2016. Prior to the announcement of the proposed transaction, the Directors believe that there was no value to assign to the membership because there were no rights to consideration and accordingly the fair value attributable for the membership was not evident. Accordingly, prior to 31 December 2015, the local group recognised the membership share at its nominal value.

As at reporting date, there was no impairment loss on the group's equity and other non-fixed income instruments (2014: €47,000).

27 Prepayments and accrued income

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Accrued income	**39,468**	43,093	**29,986**	34,288
Prepayments	**1,395**	1,637	**1,319**	1,610
	40,863	44,730	**31,305**	35,898
Amounts include:				
– due from Group companies	**599**	708	**190**	164
– due from subsidiary companies	**–**	–	**922**	1,650

28 Reinsurance assets

	Group	
	2015	2014
	€000	€000
Life insurance assets (principally non-linked)		
Long-term insurance contracts	**79,011**	82,984
Claims outstanding	**5,316**	3,660
Other payables	**(1,239)**	(1,307)
	83,088	85,337

29 Non-current assets held for sale

At 31 December 2015, the fair value of assets acquired in satisfaction of debt amounted to €11,347,000 (2014: €9,297,000). Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The local group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

30 Investments in subsidiaries

Bank *Name of company*	*Nature of business*	*Equity interest*	**2015**	2014
		%	**€000**	€000
HSBC Life Assurance (Malta) Limited	Life insurance	**99.99**	**28,578**	28,578
HSBC Global Asset Management (Malta) Limited	Portfolio management services	**99.99**	**5,940**	5,940
HSBC Stockbrokers (Malta) Limited	Stockbroking services	**99.99**	**23**	23
			34,541	34,541

HSBC Stockbrokers (Malta) is undergoing a voluntary winding up process. HSBC Life Assurance (Malta) Limited holds investment in the following subsidiary:

Name of company	*Nature of business*	*Equity interest*	**2015**	2014
		%	**€000**	€000
HSBC Insurance Management Services (Europe) Limited	Insurance management services	**99.99**	**25**	25

All subsidiaries are incorporated in Malta.

31 Investment property

	Fair Value	*Cost*	*Fair Value*	*Cost*
	2015	**2015**	2014	2014
	€000	**€000**	€000	€000
Group				
Freehold land and buildings				
As at 1 January	**16,326**	**10,294**	14,529	8,615
Additions	**209**	**209**	1,679	1,679
Fair value adjustments	**(1,077)**	**–**	118	–
At 31 December	**15,458**	**10,503**	16,326	10,294
Bank				
Freehold land and buildings				
As at 1 January	**11,667**	**6,498**	11,660	6,498
Additions	**209**	**209**	–	–
Fair value adjustments	**(1,000)**	**–**	7	–
At 31 December	**10,876**	**6,707**	11,667	6,498

During the year ended 31 December 2015, €894,000 (2014: €898,000) was recognised as rental income in profit or loss relating to investment property of the local group. The bank recognised €790,000 (2014: €790,000) as rental income, which was received from a Group company. Related repair and maintenance expenses incurred by the bank and the local group on these properties are reimbursed by the tenant.

The local group's investment property is fair valued annually by an independent firm of property values having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Fair values are determined on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area and, whenever possible, having regard to recent market transactions for similar properties in the same location.

32 Property, plant and equipment

	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Group				
Cost/revaluation				
At 1 January 2015	**43,827**	**19,197**	**45,001**	**108,025**
Additions	**45**	**737**	**2,300**	**3,082**
Disposals	**–**	**(62)**	**(259)**	**(321)**
Reclassifications	**(416)**	**–**	**–**	**(416)**
At 31 December 2015	**43,456**	**19,872**	**47,042**	**110,370**
Accumulated depreciation and impairment losses				
At 1 January 2015	**1,314**	**14,834**	**32,396**	**48,544**
Depreciation charge for the year	**399**	**1,133**	**2,043**	**3,575**
Disposals	**–**	**(62)**	**(246)**	**(308)**
At 31 December 2015	**1,713**	**15,905**	**34,193**	**51,811**
Carrying amount at 1 January 2015	**42,513**	**4,363**	**12,605**	**59,481**
Carrying amount at 31 December 2015	**41,743**	**3,967**	**12,849**	**58,559**
Cost/revaluation				
At 1 January 2014	43,665	19,700	45,652	109,017
Additions	190	43	1,427	1,660
Revaluation	(28)	–	–	(28)
Disposals	–	(546)	(2,078)	(2,624)
At 31 December 2014	43,827	19,197	45,001	108,025
Accumulated depreciation and impairment losses				
At 1 January 2014	918	14,218	32,390	47,526
Depreciation charge for the year	396	1,162	1,902	3,460
Disposals	–	(546)	(1,896)	(2,442)
At 31 December 2014	1,314	14,834	32,396	48,544
Carrying amount at 1 January 2014	42,747	5,482	13,262	61,491
Carrying amount at 31 December 2014	42,513	4,363	12,605	59,481

32 Property, plant and equipment *(continued)*

	Land and buildings	*Computer equipment*	*Others*	*Total*
	€000	**€000**	**€000**	**€000**
Bank				
Cost/revaluation				
At 1 January 2015	**43,925**	**18,974**	**44,798**	**107,697**
Additions	**45**	**737**	**2,300**	**3,082**
Disposals	**–**	**(62)**	**(259)**	**(321)**
Reclassifications	**(416)**	**–**	**–**	**(416)**
At 31 December 2015	**43,554**	**19,649**	**46,839**	**110,042**
Accumulated depreciation and impairment losses				
At 1 January 2015	**1,314**	**14,614**	**32,196**	**48,124**
Depreciation charge for the year	**399**	**1,125**	**2,043**	**3,567**
Disposals	**–**	**(62)**	**(246)**	**(308)**
At 31 December 2015	**1,713**	**15,677**	**33,993**	**51,383**
Carrying amount at 1 January 2015	**42,611**	**4,360**	**12,602**	**59,573**
Carrying amount at 31 December 2015	**41,841**	**3,972**	**12,846**	**58,659**
Cost/revaluation				
At 1 January 2014	43,770	19,446	45,430	108,646
Additions	183	32	1,427	1,642
Revaluation	(28)	–	–	(28)
Disposals	–	(504)	(2,059)	(2,563)
At 31 December 2014	43,925	18,974	44,798	107,697
Accumulated depreciation and impairment losses				
At 1 January 2014	918	13,967	32,186	47,071
Depreciation charge for the year	396	1,151	1,902	3,449
Disposals	–	(504)	(1,892)	(2,396)
At 31 December 2014	1,314	14,614	32,196	48,124
Carrying amount at 1 January 2014	42,852	5,479	13,244	61,575
Carrying amount at 31 December 2014	42,611	4,360	12,602	59,573

Land and buildings reported above are all utilised for own activities.

If the land and buildings were stated on the historical cost basis, the carrying amounts would be

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
At 31 December				
Cost	**15,819**	16,924	**16,136**	16,833
Accumulated Depreciation	**(1,713)**	(1,314)	**(1,713)**	(1,314)
Carrying amount	**14,106**	15,610	**14,423**	15,519

Valuations of land and buildings are carried out on a regular basis such that the carrying amount or property does not differ materially from that which would be determined using fair values at the end of the reporting period.

33 Intangible assets

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Software	**7,793**	9,094	**7,610**	8,989
Present value of in-force long-term insurance business	**61,860**	64,877	**–**	–
	69,653	73,971	**7,610**	8,989

a *Software*

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Cost				
At 1 January	**27,557**	25,825	**26,339**	24,407
Additions	**1,842**	1,939	**1,710**	1,932
Assets written off	**–**	(207)	**–**	–
At 31 December	**29,399**	27,557	**28,049**	26,339
Accumulated amortisation and impairment losses				
At 1 January	**18,463**	15,570	**17,350**	14,314
Amortisation charge for the year	**3,143**	3,092	**3,089**	3,036
Assets written off	**–**	(199)	**–**	–
At 31 December	**21,606**	18,463	**20,439**	17,350
Carrying amount at 1 January	**9,094**	10,255	**8,989**	10,093
Carrying amount at 31 December	**7,793**	9,094	**7,610**	8,989

Impairment losses, reversal of impairment losses and write-offs are recognised in General and administrative expenses.

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

	Group	
	2015	2014
	€000	€000
At 1 January	**64,877**	76,363
Addition from current year new business	**5,325**	7,624
Movement from in-force business	**(8,342)**	(19,110)
At 31 December	**61,860**	64,877

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

The HSBC life insurance business is accounted for using the embedded value approach, which, inter alia, provides a comprehensive framework for the evaluation of insurance and related risks.

The following are the key assumptions used in the computation of the local group's PVIF in the current and comparative periods:

	2015	2014
	%	%
Risk free rate	**Euro Swap Curve**	Euro Swap Curve
Risk adjusted discount rate	**Euro Swap Curve + 50Bps Operational Risk Margin**	Euro Swap Curve + 50Bps Operational Risk Margin
Expenses inflation	**French inflation swap curve modified for Malta**	French inflation swap curve modified for Malta
Lapse rate	**Different rates for different products**	Different rates for different products

33 Intangible assets *(continued)*

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

The following table shows the effect on the PVIF of reasonably possible changes in the main economic assumptions across the life insurance business:

		PVIF Impact	
		2015	2014
Assumptions	**Movement**	**€000**	€000
As published			
Risk free rate	+100 basis points	**(2,232)**	9,186
Risk free rate	-100 basis points	**2,981**	4,141
Expenses inflation	+10%	**(853)**	(670)
Expenses inflation	-10%	**919**	747
Lapse rate	+100 basis points	**867**	951
Lapse rate	-100 basis points	**(1,413)**	(1,642)

34 Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts determined after appropriate offsetting are shown in the statement of financial position:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Deferred tax assets	**18,343**	13,612	**18,291**	13,602
Deferred tax liabilities	**(27,950)**	(28,244)	**–**	–
	(9,607)	(14,632)	**18,291**	13,602

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rate used is 35% (2014: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property, which is computed on the basis applicable to disposals of immovable property i.e. principally tax effect of 10% (2014: 12%) of the transfer value.

The balance at 31 December represents temporary differences attributable to:

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Depreciation of property, plant and equipment	**(1,644)**	(1,825)	**(1,820)**	(2,125)
Loan impairment allowances	**28,529**	30,210	**28,529**	30,210
Fair valuation of property	**(4,761)**	(6,418)	**(4,374)**	(6,025)
Fair value movements on available-for-sale investments	**(11,266)**	(10,148)	**(11,462)**	(9,953)
Value of in-force life insurance business	**(21,651)**	(22,707)	**–**	–
Fair value movement on policyholders' investments	**(6,063)**	(5,041)	**–**	–
Group retirement benefits	**8,007**	435	**7,862**	435
Other	**(758)**	862	**(444)**	1,060
	(9,607)	(14,632)	**18,291**	13,602

34 Deferred tax *(continued)*

The movement in deferred tax assets and liabilities during the year is as follows:

	Group			
	At 1 January 2015	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*At 31 December 2015*
	€000	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(1,825)**	**181**	**–**	**(1,644)**
Loan impairment allowances	**30,210**	**(1,681)**	**–**	**28,529**
Fair valuation of property	**(6,418)**	**458**	**1,199**	**(4,761)**
Fair value movements on available-for-sale investments	**(10,148)**	**616**	**(1,489)**	**(11,021)**
Value of in-force life insurance business	**(22,707)**	**1,056**	**–**	**(21,651)**
Fair value movement on policyholders' investments	**(5,041)**	**(1,022)**	**–**	**(6,063)**
Group retirement benefits	**435**	**7,572**	**–**	**8,007**
Other	**862**	**(1,865)**	**–**	**(1,003)**
	(14,632)	**5,315**	**(290)**	**(9,607)**

	Group			
	At 1 January 2014	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*At 31 December 2014*
	€000	€000	€000	€000
Depreciation of property, plant and equipment	(1,664)	(161)	–	(1,825)
Loan impairment allowances	24,112	6,098	–	30,210
Fair valuation of property	(6,371)	(50)	3	(6,418)
Fair value movements on available-for-sale investments	(5,970)	–	(4,178)	(10,148)
Value of in-force life insurance business	(26,727)	4,020	–	(22,707)
Fair value movement on policyholders' investments	2,303	(7,344)	–	(5,041)
Group retirement benefits	696	(261)	–	435
Other	948	(86)	–	862
	(12,673)	2,216	(4,175)	(14,632)

	Bank			
	At 1 January 2015	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*At 31 December 2015*
	€000	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(2,125)**	**305**	**–**	**(1,820)**
Loan impairment allowances	**30,210**	**(1,681)**	**–**	**28,529**
Fair valuation of property	**(6,025)**	**450**	**1,201**	**(4,374)**
Fair value movements on available-for-sale investments	**(9,953)**	**46**	**(1,576)**	**(11,483)**
Group retirement benefits	**435**	**7,427**	**–**	**7,862**
Other	**1,060**	**(1,483)**	**–**	**(423)**
	13,602	**5,064**	**(375)**	**18,291**

34 Deferred tax *(continued)*

	At 1 January 2014	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*At 31 December 2014*
	€000	€000	€000	€000
Depreciation of property, plant and equipment	(1,659)	(466)	–	(2,125)
Loan impairment allowances	24,112	6,098	–	30,210
Fair valuation of property	(6,027)	(1)	3	(6,025)
Fair value movements on available-for-sale investments	(5,721)	–	(4,232)	(9,953)
Group retirement benefits	674	(239)	–	435
Other	1,125	(65)	–	1,060
	12,504	5,327	(4,229)	13,602

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period.

Following changes to the taxation rules on capital gains arising on transfer of immovable property as announced by the Minister for Finance during the Budget Speech for the financial year 2015, and in respect of which a Bill entitled 'An Act to implement Budget measures for the financial year 2015 and other administrative measures' came into effect on 30 April 2015, the final tax on transfers of immovable property acquired after 1 January 2004 was reduced to 8% of the transfer value while the rate in respect of transfers of property acquired before 1 January 2004 was reduced to 10%. The net impact of the application of the changed tax regime on the deferred tax liability attributable to fair valuation of the local group's and the bank's property amounting to €1,199,000 and €1,201,000 respectively was recognised in other comprehensive income.

35 Other assets

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Committed letters of credit	**2,003**	2,281	**2,003**	2,281
Other	**11,956**	18,986	**6,121**	6,665
	13,959	21,267	**8,124**	8,946
Amounts include:				
– due from Group companies	**994**	1,403	**994**	1,403

Other assets are stated net of an individual allowance for uncollectibility of €244,000 (refer to note 16). The local group's Other assets includes €4,082,000 (2014: €9,345,000) related to deferred acquisition costs on investment contracts.

36 Deposits by banks

	Group/Bank	
	2015	2014
	€000	€000
Term deposits	**1,369**	25,952
Repayable on demand	**12,917**	33,896
	14,286	59,848
Amounts include:		
– due to Group companies	**12,025**	28,133

37 Customer accounts

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Term deposits	**1,451,879**	1,561,422	**1,451,879**	1,561,422
Repayable on demand	**3,498,378**	3,305,702	**3,576,439**	3,370,063
	4,950,257	4,867,124	**5,028,318**	4,931,485
Amounts include:				
– due to subsidiary companies	**–**	–	**78,061**	64,361

38 Accruals and deferred income

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Accrued interest	**7,718**	10,807	**7,701**	10,808
Other	**22,355**	16,707	**16,197**	15,262
	30,073	27,514	**23,898**	26,070
Amounts include:				
– due to Group companies	**4,588**	3,198	**3,290**	2,411

39 Liabilities under investment contracts

	Group	
	2015	2014
	€000	€000
At 1 January	**1,030,928**	24,540
Fair value of assets acquired during the year	**–**	993,324
Premiums received	**54,783**	7,761
Amounts paid on surrender and other termination during the year	**(132,702)**	(2,796)
Changes in unit prices and other movements	**33,999**	8,099
At 31 December	**987,008**	1,030,928

40 Liabilities under insurance contracts

	Group	
	Gross	*Gross*
	2015	2014
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**419,318**	411,839
Outstanding claims	**6,125**	3,999
Total non-linked	**425,443**	415,838
Life insurance (linked)		
Provisions for policyholders	**190,735**	175,565
Outstanding claims	**479**	975
Total linked	**191,214**	176,540
Total liabilities under insurance contracts	**616,657**	592,378

40 Liabilities under insurance contracts *(continued)*

	Group			
	Non-linked business	*Linked business*	*All business*	
	Provisions for policy-holders	*Provisions for policy-holders*	*Outstanding claims*	*Total*
	2015	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**
At 1 January	**411,839**	**175,565**	**4,974**	**592,378**
Premiums received	**–**	**22,895**	**–**	**22,895**
Other movements for the year	**7,479**	**(7,725)**	**1,630**	**1,384**
At 31 December	**419,318**	**190,735**	**6,604**	**616,657**
	2014	2014	2014	2014
	€000	€000	€000	€000
At 1 January	348,206	166,258	2,758	517,222
Premiums received	–	23,808	–	23,808
Other movements for the year	63,633	(14,501)	(903)	48,229
Assumed on portfolio transfer	–	–	3,119	3,119
At 31 December	411,839	175,565	4,974	592,378

41 Provisions for liabilities and other charges

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
At 1 January	**2,417**	3,211	**2,417**	3,149
Additional provisions/increase in provisions	**16,414**	1,445	**15,631**	1,445
Provisions utilised	**(1,481)**	(2,239)	**(1,132)**	(2,177)
Amounts reversed	**(217)**	–	**(307)**	–
At 31 December	**17,133**	2,417	**16,609**	2,417

Provisions for liabilities and other charges include amounts in respect of the early retirement scheme introduced by the local group during the year (refer to note 17), outstanding litigation claims against the bank, and other related matters.

A provision amounting to €14,668,000 for the local group and of €14,255,000 for the bank has been recognised in respect of early retirement payments to a number of employees whose employment is to be terminated as part of the early retirement scheme referred to above. The provision reflects the full amount of payments agreed with the individual employees affected and this amount is reflected in note 17 'Employee compensation and benefits' presented under termination benefits.

Litigation provision as at 31 December 2015 amounted to €517,000 (2014: €794,000) for the bank and local group. This provision is expected to be settled after more than one year from the reporting date. The impact of discounting is not considered to be significant. The movement in those provisions for 2015 amounting to €277,000 (2014: increase of €123,000) is recognised in the profit or loss under 'General and administrative expenses'.

Based on legal advice, the Board believes that adequate provisions have been recognised, taking into consideration the timing and amount of the probable economic outflows required in respect of the litigations highlighted.

42 Subordinated liabilities

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
4.60% subordinated unsecured loan stock 2017	**58,204**	58,174	**58,204**	58,174
5.90% subordinated unsecured loan stock 2018	**29,159**	29,110	**29,942**	29,919
	87,363	87,284	**88,146**	88,093
Subordinated loan liabilities held by:				
– subsidiary companies	**–**	–	**783**	809

These above liabilities will, in the event of the winding up of the bank, be subordinated to the claims of depositors and other creditors. The Bank did not have any defaults of interest or other breaches with respect to its subordinated liabilities during the current and comparative periods.

43 Other liabilities

	Group		Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Bills payable	**12,169**	13,947	**12,169**	13,947
Committed letters of credit	**2,003**	2,281	**2,003**	2,281
Other	**15,569**	27,875	**12,187**	13,910
	29,741	44,103	**26,359**	30,138

44 Called up share capital

	2015	2014
	€000	€000
Group/Bank		
Authorised		
470,000,000 Ordinary shares of 30 cent each	**141,000**	141,000
Issued and fully paid up		
360,306,099 (2014: 324,271,380) Ordinary shares of 30 cent each	**108,092**	97,281

By virtue of a resolution dated 22 April 2015, the shareholders of the Bank approved the allotment of 36,034,719 ordinary shares of 30 cent each as a bonus issue of one (1) share for every nine (9) shares held by shareholders on the Company's Register of Shareholders as at close of trading on the Malta Stock Exchange on the 29 April 2015.

This bonus issue was allotted to shareholders on 30 April 2015, and thereby increased the issued and fully paid share capital to 360,306,099 shares of 30 cent each, resulting in a paid up share capital of €108,091,800.

45 Reserves

a *Revaluation reserve*

The revaluation reserve comprises the surplus arising on the revaluation of the local group's freehold and long leasehold properties, net of deferred taxation and the cumulative net change in the fair value of available-for-sale financial investments held by the local group, net of deferred taxation. The revaluation reserves are not available for distribution.

	Group	*Bank*
	€000	**€000**
On land and buildings:		
1 January 2014	**24,031**	**23,831**
– Property revaluation	**(28)**	**(28)**
– Release on disposal	**(376)**	**(376)**
– Deferred tax	**48**	**48**
31 December 2014	**23,675**	**23,475**
– Deferred taxes on reduction determined on the basis applicable to disposals	**1,199**	**1,201**
31 December 2015	**24,874**	**24,676**
On available-for-sale investments:		
1 January 2014	**11,076**	**10,805**
– Fair value adjustments	**13,656**	**13,810**
– Transfer to profit or loss on disposal	**(1,719)**	**(1,719)**
– Deferred tax	**(4,178)**	**(4,232)**
31 December 2014	**18,835**	**18,664**
– Fair value adjustments	**4,938**	**5,187**
– Transfer to profit or loss on disposal	**(682)**	**(683)**
– Deferred tax	**(1,489)**	**(1,576)**
31 December 2015	**21,602**	**21,592**
Total	**46,476**	**46,268**

b *Retained earnings*

Retained earnings include the Depositor Compensation Scheme reserve which is excluded for the purposes of the Own Funds calculations (refer to note 6) and the General Banking Risk reserve which is held as a capital buffer for regulatory purposes.

Depositor Compensation Scheme reserve

The Depositor Compensation Scheme reserve amounts to €30,831,000 (2014: €28,551,000).

As at 31 December 2015, debt securities with a carrying amount of €29,980,520 had been pledged in favour of the Depositor Compensation Scheme (refer to note 26a). At 31 December 2014, Central Bank balances amounting to €8,000,000 had been pledged in favour of the scheme (refer to note 21).

General Banking Risk reserve

Banking Rule BR 09 'Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994', issued by the MFSA, requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from planned dividends. As at the reporting date, this reserve amounted to €8,000,000 (representing 100% of the total estimated amount). The increase during the year under review amounted to €988,000.

46 Contingent liabilities

	Group Contract amount		Bank Contract amount	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
– Guarantees	**108,762**	102,163	**108,762**	103,866
– Standby letters of credit	**23,120**	30,216	**23,120**	30,216
– Other contingent liabilities	**1,889**	1,069	**1,889**	1,069
	133,771	133,448	**133,771**	135,151
Amounts include:				
– in favour of Group companies	**2,480**	1,413	**2,480**	1,413
– in favour of subsidiary companies	**–**	–	**–**	1,703

The local group provides guarantees and similar under takings on behalf of third party customers. These guarantees are generally provided in the normal course of the group's banking business. The maximum potential amount of future payments which the local group could be required to make at 31 December is disclosed in the table above. The risks and exposures arising from guarantees are captured and managed in accordence with the local group's overall credit risk maangement policies and procedures.

Other contingent liabilities relate to legal claims against the bank. Based on legal advice, it is not considered probable that settlement will require the outflow of economic benefir, in the case of these legal claims, or the amount of the obligation cannot be reliably measured.

47 Commitments

	Group Contract amount		Bank Contract amount	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Documentary credits	**36,513**	24,585	**36,513**	24,585
Undrawn formal standby facilities, credit lines and other commitments to lend	**1,256,092**	1,266,640	**1,256,289**	1,270,690
	1,292,605	1,291,225	**1,292,802**	1,295,275
Amounts include:				
– in favour of Group companies	**26,139**	178,395	**26,139**	178,395
– in favour of subsidiary companies	**–**	–	**197**	4,050

The above commitments exclude commitments in relation to capital expenditure and operating leases which are disclosed in note 48.

48 Capital and lease commitments

a *Capital commitments*

Capital commitments are made up of:

	2015	2014
	€000	€000
Group/Bank		
Property, plant and equipment	**1,154**	3,584

b *Operating leases*

At 31 December 2015, the local group and the bank were party to non-cancellable operating lease agreements of properties, in respect of which the future minimum lease payments extend over a number of years. The leases run for an initial period of up to one hundred and fifty years. Specific lease arrangements include an option to renew the lease after the original term but the amounts presented to the tables above do not reflect lease charges applicable to the renewal period.

Total future minimum lease net payments under non-cancellable property operating leases:

	2015	2014
	€000	€000
Group/Bank		
Less than one year	**1,032**	1,035
Between one year and five years	**673**	671
More than five years	**2,535**	2,022
	4,240	3,728

Lease payments recognised in profit or loss under 'General administrative expenses' amounted to €1,263,000 (2014: €1,222,000). This amount includes a payment of €78,000 (2014: €78,000) in respect of rent paid on one property which is subject to a sub-lease agreement for the same amount.

49 Dividends

	Bank			
	2015	2014	**2015**	2014
	% per share	% per share	**€000**	€000
Gross of income tax				
% per 30 cent share				
– prior year's final	**9**	17	**8,431**	15,176
– interim	**17**	15	**18,375**	14,592
	26	32	**26,806**	29,768
	Cent per share	Cent per share	**€000**	€000
Net of income tax				
cent per 30 cent share				
– prior year's final	**1.70**	3.38	**5,511**	9,864
– interim	**3.32**	2.92	**11,944**	9,485
	5.02	6.30	**17,455**	19,349

49 Dividends *(continued)*

The Directors have proposed a final gross ordinary dividend of 2.6 cent (2014: 2.6 cent) per share. The final dividend will be payable to shareholders on the bank's register as at 16 March 2016.

	Bank	
	2015	2014
	€000	€000
Proposed dividend		
Profit for the year	**29,480**	33,617
Available for distribution as per dividend policy	**19,162**	18,489
Less: interim dividend paid	**(11,944)**	(9,485)
Available for distribution at year end	**7,218**	9,004
Allocation to General Banking Risk Reserve (note 45)	**(988)**	(3,493)
Proposed final dividend	**6,230**	5,511
Issued and fully paid up shares (note 44)	**360,306**	324,271
	Cent per share	Cent per share
Proposed final dividend		
– gross of income tax per share	**2.6**	2.6
– net of income tax per share	**1.7**	1.7

50 Cash and cash equivalents

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**35,307**	31,933	**35,307**	31,933
Balances with Central Bank of Malta (excluding reserve deposit)	**–**	8,111	**–**	8,111
Malta Government Treasury Bills	**50,000**	28,497	**50,000**	28,497
Loans and advances to banks	**721,715**	817,739	**609,222**	738,901
Deposits by banks	**(13,354)**	(58,595)	**(13,354)**	(58,595)
Per Statements of Cash Flows	**793,668**	827,685	**681,175**	748,847
Adjustment to reflect balances with contractual maturity of more than three months	**221,020**	105,595	**221,020**	105,595
Per Statements of Financial Position	**1,014,688**	933,280	**902,195**	854,442
Analysed as follows:				
Cash and balances with Central Bank of Malta	**83,565**	86,537	**83,565**	86,537
Malta Government Treasury Bills	**103,998**	31,496	**103,998**	31,496
Loans and advances to banks	**841,411**	875,095	**728,918**	796,257
Deposits by banks	**(14,286)**	(59,848)	**(14,286)**	(59,848)
	1,014,688	933,280	**902,195**	854,442

51 Segmental information

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by global business.

- Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products, global asset management services and financial planning services).
- Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small and medium sized enterprises, mid-market enterprises and corporates. These include credit and lending and international trade and receivables finance. CMB also offers it's customers access to products and services offered by other global businesses, for example Global Banking & Markets ('GB&M').
- GB&M provides tailored financial solutions to corporate and institutional clients. The client-focused business line delivers a full range of banking capabilities including assistance with managing risk via interest rate derivatives, the provision of foreign exchange spot and derivative products, and payment services.

The local group's internal reporting to the Board of Directors and Senior Management is analysed according to these business lines. For each of the businesses, the Senior Management, in particular the Chief Executive Officer, as chief operating decision-maker, reviews internal management reports in order to make decisions about allocating resources and assessing performance.

The Board considers that global businesses represent the most appropriate information for the users of the financial statements to best evaluate the nature and financial effects of the business activities in which the local group engages, and the economic environments in which it operates. As a result, the local group's operating segments are cosidered to be the global businesses.

	Retail Banking and Wealth Management	*Commercial Banking*	*Global Banking and Markets*	*Group Total*
	2015	**2015**	**2015**	**2015**
	€000	**€000**	**€000**	**€000**
Group				
Net interest income				
– External	**52,847**	**60,929**	**12,760**	**126,536**
– Internal	**10,970**	**(14,917)**	**4,447**	**500**
	63,817	**46,012**	**17,207**	**127,036**
Net non-interest income	**31,686**	**12,145**	**5,488**	**49,319**
Net operating income before loan impairment charges	**95,503**	**58,157**	**22,695**	**176,355**
Loan impairment charges	**(4,759)**	**(6,010)**	**(57)**	**(10,826)**
Net operating income	**90,744**	**52,147**	**22,638**	**165,529**
Employee compensation and benefits	**(47,734)**	**(17,742)**	**(3,009)**	**(68,485)**
General and administrative expenses	**(32,122)**	**(9,930)**	**(1,502)**	**(43,554)**
Depreciation of property, plant and equipment	**(2,433)**	**(999)**	**(143)**	**(3,575)**
Amortisation of intangible assets	**(2,110)**	**(942)**	**(91)**	**(3,143)**
Profit before tax	**6,345**	**22,534**	**17,893**	**46,772**
Assets				
Segment total assets	**3,691,818**	**1,439,963**	**2,105,043**	**7,236,824**
Average total assets	**3,679,486**	**1,460,192**	**2,078,229**	**7,217,907**
Total Equity	**218,068**	**165,120**	**77,928**	**461,116**

51 Segmental information *(continued)*

	Retail Banking and Wealth Management	*Commercial Banking*	*Global Banking and Markets*	*Total*
	2014	2014	2014	2014
	€000	€000	€000	€000
Group				
Net interest income				
– External	46,180	62,441	13,941	122,562
– Internal	12,602	(16,685)	4,083	–
	58,782	45,756	18,024	122,562
Net non-interest income	30,058	13,336	7,304	50,698
Net operating income before loan impairment charges	88,840	59,092	25,328	173,260
Loan impairment charges	(2,319)	(20,196)	(30)	(22,545)
Net operating income	86,521	38,896	25,298	150,715
Employee compensation and benefits	(35,331)	(13,966)	(2,447)	(51,744)
General and administrative expenses	(27,646)	(10,780)	(1,872)	(40,298)
Depreciation of property, plant and equipment	(2,260)	(1,048)	(152)	(3,460)
Amortisation of intangible assets	(2,075)	(928)	(89)	(3,092)
Profit before tax	19,209	12,174	20,738	52,121
Assets				
Segment total assets	3,667,153	1,480,420	2,051,414	7,198,987
Average total assets	3,123,533	1,503,048	1,828,972	6,455,553
Total Equity	216,707	166,931	61,467	445,105

52 Related party transactions

The immediate parent company of the local group and the bank is HSBC Europe BV, a company incorporated in Netherlands, with its registered address at Karspeldreef 6K, Amsterdam, 1101 CJ Netherlands.

The ultimate parent company of the local group and the bank is HSBC Holdings plc, a company incorporated in England, with its registered address at 8, Canada Square, London E14 5HQ United Kingdom.

Related parties of the local group and the bank include subsidiaries, the ultimate parent, all entities controlled by the ultimate parent, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank Malta p.l.c., being the Directors and the bank's Executive Committee members.

52 Related party transactions *(continued)*

a *Transactions, arrangements and agreements involving Directors and other key management personnel*

The table below sets out transactions and arrangements involving Key Management Personnel, close family members and entities controlled or jointly controlled by them:

	Highest balance during the year	*Balance at end of year*	*Highest balance during the year*	*Balance at end of year*
	2015	**2015**	2014	2014
	€000	**€000**	€000	€000
Loans	**5,350**	**4,904**	723	676
Credit card balances	**22**	**17**	34	33
Guarantees issued	**32**	**32**	31	31
Commitments to lend	**6,250**	**4,793**	430	404

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. The disclosure of the highest balance during the year is considered the most meaningful information to represent the amount of the transactions during the year.

b *Compensation of Directors and other key management personnel*

The following represents the compensation of Directors and other Key Management Personnel in exchange for services rendered to the bank for the period they served during the year. This reflects a number of changes at Board level during 2014 and during 2015.

	2015	2014
	€000	€000
Directors' emoluments (including non-executive directors)		
Salaries and other employments	**636**	923
Benefits	**248**	199
Share-based payments	**123**	117
	1,007	1,239
Other key management personnel		
Salaries and other emoluments	**2,267**	1,626
Benefits	**640**	551
Share-based payments	**127**	119
	3,034	2,296

52 Related party transactions *(continued)*

c *Transaction with other related parties*

i Transactions with HSBC Bank plc

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Assets				
Derivatives	**3,803**	5,207	**3,803**	5,205
Financial investments	**–**	32	**–**	–
Loans and advances to banks	**351,906**	376,319	**351,906**	377,761
Other assets	**994**	1,403	**994**	1,403
Prepayments and accrued income	**190**	708	**190**	164
Liabilities				
Derivatives	**7,818**	8,226	**7,818**	8,226
Accruals and deferred income	**370**	360	**370**	271
Income statement				
Interest income	**473**	824	**473**	824
Interest expense	**38**	1	**38**	1
Fee income	**395**	455	**395**	455
Fee expense	**167**	177	**167**	177
Other income	**1,011**	1,436	**1,011**	1,078
Employee compensation and benefits	**518**	3,280	**430**	2,932
General and administrative expenses	**4,760**	3,480	**4,110**	2,710

ii Transactions with other subsidiaries of HSBC Holdings plc

	Group		*Bank*	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Assets				
Loans and advances to banks	**384,522**	411,198	**370,197**	397,395
Liabilities				
Accruals and deferred income	**2,920**	2,838	**2,917**	2,139
Income statement				
Interest income	**729**	657	**729**	657
Interest expense	**26**	20	**26**	20
Fee income	**422**	250	**422**	250
Fee expense	**2**	14	**2**	14
Other income	**95**	160	**95**	114
General and administrative expenses	**11,490**	9,620	**9,420**	8,250

52 Related party transactions *(continued)*

c *Transaction with other related parties (continued)*

iii Transactions with local group entities

	Bank	
	2015	2014
	€000	€000
Assets		
Loans and advances to customers	**8,200**	11,500
Prepayments and accrued income	**122**	1,650
Liabilities		
Customer accounts	**86,066**	64,361
Accruals and deferred income	**–**	1
Subordinated liabilities	**783**	809
Income statement		
Interest income	**324**	88
Interest expense	**104**	122
Fee income	**3,172**	3,320

The above outstanding balances arose from the ordinary course of business and or substantially the same terms, including interest rates and security, as for comparable transactions with third party counter parties.

53 Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the local group. The local group has established and manages investment funds to provide customers with investment opportunities.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	– These vehicles are financed through the issue of units to investors.	– Investments in units issued by the fund
	– To generate fees from managing assets on behalf of third party investors.	– Management fees

As fund manager, the local group may be entitled to receive a management and performance fee based on the assets under management. The total management fees earned during the year were €3,874,000 (2014: €3,677,000).

The table below shows the total assets of unconsolidated structured entities in which the local group has an interest at the reporting date, and the maximum exposure to loss in relation to those interests. The maximum exposure to loss from the local group's interests in unconsolidated structured entities represents the maximum loss that the local group could incur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

	2015	2014
	€000	€000
Units in HSBC managed investment funds – classified as financial assets at fair value through profit or loss	**63,783**	56,186
Total assets of HSBC Managed funds	**4,611,127**	4,801,976

The maximum exposure to loss is equivalent to the carrying amount of the assets held at the reporting date.

54 Trust and custody activities

The local group provides custody services to individuals, whereby it holds financial assets and invests funds received in various financial instruments at the direction of customers. In line with Group strategy, during 2015, the bank continued the process of exiting from its trust business.

The local group receives fee income for providing these services. Assets held in custody are not assets of the local group and are accordingly not reported in the Statement of Financial Position. The local group is not exposed to any credit risk relating to these assets held in custody.

At 31 December 2015, total assets held by the group on behalf of customers amouted to €2,354,290,000 (2014: €2,374,340,000).

55 Registered office and ultimate parent company

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

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, and the immediate parent company is HSBC Europe B.V., which are incorporated and registered in the United Kingdom and the Netherlands respectively. The registered address of HSBC Holdings plc is 8 Canada Square, London E14 5HQ, United Kingdom and the registered address of HSBC Europe B.V. Karspeldreef 6K, Amsterdam, 1101 CJ, Netherlands. Copies of the HSBC Holdings plc Annual Review 2015, Strategic Report 2015, and Annual Report and Accounts 2015 may be obtained from its registered office or viewed on www.hsbc.com.

56 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.

57 Critical accounting estimates and judgements

This note contains information about critical judgements, significant assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment and that have the most significant effects on the amounts recognised in the financial statements. Information about assumptions and estimation uncertainties relating to fair valuation of financial instruments is disclosed in Note 5. 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.

a *Impairment losses on loans and advances*

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio.

The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models, risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

57 Critical accounting estimates and judgements *(continued)*

a *Impairment losses on loans and advances (continued)*

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

For individually assessed loans, judgement is required in determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgment and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions. Many of the factors have a high degree of interdependency and there is no single factor to which the loan impairment allowances as a whole are sensitive.

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b *Policyholder claims and benefits*

The estimation of future benefit payments and premiums arising from long-term insurance contracts is the local group's most critical accounting estimate. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the local group. Estimates are made as to the expected number of deaths for each of the years in which the local group is exposed to risk. The local group bases these estimates on industry standard mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the local 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, swine 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 local group has significant exposure to mortality risk.

Estimates are also made as to future investment income arising from the assets backing long-term insurance. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rate assumptions for the purposes of valuing liabilities as at reporting date are based on the Euro swap rates curve. Appropriate margins were taken for bond portfolio and equities/property portfolio.

If the average future investment returns differ by +/-1% from management's estimates, the insurance liability would decrease by €17,888,000 (2014: €6,788,000) or increase by €20,779,000 (2014: €22,586,000). In this case there is no relief arising from reinsurance contracts held.

If the number of deaths in future years differ by +/-10% from management's estimate, the liability would increase by €1,169,000 (2014: €1,175,000) or decrease by €1,110,000 (2014: €1,112,000).

For long-term insurance contracts with fixed and guaranteed term and with DPF, estimates of future deaths, investment returns and administration 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.

57 Critical accounting estimates and judgements *(continued)*

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

The PVIF measures the shareholder's share of the future profits that are expected to be earned in future years attributable to the long-term life insurance business in force at the valuation date. Policies classified as investment contracts are excluded. The approach is to take a discounted present value of the expected future shareholder cash flows using the risk discount rate.

The risk free rate of return used within the valuation is the Euro swap rate curve as at 30 December 2015 (2014: same approach). The risk discount rate is based on the risk free curve with an additional 0.5% margin (2014: 0.5% margin) to allow for operational risk. The PVIF valuation assumes lapse rates varying by product and duration in-force that range from 0% to 19% pa (2014: from 0% to 14% pa). Expense inflation is calculated as a blend of wage inflation and price inflation, with the latter based on an adjusted French inflation curve. This results in a term dependent expense inflation assumption increasing from 1.7% p.a. to 2.7% p.a. (2014: 1.5% p.a. to 2.8% p.a.).

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The following table shows the effect on the PVIF of reasonably possible changes in the main assumptions across the insurance business:

		2015	2014
Assumptions	**Movement**	**€000**	€000
Risk free rate	+100 basis points	**(2,232)**	9,186
Risk free rate	-100 basis points	**2,981**	4,141
Expenses	+10%	**(853)**	(670)
Expenses	-10%	**919**	747
Lapse rate	+100 basis points	**867**	951
Lapse rate	-100 basis points	**(1,413)**	(1,642)

58 Comparative information

Comparative figure presented with the consolidated income statement and the consolidated financial position have been reclassified to conform with the current year's presentation format. The key reclassification relates to the fact that during the current year, the local group reclassified certain contracts from within insurance contract liabilities to investment contact liabilities. The impact of this reclassification on liabilities as at 31 December 2014 amounts to €10,334,000. In view of the nature and magnitude of this reclassification, disclosure of the impact on the group's financial position at 1 January 2014 was not deemed necessary.

a *Overview*

These Additional Regulatory Disclosures (ARDs) are aimed at providing the local group's stakeholders further insight to the local group's capital structure, adequacy and risk management practices. The disclosures outlined below have been prepared by the local group in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority (MFSA). Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013.

In light of the fact that the local group is considered a significant subsidiary of HSBC Holdings plc, consolidated supervision at the level of HSBC Holdings plc, the local group is exempt from full disclosure requirements laid down in Part Eight of the CRR. It is however subject to disclosure requirements in terms of article 13 of the CRR.

The basis of consolidation for the purpose of financial reporting under International Financial Reporting Standards (IFRSs), described in Note 3 of the Annual Report, differs from that used for regulatory purposes. For regulatory reporting purposes, subsidiaries engaged in insurance activities are excluded from the regulatory consolidation and deducted from regulatory capital subject to thresholds. On the basis of Article 43(a) of the CRR, the investment in HSBC Life Assurance (Malta) Limited is deemed to be significant for the purposes of capital requirements.

The local group publishes these disclosures on an annual basis as part of the Annual Report. As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The local group, through its internal verification procedures, is satisfied that these ARDs are presented fairly.

b *Capital management*

The local group's approach to capital management is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which it operates. It is the local group's objective is to maintain a strong capital base to support the risks inherent in its business and to meet regulatory capital requirements at all times. To achieve this, the local group manages capital within the context of an annual capital plan which is approved by the Board and which determines the optimal amount and mix of capital required to support planned business growth and meet regulatory capital requirements. Capital generated in excess of planned requirements is returned to shareholders in the form of dividends.

The impact of the local group's capital plan on shareholder returns is therefore recognised by the level of equity capital employed for which the local group seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity from increased leverage.

The local group manages its capital requirements based on internal targets, which are set above the prescribed minimum levels established within the CRR.

i Own funds

For regulatory purposes, the bank's capital base is divided into CET1 capital and Tier 2 capital.

The bank's CET1 capital includes the following items:

- called up share capital;
- retained earnings;
- reserve for general banking risks; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes, including the treatment of investments in financial sector entities, deferred tax assets, deductions relating to amounts pledged in favour of the Depositor Compensation Scheme and deductions relating to intangible assets.

b *Capital management (continued)*

i Own funds (continued)

The bank's Tier 2 capital consists of:

– subordinated liabilities;

– revaluation reserves made up of the surplus on the revaluation of property, net of defered taxation, and gains on the fair valuation of available-for-sale financial investments, net of deferred taxation; and

– other regulatory adjustments under Article 66(d) and 69 of the CRR.

The following describes the terms and conditions of called up share capital and subordinated liabilities, which are included in the local group's total own funds.

Capital Instruments Main Features	*HSBC Ordinary shares @ par*	*4.6% HSBC Bank Malta p.l.c. Subordinated Bonds 2017 @ par*	*5.9% HSBC Bank Malta p.l.c. Subordinated Bonds 2018 @ par*
Unique identifier	MT0000030107	MT0000031220	MT0000031238
Governing Law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law
Regulatory Treatment			
Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
Eligible at solo/(sub)consolidated /solo & (sub)consolidated	Solo & (Sub) consolidated	Solo & (Sub) consolidated	Solo & (Sub) consolidated
Amount recognised in regulatory capital	108,091,800	11,540,230	16,850,150
Nominal amount of instrument	108,091,800	58,234,390	30,000,000
Issue Price	N/A	At par (€100 per bond)	At par (€100 per bond)
Redemption Price	N/A	At €100	At €100
Accounting classification	Share Equity	Liability – amortised cost	Liability – amortised cost
Original date of issuance	27 January 1993*	12 February 2007	16 October 2008
Perpetual or dated	N/A	Dated	Dated
Original maturity date	No	01 February 2017	07 August 2018
Issuer call subject to prior supervisory approval	No	No	Yes
Coupons/dividends			
Fixed or floating dividend coupon	Floating	Fixed	Fixed
Coupon rate and any related index	N/A	4.60%	5.90%
Existence of dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Mandatory
Existence of step up or other incentive to redeem	N/A	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
Write-down features	No	No	No
Position in subordination hierarchy in liquidation	Subordinated to HSBC Subordinated Bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
Non-compliant transitional features	No	No	No

* Date when the bank was initially listed on the Malta Stock Exchange

b *Capital management (continued)*

i Own funds (continued)

Further to the above, the local group's total own funds include other items the terms of which are described below.

a Retained earnings

The retained earnings represent earnings not paid out as dividends. Interim profits form part of Own funds only if those profits have been verified by the local group's independent external auditor. The local group may only make distributions out of profits available for this purpose.

Retained earnings includes an amount of €30,831,000 pledged in favour of the Depositor Compensation Scheme as at 31 December 2015, that are not available to the local group for unrestricted and immediate use to cover risk of losses as soon as they occur. The Depositor Compensation Scheme Reserve is excluded for the purposes of the Own Funds calculation.

Moreover, an amount of €8,000,000 is also included in retained earnings relating to the reserve for general banking risks, since the local group is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'. This reserve refers to the amount allocated by the bank from its retained earnings, to a non-distributable reserve against potential risks linked to the local group's non-performing loans and advances. During the year ended 31 December 2015 the local group allocated an amount of €988,000 to the reserve as a Pillar 2 measure.

b Revaluation reserves

Property revaluation reserve

This represents the surplus arising on the revaluation of the local group's property net of related deferred tax effects. This reserve is not available for distribution.

Available-for sale financial investments reserve

This represents the cumulative net change in fair values of available-for-sale financial investments held by the local group, net of related deferred tax effects.

In accordance with article 492 of the CRR, the local group is required to complete a transitional disclosure template during the phasing in of regulatory adjustments from 1 January 2014 to 31 December 2017. The transitional disclosure template is set out below.

	As at 31 December 2015
	€000
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	108,092
Retained earnings	213,163
Accumulated other comprehensive income (and other reserves)	46,476
Funds for general banking risk	8,000
Independently reviewed profits net of any foreseeable dividend	23,249
CET1 capital before regulatory adjustments	398,980
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(7,610)
Depositor Compensation Scheme Reserve	(30,831)
Regulatory adjustments relating to investment property	(2,710)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(27,969)
Other	88
Total regulatory adjustments to CET1	(69,032)
CET1 capital	**329,948**

b *Capital management (continued)*

i Own funds (continued)

b Revaluation reserves (continued)

	As at 31 December 2015
	€000
Tier 2 capital	
Capital instruments and subordinated liabilities	133,837
Tier 2 capital: regulatory adjustments	
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	(84,260)
Total Tier 2 capital	**49,577**
Total own funds	**379,525**
Total risk-weighted assets	**2,678,713**
Capital ratios	
CET1 capital	12.3%
Total capital	14.2%

The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiaries engaged in insurance activities from the regulatory consolidation.

ii Capital requirements

The local group is required to maintain a ratio of total regulatory capital to risk-weighted assets (Total capital ratio) above the prescribed minimum level of 8%.

Pillar 1 capital requirements are based on standard rules and set the minimum own funds requirements to cover credit risk, market risk and operational risk of credit institutions. The local group uses the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method with respect to market risk, in relation to the local group's foreign exchange risk. Under the Standardised Approach, the local group utilises risk weights determined by exposure class, credit risk mitigation and credit ratings as outlined in the CRR. Capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income.

The local group will be fully implementing the CRD IV capital requirements with effect from January 2019. In respect of the local group, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', will require additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD IV combined buffer.

The local group will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the bank as from 1 January 2019. This buffer will be phased in over the period from 1 January 2016 to 31 December 2018.

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. Given that the local group's exposures are mainly contained within Malta, this buffer is expected to be marginal, since the deviation of Malta's credit-to-GDP ratio is not expected to be significant taking cognisance of its long-term trend.

b *Capital management (continued)*

ii Capital requirements (continued)

Given the local group's position and its systematic relevance to the financial system in Malta, the local group is also required to maintain an O-SII buffer also made up of CET1 capital. This buffer is also institution specific and may be set at a maximum of 2% of an systemically important institution's total risk exposure amount. In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigating structural macroprudential risk. The 'systemic risk buffer' may range between 0% and 5%. In the case of the local group, the higher of the O-SII buffer and the systemic risk buffer applies.

	Exposure value	*Risk weighted assets*	*Capital Required*
	€000	**€000**	**€000**
At 31 December 2015			
Central governments or Central banks	1,147,834	–	–
Public sector entities	137,048	316	25
Institutions	940,148	170,353	13,628
Corporates	306,419	124,204	9,936
Retail	167,521	121,471	9,718
Secured by mortgages on immovable property	2,558,793	1,461,937	116,955
Exposures in default	274,179	267,170	21,374
Other items	218,538	243,003	19,440
Credit risk	5,750,480	2,388,454	191,076
Operational risk		285,890	22,871
Foreign exchange risk		4,369	350
Total capital required		**2,678,713**	**214,297**
Own funds			
Common Equity Tier 1			329,948
Tier 2			49,577
Total own funds			**379,525**
Total capital ratio			**14.2%**

iii Pillar 2 and Internal Capital Adequacy Assessment Process (ICAAP)

As stipulated in Section 1 of Chapter 2 of CRD IV, the local group is required to have in place an internal process to assess the adequacy of capital levels in relation to its overall risk profile. The outcome of this process is enshrined in a document known as the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP encompasses the adequacy of capital requirements for Pillar 1 risks, namely credit, market and operational, and other material residual risks not fully captured under Pillar 1, including concentration, liquidity, reputational and strategic risks, and interest rate risk in the banking book and risks arising from the macroeconomic environment.

Through the ICAAP, the local group examines its risk profile from a capital viewpoint, aiming to ensure that capital resources:

– remain sufficient to support the risk profile and outstanding commitments of the local group;

– exceed current regulatory requirements, and ensures that the local group is well placed to meet those expected in the future;

– allow the local group to remain adequately capitalised in the event of a severe economic downturn stress scenario; and

– remain consistent with the strategic and operational goals and investor expectations.

The minimum regulatory capital that the local group is required to hold is determined by the rules and guidance established by the ECB, through the CRD IV and the CRR. These capital requirements are a primary influence shaping the business planning process, in which RWA targets are established in accordance with the local group's strategic direction and risk appetite.

b *Capital management (continued)*

iii Pillar 2 and Internal Capital Adequacy Assessment Process (ICAAP) (continued)

The ICAAP and its constituent capital calculations are examined by the joint supervisory team, as part of its supervisory review and evaluation process. This examination informs the regulator's view of the local group's Pillar 2 capital requirements.

Preserving the local group's strong capital position remains a priority, and the level of integration of risk and capital management helps to optimise the local group's response to business demand for capital. Risks that are explicitly assessed through capital are credit risk including counterparty credit risk, market and operational risk, interest rate risk in the banking book, insurance risk, pension risk, residual risk and structural foreign exchange risk.

Furthermore, stress testing forms an integral part of the risk and capital management framework and is an important component of ICAAP. Its main purpose is to highlight to senior management potential adverse unexpected outcomes that could arise under hypothetical scenarios, and provides a quantitative indication of how much capital might be required to absorb the losses, should such adverse scenarios occur. Stress testing is used to assess risk concentrations, estimate the impact on revenue, impairments, write-downs and the resultant capital adequacy under a variety of adverse scenarios.

Macroeconomic stress testing considers the impact on both revenue and capital under a range of scenarios. It entails multiyear systemic shocks to assess the local group's ability to meet its capital requirement and liabilities as they fall due under a downturn in the business cycle and/or macroeconomic environment.

The stress testing framework brings multiple benefits to risk management, including: understanding the impact of recessionary scenarios; assessing material risk concentrations; impact of market price movements; and, forecasting of the balance sheet management and liquidity.

A series of stress events are run on a regular basis to assess the potential impact of an extreme yet plausible event on the local group. In an adverse scenario, a range of mitigating actions is ready to be implemented whenever the need arises. The latter also forms part of the ICAAP document.

From the local group's 2015 ICAAP, prior to applying stress testing scenarios, the local group maintained a strong capital position throughout the period reviewed. CET1 capital remained robust and comfortably above the risk appetite limit of 10% as well as the regulatory minimum, adjusted for the conservation buffer. With the application of severe stress scenarios, the local group maintained its strong CET1 capital base for absorbing the impact of the stress whilst continuing to meet its regulatory capital requirements.

The ICAAP document has been independently followed and evaluated by the local group's Internal Audit unit.

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c *Credit risk*

i Introduction to credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance and treasury business, principally from the holdings of debt securities but also from off-balance sheet products such as guarantees. The local group has standards, policies and procedures dedicated to control and monitor the risk arising from all such activities.

ii Credit risk management

Within the overall framework of the local group policy, the local group has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis which includes the management of adverse trends. Management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentrations by market sector and product.

The bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly.

c *Credit risk (continued)*

ii Credit risk management (continued)

The principal objectives of the local group's credit risk management are:

– to maintain a strong culture of responsible lending and a robust risk policy and control framework;

– to both partner and challenge global businesses in defining, implementing, and continually re-evaluating risk appetite under actual and scenario conditions; and

– to ensure there is independent, expert scrutiny of credit risks.

Within the bank, the Credit Risk function's responsibilities include:

– formulating credit policy;

– guiding business on appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;

– undertaking an independent review and objective assessment of risk and exposures over designated limits, prior to the facilities being committed to customers or transactions being undertaken;

– monitoring the performance and management of portfolios;

– controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities;

– setting policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the capital base, and remain within internal and regulatory limits;

– maintaining and developing the risk rating framework and systems and overseeing risk rating system governance for both wholesale and retail businesses; and

– reporting on retail portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results.

Special attention is paid to problem exposures in order to accelerate remedial action. The local group uses specialist units to provide customers with support in order to help them avoid default wherever possible.

The table below reflects the local group's maximum exposure to credit risk before collateral held or other credit enhancements in accordance with the regulatory information submitted to the MFSA, as follows:

	Average exposure	*Year end exposure value*
	2015	**2015**
	€000	**€000**
Central Government or central banks	1,141,539	1,147,834
Public sector entities	173,339	137,048
Institutions	987,624	940,148
Corporates	251,730	306,419
Retail exposures	175,633	167,521
Secured by mortgages on immovable property	2,501,791	2,494,563
Exposures in default	288,385	274,179
Items associated with particular high risk	65,712	64,230
Other items	277,794	218,538
Total	**5,863,547**	**5,750,480**

c *Credit risk (continued)*

ii Credit risk management (continued)

The residual maturity breakdown by exposure class at year-end was as follows:

	Total	*Less than one year*	*Over one but less than five years*	*Over five years*	*No maturity*
	€000	**€000**	**€000**	**€000**	**€000**
At 31 December 2015					
Central government or central banks	1,147,834	313,382	762,400	72,052	–
Public sector entities	137,048	314	115,816	–	20,918
Institutions	940,148	705,968	216,530	17,651	–
Corporates	306,419	350	121,671	101,543	82,855
Retail Exposures	167,521	5,687	34,768	49,195	77,870
Secured by mortgages on immovable property	2,494,563	28,414	354,270	1,503,663	608,216
Exposures in default	274,179	274,179	–	–	–
Items associated with particular high risk	64,230	13,870	16,206	5,986	28,168
Other items	218,538	–	–	–	218,538
Total	**5,750,480**	**1,342,164**	**1,621,661**	**1,750,090**	**1,036,565**

iii Credit concentration risk

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The local group uses a number of controls and measures to minimise undue concentration of exposure in its portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Credit concentration risk analysed by counterparty

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 24.8% of the total loan portfolio as at end of 2015. These exposures are strictly monitored by management and every reasonable step is taken to reduce this concentration and spread risk over a wider customer base with further growth in the loan portfolio.

The maximum on-balance sheet credit exposure to any client, group of connected clients or counterparty as at 31 December 2015 amounted to €154,191,000 before taking account of collateral or other credit enhancements.

Within its daily operations, the local group transacts with counterparty banks and other financial institutions. By conducting these transactions, the local group is running the risk of losing funds due to the possible delays in the repayment of existing and future obligations by counterparty banks. To mitigate this risk, the local group places short-term funds solely with pre-approved counterparties subject to pre-established limits determined on the basis of the respective institution's credit rating as well as with its parent. The positions are checked against the limits on a daily basis and in real time.

As prescribed in article 400(2)(c), in light of the fact that the local group is subject to prudential supervision on a consolidated basis, the local group's exposure with its parent is exempt from limits to large exposures outlined in article 395(1) of the CRR. Similarly, the local group invests in debt securities issued by Maltese government, and given that these exposures attract a 0% risk weight, they are also exempt from large exposure limits.

c *Credit risk (continued)*

iii Credit concentration risk (continued)

Credit concentration risk analysed by industry sector

An industry sector analysis of the local group's exposure amounts split by exposure class is shown in the following table:

			Corporate and commercial				
	Total	*Personal*	*Property*	*Manu-facturing*	*Government*	*Other commercial*	*Financial*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
At 31 December 2015							
Central government or central banks	1,147,834	–	–	–	1,147,834	–	–
Public sector entities	137,048	–	–	–	76,246	60,802	–
Institutions	940,148	–	–	–	–	–	940,148
Corporates	306,419	–	4,880	10,111	–	291,428	–
Retail Exposures	167,521	142,196	1,433	1,808	–	22,084	–
of which: SME	*25,325*	–	*1,433*	*1,808*	–	*22,084*	–
Secured by mortgages on immovable property	2,494,563	1,767,569	54,480	61,670	–	610,844	–
of which: SME	*539,511*	–	*53,096*	*35,996*	–	*450,419*	–
Exposures in default	274,179	74,809	13,703	14,668	–	170,999	–
Items associated with particular high risk	64,230	–	–	–	–	64,230	–
Other items	218,538	183,433	–	–	–	32,227	2,878
Total assets	**5,750,480**	**2,168,007**	**74,496**	**88,257**	**1,224,080**	**1,252,614**	**943,026**

Credit concentration risk analysed by geographical distribution

The geographical concentration of the local group's exposure classes as at the end of the reporting period are analysed in the following table.

	Total	*Malta*	*Europe*	*Other*
	€000	**€000**	**€000**	**€000**
At 31 December 2015				
Central government or central banks	1,147,834	830,631	316,870	333
Public sector entities	137,048	137,048	–	–
Institutions	940,149	1,015	799,505	139,629
Corporates	306,419	306,418	–	1
Retail Exposures	167,520	165,206	658	1,656
Secured by mortgages on immovable property	2,494,563	2,414,483	47,983	32,097
Exposures in default	274,179	274,169	–	10
Items associated with particular high risk	64,230	64,230	–	–
Other items	218,538	218,538	–	–
Total	**5,750,480**	**4,411,738**	**1,165,016**	**173,726**

c *Credit risk (continued)*

iv Credit quality

The local group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss. The credit quality of unimpaired loans is assessed by reference to the local group's standard credit rating system.

The four classifications below describe the credit quality of the local group's lending, debt securities and derivatives.

– Strong: exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Personal accounts operate within product parameters and only exceptionally show any period of delinquency.

– Medium: exposures require closer monitoring and demonstrate an average to good capacity to meet financial commitments, with low to moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.

– Sub-standard: exposures require varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

– Impaired: exposures have been assessed, individually or collectively as impaired.

As illustrated in the table below, these classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and personal lending business as well as external rating grades, attributed by external agencies to debt securities. There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality.

Quality classification	*Debt securities and other bills – External credit rating*	*Wholesale and retail lending – Internal credit rating*
Strong	A- and above	CRR 1 to CRR 2
Medium	BBB+ to B and unrated	CRR 3 to CRR 5
Sub-standard	B- and below	CRR 6 to CRR 8
Impaired	Impaired	CRR 9 to CRR 10

The Customer Risk Rating (CRR) 10-grade scale assigned to corporate and personal lending business summarises a more granular underlying CRR scale for these customer segments; this combines obligor and facility/product risk factors in a composite measure.

For debt securities and certain other financial instruments, external ratings have been aligned to the four quality classifications.

c *Credit risk (continued)*

iv Credit quality (continued)

Distribution of financial instruments by credit quality

	Performing			*Non-performing*		
	Strong	*Medium*	*Sub-Standard*	*Impaired*	*Impairment Allowances*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2015						
Balances with Central Bank of Malta and Treasury Bills	152,256	–	–	–	–	152,256
Items in the course of collection from other banks	12,559	–	–	–	–	12,559
Held for trading derivatives	3,803	7,094	–	–	–	10,897
Loans and advances to banks	728,918	–	–	–	–	728,918
Loans and advances to customers	1,003,877	1,977,981	124,632	233,017	(46,692)	3,292,815
Available-for-sale financial investments	522,488	676,304	–	–	–	1,198,792
Accrued income	39,468	–	–	–	–	39,468
Other assets	13,959	–	–	–	–	13,959
	2,477,328	**2,661,379**	**124,632**	**233,017**	**(46,692)**	**5,449,664**

Past due but not impaired gross loans and advances to customers

Past due but not impaired are those loans where although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria described below.

The following table analyses the local group's past due but not impaired gross loans and advances to customers.

	Total
	2015
	€000
Personal	
Past due by up to 29 days	37,897
Past due by up to 59 days	9,207
Past due by up to 89 days	6,021
Corporate and commercial	
Past due by up to 29 days	60,965
Past due by up to 59 days	2,645
Past due by up to 89 days	1,466
	118,201

c *Credit risk (continued)*

iv Credit quality (continued)

Impaired loans and advances

Impaired loans and advances are those that are classified as Customer Risk Rating (CRR) 9 or CRR 10. These grades are assigned when the local group considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days on any material credit obligation to the local group.

Impaired loans and advances also include renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the local group would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment.

The table below analyses the loan impairment charges for the year and the impairment allowances recognised for impaired loans and advances that are either individually assessed or collectively assessed, and collectively impairment allowances on loans and advances classified as not impaired.

	Individually assessed	*Collectively assessed*
	2015	**2015**
	€000	**€000**
At 1 January	39,332	7,546
Amounts written off	(11,223)	811
Recoveries of amounts written off in previous years	3,078	–
Discount unwind	(2,893)	–
Exchange	270	–
Loan impairment charge	10,941	(1,170)
At 31 December	**39,505**	**7,187**
Personal	5,944	2,954
Corporate and commercial	33,561	4,233
At 31 December	**39,505**	**7,187**

In 2015, interest of €2,894,000 was accrued on loans for which individually assessed impairment provisions existed. This represents the unwinding of discounting in accordance with IAS 39.

The local group's impaired and past due but not impaired loans and advances to customers are primarily concentrated in Malta.

	Individually assessed	*Collectively assessed*
	2015	**2015**
	€000	**€000**
New allowance	35,676	2,817
Release of allowance no longer required	(21,657)	(3,987)
Recoveries of amounts previously written off	(3,078)	–
Total loan impairment charge at 31 December	**10,941**	**(1,170)**
Personal		
– residential mortgages	2,962	(93)
– other personal lending	649	1,213
Corporate and commercial		
– commercial real estate	1,103	1,285
– other corporate lending	6,227	(3,575)
Total loan impairment charge at 31 December	**10,941**	**(1,170)**

c *Credit risk (continued)*

iv Credit quality (continued)

Impaired loans and advances (continued)

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively, are recorded as charges in profit or loss, and are recorded against the carrying amount of impaired loans through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include:

– the size of the loan;

– the number of loans in the portfolio; and

– the importance of the individual loan relationship, and how this is managed.

Loans that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology.

For all loans that are considered individually significant, the local group considers on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used by the local group to make this assessment include:

– known cash flow difficulties experienced by the borrower;

– contractual payments of either principal or interest being past due for more than 90 days;

– the probability that the borrower will enter bankruptcy or other financial realisation;

– a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and

– there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For loans where objective evidence of impairment exists, impaired losses are determined considering the following factors:

– the local group's aggregate exposure to the customer;

– the viability of the customer's business model and their capability to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;

– the amount and timing of expected receipts and recoveries;

– the likely dividend available on liquidation or bankruptcy;

– the extent of other creditors' commitments ranking ahead of, or pari passu with, the local 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 costs of obtaining and selling collateral as part of foreclosure.

Determination of the realisable value of security is based on the current market value when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions, such as forced sale discounts.

c *Credit risk (continued)*

iv Credit quality (continued)

Impaired loans and advances (continued)

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least annually and more regularly when circumstances necessitate review. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances

Impairment is assessed on a collective basis:

– to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and

– for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. These credit risk characteristics may include type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the local group has incurred as a result of events occurring before the reporting date, which the local group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses would only be identified individually in the future. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis.

The collective impairment allowance is determined after taking into account:

– historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);

– the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period between a loss occurring and its identification may vary over time as these factors change.

Homogeneous groups of loans and advances

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 local group utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the loans that will eventually be written off as a result of the events occurring before the balance sheet date but which the group is not able to identify individually. Individual loans are grouped using ranges of past due days; statistical analysis is then used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

c *Credit risk (continued)*

iv Credit quality (continued)

Impaired loans and advances (continued)

– When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the local group adopts a formulaic approach based on historical loss rate experience. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is explicitly estimated by local management.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the reporting date.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The reversal is recognised in profit or loss.

Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

v Collateral and other credit enhancements

It is the local group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

The principal collateral types are as follows:

– In the personal sector, mortgages over residential properties, cash and securities; and

– In the commercial real estate sector, charges over the properties being financed;

The table below represents for each exposure class, the total exposure value that is covered by eligible collateral, analysed into residential immovable property, commercial immovable property and other eligible collateral. In the case of exposures secured by mortgage on immovable property, the value is limited to 70% of the market value of the property or the mortgage lending value of the property in the case of residential property, and 50% of the market value of the property or 60% of the mortgage lending value of the property in the case of commercial property. The local group also holds other eligible collateral classified as funded credit protection, such as cash and life insurance policies, as well as liquid sovereign debt securities.

c *Credit risk (continued)*

v Collateral and other credit enhancements (continued)

	Exposure value covered by				
	Residential immovable property	*Commercial immovable property*	*Other eligible collateral*	*Exposure value not covered by eligible collateral*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 December 2015					
Central government or central banks	–	–	56,963	1,090,871	1,147,834
Public sector entities	–	–	136,732	316	137,048
Institutions	–	–	–	940,148	940,148
Corporates	–	–	7,810	298,609	306,419
Retail Exposures	–	–	9,306	158,215	167,521
Secured by mortgages on immovable property	1,829,539	641,389	23,635	–	2,494,563
Exposures in default	188,558	59,309	1,085	25,227	274,179
Items associated with particular high risk	8,066	38,295	9,480	8,389	64,230
Equity					
Other items	–	–	–	218,538	218,538
Total	**2,026,163**	**738,993**	**245,011**	**2,740,313**	**5,750,480**

vi Asset encumbrance

The disclosure on asset encumbrance is a new requirement introduced in Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Carrying amount of encumbered gross assets	*Fair value of encumbered gross assets*	*Carrying amount of unencumbered gross assets*	*Fair value of unencumbered gross assets*
	€000	**€000**	**€000**	**€000**
Group				
At 31 December 2015				
Equity instruments	7,075	7,075	25	–
Debt securities	97,432	97,432	1,099,106	1,099,106
Loan and advances to customers	90,496	90,496	3,278,695	3,278,695
Other assets	–	–	2,748,571	2,748,571
	195,003	**195,003**	**7,126,397**	**7,126,372**
Bank				
At 31 December 2015				
Equity instruments	7,075	7,075	22	–
Debt securities	97,432	97,432	1,094,263	1,094,263
Loan and advances to customers	90,496	90,496	3,286,895	3,286,895
Other assets	–	–	1,123,045	1,123,045
	195,003	**195,003**	**5,504,225**	**5,504,203**

c *Credit risk (continued)*

vi Asset encumbrance (continued)

The local group does not encumber any of the collateral received or any of its own debt securities issued.

As at 31 December 2015, the local group did not have any outstanding liabilities associated with encumbered assets and collateral received.

The bank undertakes the following types of encumbrance:

i Pledging of loans and advances to customers and debt securities against the provision of credit lines by the Central Bank of Malta.

ii Pledging of balances held with the Central Bank of Malta and debt securities in favour of the Depositor Compensation Scheme.

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d *Remuneration policy*

Information on the local group's remuneration policy and practices is disclosed in the Remuneration Report within the Annual Report located on page 37.

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e *Leverage*

The leverage ratio is a regulatory and supervisory tool intended to provide a transparent and non-risk based measurement of an institution to supplement the risk-based capital requirements.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with article 25 of the CR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The initial implementation of the current leverage ratio regime is to be effected as a Pillar 2 measure. The Commission is expected to present a report by 31 December 2016 on the impact and effectiveness of the leverage ratio to the European Parliament and the Council, which would eventually lead to the introduction of the leverage ratio as a binding measure as of 2018. The local group currently complies with the minimum 3% Tier 1 leverage ratio based on fully-transitioned Basel III standards.

The following is the local group's estimated leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

	2015
	€000
Tier 1 capital	329,948
Total exposure measure for the purposes of the leverage ratio	5,726,507
Leverage ratio	**5.76%**

Income Statements and Statements of Comprehensive Income: Five-Year Comparison

Group Income Statements

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Interest receivable and similar income	**150,567**	155,789	162,106	174,637	175,962
Interest expense	**(23,531)**	(33,227)	(37,395)	(41,537)	(46,703)
Net interest income	**127,036**	122,562	124,711	133,100	129,259
Net non-interest income	**49,319**	50,698	62,301	64,576	65,606
Loan impairment charges	**(10,826)**	(22,545)	(3,272)	(5,115)	(8,250)
Operating expenses	**(118,757)**	(98,594)	(93,263)	(97,226)	(98,310)
Profit before tax	**46,772**	52,121	90,477	95,335	88,305
Tax expense	**(17,292)**	(18,504)	(31,760)	(33,733)	(30,738)
Profit for the year	**29,480**	33,617	58,717	61,602	57,567
Earnings per share	**8.5c**	9.7c	18.1c	19.0c	17.8c

Group Statements of Comprehensive Income

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Profit for the year	**29,480**	33,617	58,717	61,602	57,567
Other comprehensive income					
Items that will be reclassified to profit or loss when specific conditions are met					
Available-for-sale investments:					
– fair value gains	**4,938**	13,656	305	16,671	1,193
– fair value (gains)/losses reclassified to profit or loss on disposal	**(682)**	(1,719)	(4,295)	(4,049)	2,107
– amounts transferred to profit or loss on impairment	**–**	–	–	–	4,179
– income taxes	**(1,489)**	(4,178)	1,396	(4,418)	(2,580)
	2,767	7,759	(2,594)	8,204	4,899
Items that will not be reclassified subsequently to profit or loss:					
Properties:					
– revaluation	**–**	(28)	84	(4,022)	–
– income taxes determined on the basis applicable to disposals	**1,199**	3	(20)	583	–
	1,199	(25)	64	(3,439)	–
Other comprehensive income for the year, net of tax	**3,966**	7,734	(2,530)	4,765	4,899
Total comprehensive income	**33,446**	41,351	56,187	66,367	62,466

Statements of Financial Position: Five-Year Comparison

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**187,563**	118,033	151,458	106,991	233,388
Items in the course of collection from other banks	**12,559**	10,990	9,703	7,211	22,685
Financial assets designated at fair value attributable to insurance operations	**1,372,484**	1,421,580	477,345	454,591	370,080
Held for trading derivatives	**11,492**	13,170	12,666	17,615	17,136
Loans and advances to banks	**841,411**	875,095	564,790	681,352	637,956
Loans and advances to customers	**3,284,615**	3,273,381	3,300,982	3,354,413	3,344,290
Available-for-sale financial investments	**1,203,638**	1,153,884	918,292	987,471	936,830
Prepayments and accrued income	**40,863**	44,730	38,677	41,121	40,629
Current tax assets	**11,792**	8,833	7,939	6,134	–
Reinsurance assets	**83,088**	85,337	37,424	–	–
Non-current assets held for sale	**11,347**	9,297	11,783	11,240	12,978
Investment property	**15,458**	16,326	14,529	14,471	14,598
Property, plant and equipment	**58,559**	59,481	61,491	54,872	60,113
Intangible assets	**69,653**	73,971	86,618	91,210	89,011
Deferred tax assets	**18,343**	13,612	12,522	11,273	14,158
Other assets	**13,959**	21,267	15,311	46,509	31,209
Total assets	**7,236,824**	7,198,987	5,721,530	5,886,474	5,825,061
Liabilities					
Deposits by banks	**14,286**	59,848	41,794	258,611	389,170
Customer accounts	**4,950,257**	4,867,124	4,517,862	4,516,999	4,402,975
Held for trading derivatives	**11,732**	13,870	12,929	17,857	17,810
Accruals and deferred income	**30,073**	27,514	30,230	33,559	36,045
Current tax liabilities	**3,508**	172	16	24	4,287
Liabilities under investment contracts	**987,008**	1,030,928	16,763	17,254	16,920
Liabilities under insurance contracts	**616,657**	592,378	524,999	493,254	436,672
Provisions for liabilities and other charges	**17,133**	2,417	3,211	7,493	11,251
Deferred tax liabilities	**27,950**	28,244	25,195	24,363	18,113
Subordinated liabilities	**87,363**	87,284	87,273	87,240	87,208
Other liabilities	**29,741**	44,103	38,274	29,222	38,145
Total liabilities	**6,775,708**	6,753,882	5,298,546	5,485,876	5,458,596
Total equity	**461,116**	445,105	422,984	400,598	366,465
Total liabilities and equity	**7,236,824**	7,198,987	5,721,530	5,886,474	5,825,061
Memorandum items					
Contingent liabilities	**133,771**	133,448	111,852	104,569	130,763
Commitments	**1,292,605**	1,291,225	1,269,222	1,073,831	1,118,779

Statements of Cash Flows: Five-Year Comparison

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Net cash (used in)/from operating activities	**(53,688)**	448,298	51,339	258,354	29,772
Cash flows from investing activities					
Dividends received	**–**	–	21	26	785
Interest received from financial investments	**54,037**	39,435	30,255	41,356	34,624
Purchase of other available-for-sale financial investments	**(301,583)**	(413,566)	(277,694)	(375,638)	(599,079)
Proceeds from sale and maturity of financial investments	**312,413**	217,133	334,396	335,059	344,079
Purchase of property, plant and equipment, investment property and intangible assets	**(4,640)**	(5,264)	(12,087)	(6,133)	(9,031)
Proceeds on sale of property, plant and equipment, intangible assets and liquidation of subsidiary company	**3**	81	476	502	2,094
Proceeds on disposal of card acquiring business	**–**	–	–	–	11,075
Net cash flows from/(used in) investing activities	**60,230**	(162,181)	75,367	(4,828)	(215,453)
Cash flows from financing activities					
Dividends paid	**(17,455)**	(19,349)	(33,956)	(32,628)	(30,162)
Net cash used in financing activities	**(17,455)**	(19,349)	(33,956)	(32,628)	(30,162)
(Decrease)/increase in cash and cash equivalents	**(10,913)**	266,768	92,750	220,898	(215,843)

Accounting Ratios: Five-Year Comparison

	2015	2014	2013	2012	2011
	%	%	%	%	%
Net operating income before loan impairment charges to total assets	**2.4**	2.4	3.3	3.4	3.3
Operating expenses to total assets	**1.6**	1.4	1.6	1.6	1.7
Cost efficiency ratio	**59.0**	56.8	49.9	49.0	50.4
Profit before tax to total assets	**0.6**	0.7	1.6	1.6	1.5
Profit before tax on equity	**10.1**	11.7	21.4	23.8	24.1
Profit after tax to equity	**6.4**	7.6	13.9	15.4	15.7

	2015	2014	2013	2012	2011
Shares in issue (millions)	**360.3**	324.3	291.8	291.8	291.8
Net assets per 30 cent share (cent)	**128.0**	137.3	130.4	123.5	113.0
Earnings per 30 cent share (cent)	**8.5**	9.7	18.1	19.0	17.8
Dividend per 30 cent share (cent)					
– gross	**7.7**	9.7	17.8	17.2	15.9
– net	**5.0**	6.3	11.6	11.2	10.3
Dividend cover	**1.6**	1.5	1.7	1.9	1.9

Financial Highlights in US dollars

	2015	2014
	US$000	US$000
Income Statements		
Net operating income	**191,927**	210,468
Operating expenses	**(129,243)**	(119,767)
Net impairment	**(11,782)**	(27,387)
Profit before tax	**50,902**	63,314
Tax expense	**(18,819)**	(22,478)
Profit for the year	**32,083**	40,836
Profit attributable to shareholders	**32,083**	40,836
Statements of Financial Position		
Assets		
Balances with Central Bank of Malta, Treasury Bills and cash	**204,125**	143,380
Items in course of collection from other banks	**13,668**	13,350
Financial assets designated at fair value attributable to insurance operations	**1,493,674**	1,726,864
Held for trading derivatives	**12,507**	15,998
Loans and advances to banks	**915,708**	1,063,022
Loans and advances to customers	**3,574,647**	3,976,340
Available-for-sale financial investments	**1,309,919**	1,401,681
Prepayments and accrued income	**44,471**	54,336
Current tax assets	**12,833**	10,730
Reinsurance assets	**90,425**	92,872
Non-current assets held for sale	**12,349**	11,293
Investment property	**16,823**	19,832
Property, plant and equipment	**63,730**	72,225
Intangible assets	**75,803**	89,856
Deferred tax assets	**19,963**	16,535
Other assets	**15,192**	36,655
Total assets	**7,875,837**	8,744,969
Liabilities and equity		
Deposits by banks	**15,547**	72,700
Customer accounts	**5,387,365**	5,912,339
Held for trading derivatives	**12,768**	16,849
Accruals and deferred income	**32,728**	33,423
Current tax liabilities	**3,818**	209
Liabilities under investment contracts	**1,074,161**	1,239,767
Liabilities under insurance contracts	**671,108**	732,144
Provisions for liabilities and other charges	**18,646**	2,936
Deferred tax liabilities	**30,418**	34,309
Subordinated liabilities	**95,077**	106,028
Other liabilities	**32,367**	53,574
Called up share capital	**117,637**	118,172
Revaluation reserve	**50,581**	51,639
Retained earnings	**333,616**	370,880
Total liabilities and equity	**7,875,837**	8,744,969

The US Dollar Exchange as at 31 December 2015 was €1=US$1.0883 (2014: €1=US$1.21475).

Branches and Offices

MALTA OFFICES

Registered Office/Head Office
116 Archbishop Street
Valletta VLT 1444
Tel: 2380 2380 Fax: 2380 4923

Retail Banking and Wealth Management
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380 Fax: 2380 4537

Premier Centre
Wealth Management Office
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2148 9100 Fax: 2380 2219

Commercial Banking
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 8000 Fax: 2380 4532

International Banking Centre
High Street, Sliema SLM 1549
Tel: 2380 2600 Fax: 2380 2676

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

Card Operations
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Tel: 2380 2380 Fax: 2380 4924

Contact Centre
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Tel: 2380 2380 Fax: 2149 0613

Inheritance Unit
80 Mill Street, Qormi QRM 3101
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Legal Office
32 Merchants Street
Valletta VLT 1173
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Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2380 3382 Fax: 2597 3306

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Balzan
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Tel: 2380 2380 Fax: 2380 1190

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Buġibba
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Tel: 2380 2380 Fax: 2334 7390

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50 Pilgrimage Street BML 1580
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198 Naxxar Road SGN 9030
Tel: 2380 2380 Fax: 2324 7590

St Julian's
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Tel: 2380 2380 Fax: 2324 2090

St Paul's Bay
St Paul's Street SPB 3419
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High Street SLM 1549
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Swieqi
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Tel: 2380 2380 Fax: 2324 8894

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

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

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

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

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

GOZO OFFICES

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

Nadur *(Agency)*
18 St Peter & St Paul Square NDR 1010
Tel: 2380 2380 Fax: 2155 0952

Xagħra *(Agency)*
8th September Avenue XRA 1011
(Corner with Victory Street)
Tel: 2380 2380 Fax: 2155 6313

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Operations Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 5128 Fax: 2380 5191

HSBC Life Assurance (Malta) Limited
Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 8699 Fax: 2380 8690

HSBC Insurance Management Services (Europe) Limited
Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 8699 Fax: 2380 8690

HSBC Stockbrokers (Malta) Limited
Business Banking Centre
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