HSBC Bank Malta p.l.c.

Annual Report and Accounts 2019

HSBC

The HSBC Group

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The economic scenarios, both internationally and locally, that we observed this time last year have developed more negatively than we expected. The global economy appears to be stuck with sluggish growth rates and geopolitical tensions, if anything, are worse than they were a year ago. Protectionism seems to be replacing policies designed to stimulate international trade and the outlook for the next year is that there will be little change in this respect. In Europe the situation is equally concerning. Negative interest rates are here to stay for the foreseeable future. Some components of the European economy are beginning to show signs of stress and we have to wait and see whether the target of a trade deal between the UK and the EU by the end of this year is a realistic one or if more uncertainty awaits.

The local economy continued to expand in terms of value added and employment in 2019, and maintained a healthy fiscal balance that put it among the top euro area performers in terms of macroeconomic stability and growth. It is nevertheless facing strong headwinds, on which this bank has been expressing concern, and which have in 2019 manifested themselves in no uncertain manner. Chief among these is the long-term sustainability of some of our economic activities in terms of their ability and that of national institutions to manage their risk exposure towards financial crime. This fact has been highlighted by Moneyval and other bodies. Other serious issues related to governance and rule of law have come even more to the forefront during the year, with obvious risks to the country's reputation and attractiveness for investment and international business. It is essential for governance structures to respond effectively and rapidly to these challenges. It is also critical for Malta to gradually develop an economic model which places strong emphasis on the environmental, social and governance fundamentals that are the essential foundations of longer term sustained growth and wellbeing.

At HSBC Malta we consider ourselves to be an integral part of the efforts required to spearhead the long term benefit of Malta and its resident and visiting population. We believe that the most important contribution we can make to the local economy and to Maltese society is to continue to be a strong and safe bank that operates to the highest global standards. It is well known in the local market that in the last few years the risk appetite of our bank has been at

Ix-xenarji ekonomiċi li nnotajna bħal daż-żmien sena ilu, sew f'Malta kemm barra, kellhom żviluppi agħar milli stennejna. L-ekonomija globali tidher li staġnat b'rati baxxi ta' tkabbir, u t-tensjonijiet ġeopolitiċi, jekk xejn, huma agħar milli kienu sena ilu. Minflok politika li tippromwovi l-kummerċ internazzjonali jidher li qed ikun hawn protezzjoniżmu, u l-prospettiva li dan jinbidel għas-sena li ġejja hu ftit li xejn. Is-sitwazzjoni fl-Ewropa mhix inqas inkwetanti. Ir-rati tal-imgħax negattivi se jibqgħu magħna fil-futur prevedibbli. Ċerti elementi mill-ekonomija Ewropea qed jibdew juru sinjali ta' stress, u għad irridu naraw jekk il-mira ta' trattat kummerċjali bejn ir-Renju Unit u l-Unjoni Ewropea sa l-aħħar ta' din is-sena hijiex waħda realistika jew għandniex nistennew aktar inċertezza.

L-ekonomija lokali kompliet tespandi f'termini ta' valur miżjud u impiegi fl-2019, u żammet bilanċ fiskali sod li qiegħda fost l-ogħla fiż-żona tal-ewro f'termini ta' stabilità u tkabbir makroekonomiku. Madankollu qiegħda tiffaċċa turbulenzi qawwija li dwarhom dan il-bank ilu jesprimi tħassib, u li fl-2019 immanifestaw ruħhom b'mod l-aktar apert. Fuq nett fosthom hemm is-sostenibilità fit-tul ta' ċerti attivitajiet ekonomiċi, sew fil-kapaċità tagħhom kif ukoll kemm l-istituzzjonijiet nazzjonali kapaċi jikkontrollaw kemm dawn ikunu esposti għar-riskju ta' reati finanzjarji. Kemm il-Moneyval kif ukoll korpi oħra ġibdu l-attenzjoni fuq dan il-fatt. Kwestjonijiet serji oħra marbuta mal-governanza u s-saltna tad-dritt telgħu aktar fil-wiċċ matul is-sena b'riskju li tittappan ir-reputazzjoni tal-pajjiż u ma nibqgħux nattiraw l-investiment u n-negozju internazzjonali. Huwa essenzjali li l-istrutturi tal-governanza jwieġbu b'mod effettiv u immedjat għal dawn l-isfidi. Huwa wkoll fondamentali għal Malta li gradwalment tiżviluppa mudell ekonomiku li jenfasizza l-elementi bażiċi tal-ambjent, tas-soċjetà u tal-governanza, li huma s-sisien essenzjali tal-ġid u tat-tkabbir sostnut fit-tul.

Aħna tal-HSBC nqisu ruħna bħala parti integrali mill-isforzi meħtieġa biex nixprunaw il-ġid fit-tul għal Malta u għar-residenti u l-viżitaturi tagħha. Nemmnu li l-aktar kontribut importanti li nistgħu nagħtu lill-ekonomija lokali u lis-soċjetà Maltija hu li nkomplu nkunu bank sod u sigur li jopera bl-ogħla standards globali. Fis-suq lokali kulħadd jaf li f'dawn l-aħħar snin id-dispożizzjoni tal-bank għar-riskju ddevjat minn dik tas-suq inġenerali. Fil-fatt naqqasna ħafna r-riskju tal-bank, konxji li l-profitti kienu se jonqsu, imma nemmnu li din kienet id-deċiżjoni t-tajba. Nemmnu li jekk il-bank ikun aktar b'saħħtu u aktar sigur, dan huwa għall-ġid tal-partijiet variance to that of the market as a whole. As a result, we have de-risked the bank considerably and accepted that this has meant earning lower profits as a result, but we strongly believe it was the right thing to do. We believe that a stronger and safer bank is in the interest of all our stakeholders – our shareholders, our work colleagues and the community in general. We are determined and committed to continue along the path of diligently trying to keep bad actors out of our system.

At the same time we are determined to improve and grow our service offering and to remain an important support to the local economy. In late 2019, we announced a substantial strategic shift in the way we operate and to the cost structures we require to run our bank. We are recognising that our retail customers want more digital solutions in the services we provide and we have reconfigured our branch network into a smaller but more relevant one. We believe that it is in the interest of our shareholders that we seek to operate as cost effectively as possible and that it is in the interest of our customers that we do so in the most relevant and efficient manner.

We remain very keen to do business in the right way and with the right people.

Results

The adjusted profit before tax for the year ended 31 December 2019, which excludes the impact of notable items (restructuring provision and brokerage provision release), was €45.3m which represents an increase of €8.8m, or 24% over last year. The reported profit before tax, which includes the notable items, is €30.7m, a decrease of €7.8m or 20%. The investment in restructuring will deliver sustainable savings going forward. More details on the financial results can be found in the CEO's review.

The bank's capital ratios continued to improve with CET1 increasing from 14.6% to 16.4% and the total capital ratio improving from 17.0% to 19.0%. The bank continues to have a strong capital base and is fully compliant with the regulatory capital requirements.

Profit attributable to shareholders amounted to €20.2m, resulting in earnings per share of 5.6 cents compared with 8.0 cents in 2018.

Whilst we continue to build up capital reserves for the new Non-Performing Loan requirements that we announced in 2018, given our strong capital base and recognising the importance of dividends to our shareholders, the Board recommended a dividend pay-out ratio of 30% on adjusted profits. This will bring the full year 2019 dividend pay-out ratio to 44% on a reported basis.

The final gross dividend will be 2.1 cents per share (1.4 cents per share net of tax) which brings the total dividend for 2019 to 3.8 cents (2.5 cents net of tax).

Our regulatory environment

During 2019, the regulatory authorities continued to maintain a sharp focus on prudential risk management aimed at consolidating the banks' capital and liquidity. The primary purpose of these regulatory requirements is to enable banks to withstand better any economic shocks that may emerge in the future. The bank has managed effectively this prudential risk imperative in a market characterised with prevailing negative interest rates and

kollha interessati – l-azzjonisti tagħna, il-kollegi fuq ix-xogħol u l-komunità inġenerali. Aħna determinati u kommessi li nkomplu b'mod għaqli nwarrbu 'l-atturi ħżiena mis-sistema tagħna.

Fl-istess ħin aħna determinati li ntejbu u nkabbru l-offerta tas-servizzi tagħna u li nibqgħu ta' appoġġ sinifikanti għall-ekonomija lokali. Lejn l-aħħar tal-2019 ħabbarna tibdil strateġiku sostanzjali fil-mod kif noperaw u fl-istruttura tal-ispejjeż meħtieġa biex immexxu l-bank. Qed nagħrfu li l-klijenti personali tagħna jridu aktar soluzzjonijiet diġitali fis-servizzi li nagħtuhom. Għalhekk ikkonfigurajna mill-ġdid il-firxa tal-fergħat tagħna billi naqqasnihom imma għamilniehom aktar rilevanti. Jidhrilna li hu fl-interess tal-azzjonisti tagħna li nfittxu li naħdmu b'infiq responsabbli, u li hu fl-interess tal-klijenti tagħna li dan nagħmluh bil-mod l-aktar rilevanti u effiċjenti.

Aħna nibqgħu ħerqana li ninnegozjaw b'mod ġust u ma' nies ta' fiduċja.

Riżultati

Il-profitt aġġustat qabel it-taxxa għas-sena li għalqet fil-31 ta' Diċembru 2019, li teskludi l-effett ta' entrati notevoli (provvediment għar-ristrutturar u r-rilaxx ta' provvediment marbut man-negozju tal-brokerage), kien ta' €45.3 miljun, li jfisser żieda ta' €8.8 miljun jew 24% fuq is-sena l-oħra. Il-profitt rappurtat qabel it-taxxa, li jinkludi l-entrati notevoli, hu ta' €30.7 miljun, tnaqqis ta' €7.8 miljun jew 20%. L-investiment fir-ristrutturar se jirrendi tfaddil sostenibbli 'l quddiem. Hemm iżjed informazzjoni dwar ir-riżultati finanzjarji fir-rapport tas-CEO.

Ir-relazzjonijiet tal-kapital komplew sejrin għall-aħjar, bis-CET1 jitla' minn 14.6% għal 16.4% u r-relazzjoni tal-kapital totali minn 17.0% għal 19.0%. Il-bank għad għandu bażi kapitali soda li hi konformi bis-sħiħ mar-rekwiżiti regolatorji tal-kapital.

Il-profitt li jiġi attribwit lill-azzjonisti kien ta' €20.2 miljun, li jirriżulta fi qligħ għal kull sehem ta' 5.6 ċenteżmi meta ikkumparat ma' 8.0 ċenteżmi fl-2018.

Filwaqt li nkomplu nibnu r-riżervi kapitali għar-rekwiżiti ġodda li ħabbarna fl-2018 dwar Self li Ma Jirrendix, u waqt li nqisu l-bażi kapitali soda li għandna u nagħrfu l-importanza tad-dividendi għall-azzjonisti tagħna, il-Bord irrakkomanda ħlas ta' dividend ta' 30% tal-profitti aġġustati. Dan iġib il-ħlas tad-dividend għas-sena sħiħa 2019 għal 44% kif rappurtat.

Id-dividend gross finali se jkun ta' 2.1 ċenteżmi kull sehem (1.4 ċenteżmi kull sehem wara t-taxxa) li jfisser li d-dividend totali għall-2019 jammonta għal 3.8 ċenteżmi (2.5 ċenteżmi wara t-taxxa).

L-ambjent regolatorju

Matul l-2019, l-awtoritajiet regolatorji komplew iżommu għajnejhom fuq l-immaniġġjar tar-riskju prudenzjali, bil-ħsieb li jikkonsolidaw il-kapital u l-likwidità tal-banek. L-għan primarju ta' dawn ir-rekwiżiti regolatorji hu li jippermettu lill-banek li jkunu jifilħu aħjar għal kwalunkwe xokk ekonomiku li jista' jolqothom fil-futur. Il-bank irnexxielu jimmaniġġja effettivament il-ħtiġijiet tar-riskju prudenzjali, f'suq fejn jipprevalu rati tal-imgħax negattivi u taħt pressjoni bla heda ta' spejjeż ikkawżati minn żieda kontinwa fl-attività marbuta mal-osservanza tar-regoli u l-immaniġġjar tar-riskju. Fuq dan l-isfond, il-bank sostna l-mudell kummerċjali tiegħu

HSBC Bank Malta p.l.c. continues to keep abreast of all relevant regulatory developments.

ongoing cost pressures coming from increased compliance and risk management activities. Against this backdrop, the bank has maintained its business model aligned to stringent but safer prudential risk buffers and high compliance standards.

Another area that characterised developments in the industry during this period was a steady increase in regulatory reporting demands. Organising and reporting the data in line with regulators' specifications has placed a significant administrative burden on banks' resources and systems. This said, it is recognised by the bank that aggregating reliable and timely data is a fundamental precondition for effective risk management and decision-making, which is key to sustainable growth.

With respect to the regulatory engagement front, the year under review was very active with ongoing and transparent engagement with the bank's principal regulators on multiple risk themes and assessments, which were principally aimed at ensuring that governance and prudential risk management structures, procedures, and internal controls are operating effectively. This work continues to progress and is central to the regulators' supervisory evaluation process.

The bank's regulatory change programme has also continued to evolve at pace on multiple new and enhanced investor and consumer protection regulations, such as the enhancements made by the European regulatory bodies to the Markets in Financial Instruments Directive II (MiFID II), as also reflected in the MFSA Conduct of Business Rulebook, the Cross Border Payments Regulation II (CBPR II), Payment Services Directive II (PSD II), Payment Accounts Directive (PAD) and the Shareholders Rights Directive II (SRD II). These regulatory requirements are aimed at enhancing the banks' conduct of business, improving product oversight and governance arrangements, and facilitating an expanded digital footprint and financial inclusion in banking products and services, while providing

waqt li żamm livell ta' riskju prudenzjali strett imma sigur u standards għoljin ta' osservanza.

Qasam ieħor li ħalla l-marka fuq l-iżviluppi fl-industrija f'dan il-perjodu kien ir-rappurtar regolatorju, fejn id-domanda baqgħet tiżdied bla waqfien. L-irranġar u l-irrapportar tal-informazzjoni fil-forma li jitolbu r-regolaturi kien ta' piż amministrattiv kbir fuq ir-riżorsi u s-sistemi tal-banek. Minkejja dan, il-bank jirrikonoxxi li l-ġbir ta' informazzjoni affidabbli u f'waqtha huwa prekondizzjoni fundamentali fl-immaniġġjar effettiv tar-riskju u fit-teħid tad-deċiżjonijiet, ħaġa li hi kruċjali għat-tkabbir sostenibbli.

Fir-rigward tal-impenn regolatorju, is-sena 2019 kienet waħda attiva. Kellna kuntatti kontinwi u trasparenti mar-regolaturi prinċipali tal-bank dwar diversi temi ta' riskju u assessjar. Dawn kienu mmirati l-aktar biex jagħtu ċertezza li l-istrutturi ta' governanza u tal-immaniġġjar tar-riskju prudenzjali kif ukoll il-proċeduri u l-kontrolli interni kienu qed jaħdmu b'mod effettiv. Dan ix-xogħol ikompli jipprogressa, u huwa ċentrali fil-proċess ta' evalwazzjoni u sorveljanza mir-regolaturi.

Il-programm tal-bidliet regolatorji tal-bank ukoll baqa' miexi 'l quddiem fuq diversi regolamenti ġodda jew imġedda għall-ħarsien tal-investitur u l-konsumatur. Fost dawn hemm it-tibdil għall-aħjar li sar mill-korpi regolatorji Ewropej fit-Tieni Direttiva għas-Swieq tal-Istrumenti Finanzjarji (MiFID II), kif riflessa wkoll fil-Ktejjeb tar-Regoli dwar il-Kondotta tan-Negozju, it-Tieni Regolament dwar Ħlasijiet Transkonfinali (CBPR II), it-Tieni Direttiva dwar is-Servizzi ta' Pagament (PSD II), id-Direttiva dwar Kontijiet ta' Pagament (PAD), u t-Tieni Direttiva dwar id-Drittijiet tal-Azzjonisti (SRD II). Dawn ir-rekwiżiti regolatorji għandhom l-għan li jġibu titjib fil-kondotta tax-xogħol tal-banek, kif ukoll li jtejbu s-sorveljanza fuq il-prodotti u l-arranġamenti ta' governanza, u li jiffaċilitaw l-espansjoni tal-użu diġitali billi dan jiddaħħal iżjed fil-prodotti u s-servizzi bankarji, waqt li jkun hemm aktar informazzjoni kompleta mogħtija lill-konsumaturi u lill-azzjonisti.

more comprehensive disclosures to customers and shareholders.

Throughout this year, another important regulatory change project has been the implementation of the Central Bank of Malta Directive on Borrower Based Measures (CBM Directive 16). This Directive aims to strengthen the resilience of lenders and borrowers against the potential build-up of vulnerabilities emanating from the real estate market.

In addition to the regulatory developments mentioned above, the bank was closely engaged with regulators and industry bodies during the consultation/ongoing implementation processes of other regulatory changes, such as the Fifth Anti-Money Laundering Directive, Interbank Offered Rates (IBORs) transition and the UK's Brexit preparations.

As technological change and the rise of digital business models continues, cyber-related risks and cyber-resilience have featured more prominently on the regulatory agenda and also remained a focal point in the bank's strategic and operational defenses.

The bank will continue to observe and track all of the upcoming relevant regulatory developments, to ensure full adherence with its legal and regulatory obligations, and to contribute in a dynamic manner in the European and local jurisdiction's evolving regulatory agenda and consultation process.

Our responsibility towards the community

Through our HSBC Malta Foundation, we focus on the positive impact we can create through a strategy focused on a number of core areas. The HSBC Group has long supported education across the globe, especially helping disadvantaged young people access primary, secondary and higher education. The Group is now focusing its efforts on helping people develop the employability and financial skills they need to thrive in the modern world.

Proġett ieħor importanti ta' bidla regolatorja matul is-sena kien l-implimentazzjoni tad-Direttiva tal-Bank Ċentrali ta' Malta (CBM) dwar Miżuri Bbażati fuq Min Jissellef (Direttiva Nru 16 tas-CBM). Din id-Direttiva għandha l-għan li ssaħħaħ ir-reżiljenza ta' min isellef u min jissellef kontra l-akkumulazzjoni potenzjali ta' punti ta' vulnerabilità li joħorġu mis-suq tal-proprjetà.

Apparti l-iżviluppi regolatorji li għadna kif semmejna, il-bank kien involut fil-qrib f'taħditiet mar-regolaturi u mal-korpi fl-industrija waqt il-proċessi fil-kors tal-implimentazzjoni ta' bidliet regolatorji oħra, fosthom il-Ħames Direttiva kontra l-Ħasil tal-Flus, it-transizzjoni tar-Rati Offruti bejn il-Banek (IBORs) u l-preparamenti għall-Brexit.

Il-bidla teknoloġika għadha għaddejja u se jibqgħu joħorġu mudelli ġodda ta' negozju diġitali. Għaldaqstant l-aġenda regolatorja tat aktar prominenza lir-riskji marbuta mat-teknoloġija u lir-reżiljenza diġitali. Dawn baqgħu jkunu wkoll punti ta' attenzjoni fis-sistemi ta' difiża strateġika u operazzjonali tal-bank.

Il-bank se jkompli josserva u jsegwi l-iżviluppi rilevanti regolatorji li jista' jkun hemm, biex jara li jkun aderenti mal-obbligi tiegħu legali u regolatorji, u se jibqa' jagħti sehmu b'mod dinamiku fl-aġenda regolatorja u fil-proċess konsultattiv li jkunu qed jiżviluppaw fil-ġurisdizzjoni Ewropea u f'dik lokali.

Ir-responsabbiltà tagħna lejn il-komunità

Permezz tal-HSBC Malta Foundation, niffokaw fuq l-impatt pożittiv li nistgħu noħolqu bi strateġija li tikkonċentra fuq għadd ta' oqsma ewlenin. Il-Grupp HSBC ilu żmien twil jaħdem favur l-edukazzjoni madwar id-dinja, speċjalment billi jgħin tfal u żgħażagħ żvantaġġjati biex ikollhom aċċess għall-edukazzjoni primarja, sekondarja u ogħla. Il-Grupp issa qed jiffoka l-isforzi tiegħu biex jgħin in-nies jiżviluppaw il-ħiliet li għandhom bżonn biex jidħlu fid-dinja tax-xogħol u jitgħallmu jieħdu ħsieb il-flus ħa jirnexxu fid-dinja moderna.

A collaboration between the HSBC Malta Foundation, the University of Malta and the Mġarr Local Council came to fruition with the launch of the I-Land Observatory and Field Centre, a unique concept in natural and cultural heritage management in Malta.

HSBC supports the Malta CSR Institute, which aims to promote long-term sustainability in the workplace and in the community.

With technology developing at a rapid pace, a secondary education or university degree is no longer a guarantee of employment. A range of skills are now an absolute requirement to succeed in the workplace. Hence the reason why we are focusing an important section of our sustainability strategy on future skills, for our customers, for our people, and for the members in the communities which we serve. We plan to reach these goals by concentrating on two key areas: employability and financial capability.

During 2019, the Foundation worked closely with a number of local organisations actively engaged in improving the employability and the financial capability of the persons they assist, in the various fields and organisations around the country. At the bank, we take pride and encourage voluntary work undertaken by our colleagues who regularly contribute, through their time and efforts, to charities and causes which they feel passionate about. One tangible example of how the bank supports our people in these initiatives is the addition of an extra day of leave granted for voluntary work around our country.

The HSBC Malta Water Programme

Since 2013, HSBC Bank Malta p.l.c. has invested close to €1 million in water conservation projects and programmes, drawing from the resources provided by the HSBC Group's Global Water Programme. The bulk of the investment has been stewarded by the international award-winning 'Catch the Drop' campaign, which, since 2013, has been used to finance water-related projects to create awareness across all social strata and to encourage public participation. Another two projects that where supported as part of the HSBC Malta Water Programme were the Water

Bil-pass mgħaġġel li qed tavvanza t-teknoloġija, illum m'għadux biżżejjed li jkollok edukazzjoni sekondarja jew grad universitarju biex jiggarantilek impieg. Firxa ta' ħiliet varji huwa bżonn assolut biex tirnexxi fuq ix-xogħol. Din hi r-raġuni li qed niffokaw parti importanti mill-istrateġija tagħna ta' sostenibilità fuq il-ħiliet futuri tal-klijenti tagħna, tal-kollegi tagħna u tal-membri tal-komunitajiet li naqdu. Il-pjan hu li nilħqu dawn l-għanijiet billi nikkonċentraw fuq żewġ oqsma kruċjali: li wieħed ikun kapaċi jaħdem u li jkun kapaċi jieħu ħsieb flusu.

Matul l-2019, il-Fondazzjoni ħadmet fil-qrib ma' għadd ta' organizzazzjonijiet lokali f'ħidma attiva biex itejbu l-kapaċitajiet meħtieġa biex wieħed isib impieg u kapaċitajiet finanzjarji tal-persuni li jassistu fl-oqsma u organizzazzjonijiet varji fil-pajjiż. Fil-bank, aħna kburin bil-kollegi tagħna li jagħmlu xogħol volontarju u nagħmlulhom kuraġġ meta jagħtu kontribut regolari, bil-ħin u l-ħidma tagħhom, lejn għanijiet u kawżi ta' karità li huma ddedikati għalihom. Eżempju tanġibbli ta' kif il-bank jappoġġa lil dawn in-nies fl-inizjattivi tagħhom hu ż-żieda ta' jum ieħor ta' frank mogħti għal xogħol volontarju fil-pajjiż.

Il-programm għall-ilma tal-HSBC Malta

Mill-2013 'il hawn, l-HSBC Bank Malta p.l.c. investa qrib il-miljun ewro fi proġetti u programmi ta' konservazzjoni tal-ilma, billi utilizza riżorsi pprovduti mill-Global Water Programme tal-Grupp HSBC. Il-parti l-kbira tal-investiment kien taħt il-ħarsien tal-kampanja internazzjonali rebbieħa ta' premjijiet 'Catch the Drop', li ilha mill-2013 tintuża biex tiffinanzja proġetti tal-ilma u tqajjem kuxjenza fost is-saffi soċjali kollha u tinkoraġġixxi l-parteċipazzjoni pubblika. Żewġ programmi oħra li sabu l-appoġġ tal-HSBC Malta

Explorer project which inspired thousands of students to become 'water explorers' and lead action in their school communities on water issues and the Malta CSR Institute, which delivered a one day course – Together for Sustainability – that built on the experience of the 'Catch the Drop' campaign and brought together multiple stakeholders under one roof to emphasise the ideals and principles of long-term sustainability.

On your behalf, I take this opportunity to thank all our people whose support and dedication towards these initiatives ensured their success.

Our People

I also wish to express my gratitude, on your behalf, to our employees who work diligently every day to deliver HSBC's services to our customers. In this highly regulated industry our employees are obliged to do this in full compliance with an ever more demanding set of regulatory obligations. Their discipline and dedication is commendable and while the achievements of our employees may be less visible, they are no less critical to our success.

Our people are led by a highly professional Management Team that has worked extremely hard to lead the bank through the difficult and trying de-risking journey the bank has been on. This year they were the architects of the strategic plan that was presented to the board aimed at defining a more relevant and cost effective operating model for the bank.

Water Programme kienu l-proġett Water Explorer, li jħajjar eluf ta' studenti jsiru 'esploraturi tal-ilma' u jinstigaw azzjoni fil-komunitajiet tal-iskejjel tagħhom dwar kwestjonijiet marbuta mal-ilma u l-Malta CSR Institute, li nieda kors ta' jum – Together for Sustainability – li bena fuq l-esperjenza tal-kampanja 'Catch the Drop' u ġab flimkien taħt saqaf wieħed diversi partijiet interessati biex jemfasizzaw l-ideali u l-prinċipji tas-sostenibilità fit-tul.

F'isimkom nieħu din l-okkażjoni biex nirringrazzja lin-nies tagħna kollha li, bl-appoġġ u d-dedikazzjoni tagħhom, assiguraw is-suċċess ta' dawn l-inizjattivi.

In-nies tagħna

Nixtieq ukoll f'isimkom inrodd ħajr lill-impjegati li jaħdmu b'attenzjoni kuljum biex jagħtu s-servizzi tal-HSBC lill-klijenti tagħna. F'settur soġġett għal tant regoli, l-impjegati jridu jagħmlu xogħolhom b'konformità sħiħa ma' sett ta' obbligi regolatorji dejjem aktar eżiġenti. Id-dixxiplina u d-dedikazzjoni tagħhom hi ta' min ifaħħarha, u waqt li s-suċċessi tal-impjegati forsi ma jidhrux daqshekk, huma importanti ħafna għas-suċċess tal-bank.

In-nies tagħna huma mmexxija minn Management Team verament professjonali, li ħadem bis-sod biex imexxi l-bank fil-vjaġġ diffiċli u ta' prova li għadda minnu biex inaqqas il-livell tar-riskju. Din is-sena kienu huma l-arkitetti tal-pjan strateġiku li kien ippreżentat lill-Bord u li kellu l-għan li jiddefinixxi mudell ta' operat aktar rilevanti u ekonomiku għall-bank.

Our employees work diligently, every day, to deliver HSBC's services to our customers.

The varied areas of expertise and experience of board members ensure that decisions taken are based on the highest ethical standards and knowledge of the banking sector.

Our Board of Directors

During 2019, there were some changes to the membership of the Board. On 2 August, I took over the Chairmanship of the bank from Mr Sonny Portelli. The Board paid tribute to Mr Portelli for his 12 years of service where he served with distinction through a period of unprecedented change in the financial services industry. He left the bank with our thanks and admiration.

On the 2 August, the bank also announced the appointment of Ms Ingrid Azzopardi as Director of the bank and Chairperson of the bank's Audit Committee and member of the Risk Committee. Ms Azzopardi is a Certified Public Accountant and Auditor and currently is Group Head of Internal Audit of GO p.l.c. She is a former Director of the HSBC Life Assurance (Malta) Limited and former Chairperson of the Audit and Risk Committee of the said company.

In April 2019, the bank had announced the official appointment of Mr Michel Cordina as Executive Director, an appointment which had been announced in December of the previous year.

The Board of Directors of the bank is composed of colleagues whose varied areas of expertise and experiences contribute unparalleled insights to the varied agendas debated during meetings through the year, thereby ensuring that all decisions taken are based on the highest ethical standards and knowledge of the banking sector. It is my great pleasure and privilege to serve as the Chairman of this outstanding group of people. On your behalf, I want to express to them my gratitude for their focus and dedication to the work of the Board.

Il-Bord tad-Diretturi

Matul l-2019, kien hemm xi bidliet fil-kompożizzjoni tal-Bord. Fit-2 ta' Awwissu ħadt f'idejja l-pożizzjoni ta' Chairman tal-bank mingħand is-Sur Sonny Portelli. Il-Bord ta ġieħ lis-Sur Portelli għat-tnax-il sena ta' servizz li fihom serva bl-unuri matul żmien ta' bidla bla preċedent fis-settur tas-servizzi finanzjarji. Hu telaq mill-bank bir-ringrazzjament u l-ammirazzjoni tagħna.

Fit-2 ta' Awwissu l-bank ħabbar ukoll il-ħatra tas-Sinjura Ingrid Azzopardi bħala Direttur tal-bank u Chairperson tal-Kumitat tal-Verifika tal-bank u membru tal-Kumitat tar-Riskju. Is-Sinjura Azzopardi hija Certified Public Accountant and Auditor u bħalissa hija l-Kap tal-Verifika Interna tal-Grupp Go p.l.c. Hija kienet Direttur tal-HSBC Life Assurance (Malta) Limited u kienet ukoll Chairperson tal-Kumitat tal-Verifika u r-Riskju tal-istess kumpanija.

F'April tal-2019 il-bank ħabbar il-ħatra uffiċjali tas-Sur Michel Cordina bħala Direttur Eżekuttiv, ħatra li kienet tħabbret f'Diċembru tas-sena ta' qabel.

Il-Bord tad-Diretturi tal-bank huwa magħmul minn kollegi li għandhom esperjenza u huma esperti f'oqsma varji hekk li jistgħu joffru l-aqwa perspettivi fuq l-aġendi differenti li jkunu diskussi fil-laqgħat matul is-sena. Hekk inkunu moħħna mistrieħ li d-deċiżjonijiet kollha li jittieħdu jkunu bbażati fuq l-ogħla standards etiċi u fuq għarfien tajjeb tas-settur bankarju. Huwa pjaċir u privileġġ kbir għalija li nservi bħala Chairman ta' dal-grupp ta' nies straordinarju. F'isimkom nixtieq nesprimi l-gratitudni tiegħi lejhom għall-konċentrazzjoni u d-dedikazzjoni tagħhom fil-ħidma tal-Bord.

Looking ahead

HSBC's success is founded on our values. The bank is managed for the long term and decisions are taken in the best interest of all our stakeholders, not just based on a particular year, in order to find the right balance between generating new business and managing risk with a longer-term horizon.

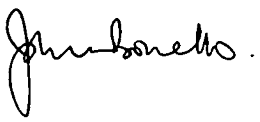
While the economic environment, characterised by low interest rates remains challenging, we believe we have made the necessary adjustments to our business model to navigate this and prepare the bank for the rapid changes in customer preferences for digital services.

Having made these changes decisively, the opportunity for HSBC is now to focus on our customers and to continue to improve our service and propositions. We will do this without giving up any of the hard won achievements in risk management and cost discipline.

Locally, HSBC's conservative appetite for risk is unlikely to change until we see the promised improvements in supervisory standards take effect and a re-balancing of the economic model to one that can drive sustainable growth for the country at a more moderate level of risk.

Simply put, we believe we can grow the bank by focusing on sensible opportunities aligned to our values that will create long term benefits for all our stakeholders. Our unique capability to connect Maltese companies to the global economy remains a signature advantage.

I will conclude by expressing my gratitude to you, our shareholders, for your continued support and commitment to this bank. I assure you that all at HSBC Bank Malta p.l.c. will continue to strive for the best outcomes for your investment.



John Bonello, Chairman
18 February 2020

Ħarsa 'l quddiem

Is-suċċess tal-HSBC huwa msejjes fuq il-valuri tagħna. Il-bank jitmexxa fuq bażi għat-tul. Id-deċiżjonijiet jittieħdu fl-aħjar interess tal-partijiet kollha interessati u ma jkunux ibbażati biss fuq sena partikolari, sabiex jinżamm il-bilanċ ġust bejn il-ħolqien ta' negozju ġdid u l-immaniġġjar ta' riskju għal terminu ta' skadenza aktar fit-tul.

L-ambjent ekonomiku, li għadu mmarkat b'rati ta' mgħax baxxi, jibqa' wieħed ta' sfida. Nemmnu li għamilna t-tibdil meħtieġ fil-mudell kummerċjali tagħna biex l-isfida negħlbuha u biex inħejju l-bank għat-tibdil rapidu fil-preferenzi li qed ikollhom il-klijenti lejn servizzi diġitali.

Issa li għamilna l-bidliet b'mod deċiżiv, l-opportunità li għandu l-HSBC hi li jitfa' l-attenzjoni fuq il-klijenti u jkompli jtejjeb is-servizz u l-propożizzjonijiet tiegħu. Dan se nagħmluh mingħajr ma nċedu xejn mill-kisbiet li għamilna fl-immaniġġjar tar-riskju u fid-dixxiplina fl-infiq.

Fix-xena lokali d-dispożizzjoni konservattiva tal-HSBC għar-riskju ma jidhirx li se tinbidel sakemm ma narawx it-twettiq tat-titjib imwiegħed fl-istandards ta' sorveljanza, u sakemm il-bilanċ tal-mudell ekonomiku ma jkunx rivedut għal wieħed li jista' jixpruna t-tkabbir sostenibbli għall-pajjiż f'livell aktar moderat ta' riskju.

Fi kliem aktar sempliċi, naħsbu li nistgħu nkabbru l-bank billi niffokaw fuq opportunitajiet sensibbli li jaqblu mal-valuri tagħna u li jistgħu joħolqu benefiċċji fit-tul għall-partijiet interessati tal-bank. Il-kapaċità unika tagħna li nressqu l-kumpaniji Maltin fl-ekonomija globali tibqa' vantaġġ distintiv tagħna.

Nagħlaq billi nesprimi l-gratitudni tiegħi lejkom l-azzjonisti għall-appoġġ li dejjem tagħtu u l-impenn tagħkom lejn il-bank. Irrid naċċertakom illi kulħadd fl-HSBC Bank Malta p.l.c se jibqa' jagħmel l-almu tiegħu biex niksbu l-aħjar riżultati possibbli għall-investiment tagħkom.

As the Chairman has stated, developments in the local market have regrettably caused further damage to Malta's reputation as a financial services centre. Sustainable economic growth requires full compliance with the rules of the international financial system and the reviews of objective international bodies, such as Moneyval, have set out clearly that significant improvements are required. While we welcome the action plans that have been announced, 2020 will represent an essential test of the capacity of Malta's institutions to demonstrate progress.

At HSBC, we are proud of our values and the standards we uphold. Our commitment in recent years to invest and remodel our business to further embed these standards has necessarily resulted in a business which is smaller but stronger. In 2019, our financial performance on an adjusted basis was above the Board's expectations driven primarily by revenue development in retail banking, good progress on cost management, and a low level of expected credit losses. Performance in our commercial and insurance divisions has been less strong and we have taken a number of actions to address this.

Looking to the future, it is clear that the ways customers are using banks are profoundly changing with the rapidly growing adoption of digital services, notably on mobile devices. At the same time, the interest rate outlook has deteriorated which is creating pressure on the profitability of banking across the Eurozone. The Board considered these factors carefully in 2019 and concluded that to succeed over the longer term it was necessary to change elements of our business model in order to both meet these changing customer expectations and to enable a transition to a more sustainable cost platform which can accommodate the interest rate outlook. The restructuring actions we announced in October position HSBC well for the future and provide clarity to our customers and employees.

In 2020, we will further enhance our new digital solutions, modernise our branch network and I am particularly looking forward to the opening of our national flagship branch in Qormi. In our commercial division we remain Malta's leading international bank, uniquely able to connect Maltese companies into the global economy and high quality inbound investors to Malta. While of course there

Kif qal iċ-Chairman, l-iżviluppi li kien hawn fis-suq lokali sfortunatament komplew iżidu d-dannu għar-reputazzjoni ta' Malta bħala ċentru għas-servizzi finanzjarji. It-tkabbir ekonomiku jista' jkun sostenibbli biss jekk ikun hemm osservanza sħiħa tar-regoli tas-sistema finanzjarja internazzjonali, u r-rapporti tal-korpi indipendenti internazzjonali, bħal Moneyval, qalu biċ-ċar li huwa meħtieġ li jsir titjib sostanzjali. Waqt li aħna nilqgħu l-pjani t'azzjoni li ġew imħabbra, l-2020 se jservi ta' eżami essenzjali għall-kapaċità tal-istituzzjonijiet Maltin biex juru li qed jagħmlu progress.

Aħna tal-HSBC kburin bil-valuri tagħna u bl-istandards li nħaddnu. L-impenn li kellna f'dawn l-aħħar snin biex ninvestu f'mudell ġdid għan-negozju tagħna li jkompli jħaddan dawn l-istandards wassal biex in-negozju tagħna jiċkien imma jissaħħaħ. Fl-2019 il-prestazzjoni finanzjarja fuq bażi aġġustata kienet aħjar minn dak li stenna l-Bord. Il-fatturi ewlenin li wasslu għal dan kienu l-iżvilupp tad-dħul mis-servizzi bankarji personali (RBWM), l-avvanz fl-immaniġġjar tal-ispejjeż u l-livell baxx ta' telf mistenni mill-kreditu. Ir-riżultati fl-oqsma tas-servizzi kummerċjali u tal-assigurazzjoni ma kinux daqshekk b'saħħithom u aħna ħadna diversi passi biex dan nindirizzawh.

Jekk inħarsu 'l quddiem naraw biċ-ċar li hemm bidla profonda fil-mod kif il-klijenti qed jużaw il-banek, u qed jiżdied dejjem aktar l-użu tas-servizzi diġitali, speċjalment fuq il-mezzi ċellulari. Fl-istess ħin il-prospetti ta' tibdil fir-rati tal-imgħax kompla sejjer għall-agħar u ħoloq pressjoni fuq il-profitti tal-banek fiż-Żona kollha tal-Ewro. Il-Bord ikkunsidra bir-reqqa dawn il-fatturi fl-2019 u kkonkluda li biex niksbu suċċess fil-futur kien hemm bżonn li nibdlu elementi tal-mudell kummerċjali tagħna sabiex l-ewwelnett nilħqu l-aspettativi ġodda tal-klijenti imma wkoll inkunu nistgħu nagħmlu t-transizzjoni għal bażi ta' nfiq aktar sostenibbli li tista' takkomoda l-prospettiva tar-rati tal-imgħax. L-azzjonijiet ta' ristrutturar li ħabbarna f'Ottubru jpoġġuna f'pożizzjoni tajba għall-futur u jiċċaraw il-pjani lill-klijenti u l-impjegati tagħna.

Fl-2020 se nkomplu ntejbu s-soluzzjonijiet diġitali tagħna, nimmodernizzaw il-fergħat, u jiena ħerqan li nara l-ftuħ tal-fergħa nazzjonali ewlenija tagħna f'Ħal Qormi. Fil-qasam kummerċjali għadna nżommu l-pożizzjoni bħala l-bank internazzjonali ta' quddiem nett f'Malta, b'kapaċità unika li are challenges to overcome, I am optimistic that HSBC's unique strengths, distinctive values and above all the dedication and professionalism of our fantastic employees place us in a strong position as we enter this new decade.

Performance

The adjusted profit before tax for the year ended 31 December 2019 was €45.3m. This represents an increase of €8.8m or 24% compared to prior year. The adjusted results exclude the impact of the following notable items:

- a restructuring provision of €16.0m in 2019; and
- a provision release relating to the brokerage remediation of €1.4m in 2019 versus €2.0m release in 2018.

Reported profit before tax which includes the above items, was €30.7m, a reduction of €7.8m or 20% versus same period last year.

Reported profit attributable to shareholders was €20.2m resulting in earnings per share of 5.6 cents compared with 8.0 cents in the same period in 2018.

Net interest income (NII) of the bank increased by 1% to €110.1m compared with 2018. Strong growth in mortgage NII offset the reduction in commercial banking NII as a result of lower average commercial loan balances versus 2018. Despite the European Central Bank deposit rate declining further, the bank increased the revenues on excess liquidity due to proactive management within the same conservative risk appetite.

Net non-interest income marginally decreased with strong fee performance within commercial banking as a result of new fees offset by a reduction in fee income within Insurance due to the disposal of a specific insurance portfolio in December 2018.

Net trading income increased by €1.8m due to a fair value gain on VISA shares.

noħolqu konnessjonijiet għall-kumpaniji Maltin fl-ekonomija globali u għall-investituri tal-ogħla kwalità biex jiġu Malta. Waqt li bla dubju hemm sfidi x'jingħelbu, jiena ottimist li bil-vantaġġi uniċi tagħna, bil-valuri distintivi u fuq kollox bid-dedikazzjoni u l-professjonalità tal-impjegati meraviljużi tagħna, l-HSBC dieħel f'dan id-deċennju l-ġdid f'pożizzjoni b'saħħitha.

Riżultati

Il-profitt aġġustat qabel it-taxxa għas-sena li għalqet fil-31 ta' Diċembru 2019 kien ta' €45.3 miljun. Dan jirrappreżenta żieda ta' €8.8 miljun jew 24% meta mqabbel mas-sena ta' qabel. Ir-riżultati aġġustati jeskludu l-effett ta' dawn l-entrati notevoli:

- provvediment ta' €16-il miljun fl-2019 għar-ristrutturar; u
- rilaxx ta' provvediment ta' €1.4 miljun fl-2019, kontra r-rilaxx ta' €2.0 miljun fl-2018, marbut mal-kumpens fin-negozju tal-brokerage.

Il-profitt irrapportat qabel it-taxxa bl-inklużjoni ta' dawn l-entrati kien ta' €30.7 miljun, tnaqqis ta' €7.8 miljun jew 20% meta mqabbel mal-istess perjodu tas-sena ta' qabel.

Il-profitt irrapportat li hu attribwibbli lill-azzjonisti kien ta' €20.2 miljun, li jirriżulta fi qligħ ghal kull sehem ta' 5.6 ċenteżmi, kontra 8.0 ċenteżmi fl-2018.

Id-dħul nett tal-bank mill-imgħax (l-NII) żdied b'1% fuq dak tal-2018 għal €110.1 miljun. It-tkabbir qawwi tal-NII relatat mas-self għall-proprjetà residenzjali patta għat-tnaqqis tal-NII relatat mas-self kummerċjali. Dan tal-aħħar kien ikkawżat minn medja ta' bilanċi ta' self kummerċjali aktar baxx minn dak tal-2018. Minkejja li r-rata għad-depożiti tal-Bank Ċentrali Ewropew kompliet taqa', il-bank żied l-introjtu mill-likwidità żejda b'immaniġġjar proattiv li żamm l-istess dispożizzjoni konservattiva għar-riskju.

Id-dħul nett minn sorsi barra l-imgħax naqas bi ftit minkejja li kien hemm dħul tajjeb minn drittijiet fis-settur bankarju

HSBC Bank Malta p.l.c. unveiled plans for its new flagship branch in Qormi which is set to open in 2020.

Reported operating costs were €120.7m which includes the restructuring provision of €16.0m which will deliver sustainable savings from 2020 onwards with full annualised saving delivered in 2021. Excluding the restructuring provision, adjusted operating expenses were €104.7m, an improvement of €3.7m or 3% driven by a number of cost initiatives which more than offset the inflationary costs, new pension expenses and continued investments in digital.

Expected Credit Loss (ECL) for the year ended 31 December 2019 was €0.4m, an improvement of €3.1m versus 2018. The low charge in 2019 was driven by a number of recoveries and repayments across both retail and commercial.

There was a €1.4m positive movement in the provision for brokerage remediation costs in 2019. In 2016, the bank raised a provision totalling €8m in relation to a remediation of the legacy operational failure in the bank's brokerage business. During 2017, the remediation programme was largely completed and it was assessed that a partial reversal of the conservatively estimated provision was warranted. In this regard, a reversal of €1.8m was effected in 2017. In 2018, an additional reversal of €2m was effected and the final provision of €1.4m was released in 2019 as the programme is now deemed closed.

The effective tax rate was 34%. This translated into a tax expense of €10.5m, €0.7m higher than the €9.9m expense for 2018. During 2018, the bank benefited from a different tax treatment applied on a specific transaction.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €3.1m, €0.6m lower than prior year. The insurance company's performance was adversely impacted by negative market movements in 2019 which were largely neutral in 2018. Net income from assets and liabilities of insurance measured at fair value through profit and loss increased by €73m to €52.6m due to favourable equity market performance in 2019 compared with 2018, resulting in revaluation gains on equity and unit trust assets supporting insurance and investment contracts. This positive movement resulted in a corresponding movement in Net insurance claims and benefits paid and movement in liabilities to policyholders (a €76m reduction) reflecting the extent to which the policyholders and shareholders respectively participate in the investment performance of the associated assets portfolio.

Net loans and advances to customers increased by 5% to €3,257m with retail balances up 6% and commercial balances 2% higher than December 2018. The bank continued to improve the asset quality by reducing non-performing exposures by 13% versus prior year.

Customer deposits grew by 2% to €4,977m with a 4% increase in retail deposits more than offsetting the 6% reduction in commercial. The bank maintained a healthy advances to deposits ratio of 65% and its liquidity ratios were well in excess of regulatory requirements.

The financial investments portfolio increased by 4% to €944m. The risk appetite for investment quality remained unchanged. The portfolio is managed as a high-quality liquidity buffer and consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better.

The bank's capital ratios continued to improve with CET1 increasing from 14.6% to 16.4% and the total capital ratio

kummerċjali wara li daħlu fis-seħħ tariffi ġodda. Kontra dan id-dhul kien hemm tnaqqis fid-drittijiet mill-Assigurazzjoni wara li sar id-disponiment ta' portafoll partikolari ta' assigurazzjoni f'Diċembru 2018.

Id-dħul nett min-negozjar fl-investimenti żdied b'€1.8 miljun dovut għall-qligħ li sar fil-valur ġust tal-ishma tal-VISA.

L-ispejjeż rapportati tal-operat kienu ta' €120.7 miljun. Dawn jinkludu l-provvediment ta' €16-il miljun għar-ristrutturar li se jħalli tifdil sostanzjali mill-2020 'il quddiem, bil-benefiċċju sħiħ annwalizzat jibda jitgawda fl-2021. Jekk inħallu barra l-provvediment għar-ristrutturar, l-ispejjeż aġġustati tal-operat kienu ta' €104.7 miljun, titjib ta' €3.7 miljun jew 3% li rriżulta minn għadd ta' inizjattivi fl-infiq li aktar milli pattew għaż-żidiet inflazzjonarji, l-ispejjeż ġodda ta' pensjoni u l-investiment sostnut fil-qasam diġitali.

It-Telf Mistenni mill-Kreditu (l-ECL) għas-sena li għalqet fil-31 ta' Diċembru 2019 kien ta' €0.4 miljun, tnaqqis ta' €3.1 miljun imqabbel mal-2018. Iċ-ċifra nżammet baxxa fl-2019 bis-saħħa tal-irkupru u l-ħlas lura ta' diversi ammonti sew fis-servizzi bankarji personali kif ukoll dawk kummerċjali.

Kien hemm ċaqliq pożittiv ta' €1.4 miljun fl-2019 fil-provvediment għall-ispiża biex tagħmel tajjeb għan-nuqqasijiet fil-brokerage. Fl-2016 il-bank kien warrab ammont ta' €8 miljun biex joffri rimedju għal nuqqas operazzjonali antik fin-negozju tal-brokerage. Matul l-2017 il-programm ta' rimedju kien kważi tlesta u kien meqjus xieraq li parti mill-provvediment, li kien oriġinarjament stmat b'ċifra konservattiva, tiġi rtirata. Għalhekk fl-2017 sar treġġigħ lura ta' €1.8 miljun. Fl-2018 sar treġġigħ lura ta' €2 miljun oħra, u l-provvediment finali ta' €1.4 miljun ġie rilaxxat fl-2019, biex hekk il-programm issa jitqies magħluq.

Ir-rata effettiva tat-taxxa kienet ta' 34%. Dan irriżulta fi spiża ta' taxxa ta' €10.5 miljun, €0.7 miljun aktar mid-€9.9 miljun tal-2018. Matul l-2018 il-bank gawda minn trattament ta taxxa differenti li ntużat fuq transazzjoni speċifika.

HSBC Life Assurance (Malta) Limited irrapportat profitt qabel it-taxxa ta' €3.1 miljun, li hu €0.6 miljun inqas mis-sena ta' qabel. Il-prestazzjoni tal-kumpanija tal-assigurazzjoni fl-2019 kienet milquta ħażin minn ċaqliq fis-suq li kien negattiv, waqt li fl-2018 dan kien kważi għal kollox newtrali. Id-dħul nett minn assi u obbligazzjonijiet tal-assigurazzjoni mkejjel bil-valur ġust żdied bi €73 miljun għal €52.6 miljun. Dan ġara għax kien hemm prestazzjoni favorevoli fis-suq tal-ekwità fl-2019 meta mqabbel mal-2018, li bis-saħħa tagħha rriżulta qligħ fir-rivalutazzjoni ta' dawk l-assi tal-ekwità u tal-unit trusts li kienu fil-bażi tal-kuntratti tal-assigurazzjoni u l-investiment. Iċ-ċaqliq pożittiv ġab miegħu ċaqliq korrispondenti fit-talbiet netti u l-benefiċċji li tħallsu għal kumpens mill-assigurazzjoni kif ukoll fl-obbligazzjonijiet lejn id-detenturi tal-poloz (tnaqqis ta' €76 miljun), li jirrifletti kemm id-detenuri tal-poloz u l-azzjonisti rispettivament jipparteċipaw fil-prestazzjoni tal-investiment tal-portafoll tal-assi assoċjati.

Is-self nett lill-klijenti żdied b'5% għal €3,257 miljun, bil-bilanċi personali jitilgħu 6% u dawk kummerċjali 2% fuq dawk ta' Diċembru 2018. Il-bank kompla jtejjeb il-kwalità tal-assi billi rnexxielu jniżżel il-livell tal-esponiment għal self li ma jirrendix bi 13% meta mqabbel mas-sena ta' qabel.

Id-depożiti tal-klijenti kibru bi 2% għal €4,977 miljun b'żieda ta' 4% fid-depożiti personali li aktar milli pattiet għat-tnaqqis ta' 6% fid-depożiti kummerċjali. Il-bank żamm relazzjoni tajba ta' 65% bejn is-self u d-depożiti, u r-relazzjonijiet tal-likwidità kienu jaqbżu sew il-minimi regolatorji.

improving from 17.0% to 19.0%. The bank continued to have a strong capital base and is fully compliant with the regulatory capital requirements. The bank managed down Risk Weighted Assets (RWAs) across 2019 driven by placements of excess liquidity and improved collateral recognition. A €13m net dividend was paid from the Insurance subsidiary which also drove the increase in CET1.

Whilst we continue to build up capital reserves for the new Non-Performing Loan (NPL) requirements, the proactive capital actions across 2019 enable us to declare a 30% dividend on full year adjusted profits recognising the importance of the dividends to our shareholders. This will bring the full year 2019 dividend payout ratio to 44% on a reported basis. The final gross dividend will be 2.1 cents per share (1.4 cents per share net of tax) which brings the total dividend for 2019 to 3.8 cents (2.5 cents net of tax). The final dividend will be paid on 15 April 2020 to shareholders who are on the bank's register of shareholders at 9 March 2020.

Retail Banking and Wealth Management ('RBWM')

2019 has been a strong year of significant transformation as we upgraded our business model to align with the fast changing behaviours of our customers. We have delivered new world class digital solutions, resized our branch network and driven record growth in acquisition.

Enabling our customers to bank with us continues to be a key focus. Our customers' lives and their expectations are changing fast as we see a move towards digital. We have no intention to become a digital only bank, so we have taken the difficult decision to resize our branch network and invest in creating a multichannel experience where we can meet our customers' needs through the simplest and easiest solutions.

Through digital we have launched new internet and mobile banking solutions. We have enabled biometrics across all apple and android devices so that our customers can access their accounts and transfer money wherever and whenever they need. Our mobile and internet banking solutions will continue to be a key focus for us as more and more of our customers are choosing these channels to do their everyday banking.

We have focused on making it as straightforward as possible to join HSBC whilst maintaining the highest compliance standards in the market. Customers can open a new account via our market leading online account opening application process. It enables customers to upload their documents from home so they only need to visit a branch to provide a single signature and collect their working debit card.

Helping our customers buy their first home or move to a new property remains key to HSBC and we have seen an increase in market share during 2019.

Our commitment to support the small business community, with turnover of less than €1m, has continued into 2019 with additional developments in policy and systems that make it easier for customers to join and bank with our HSBC Fusion propositions. We have seen the number of Fusion customers more than double year on year.

We have continued to invest heavily in the skills and capabilities of our people. In 2019, all our teams completed key modules in financial crime compliance to help

Il-portafoll tal-investimenti finanzjarji kiber b'4% u laħaq id-€944 miljun. Id-dispożizzjoni għar-riskju tal-bank ma nbidlitx – il-portafoll huwa mmaniġġjat bħala buffer ta' likwidità ta' kwalità għolja u huwa magħmul biss minn titoli ta' emittenti sovrani jew sopranazzjonali kklassifikati mill-S&P bħala A- jew aħjar.

Ir-relazzjonijiet tal-kapital tal-bank komplew imorru għall-aħjar, bil-kapital tal-ewwel saff (CET1) jitla' minn 14.6% għal 16.4% u r-relazzjoni tal-kapital totali minn 17.0% għal 19.0%. Il-bażi kapitali tal-bank baqgħet soda u l-bank huwa konformi bis-sħiħ mar-rekwiżiti regolatorji tal-kapital. Il-bank irnexxielu jnaqqas ir-Risk Weighted Assets (RWAs) fl-2019 billi mpejga aħjar il-likwidità żejda u kellu għarfien aħjar tas-sigurtà kollaterali. Is-sussidjarja tal-Assigurazzjoni ħallset dividend nett ta' €13-il miljun u dan għen ukoll biex jgħolli s-CET1.

Waqt li nkomplu nibnu r-riżervi kapitali għar-rekwiżiti l-ġodda dwar Self li Ma Jirrendix (NPL), fl-2019 ħadna miżuri proattivi dwar il-kapital li jippermettulna niddikjaraw dividend ta' 30% fuq il-profitti finali aġġustati, li juri għarfien tal-importanza tad-dividendi għall-azzjonisti tagħna. Dan iġib ir-relazzjoni kif rappurtata tal-ħlas ta' dividend għas-sena sħiħa 2019 għal 44%. Id-dividend finali gross se jkun ta' 2.1 ċenteżmi kull sehem (1.4 ċenteżmi kull sehem wara t-taxxa), li jġib id-dividend totali għall-2019 għal 3.8 ċenteżmi (2.5 ċenteżmi wara t-taxxa). Id-dividend finali se jitħallas fil-15 ta' April 2020 lil dawk li isimhom jidher fuq ir-reġistru tal-azzjonisti tal-bank fid-9 ta' Marzu 2020.

Is-Servizzi Bankarji Personali u l-Amministrazzjoni tal-Ġid (l-RBWM)

L-2019 kienet sena qawwija ta' trasformazzjoni importanti fejn għollejna l-livell tal-mudell kummerċjali tagħna biex niġu pass wieħed mad-drawwiet li qed jevolvu tal-klijenti tagħna. Nedejna soluzzjonijiet diġitali ġodda ta' klassi dinjija, irridimensjonajna l-firxa tal-fergħat u xprunajna tkabbir rekord fl-akkwiżizzjoni.

Wieħed mill-punti kruċjali li niffokaw fuqu hu li nagħtu l-mezzi lill-klijenti biex jużaw is-servizzi bankarji tagħna. Il-ħajja u l-aspettativi tal-klijenti qed jinbidlu b'mod rapidu u jersqu iżjed lejn l-użu diġitali. Aħna mhux bi ħsiebna nsiru bank ta' servizz diġitali biss, għalhekk ħadna d-deċiżjoni iebsa li nnaqsu n-numru ta' fergħat u ninvestu fil-ħolqien ta' esperjenza fuq mezzi varji fejn nistgħu nissodisfaw il-ħtiġijiet tal-klijenti tagħna bl-aktar mezzi ħfief u sempliċi.

Permezz tat-teknoloġija diġitali varajna soluzzjonijiet ġodda bl-internet u bil-mobile. Daħħalna verifiki bijometriċi fuq il-mezzi kollha li jaħdmu bl-Apple u bl-Android biex il-klijenti jkunu jistgħu jaċċessaw il-kontijiet u jittrasferixxu l-flus kull fejn u kull meta għandhom bżonn. Is-soluzzjonijiet tal-mobile u tal-internet banking tagħna se jibqa' jkollhom l-attenzjoni primarja tagħna hekk kif dejjem jiżdiedu l-klijenti li jagħżlu dawn il-mezzi għall-qadi bankarju ta' kuljum.

Iffokajna fuq l-aktar mod sempliċi ta' kif wieħed jista' jingħaqad mal-HSBC waqt li nżommu l-ogħla standards ta' osservanza fis-suq. Illum għandna proċess għall-applikazzjoni biex jinfetaħ kont ġdid online li hu fuq quddiem nett fis-suq u l-klijenti jistgħu jużaw dan biex jiftħu kont ġdid. Il-proċess jippermetti lill-klijenti li jtellgħu d-dokumenti tagħhom online mid-dar biex hekk ma jkollhomx għalfejn iżuru l-fergħa ħlief biex jiffirmaw darba u jiġbru l-karta ta' debitu li jkunu se jużaw.

us maintain market leading standards to protect our customers and the local economy. We have also completed innovative customer service training with every team focusing on supporting our frontline and finally we have introduced a new role that can provide both mortgage and life insurance advice, saving our customers time.

As we look ahead to 2020, we remain focused on creating simple and easy banking for our customers to meet their changing needs through a multichannel banking experience.

Commercial Banking ('CMB')

In 2019, CMB continued to build on the foundations laid down in previous years, which have allowed us to build a safer and stronger bank. We are now focusing on our core customer base, in line with our strategic objective of being Malta's leading international bank. During the year, we made material progress with our portfolio review aimed at ensuring that we adhere to the highest compliance standards. The focus is now on reconnecting with our customers and strengthening our commercial banking relationships with customers who meet our risk appetite. As we have stated before, we are not after just any growth, but sustainable growth in economic areas which are compliant, in line with our beliefs, bring value add and are beneficial to the economy.

Throughout the year, we have continued supporting our customers with their funding requirements and other products including Trade Finance and Liquidity and Cash Management solutions. The balance sheet has remained fairly stable in size with modest growth in assets as new lending was absorbed by agreed repayments on other facilities, including a welcome reduction in NPLs. CMB revenue remains challenged in view of the impact of negative interest rates as well as factors in the market, which is highly competitive in the sectors that we operate in. Revenue was in fact down on the prior year but we will continue with our plans to drive revenue growth by focusing on our target market and capitalising on our key strength, particularly facilitation of international trade. We are strategically placed to help customers trade internationally as well as those who wish to expand locally.

L-għajnuna li nagħtu biex il-klijenti jixtru l-ewwel dar jew ibiddlu d-dar tibqa' kruċjali għall-HSBC. Matul l-2019, rajna żieda fis-sehem ġenerali li kellna mis-suq.

L-impenn tagħna biex nagħtu appoġġ lill-komunità tan-negozji ż-żgħar, b'fatturat ta' taħt il-€1 miljun, baqa' għaddej fl-2019 bi żviluppi oħra fil-policies u fis-sistemi li jfittxu li jagħmluha aktar faċli għall-klijenti biex jissiehbu magħna u jużaw il-proposti bankarji tal-HSBC Fusion. In-numru tal-klijenti tal-Fusion irdoppjaw minn sena għall-oħra.

Komplejna ninvestu bil-qawwi fil-ħiliet u l-kapaċitajiet tan-nies tagħna. Fl-2019, it-timijiet tagħna kollha għaddew minn taħriġ sħiħ u importanti fl-osservanza relatata mar-reati finanzjarji. Dan sar biex inkunu nistgħu nżommu standards li huma ta' quddiem nett fis-suq għall-ħarsien tal-klijenti u tal-ekonomija lokali. Ikkonkludejna wkoll taħriġ innovattiv fis-servizz tal-klijenti fejn kull tim iffoka fuq l-appoġġ li jingħata lil dawk li jittrattaw direttament mal-klijenti, u fl-aħħarnett daħħalna kariga ġdida li tipprovdi pariri dwar self għall-proprjetà u assigurazzjoni fuq il-ħajja, biex hekk niffrankaw il-ħin għall-klijenti.

Fl-2020 se nibqgħu nimmiraw fuq il-ħolqien ta' metodi bankarji sempliċi u ħfief għall-klijenti, biex nilħqu l-ħtiġijiet li dejjem qegħdin jinbidlu permezz ta' esperjenza bankarja fuq mezzi varji.

Is-Servizzi Bankarji Kummerċjali (is-CMB)

Fl-2019 is-CMB issokta jibni fuq is-sisien imqiegħda fis-snin ta' qabel, li għenuna biex nibnu bank aktar sigur u b'saħħtu. Issa qed niffokaw fuq il-klijenti primarji tagħna, skont l-għan strateġiku li nkunu l-aqwa bank internazzjonali f'Malta. Matul is-sena għamilna progress sostanzjali fl-analiżi tal-portafoll tagħna li għandha bil-għan li niżguraw li nimxu mal-ogħla standards ta' konformità. Il-mira issa hija li nerġgħu nersqu viċin il-klijenti tagħna u nsaħħu r-relazzjonijiet bankarji kummerċjali ma' dawk il-klijenti li jirriflettu d-dispożizzjoni tagħna għar-riskju. Kif għedna qabel, m'aħniex infittxu tkabbir kwalunkwe imma tkabbir sostenibbli f'oqsma ekonomiċi fejn hemm konformità mar-regolamenti, li jaqblu mat-twemmin tagħna, iġibu valur miżjud u huma ta' benefiċċju għall-ekonomija.

The take-up of the €250 million HSBC International Business Fund, launched in July 2019, has been encouraging.

The highlight of the year was the launch of the HSBC International Business Fund worth €250 million in July, aimed at assisting local companies that are aiming to grow and trade outside of Malta. This fund is testament to HSBC's continued commitment to the local economy and enables customers to leverage on our key strength. Take-up so far has been encouraging and we look forward to continue supporting our customers who wish to benefit from this fund in 2020. Our commitment to the local business community is also evident through our ongoing cooperation with the Malta Chamber of Commerce, Enterprise and Industry and Trade Malta, where we were again main sponsors of the Exporter of the Year award. We also organised various thought leadership and networking events and activities that showcase our international expertise and global reach for the benefit of the local business community.

The main focus areas going forward are connecting with the bank's commercial clients and rethinking current processes, not solely from an internal perspective but also with the aim of keeping the client at the centre of the bank's strategy, reducing bureaucracy and turnaround times, improving efficiency and making processes smoother. Activities in this respect are ongoing and we will be rolling out various changes in 2020, based on feedback obtained from our customers which is highly valuable to us.

As we do on an ongoing basis, we continued to invest in our most important resource, namely people. The main activity in 2019 was the rollout of customer service full-day workshops to all our staff at all levels of the organisation to ensure that everyone is fully focused on putting the customer at the centre of everything that we do. Other than this, we provided our commercial teams various technical training and continuous professional development to ensure that they deliver the best quality service to our customers. This included technical training on such topics as cyber security threats, GDPR and personal development skills in the areas of leadership and presentations.

CMB is well placed to meet the challenges the industry is facing as we move into 2020. We are committed to serving our customers by placing them at the heart of everything we do and to supporting the local business community and ultimately the economy.

Global Markets ('GM')

GM covers foreign exchange and rates business. Underlying foreign exchange sales were strong notwithstanding increased competition. As a result, GM revenues were marginally up on 2018 despite reduced margins. Collaboration with CMB remained an important source of revenue growth and on top of GM's strategic priorities. CMB clients continue to benefit from the technical expertise and digital solutions of HSBC Group and we see continuous growth in the value of transactions processed online.

During the year GM together with CMB organised various client events during which industry leading specialists interacted with our clients directly.

Corporate Centre ('CC')

CC (Balance Sheet Management), which manages cash, liquidity, funding and interest rate risk for the entity, had a strong year with revenues well up on 2018 despite tough

Matul is-sena komplejna ngħinu lill-klijenti fil-ħtiġijiet finanzjarji tagħhom kif ukoll permezz ta' prodotti oħra bħalma huma s-soluzzjonijiet ta' Trade Finance u Liquidity and Cash Management. Il-karta tal-bilanċ baqgħet pjuttost stabbli fid-daqs. Kien hemm tkabbir modest fl-assi hekk kif self ġdid ġie assorbit minn ħlasijiet lura fuq faċilitajiet oħra inklużi l-NPLs, li t-tnaqqis tagħhom intlaqa' tajjeb. L-introjtu tas-CMB baqa' ta' sfida meta jitqiesu l-impatt tar-rati negattivi tal-imgħax u fatturi oħra fis-suq, fejn hemm kompetizzjoni ħarxa fis-setturi li noperaw fihom. Infatti d-dħul naqas mis-sena ta' qabel, imma aħna nibqgħu għaddejin bil-pjani għat-tkabbir tad-dħul billi niffokaw fuq is-suq li qed nindirizzaw, u nikkapitalizzaw fuq is-saħħa ewlenija tagħna, partikolarment billi niffaċilitaw il-kummerċ internazzjonali. Aħna qegħdin f'pożizzjoni strateġika biex ngħinu l-klijenti li jridu jagħmlu negozju internazzjonali kif ukoll dawk li jixtiequ jespandu lokalment.

L-avveniment li ġibed l-attenzjoni matul is-sena kien it-tnedija tal-HSBC International Business Fund, b'valur ta' €250 miljun li seħħ f'Lulju, immirat biex jgħin kumpaniji lokali li qed jaspiraw li jikbru u jinnegozjaw barra minn Malta. Il-fond huwa xhieda tal-impenn kontinwu tal-HSBC lejn l-ekonomija lokali u jgħin lill-klijenti biex jieħdu vantaġġ mis-saħħa ewlenija tagħna. Il-konkorrenza li kellu l-fond s'issa jagħmlilna kuraġġ u aħna ħerqanin li nkomplu nkunu ta' appoġġ għall-klijenti li jixtiequ japprofittaw minn dan il-fond fl-2020. L-impenn tagħna mal-komunità kummerċjali lokali jidher ukoll mill-koperazzjoni kontinwa tagħna mal-Kamra tal-Kummerċ, Intrapriża u Industrija u ma' Trade Malta, fejn għal darb'oħra konna l-isponsors ewlenin tal-premju Esportatur tas-Sena. Organizzajna wkoll diversi eventi u attivitajiet ta' Thought Leadership u Networking li minnhom deher kif l-għarfien internazzjonali u l-firxa globali tagħna jistgħu jkunu ta' benefiċċju għall-komunità kummerċjali lokali.

L-aktar punti li jeħtieġu attenzjoni għall-quddiem huma l-konnessjoni mal-klijenti kummerċjali tal-bank u r-reviżjoni tal-proċessi attwali, mhux biss mill-perspettiva interna imma wkoll bil-għan li l-klijent jibqa' fiċ-ċentru tal-istrateġija tal-bank, titnaqqas il-burokrazija u t-tul ta' ħin biex tieħu riżultat, titjieb l-effiċjenza u nagħmlu il-proċessi aktar faċli. F'dan ir-rigward hemm attivitajiet għaddejja, u se nniedu diversi bidliet imnebbħa mir-rispons li tawna l-klijenti li aħna nqisuh ta' preġju kbir.

Kif nagħmlu dejjem komplejna ninvestu fir-riżorsa l-aktar importanti – in-nies tagħna. L-attività prinċipali fl-2019 kienet it-tnedija ta' workshops ta' ġurnata dwar servizz lill-klijenti. Dawn saru għall-impjegati kollha f'kull livell tal-organizzazzjoni ħalli nkunu żguri li kulħadd iqiegħed lill-klijent fiċ-ċentru ta' dak kollu li nagħmlu. Apparti dan, kull tim kummerċjali tagħna rċieva taħriġ tekniku varju u żvilupp professjonali kontinwu biex naraw li jagħtu l-aqwa servizz ta' kwalità lill-klijenti. Dan kien jinkludi taħriġ tekniku fuq diversi suġġetti, fosthom it-theddid għas-sigurtà diġitali, il-GDPR u l-ħiliet ta' żvilupp personali fl-oqsma tat-tmexxija u l-preżentazzjoni.

Is-CMB jinstab f'pożizzjoni tajba biex jilqa' l-isfidi li qed tiffaċċa l-industrija fl-2020. Aħna kommessi li naqdu lill-klijenti billi nqegħduhom fiċ-ċentru ta' kull ma nagħmlu u li nsostnu lill-komunità kummerċjali lokali u fl-aħħar mill-aħħar lill-ekonomija.

Is-Swieq Globali (GM)

Il-GM ikopri l-kambju u s-suq tar-rati. Il-bejgħ ta' assi

Global Markets, together with Commercial Banking, organised a number of client events with leading industry specialists during the year.

external market factors. We continued experiencing challenges from the prevailing negative interest rate environment, but managed to increase revenues thanks to proactive management of excess liquidity within the same conservative risk appetite. Our 'Hold-to-Collect and Sell' portfolio is mainly invested in very high quality liquid assets rated A- or higher.

HSBC Operations, Services & Technology ('HOST')

In HOST, we run customer operations for the businesses, such as processing our clients' mortgages, loans and payments, help manage change in the bank, deliver and manage technology and provide professional services to the bank like Procurement and Real Estate Management.

In 2019, HOST was a key driver of change particularly in increasing efficiencies and modernising our technology. Our digital strategy remained high on the agenda with the launch of the new Mobile App that includes new features and a better look and feel. We also launched Staff Front End and our new Internet Banking Platform that allows us to provide a more secure and standardised service. We also developed and implemented a Customs Payment Gateway system which is another example of providing digital solutions to our customers. Through this system, our commercial customers may effect secure online payments to the Customs Department, thus facilitating the process to release their goods without the need to call at the Customs Department in person to effect payment.

In 2019, we also delivered a number of Regulatory projects such as Conduct of Business Rule Book, Mortgage Credit Directive, Borrower Based Measures, Forbearance and PSD II. Being compliant to regulations, standards and policies not only helps us to follow the industry rules but more importantly it ensures that we operate in line with our core

sottostanti fi swieq barranin kien b'saħħtu minkejja li l-kompetizzjoni kibret. B'riżultat ta' dan, id-dħul tal-GM żdied fuq l-2018 minkejja marġini dojoq. Il-kollaborazzjoni mas-CMB baqgħet sors importanti għat-tkabbir tad-dħul u kienet fuq nett fil-prijoritajiet strateġiċi tal-GM. Il-klijenti tas-CMB għadhom jibbenefikaw mill-għerf tekniku u s-soluzzjonijiet diġitali tal-Grupp HSBC, u qed naraw li l-valur tat-transazzjonijiet ipproċessati online qiegħed dejjem jiżdied.

Matul is-sena, il-GM flimkien mas-CMB organizza diversi attivitajiet għall-klijenti li fihom speċjalisti ewlenin fl-industrija ltaqgħu direttament mal-klijenti tagħna.

Corporate Centre (CC)

Il-CC (Maniġjar tal-Bilanċ), li jinkludi l-immaniġġjar tar-riskju tal-flus, tal-likwidità, tal-finanzjament u tar-rata tal-imgħax tal-bank, kellu sena tajba, bi dħul li qabeż sew dak tal-2018 minkejja il-fatturi diffiċli tas-swieq. Bqajna nesperjenzaw sfidi li ġew minn ambjent fejn jipprevalu rati tal-imgħax negattivi. B'danakollu rnexxielna nżidu d-dħul grazzi għall-immaniġġjar proattiv tal-likwidità żejda li żamm l-istess dispożizzjoni konservattiva għar-riskju. Il-portafoll 'Miżmum għad-Dħul u l-Bejgħ' (Hold-to-Collect and Sell) huwa investit prinċipalment f'assi likwidi tal-ogħla kwalità, ikklassifikati A- jew aħjar.

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

Fil-HOST immexxu l-operat tal-klijenti għad-dipartimenti l-oħra. Dan jinkludi l-ipproċessar tas-self għad-djar, self ieħor u pagamenti, l-immaniġġjar ta' bidliet fil-bank, it-tnedija u l-amministrazzjoni tat-teknoloġija, u l-għoti ta' servizzi professjonali lill-bank, pereżempju l-Procurement u l-immaniġjar tal-Proprjetà.

values and conduct principles to do the right thing for our customers, employees and shareholders.

Another example of how technology is changing the way we work is through our paperless strategy, where we are continuously challenging our current processes with an aim to increase the use of digital forms and scanning. In 2019, we reduced 1.5m printed sheets of paper across the bank which is an 18% reduction when compared to the previous year. We have also automated our account on-boarding process which has reduced the time required for our customers to start their relationship with us.

Sustainability also remained a focus area and this year we took a number of initiatives such as the rollout of a new Waste Separation Programme across all our offices and the installation of solar window films on the west facing façade of the Operations Centre and 159 photo voltaic panels. These PV panels which are Group funded, are additional to another 678 panels we have installed in other buildings.

Our people

Our people are at the heart of our business. As an organisation, we want our employees to grow and thrive so that in turn they can provide excellent customer service. We want our people to realise their career aspirations and ensure their well-being.

During 2019, we have continued to drive our People Plan 2018 – 2020 with the objective to create a High Performing Organisation and a future-ready workforce equipped with the skills needed to succeed at HSBC. We have signed a five year collective agreement with MUBE and GWU, which will help strengthen our employee relations and work closely with our Union Partners to ensure a sustainable working environment.

Throughout the year, we have launched numerous development planning sessions for all our line managers to support their employees take charge of their careers and

Fl-2019 il-HOST kellu sehem kruċjali fil-bidla speċjalment biex itejjeb l-effiċjenzi u jimmodernizza t-teknoloġija. L-istrateġija diġitali baqgħet fuq nett fl-aġenda tagħna, bit-tnedija ta' Mobile App ġdid li joffri faċilitajiet ġodda u jidher u jinħass aħjar. Inawgurajna wkoll l-Istaff Front End u l-Internet Banking Platform il-ġdid, li bih nistgħu nagħtu servizz li jkun aktar sigur u standardizzat. Żviluppajna u implimentajna Customs Payment Gateway, eżempju ieħor ta' kif noffru soluzzjonijiet diġitali lill-klijent. B'din is-sistema l-klijenti kummerċjali tagħna jistgħu jibagħtu ħlasijiet online b'mod sigur lid-Dipartiment tad-Dwana, u b'hekk jiffaċilitaw il-proċess ta' rilaxx tal-merkanzija tagħhom mingħajr il-ħtieġa li jmorru jħallsu personalment id-Dwana.

Fl-2019 wettaqna wkoll għadd ta' proġetti regolatorji, fosthom il-Conduct of Business Rule Book, Mortgage Credit Directive, Borrower Based Measures, Forbearance u PSD II. Li nżommu ruħna konformi mar-regolamenti, l-istandards u l-policies mhux biss jgħinna nimxu mar-regoli tal-industrija, imma aktar importanti noperaw b'fedeltà mal-valuri li ngħożżu u mal-prinċipji ta' kondotta biex nagħmlu dak li hu tajjeb għall-klijenti, l-impjegati u l-azzjonisti tagħna.

Eżempju ieħor ta' kif it-teknoloġija qed tibdel il-mod kif naħdmu huwa l-istrateġija tat-tnaqqis tal-użu tal-karti, billi kontinwament nisfidaw il-proċessi attwali tagħna bil-għan li nserrħu aktar fuq l-użu ta' forom diġitali u scanning. Fl-2019 naqqasna 1.5 miljun folja ta' karta stampata mal-bank kollu. Dan ifisser tnaqqis ta' 18% meta mqabbel mas-sena ta' qabel. Ħloqna wkoll proċess awtomatizzat għall-ftuħ tal-kontijiet, biex b'hekk naqqasna l-ħin meħtieġ biex klijent jibda r-relazzjoni tiegħu magħna.

Is-sostenibilità wkoll baqgħet qasam ta' attenzjoni. Din is-sena ħadna bosta inizjattivi, fosthom varajna Programm ġdid għas-Separazzjoni tal-Iskart fl-uffiċċji kollha tagħna u installajna films solari fit-twieqi tal-faċċata li jħarsu lejn il-punent fiċ-Ċentru tal-Operat, flimkien ma' 159 pannelli fotovoltajiċi. Dawn il-pannelli PV, iffinanzjati mill-Grupp, jiżdiedu ma' 678 pannelli oħra li installajna f'binjiet oħra.

The new collective agreement signed between HSBC Bank Malta p.l.c. and the Malta Union of Bank Employees builds on the bank's commitment to be a leading employer, and provides the foundations for a sustainable working environment.

increase their capabilities. We closed our Future Leaders program for the first cohort and launched a second one to ensure we have a strong pipeline of employees who are ready to lead and take new leadership roles when the opportunity arises. We have driven several operational initiatives to increase automation and efficiency for our employees. We launched our ePayslip and Absence Management System. This will allow all employees to carry out HR transactions online to provide a better employee experience. We have continued our HR Breakfast talks and employee experience activities with a focus on mental and physical well-being to promote a healthy and balanced lifestyle.

2019 ended with the rationalisation of our business model which entailed close collaboration with our Union Partners to support the employees impacted by the changes we implemented across the bank. We are all very proud to end the year once again as winners. The Banker, a publication by the Financial Times, once again, during a ceremony held in London, awarded HSBC Malta the Bank of the Year Award. This is indeed a recognition that goes to all our people who have continued to uphold the highest standards in the banking sector.

Financial Crime Compliance (‘FCC’)

HSBC continued to demonstrate its commitment to the highest global standards of financial crime compliance in 2019. The bank appreciates that our high standards have at times caused inconvenience for clients as we seek to understand our customers and their interaction with the bank, and we take this opportunity to thank them for their patience and understanding. We believe that this important work provides security to the financial system and to all those who use it. High compliance standards in the banking system continue to be a source of strength and competitive advantage not only for our customers but also for the country, as we work diligently to support growth in Malta’s economy by facilitating new business and cross-border trade.

Executive Committee (EXCO)

As at 31 December 2019, the Executive Committee was composed of the following:

Andrew Beane	Chief Executive Officer
Nikolaos Fertakis	Chief Operating Officer
Emma Nuttall	Chief Financial Officer
Daniel Robinson	Head of RBWM
Michel Cordina	Head of Business Development
Irina Seylanyan	Head of GM
Joyce Grech	Head of CMB
Caroline Buhagiar Klass	Head of Human Resources
Anna Camilleri	Head of Internal Audit
Joseph Sammut	General Counsel
Gerard Walsh	Chief Risk Officer
Jane Estey	Head of Financial Crime Compliance
Anthony P. Abela	Head of Regulatory Compliance
Carine Arpa	Head of Communications
George Brancaleone	Company Secretary

In-nies tagħna

In-nies tagħna huma fiċ-ċentru tal-ħidma tagħna. Bħala organizzazzjoni rridu li l-impjegati jikbru u javvanzaw biex min-naħa tagħhom ikunu jistgħu jagħtu servizz eċċellenti lill-klijenti. Irridu li n-nies tagħna jilħqu l-aspirazzjonijiet tagħhom għall-karriera u kwalità ta' ħajja tajba.

Matul l-2019 komplejna nmexxu 'l quddiem il-People Plan 2018 – 2020 bil-għan li noħolqu 'High Performing Organisation' u korp ta’ ħaddiema mgħammar għall-futur bil-ħiliet meħtieġa għas-suċċess fl-HSBC. Iffirmajna ftehim kollettiv ta’ ħames snin mal-MUBE u l-GWU li se jwassal għat-tisħiħ tar-relazzjonijiet mal-impjegati u għal ħidma fil-qrib mal-Unions biex nassiguraw li jkollna ambjent tax-xogħol sostenibbli.

Matul is-sena nedejna għadd ta’ sessjonijiet għall-ippjanar tal-iżvilupp biex il-line managers kollha jgħinu lill-impjegati jieħdu l-karriera f’idejhom u jsaħħu l-ħiliet tagħhom. Għalaqna l-programm tal-Future Leaders għall-ewwel grupp u bdejna t-tieni wieħed biex naraw li jkollna korp sod ta’ impjegati li jkunu lesti li jidħlu fi rwoli ta’ tmexxija meta tinqala’ l-opportunità. Nedejna diversi inizjattivi operazzjonali biex inżidu l-awtomatizzazzjoni u l-effiċjenza għall-impjegati. Inawgurajna l-ePayslip u s-sistema tal-Absence Management, li tippermetti lill-impjegati kollha li jagħmlu transazzjonijiet ta’ HR online u ttejjeb l-esperjenza tagħhom bħala impjegati. Komplejna t-taħditiet tal-HR Breakfast u l-attivitajiet dwar esperjenzi tal-impjegati, ikkonċentrati l-aktar fuq is-saħħa mentali u fiżika, biex ninkoraġġixxu stil ta’ ħajja san u bilanċjat.

L-2019 għalqet bir-razjonalizzazzjoni tal-mudell kummerċjali tagħna. Dan kien jinvolvi li nikkollaboraw mill-qrib mal-Unions biex insostnu l-impjegati li ntlaqtu mill-bidliet li daħħalna mal-bank kollu. Aħna lkoll kburin li għal darb’oħra għalaqna s-sena bħala rebbieħa. The Banker, pubblikazzjoni tal-Financial Times, għal darb’oħra, f’ċerimonja li saret Londra, tat lil HSBC Malta l-premju tal-Bank tas-Sena. Dan hu verament rikonoxximent lejn in-nies tagħna li baqgħu dejjem isostnu l-ogħla standards fis-settur bankarju.

L-osservanza tar-regolamenti dwar reati finanzjarji (FCC)

Fl-2019, l-HSBC kompla juri impenn lejn l-ogħla standards globali ta’ osservanza fir-rigward ta’ reati finanzjarji. Il-bank japprezza li xi drabi l-istandards għoljin tagħna setgħu ħolqu inkonvenjenza għall-klijenti, meta pprovajna nifhmu lill-klijenti u dak li kienu qed jistennew mill-bank. Nieħdu din l-opportunità biex nirringrazzjawhom għall-paċenzja u l-komprensjoni tagħhom. Aħna nemmnu li dan ix-xogħol importanti jagħti sigurtà lis-sistema finanzjarja u serħan il-moħħ lil dawk kollha li jużawha. Standards għolja ta’ osservanza fis-sistema bankarja jagħmluha b’saħħitha u jagħtu vantaġġ kompetittiv mhux biss lill-klijenti tagħna imma wkoll lill-pajjiż, hekk kif aħna naħdmu bil-għaqal biex inġibu t-tkabbir fl-ekonomija ta’ Malta billi nagħmluha eħfef li jkun hemm negozju ġdid u kummerċ ma’ barra.

Outlook

The local market outlook remains challenging as interest rates will remain negative for the long-term, compliance risks continue to limit the bank's appetite for parts of the economy and as there is a need for significant progress to be demonstrated by the supervisory institutions and market participants to meet international standards (e.g. Moneyval) in 2020.

As I have explained, we have made the necessary changes to our business to navigate the future and mitigate the risks we see in the market. We have adjusted our cost structure to mitigate the impact of negative interest rates, changed our distribution model with upgraded digital and modernised branches to respond to changing customer preferences and reshaped our client portfolio to reflect our risk appetite.

The actions we have taken have created the space for HSBC to focus clearly on serving our customers in line with our aspiration to become Malta's #1 bank for customer service, albeit with a more selective approach than in the past. There is scope for measured growth across the bank, however we remain committed to long-term measures of performance and risk management and we will not compromise this philosophy in the pursuit of short-term risk taking. This approach is, I believe, in the best interest of all our stakeholders and remains central to HSBC's track record in generating dividends.

In our retail business, we will see the full year benefit of the investments we made in digital last year while making new investments to upgrade our self-service channel and in our remodelled branch network. In our Commercial Bank, we have a clear view of the customers we are best placed to serve and have re-organised around them, with international capability remaining our signature advantage.

HSBC is a strong bank with high standards we are rightly proud of. Our values and commitment to doing the right thing have guided HSBC's success to date and they will continue to do so as we look to the future.

Andrew Beane, Chief Executive Officer
18 February 2020

Il-Kumitat Eżekuttiv (EXCO)

Fil-31 ta' Diċembru 2019 il-Kumitat Eżekuttiv kien magħmul minn dawn il-membri:

Andrew Beane	Kap Eżekuttiv
Nikolaos Fertakis	Kap Operattiv
Emma Nuttall	Kap tal-Finanzi
Daniel Robinson	Kap tal-RBWM
Michel Cordina	Kap tal-Iżvilupp Kummerċjali
Irina Seylanyan	Kap tal-GM
Joyce Grech	Kap tas-CMB
Caroline Buhagiar Klass	Kap tar-Riżorsi Umani
Anna Camilleri	Kap tal-Verifika Interna
Joseph Sammut	Kap tal-Uffiċċju Legali
Gerard Walsh	Kap tar-Riskju
Jane Estey	Kap tal-Konformità dwar Reati Finanzjarji
Anthony P. Abela	Kap tal-Osservanza Regolatorja
Carine Arpa	Kap tal-Komunikazzjoni
George Brancaleone	Segretarju tal-Kumpanija

Ħarsa 'l quddiem

Il-prospettiva għas-suq lokali għadha waħda ta' sfida. Ir-rati tal-imgħax se jibqgħu negattivi fit-tul, ir-riskji tal-osservanza għadhom jillimitaw id-dispożizzjoni tal-bank lejn partijiet mill-ekonomija, u għad hemm il-bżonn li l-istituzzjonijiet tas-sorveljanza u l-parteċipanti fis-suq juru li qed isir progress serju biex jissodisfaw l-istandards internazzjonali (eż Moneyval) fl-2020.

Kif spjegajt, aħna għamilna l-bidliet neċessarji fin-negozju tagħna biex inbaħħru fil-futur u ntaffu r-riskji li naraw fis-suq. Aġġustajna l-istruttura tal-ispejjeż tagħna biex intaffu l-effett tar-rati negattivi tal-imgħax, bdilna l-mudell tad-distribuzzjoni billi daħħalna l-aħħar teknoloġija u mmodernizzajna l-fergħat biex nissodisfaw il-preferenzi tal-klijenti li dejjem jinbidlu, u tajna forma ġdida lill-portafoll tal-klijentela tagħna biex jirrifletti d-dispożizzjoni tagħna għar-riskju.

Il-passi li ħadna ħolqu l-ispazju għall-HSBC biex ikun aktar iffokat biex jaqdi l-klijenti, skont il-mira tagħna li nsiru l-bank #1 f'Malta għas-servizz tal-klijenti, għalkemm se jkun aktar selettiv milli kien fil-passat. Hemm skop mal-bank kollu fejn jista' jinkiseb tkabbir meqjus, madankollu nibqgħu kommessi għal miżuri ta' prestazzjoni u ta' mmaniġġjar ta' riskju fit-tul u m'aħniex se nikkompromettu din il-filosofija biex infittxu li nieħdu riskji ta' żmien qasir. Nemmen li dan huwa fl-aħjar interess tal-partijiet kollha interessati u jibqa' ċentrali għar-reputazzjoni li għandu l-HSBC fil-ġenerazzjoni tad-dividendi.

Fis-settur bankarju personali se naraw il-benefiċċji tal-investiment li għamilna s-sena l-oħra fil-qasam diġitali waqt li se nagħmlu investimenti ġodda biex intejbu s-self service channels u biex nimmodernizzaw il-fergħat tagħna. Fil-bank kummerċjali tagħna, għandna stampa ċara tal-klijenti li aħna fl-aħjar pożizzjoni li naqdu, u rrijorganizzajna ruħna madwarhom, bil-vantaġġ distintiv tagħna jkun il-kapaċità internazzjonali.

L-HSBC huwa bank sod bi standards għoljin li aħna kburin bihom. Il-valuri li nħaddnu u l-impenn biex nagħmlu dak li hu sew mexxew is-suċċess tagħna sal-lum u se jibqgħu jagħmlu hekk ukoll fil-futur.

John Bonello, CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 15 July 2013 and Chairman on 2 August 2019. Member of the bank's Remuneration and Nomination Committee and former Chairman of the bank's Audit Committee and former Member of the bank's Risk Committee. Mr Bonello is a Chartered Accountant and a Certified Public Accountant. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired in December 2009. He is a Fellow of the Malta Institute of Accountants and Chairman of the Disciplinary Committee of the Institute and a Member of the Joint Disciplinary Board of the Accountancy Board.

Andrew Beane, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer on 2 November 2015 and Director on 31 March 2016. Chairman of the HSBC Life Assurance (Malta) Limited and of HSBC Global Asset Management (Malta) Limited. 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. Mr Beane has been with the HSBC Group since 2002 and his previous roles include assignments in the United Kingdom, United Arab Emirates, Hong Kong and the United States, principally in the areas of Commercial Banking and Strategy & Planning.

Christopher Davies, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 9 May 2014. Holds the roles of Group General Manager, Chief Executive Officer International Europe, HSBC Bank p.l.c. and Deputy Chief Executive Officer, HSBC France. 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. Mr Davies also ran HSBC's Commercial Banking business in North America, following senior appointments across all of HSBC's major business lines, principally in the UK and the Americas.

Michel Cordina, EXECUTIVE DIRECTOR

Appointed Executive Director on 2 April 2019. Mr Cordina, formerly Head of Commercial Banking, is presently Head of Business Development. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 38 years ago. He has worked in various areas of banking in both Personal Banking and Commercial Banking. He has also led a number of operational and support functions of the bank. He has occupied various executive roles within HSBC Bank Malta including Deputy Head of Operations and Head of Business Transformation. He was also the Programme Manager responsible for bringing the HSBC Contact Centre to Malta. In 2010, he was seconded to HSBC Commercial Banking in London where he performed the role of Head of Sales Performance. He is an Associate of the Chartered Institute of Bankers (ACIB).

Yiannos Michaelides, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 26 May 2017. Presently Member of the bank's Risk Committee. Mr Michaelides has over 27 years of international business experience involving telecoms and media at CEO and other Executive positions. He is currently running his own business consulting practice. Till 31 March 2017, Mr Michaelides occupied the post of Group CEO of GO p.l.c. Before joining GO p.l.c. he was Senior Executive at EITL Dubai (a Dubai Holding subsidiary), with responsibilities including portfolio management and value creation at EITL portfolio companies. Prior to that, he worked as Vice-president of Strategic Marketing at du in Dubai, the new integrated telecoms operator in the UAE, Areeba, the second mobile operator in Cyprus and Nortel Networks in North America and EMEA. Mr Michaelides holds a B. Eng. (Honours), M. Eng. from McGill University (Montreal, Canada) and an M.B.A. with distinction from Warwick Business School (UK).

Ingrid Azzopardi, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 2 August 2019. She is the chairperson of the Bank's Audit Committee and Member of the bank's Risk Committee. A former Director of HSBC Life Assurance (Malta) Limited and former Chairperson of the Audit and Risk Committee of said company. Ingrid Azzopardi is presently the Group Internal Auditor of GO plc, a position she has occupied since November 2000. She has chaired various committees at GO plc, including the Group Fraud Forum and the Gender Equality Committee. She is a Certified Public Accountant and Auditor and a Fellow of the Institute of Accountants and also a Member of the Institute of Internal Auditors.

Sue Vella, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 27 May 2016. Dr Vella is the Chairperson of the bank's Remuneration and Nomination Committee. Presently Senior Lecturer at the University of Malta on Social Policy, Chairperson of DISCERN research institute, trustee of Richmond Foundation and member of the National Centre for Family Research within the Malta Foundation for Social Wellbeing. Former Chief Executive Officer of Malta Enterprise Corporation and of the Employment and Training Corporation, and former Vice-President of the EU's Employment Committee. Doctor of Philosophy in Social Policy & Social Work, Master of Science in Social Policy & Planning, Bachelor of Arts in Psychology and Diploma in Applied Social Studies.

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 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 Audit Committee and of the bank's Remuneration and Nomination Committee.

Gordon Cordina, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank on 1 February 2017. Presently operates as a consultant on economic matters at E-Cubed Consultants Ltd, where he is an Executive Director. Dr Cordina also holds a visiting position at the Department of Economics at the University of Malta. Dr Cordina formerly held the following roles: Economist/Head of the Economic Research Department at the Central Bank of Malta, Director General of the National Statistics Office, Head of the Economics Department of the University of Malta and Economic Advisor to the Malta Council for Economic and Social Development. Dr Cordina also occupied the role of Non- Executive Director at Bank of Valletta p.l.c. up to 2013. Holds a B.Com (Honours) and a doctorate in Economics from the University of Malta and read a Masters in Economics at University of Cambridge.

George Brancaleone, COMPANY SECRETARY

Company Secretary of HSBC Bank Malta p.l.c. since 1 June 2004. Joined the bank in 1980, graduated LL.D. in 1988 and read an MA Degree in Contemporary European Studies (Sussex University 1993). Former Company Secretary of various HSBC subsidiaries in Malta since 2001.

Executive Committee

Andrew Beane, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer on 2 November 2015 and Director on 31 March 2016. 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. Mr Beane has been with the HSBC Group since 2002 and his previous roles include assignments in the United Kingdom, United Arab Emirates, Hong Kong and the United States, principally in the areas of Commercial Banking and Strategy & Planning.

Nikolaos Fertakis, CHIEF OPERATING OFFICER

Appointed Chief Operating Officer in April 2016. Mr Fertakis has ver 26 years of experience in the banking sector with specialisation in Information Systems and Operations. He joined HSBC in Greece in 2011 initially assuming the duties of IT Director and two years later was promoted to the role of Head of IT Operations International Europe. Since early 2014, Mr Fertakis was appointed Chief Operating Officer of the HSBC's operations in Greece. He holds a Degree in Mechanical Engineering, an MSc in Information Systems from Kingston University and an MBA with specialisation in Banking and Finance from Kingston University – ICBS Athens Business School.

Emma Nuttall, CHIEF FINANCIAL OFFICER

Appointed Chief Financial Officer on 27 June 2018. Mrs Nuttall has over 20 years international experience in Banking & Finance. She joined the HSBC Group in 2013 and has worked across senior finance roles in Global Commercial Banking (UK) and most recently as Head of Commercial Banking Finance, Global Finance Operations, India. Mrs Nuttall was previously employed with Barclays Bank where she joined in 1998 as part of the Finance Graduate Scheme and worked in a number of senior finance roles across various geographies including UK, South Africa and Seychelles. She is a professionally qualified Chartered Management Accountant and holds a Bachelor of Science Honours Degree in Mathematics and Management Studies from the University of Nottingham.

Daniel Robinson, HEAD OF RETAIL BANKING AND WEALTH MANAGEMENT

Appointed to the current role in April 2016. Mr Robinson has extensive experience in a range of Senior RBWM leadership roles in the HSBC Group, including Programme Director, Head of Business Management and Performance Director at HSBC UK RBWM. Mr Robinson holds a Bachelor of Engineering in Automotive Engineering from Oxford Brookes University.

Michel Cordina, EXECUTIVE DIRECTORS AND HEAD OF BUSINESS DEVELOPMENT

Appointed Executive Director on 2 April 2019. Mr Cordina, formerly Head of Commercial Banking, is presently Head of Business Development. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 38 years ago. He has worked in various areas of banking in both Personal Banking and Commercial Banking. He has also led a number of operational and support functions of the bank. He has occupied various executive roles within HSBC Bank Malta including Deputy Head of Operations and Head of Business Transformation. He was also the Programme Manager responsible for bringing the HSBC Contact Centre to Malta. In 2010, he was seconded to HSBC Commercial Banking in London where he performed the role of Head of Sales Performance. He is an Associate of the Chartered Institute of Bankers (ACIB).

Irina Seylanyan, HEAD OF GLOBAL MARKETS

Appointed Head of the then Global Banking & Markets in May 2016. Ms Seylanyan has extensive background in Global Markets, most notably as Deputy CEO and Head of Global Markets of HSBC Bank Armenia. Prior to taking up her appointment in Malta, Ms Seylanyan held a senior managerial role with HSBC Global Commercial Banking in London, where she was responsible for regulatory change. Ms Seylanyan is an Automated Systems engineer and a fellow of the Association of Chartered Certified Accountants.

Caroline Buhagiar-Klass, HEAD OF HUMAN RESOURCES

Appointed as Head of Human Resources in April 2018. Ms Buhagiar Klass began her HR career with ST Microelectronics in Malta in the 1990s before moving overseas in 2004 to work for ST in both Italy and then France. In 2010 she moved to Singapore, initially with ST before becoming the Head of Talent and Leadership Development for AXA Insurance. End of 2015 she returned to Malta and established her own HR consultancy working with a range of local businesses before joining HSBC Bank Malta p.l.c.

Joyce Grech, HEAD OF COMMERCIAL BANKING

Appointed Head of Commercial Banking in September 2019. Ms Grech has worked with HSBC for 23 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. She also headed Customer Value Management within the bank's Retail Banking and Wealth Management. Before taking up her current role, she occupied the role of Chief Risk Officer for over six years. She is an avid supporter of diversity and inclusion in its various forms. She is the chair of the Diversity and Inclusion Committee and sponsors internal initiatives to ensure that the bank embraces diversity in a meritocratic manner particularly in its recruitment and promotion processes and employee life cycle.

Gerard Walsh, CHIEF RISK OFFICER

Gerard Walsh was appointed as Chief Risk Officer of HSBC Bank Malta p.l.c., in 2019. He joined HSBC Bank Malta p.l.c. in 2018 as Head of Lending Services and Risk Governance, having previously served as Chief Risk Officer for HSBC Mauritius from 2014 to 2018, as well as Executive Director of the Mauritius subsidiary from 2017 to 2018. He is studying for a qualification in risk management with the University of South Africa, and is a certified anti-money laundering specialist.

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 PwC. 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.

Executive Committee

Joseph Sammut, GENERAL COUNSEL

Appointed General Counsel in July 2016. Joined the bank in 1981, then Mid-Med Bank, and subsequently read law at the University of Malta, where he graduated in 1988. He obtained his postgraduate degree in European Law at the College of Europe in Bruges in 1989. At the bank's Legal Office he worked for some years as a contracts lawyer and subsequently focused mainly on financial services. Since 1999, he was entrusted with leading the legal advice team and in 2010 worked at HSBC Head Office in London on a short-term legal assignment. He was appointed Deputy General Counsel in 2012.

Anthony P. Abela, HEAD OF REGULATORY COMPLIANCE

Appointed as Head of Regulatory Compliance for HSBC Bank Malta p.l.c. in March 2014. With 24 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.

Jane E. Estey, HEAD OF FINANCIAL CRIME COMPLIANCE

Appointed as Head of Financial Crime Compliance in September 2018. Ms Estey joined HSBC Group in 1989. After working in HSBC Canada for a number of years she moved to Hyderabad in India, leading large customer facing and operations teams within HOST before returning to Canada as Chief Operating Officer for FCC and RC. In 2016, she joined HSBC Bermuda as Head of Financial Crime Compliance Transformation.

Carine Arpa, HEAD OF COMMUNICATIONS

Ms Arpa was appointed Head of Communications in January 2019, bringing over 15 years of experience in the fields of communications, marketing and media relations. Ms Arpa undertook a number of different roles in the course of her career, including leading communications and marketing campaigns for the National Euro Changeover Committee, the European Commission Representation in Malta, KPMG and EY. She holds a Bachelor of Arts in Psychology and Communication Studies (Honours), a Master's Degree in European Studies and an MBA (Henley).

George Brancaleone, COMPANY SECRETARY

Company Secretary of HSBC Bank Malta p.l.c. since 1 June 2004. Joined the bank in 1980, graduated LL.D. in 1988 and read an MA Degree in Contemporary European Studies (Sussex University 1993). Former Company Secretary of various HSBC subsidiaries in Malta since 2001.

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 4a 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. As at 31 December 2019 the bank had 17 branches in Malta, one of which is located in Gozo. The local group comprised the following subsidiaries at 31 December 2019: HSBC Life Assurance (Malta) Limited and HSBC Global Asset Management (Malta) Limited.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Limited is authorised by the Malta Financial Services Authority to carry on business of insurance in Malta under the Insurance Business Act (chapter 403, Laws of Malta). 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 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.

Business and strategy

HSBC Malta is part of HSBC Group, which has an unrivalled global position with around 247,000 employees working across the world to provide broad range of banking products and services to around 40 million customers. HSBC Malta is Malta's leading international bank. No international bank has our presence in Malta and no domestic bank has our international reach.

Our values define who we are as an organisation and make us distinctive. We are dependable, standing firm for what is right and delivering on commitments. We are open to different ideas and cultures, and value diverse perspectives. We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

Our customers range from individual savers and investors to large international companies. We aim to connect them to opportunities and help them to achieve their ambitions. The products and services we offer vary widely according to customers' needs. We provide individuals and families with mortgages that help them buy their own home, as well as savings accounts and wealth management products that help them plan for the future. We offer businesses loans to invest in growth, and products such as foreign exchange and trade financing that enable them to expand internationally. For large companies and organisations operating across borders, we offer tailored advice on decisions such as financing major projects or making acquisitions.

We take a long term view of serving our customers, we have clear and focused strategy that is consistent with the HSBC Group's strategy. Our strategy is aimed at looking for growth opportunities, while improving efficiency and implementing the highest standards of compliance. In 2019 HSBC Malta has announced a strategic plan to increase its focus on digital banking services and to modernise its branch network. Implementation of this strategic plan is in progress. It enables us to maximise the opportunities from the rapidly changing way customers are using banks and builds on the investment that has been undertaken in digital capabilities during 2019. This investment is complemented with the creation of a new flagship branch, development of new wealth management centres, and more flexible access to a range of selfservice solutions delivered through a more cost effective operating model. Branch banking will continue to be a critical part to our service offering for the long term.

This banking model enables the local group to effectively meet clients' diverse financial needs, support a strong capital and funding base, reduce risk profile and volatility and generate stable returns for shareholders.

Research and development

Operating in the financial sector, the bank does not consider Research and Development as a main area of activity.

Events occurring after the end of the accounting period

There were no significant events affecting the bank or any of its subsidiary undertakings which have occurred after 31 December 2019.

Conduct

Throughout the course of 2019, a focused approach continued to be exercised regarding the responsibility and accountability that each employee has to perform their duties in line with the HSBC Conduct framework, which is centred around delivering fair outcomes for customers and supporting the orderly and transparent operation of financial markets. In this respect, as the local group's growth strategy evolved, conduct-related matters remained high on the agenda with relevant discussions and oversight being exercised in the appropriate risk governance fora.

Key conduct activities undertaken by the local group during the year included:

- the embedding of the MFSA's Conduct of Business Rulebook to further enhance conduct processes and procedures in investments and insurance activities;
- the adoption of the HSBC Global Principles, launched in early 2019, which reflect the values, strategy and a prudent approach to risk management including conduct risk. The Global Principles include a guide to decision making, which ensures that employees always strive to do the right thing;
- a customer service training programme launched for all the local group's employees, having as one of its primary objectives the strengthening of a culture to provide exceptional and distinctive customer experiences that meet their needs and deliver fair customer outcomes; and

- a deep-dive and discussion regarding board members' oversight responsibilities with respect to conduct risk in a dynamic regulatory and business environment. Throughout the year, the interactions with regulators have been conducted with high professional competence, embodying trust, respect and transparency that facilitated a constructive dialogue, which is distinctive of the local group's robust governance and oversight culture.

Results for 2019

HSBC Bank Malta p.l.c. (the bank) and its subsidiaries (collectively referred to as the local group) reported a profit before tax of €30.7m for the year under review. The local group's profit attributable to shareholders was €20.2m.

A gross interim ordinary dividend of 1.7 cents per share was paid on 18 September 2019. The Directors have proposed a gross final dividend of 2.1 cents per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 9 March 2020.

Further information about the results of the local group is provided in the Income Statements and the Statements of Comprehensive Income on pages 58 and 59 respectively.

A detailed review of the financial performance including important events affecting the local group's results and an indication of future developments are included in the Chief Executive Officer's Review.

Key performance indicators

The Board of Directors tracks the local group's progress in implementing its strategy with a range of financial measures or Key Performance Indicators (KPIs). Progress is assessed by comparison with the local group strategic priorities, operating plan targets and historical performance. The local group reviews its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC's strategy and strategic priorities.

	2019	2018
Profit before tax (reported) (€m)	**30.7**	38.6
Profit before tax (adjusted) (€m)	**45.3**	36.5
Cost efficiency ratio (reported) (%)	**80.0**	73.0
Cost efficiency ratio (adjusted) (%)	**70.0**	73.0
Post-tax return on equity (reported) (%)	**4.3**	6.1
Post-tax return on equity (adjusted) (%)	**6.4**	5.8
Common Equity Tier 1 ratio (%)	**16.4**	14.6

Profit before tax (reported/adjusted): Reported profit before tax is the profit as reported under IFRS. Adjusted profit before tax excludes the impact of notable items as detailed in the Chief Executive Officer's Review.

Outcome (reported): Reported profit before tax was lower yearon-year due to a one-off restructuring provision that will deliver cost savings going forward.

Outcome (adjusted): The adjusted profit before tax is higher than 2018 driven by continued focus on cost reduction and strong credit quality.

Cost efficiency ratio (adjusted): is measured as total operating expenses divided by net operating income before changes in expected credit losses and provisions.

Outcome: The adjusted cost efficiency ratio improved from 73% in 2018 to 70% in 2019 driven by the reduction in costs as a result of a number of cost initiatives.

Post-tax return on equity (reported/adjusted): is measured as post-tax profit divided by average equity. The local group targets a return in the medium term of 10%.

Outcome (reported): The reported return on equity was below the target range and prior year due to ongoing impact of negative interest rates and the impact of the restructuring provision booked in 2019 results that will deliver sustainable savings going forward.

Outcome (adjusted): The adjusted return on equity excludes the notable items and it improved versus prior year, it is below target range due to ongoing impact of negative interest rates.

Common Equity Tier 1 capital ratio ('CET 1'): represents the ratio of Common Equity Tier 1 capital comprising shareholders' equity less regulatory deductions and adjustments, to total riskweighted assets. The group seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

Outcome: The Common Equity Tier 1 ratio increased compared to 2018 due to retained profits, dividends received from subsidiaries and a reduction in RWAs driven by placements of excess liquidity and improved collateral recognition.

From a non financial perspective, Directors evaluate the outcomes of surveys and reviews undertaken on a regular basis in respect of customers, people, culture and values including customer service satisfaction, employee involvement and engagement, and diversity and sustainability.

Employee Matters

People are at the core of our business. The focus of our people plan is to ensure we have a future ready workforce that is highly skilled in ensuring successful outcomes for our customers and our business. Our aim is to build a strong employee value proposition that attracts the best talent with a diverse background which in turn enriches our business culture. The aim is to bring together different people of different generations, gender, different ethnics backgrounds and beliefs so that in turn we create a diversity of thought which drive creativity and innovation. A focus on gender balance in leadership roles is at the heart of our Diversity and Inclusion strategy. Our family friendly policies enable all employees especially parents to manage their families and careers. To this end we drive several initiatives for our people which promote work-life balance and ongoing career development. There are several programmes in place to ensure people perform at their best such as, Mentoring and Coaching, and Future Leaders which equip our employees to prepare for their next role.

A key focus on performance management has been one of the pillars in our development journeys. This programme focuses on providing clear objectives and ongoing development to our employees to achieve high performance at all levels in the organization. Our continued focus on customer service and financial crime compliance is a key component of our learning agenda. Two important programmes focusing on our Customers and Financial Crime Risk were launched for all employees across the bank which achieved positive outcomes to ensure we continue to protect and serve our customers.

These programmes are supported by a strong infrastructure in place. HSBC University is the Group's function which ensures to drive a consistent development agenda across all HSBC entities.

Our Diversity and Inclusion (D&I) committee meets regularly throughout the year. The aim of the committee is to ensure that our D&I policies and principles are embedded in our values and ways of working. The committee is led and sponsored by one of the Senior Executives of the bank and several employees participate from different functions across all levels to ensure the practices and initiatives are cascaded across the bank. Recent initiatives include the, Mothers at Work, Participation in the Pride Parade, Launch of the Training 'Unconscious Bias' and other activities led by our own employees.

The bank's commitment to respecting human rights, primarily as they apply to our employees, our suppliers and through our lending remains steadfast.

Business does not exist in isolation: it is part of communities and serves the people. We recognise the duty of States to protect human rights and the role played by business in respecting them, in line with the UN Guiding Principles' ('UNGPs') Protect, Respect and Remedy framework. HSBC Group has signed, or expressed support for, a number of international codes, as set out in our 2015 Statement on Human Rights. We primarily reflect human rights considerations as they apply to our people, our suppliers and our customers. Some examples are provided below.

Employees: We are committed to an inclusive culture where our people can be confident that their views matter, their workplace is an environment free from bias, discrimination and harassment, and where they can see that advancement is based on merit. This commitment reflects the provisions of both the Universal Declaration of Human Rights ('the UDHR') and the International Labour Organization Declaration on Fundamental Principles and Rights at Work ('the ILO Declaration'), including freedom of association. We have set up a Diversity and Inclusion Committee led by Senior Management with representation of all departments in the bank. The committee ensures we drive our Diversity and Inclusion through learning programmes, initiatives across the bank and Malta.

Suppliers: We expect our suppliers to uphold human rights in carrying out their business, reflecting the UDHR and ILO Declaration principles. Our ethical and environmental code of conduct for suppliers requires them to respect the human rights of their employees and the communities in which they operate and comply with all relevant legislation, regulations and directives. During 2019, we invited some of our suppliers to a 'vendor meeting' where have explained the importance of due diligence, the impact of society if business is not purely looking at revenue.

Customers: The principal aim of the UNGPs is to prevent human rights abuses. We seek to ensure that the financial services we provide to our customers do not result in an unacceptable impact on people or the environment. We work with our customers to help them improve their sustainability practices. Additionally, our financial crime teams actively seek to identify the proceeds of potential human rights abuses to inform law enforcement and take 'bad actors' out of the financial system. The HSBC Group statement under the UK's 2015 Modern Slavery and Human Trafficking Act gives details of our work in combating these particularly human rights abuses. We are raising awareness with our customers in selected sectors and regions as part of our annual credit review processes. We are educating our own colleagues directly through training and indirectly through communications. We remain committed to developing our approach to managing human rights risks as they affect rights holders. HSBC also attends the UN Business and Human Rights conference to ensure we are involved in the discussion.

Whistleblowing

HSBC encourages a speak up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels. However, in certain circumstances it may be necessary for individuals to raise concerns through more private channels. For this purpose, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing - HSBC Confidential Malta. All whistleblowing reports are thoroughly investigated in an independent manner and remedial action taken where appropriate. The prevalent themes raised are in relation to staff behaviours, allegations of staff misconduct practices and weaknesses in information security.

The oversight of the policy falls within the responsibilities of one of the non-executive Directors and within the remit of the bank's Audit Committee.

Health and safety

The maintenance of a safe place of work and business for our employees, customers and visitors is a key responsibility for all managers. The local group is committed to proactively manage health and safety risk through the identification, assessment and mitigation of hazards that may otherwise result in injury, fire events and operational failure.

Group policies, standards and guidance for the management of health and safety are set by the Global Corporate Real Estate function. Achieving these in the local group is the responsibility of the Chief Operating Officer with support and coordination provided by the Health and Safety Coordinator together with Global and Regional Corporate Real Estate.

Group Security Risk continuously monitors potential threats from terrorism and violent crime and ensures that HSBC maintains effective measures to protect its staff, buildings, assets and information.

The local group remains committed to maintaining its readiness for emerging and foreseeable risks in ensuring health and safety compliance.

Sustainability

We continue to play an active role in the community we serve.

Through the HSBC Malta Foundation, we have assisted various sectors of the community throughout 2019 via a number of key projects and initiatives. Sustainability and our role as a good corporate citizen remain a core focus of HSBC. The three pillars of the HSBC Malta Foundation are 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. For the first time in 2018 in line with the Group's strategy, the Foundation also supported projects which focus on Future Skills. The objective of Future Skills is on helping people develop their employability and financial skills in order to thrive in the modern world. Voluntary work continuous to be highly encouraged and pride is taken in our colleagues who contribute to the charities and causes that they feel passionate about. Our employees are encouraged to take an active role in initiatives supported by the HSBC Malta Foundation with an extra day's leave granted for voluntary work to support a range of projects around the country.

In 2019, The HSBC Malta Water Programme – Catch the Drop Campaign, a nationwide environmental and educational water conservation campaign, which during the last six years reached every student in Malta and Gozo, as well as various local councils came to an end. The main emphasis of this programme was to raise awareness on water shortage, encourage water consumption eduction, and water harvesting. This campaign and another two related initiatives (the Water Explorer and the Malta CSR Institute) were supported by a nearly € 1 million grant from the HSBC Group. Bank employees are at the heart of this campaign with over 500 staff members volunteering to deliver the information sessions in all the schools around the country. Additionally, the HSBC Malta Foundation also supported for the second consecutive year the international Water Explorer programme, delivered locally by Nature Trust – FEE Malta through its Eco-Schools (EkoSkola) programme. In this programme participating schools were encouraged to link up with schools from other countries and share their ideas and top water-saving tips. In 2019 the HSBC Malta's CSR Institute continued to train members of public and business organisations on the values and ideals of corporate social responsibility as well as sustainability. Meanwhile, a youth opportunity programme 'Achieve' introduced in Malta by HSBC Malta Foundation in cooperation with the Ministry for Education and Employment and the Prince's Trust International (PTI), continues to enable scores of young persons to succeed and secure a strong future for themselves and Malta. Achieve supports young people to re-engage with education; improving attendance, behaviour and attainment. At the time of the launch of the Achieve programme in Malta in 2015, HSBC Malta Foundation became the first organisation outside of the UK to introduce one of The Prince's Trust's longstanding educational programmes in middle and secondary schools. It was initially introduced in seven schools during the 2015/16 scholastic year across all of Malta and Gozo. However, with effect from the 2019/20 scholastic year, the number of schools/centres following this programme amounts to 44.

The bank continued to take several measures to raise its commitment to support a sustainable environment for Malta and Gozo. The banks's seven electric vehicles which in 2014 replaced other internal combustion vehicles have travelled a distance of around 240,000 kilometres, avoiding harmful emissions in our towns and villages, including particulate matter and around 28- tonnes of greenhouse gases. A further 159 photo voltaic panels were installed at the bank's Operations Centre. The total 837 PV panels now have a potential to generate 325,000 kWh of green energy per annum, avoiding the emission of 124 tonnes of carbon dioxide. During 2019, the bank's efforts were focused on waste minimisation and recycling, introducing four streams of waste separation and recycling at all of the bank's properties. Furthermore, single use plastics were practically eliminated from our staff canteens and vending machines, introducing porcelain crockery and stainless steel cutlery for dine-ins, and paper containers and wooden cutlery for take-outs. Other initiatives included intelligent lighting, task lighting, solar film on the West side of Operations Centre, energy efficient LED security floodlighting, air-curtains at the branches, photo sensors for the external signage at all ATM off-sites, and the replacement of over 160 fluorescent light fittings with equivalent LED luminaires at Operations Centre reducing energy use by around 42%.

Financial Crime Compliance

In 2019 the bank completed the major components of its financial crime risk transformation, a programme designed to implement the highest and most effective financial crime risk management standards.

We are now working to sustain our capability through ongoing governance, oversight and training. In particular, the deployment of our proactive analytical capabilities will continue to be an area of focus.

Anti-bribery and corruption

HSBC Malta and the wider HSBC Group remain committed to high standards of ethical behaviour and have zero tolerance towards bribery and corruption. HSBC complies with all anti-bribery and corruption laws in all markets and jurisdictions including the UK Bribery Act, US Foreign Corrupt Practices and Hong Kong Prevention of Bribery Ordnance.

HSBC Malta adheres to the HSBC Group Anti-Bribery and Corruption compliance programme and policies which are overseen by the HSBC Holdings plc Board. HSBC requires all employees including the Board of Directors and Associated Persons to comply with the principles in the policy in the performance of their services for or on behalf of HSBC.

All HSBC entities and individuals are required by Group Policy to apply controls in order to protect against bribery and corruption risks. All HSBC staff undergo mandatory annual Anti-Bribery and Corruption training. Additional specific training is targeted to individual staff tailored on the roles of the individuals. HSBC utilises a number of systems to manage Anti-Bribery and Corruption risks covering third party and customer's risks. Monthly controls are in place to review position with any issues being escalated as part of the country governance committees. HSBC also maintains clear whistle blowing policies and processes, to ensure that individuals can confidentially report concerns with no fear of retribution, confident that they will be investigated and remediated appropriately.

As part of its risk management HSBC Malta performs an annual assessment of the anti-bribery and corruption inherent and residual risk to understand if any new risks have been identified and ratings revisited accordingly. Risk evaluation takes in consideration various pillars related to anti-bribery and corruption including Employee, Third Party, Strategic and Customer Risks which are reviewed to identify potential escalation or new risks. Anti-Bribery and Corruption controls are reviewed on a monthly basis supported by key risk and performance indicators to enable early identification of potential changes to the residual risks. Risk and Control assessments are reviewed within the monthly HSBC Malta risk governance committees and also escalated to HSBC Group for confirmation.

Risk management

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 the financial performance and position of the local group. An established risk governance framework and ownership structure ensures oversight of 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 Board sets the local group's strategy risk appetite, operating plans and performance targets, thereby playing an essential role in embedding a risk culture within the organisation. The Board delegates the day-to-day risk management responsibilities to individuals within the senior management team. These individuals are accountable for their assigned risks, and report and escalate as necessary through the risk governance structures.

The Risk Committee is a committee of the Board, focused on risk governance, 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, as well as providing a forward looking view of risks and their mitigation. 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. Owing to the group's insurance operation in Malta, the local group is also exposed to insurance risk. A key emerging risk is that of climate change.

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, 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, an established risk management process is in place, 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.

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 bank 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.

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.

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 emanate from the interest rate management of the local group's retail and commercial banking assets and liabilities and financial investments. 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. Market risk is managed and controlled through risk appetite setting and limits approved by HSBC Holdings and the global businesses. These limits are allocated across business lines and are for portfolios, products and risk types, with market liquidity being a principal factor in determining the level of limits set. 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.

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 predominantly by RBWM. 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. 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.

Climate risk

Climate change creates physical risk (e.g. weather events of increasing severity and / or frequency) whilst the move to a low-carbon economy creates transition risks. These risks could impact the HSBC Group through increased credit losses, disruption of operations, re-pricing of traded financial instruments, sovereign downgrades or similar effects where underlying business models and / or valuations of capital flows are misaligned to a low carbon economy.

We are increasingly incorporating climate-related risk, both physical and transition, into how we manage and oversee risks internally and with our customers. At HSBC Group level, there are a number of sustainability risk policies covering specific sectors. These policies are applicable at local group level.

Key elements of our climate -related risk management approach include:

- Transition risk – the possibility that a customer's ability to meet its financial obligations will deteriorate due to the global movement from a high-carbon to a low-carbon economy. At Group level, HSBC is working to embed transition risk into its day-to-day credit risk management. The aim is that over time, each wholesale counterparty will receive a client transition risk rating based on their susceptibility to, and ability to manage transition risk. We have identified six higher transition risk sectors based on their contribution to global carbon dioxide emissions. These sectors are: oil and gas; building and construction; chemicals; automotive; power and utilities; and metals and mining.
- Climate risk stress testing – work is underway to develop internal stress testing models. Over time, these will result in an ability to translate scenarios into practical risk management processes.
- Governance – as the work on this risk progresses, risks associated with climate change will be escalated to the Board.

As the risk management processes / activities are still in in process of development, future Annual Reports will contain expansionary comments.

We use a range of tools to monitor and manage our non-financial risks, including risk appetite, risk map, top and emerging risks, and stress testing processes. During 2019, we continued to strengthen our approach to managing operational risk as set out in the operational risk management framework. The approach sets out governance, appetite and provides a single view of non-financial risks that matter the most and associated controls. It incorporates a risk management system to enable active risk management. The enhancement and embedding of the risk appetite framework for non-financial risk and improving the consistency of the adoption of the end-to-end risk and control assessment processes has been a particular focus and while there remains more to do, progress has been made in 2019 to strengthen the control environment and the management of non-financial risk.

Branches and offices

A list of branches and offices is found on page 184.

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 the Capital Requirements Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (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 the 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 HSBC 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 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 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 vesting 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.

During 2019 the Memorandum and Articles of Association were amended and duly approved at the Annual General Meeting held on 17 April 2019. The amendment related to Article 77 which regulates the Nomination of Directors' process. The objective of this amendment took into account the recent changes in regulatory requirements relating to the fit and proper assessment which the bank is required to undertake in connection with the appointment and nomination of directors. Though the shareholder retained the right to appointment or nominate a director as applicable in terms of the Bank's Memorandum and Articles of Association, pursuant to this amendment the bank's Remuneration and Nomination Committee was empowered to:

- prescribe the form to be used for the nomination of a person for election as director;
- prescribe the contents of the notice calling for the nomination for election as directors; and
- approve a person to act or take office as a director being a fit and proper person satisfying the needs of the Board, taking into account legal and regulatory requirements in force from time to time.

The amendment also extended the minimum date to receive the nomination of a candidate for the election to take office as director from 28 days to 60 days prior to the date of the meeting appointed for such election.

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 2019.

Shareholder register information

Directors' interest in the share capital of the bank

	At 31 December 2019 No. of shares
John Bonello	**40,742**
Michel Cordina	**4,198**

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

There were no changes to Directors' interest from 31 December 2019 to 31 January 2020.

Shareholders holding five per cent (5%) or more of the equity capital at 31 January 2020:

HSBC Europe B.V. 70.03%

Number of shareholders at 31 January 2020:

One class of shares 9,268 shareholders (All shares have equal voting rights)

Number of shareholders analysed by range

	At 31 January 2020	
	Total shareholders	Shares
Range of shareholding		
1 – 500	**1,468**	**445,514**
501 – 1,000	**1,164**	**878,324**
1,001 – 5,000	**3,899**	**9,974,287**
5,001 and over	**2,737**	**349,007,974**
Total shareholding	**9,268**	**360,306,099**

Standard licence conditions applicable under the Investment Services Act, 1994

In accordance with the Malta Financial Services Authority (MFSA) Investment Services Rules (ISRs) Rule R4-5.3.5 for Investment Services Providers and Standard Licence Conditions (SLCs) SLC 2.30 of the Investment Services Rules applicable to Investment Services Licence Holders which qualify as Custodians, and regulated by the MFSA, the Directors confirm that there were no breaches of the MFSA Investment Services Rules, the Standard Licence Conditions, or other regulatory requirements which occurred during the reporting period, and which were subject to an administrative penalty or other regulatory sanction.

Board of Directors

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

Sonny Portelli (resigned 2 August 2019)

Andrew Beane

John Bonello

Andrew Muscat

Christopher Davies

Gordon Cordina

Sue Vella

Yiannos Michaelides

Michel Cordina (appointed 2 April 2019)

Ingrid Azzopardi (appointed 2 August 2019)

Executive Committee

As at 31 December 2019, the bank's Executive Committee of the local group was composed of the following:

Andrew Beane	Chief Executive Officer
Nikolaos Fertakis	Chief Operating Officer
Emma Nuttall	Chief Financial Officer
Daniel Robinson	Head of RBWM
Michel Cordina	Head of CMB
Irina Seylanyan	Head of GM
Caroline Buhagiar Klass	Head of Human Resources
Joyce Grech	Chief Risk Officer
Anna Camilleri	Head of Internal Audit
Joseph Sammut	General Counsel
Gerard Walsh	Chief Risk Officer
Jane E. Estey	Head of Financial Crime Compliance
Anthony P. Abela	Head of Regulatory Compliance
Carine Arpa	Head of Communications
George Brancaleone	Company Secretary

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.

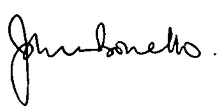
Statement by the Directors Pursuant to Listing Rule 5.70.1

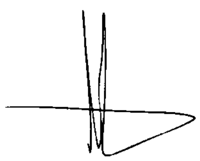
Pursuant to Listing Rule 5.70.1 there were no material contracts to which the bank, or anyone of its subsidiary undertakings, was party to and in which anyone of the Directors was directly or indirectly interested.

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 18 February 2020 by:





John Bonello
Chairman

Andrew Beane
Chief Executive Officer

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 judgements 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 2019 are included in the Annual Report 2019, 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 on 18 February 2020 by:

John Bonello
Chairman

Andrew Beane
Chief Executive Officer

The Board of Directors (the 'Board') of HSBC Bank Malta p.l.c. acknowledges that effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Hence, it 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's values.

The Board is proud of the fact that it 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. The Board further believes that good corporate governance has a positive impact on the bank's performance.

Corporate governance is subject to regulation by the Listing Authority. 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 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 Board plays a key role in effective governance as it lies at the top end of a system of control that is focused on overseeing and challenging management and control functions.

The bank is headed by an effective Board that leads and controls the business and promotes the company's values and standards. It reinforces the tone from the top by setting corporate values. It creates expectations that all business should be conducted in a legal and ethical manner.

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 knowledgeable 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 other 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. Directors regularly attend Board meetings and allocate sufficient time to perform their duties.

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 appropriately assessed and managed in order to achieve the short and long-term sustainability of the business.

As part of a larger international group the Board assesses the compatibility of Group policy with local legal and regulatory requirements, and where appropriate, amends those policies.

During the year, the Board delegated specific responsibilities to a number of committees, namely the Audit Committee, the 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 company's Memorandum and Articles of Association. It states 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 among the Directors appointed or elected to the Board.

Principle 2: Chairman and Chief Executive Officer

The positions of the Chairman and of the Chief Executive Officer (CEO) 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. It differentiates the function of leadership of the Board from that of running the business. The Chairman and the CEO acknowledge that it is imperative to have a constructive relationship with each other and that a certain level of independence is maintained.

The letter of appointment of the Chairman approved by the Board and agreed to by the Chairman clearly establishes the responsibilities of the Chairman, including an assessment of the time commitment expected.

The Chairman, who was independent on appointment and still meets the independence criteria, leads the Board. He 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 and ensures that Directors constructively challenge senior management. The Chairman also facilitates the effective contribution of non-executive Directors thus ensuring constructive relations between executive and non-executive Directors.

The Chairman encourages and promotes open and critical discussion, ensuring that any dissenting views are expressed and discussed within the decision-making process. Moreover, the Chairman contributes to the efficient flow of information within the Board, between the Board and its Committees. The Chairman is responsible for an effective overall functioning of the Board.

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 makes decisions in all matters affecting the operations, performance and strategy of the business, except for those matters reserved for the Board or specifically delegated by the Board to its Committees. 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 facilitate the effective oversight over the bank's operations. 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, to identify key performance indicators and participate in critical debate in the decision-making process.

Ethnicity, age, culture, and gender diversity, underpinned by meritocracy, are areas of strategic focus for the employee base. The same principle is applied to the composition of the Board in accordance with the Board Diversity Policy, which was reviewed by the Bank's Remuneration and Nomination Committee in December 2019. The reviewed policy established a target for 33% of directors to be female by 2022 (presently there are two female directors on the Board), together with an aspiration to target gender parity on the Board over the long term while abiding by the principle of meritocracy. Indeed, the bank remains committed to meritocracy in the Boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated. The benefits of diversity, including that in educational and professional backgrounds, continue to influence the Remuneration and Nomination Committee's Board succession planning and Board candidates' selection process. This has resulted in a diverse Board composition which meets the diversity criteria in its widest aspect of ethnicity, age, culture, gender and educational and professional backgrounds. The right mix of Board members ensures diverse perspectives, experience and knowledge.

As at 31 December 2019 the Board was composed of a non-executive Chairman, two executive Directors, and six non-executive Directors, five of whom are deemed to be independent. Whereas the executive Directors are involved the day-to-day running of the business, ensuring adherence to the four-eye principle, 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. They are proactive in ensuring that financial controls and risk management systems are well established and in satisfying themselves with the integrity of financial information.

Following the appropriate due diligence, the European Central Bank had given its non-objection to all the bank's Directors. The letter of appointment issued to non-executive Directors stipulates the minimum time commitment expected to be dedicated to the bank. Non-executive Directors undertake that they will have sufficient time to meet what is expected of them. Any other significant commitments are disclosed to the Board before their appointment and subsequent changes are notified as they arise.

In accordance with the Code Provision 3.2, the independent non-executive Directors as at 31 December 2018 were the following:

Ingrid Azzopardi

Gordon Cordina

Yiannos Michaelides

Andrew Muscat

Sue Vella

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 Professor Muscat is a partner in a Law firm that provides legal services to the bank and the fact that an economic consultancy firm in which Dr Gordon Cordina is executive director, provides consultancy services to the bank, do not influence these Directors' objective and balanced judgement or in any way reduce their ability to take decisions independently. On the other hand, in accordance with Code Provision 3.2.1, the Board believes that the employment of Chris Davies with the Group renders him non-independent from the bank. This should not however, in any manner, detract from the non-independent Director's ability to maintain independence of free judgement and character at all times. He is able to make his own sound, objective, judgement and independent decisions and judgements when performing his functions and responsibilities.

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

- to maintain in all circumstances his/her independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
- 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 sets the bank's strategy, policies and business plans. Apart from formal Board meetings where strategy is a regular feature, the Board met twice informally to specifically focus on strategy review and development. The Board of Directors monitors 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 Board recognizes and supports innovation within the management of the bank. The Board remains accountable to the shareholders for its performance and also ensures effective communication with the different groups of stakeholders.

The Board actively oversees the affairs of the bank and keeps up with material changes in the bank's business and the external environment as well as acts in a timely manner to protect the long- term interests of the bank. It plays a leading role in establishing the bank's corporate culture and values. The Board, together with senior management and the Chief Risk Officer establishes the bank's risk appetite, taking into account the commercial and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively. It also oversees the bank's adherence to the Risk Appetite Statement, risk policy and risk limits. The Board is also responsible for approving the approach and overseeing the implementation of key policies pertaining to the bank's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations and the internal control system. The Board, through one of its Directors who reports to the Board, oversees the integrity, independence and effectiveness, of the bank's policies and procedures for Whistleblowing. Whistleblowing also falls under the remit of the Audit Committee.

The regular 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 has approved a Board Suitability Policy and has also developed a succession policy for the future composition of the Board, including its executive part thereof.

An effective reporting system that enables the Directors to have relevant and timely information such that the Board can discharge its duties, exercise objective judgement and take pertinent decisions is implemented through:

- presentations during Board meetings delivered by senior management;
- updates provided by the CEO and senior management during intervals between Board/Committees' meetings; and
- accessibility to a common electronic platform hosting bank information, including Board/Committees' documentation and minutes of meetings.

The Board makes certain 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 Committee

The terms of reference of this Committee are compliant with the Listing Rules and Banking Rule 12, the European Banking Authority Guidelines on Internal Governance and are modelled on the recommendations in the Cadbury Report and the UK Walker Review.

The Committee protects the interests of the bank's shareholders and assists Directors in conducting their role effectively so that the bank's decision-making capability and the accuracy of its reporting and financial results are maintained at the highest level at all times. It ensures that the bank maintains a robust finance function responsible for accounting and financial data. This Committee has non-executive responsibility for oversight of, and advice to, the Board on matters relating to financial reporting. Hence, it monitors the integrity of the bank's financial statements, and any formal announcements relating to the bank's financial performance or supplementary, regulatory information, reviewing significant financial reporting judgements contained in them.

This Committee reviews inter alia the bank's annual operating plan and the capital plan. Moreover, it reviews and considers changes to significant accounting policies, including Pillar 3 disclosure policies and practices as applicable.

An important function of the Audit Committee is to monitor and review the effectiveness of the Internal Audit function, consider major findings of internal investigations and management's response, and ensure that the Internal Audit Function is adequately resourced and is free from constraint by management.

This Committee approves the internal audit work plan, which will include assessment of controls relating to financial reporting, conduct financial crime and other risks as appropriate.

The Audit Committee also has the responsibility to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process. In this regard, the Committee has also to satisfy itself that there is the appropriate co-ordination between the internal and external auditors.

This 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 and that business resources are not misapplied.

The Committee oversees the implementation of the bank's Whistleblower Policy to ensure confidentiality, protection and fair treatment of whistleblowers. It reviews the operation and effectiveness of the arrangements by which staff, in confidence, raise issues.

The Committee met five times during 2019 and was composed of Mr John Bonello as Chairman, and Dr Gordon Cordina and Professor Andrew Muscat as Members until 2 August 2019, when Ms Ingrid Azzopardi replaced Mr Bonello as Chairperson of the Committee. During 2019 the Committee met five times.

Attendance at Audit Committee meetings

	Attended
John Bonello	**3 out of 3**
Gordon Cordina	**5 out of 5**
Andrew Muscat	**5 out of 5**
Ingrid Azzopardi	**2 out of 2**

During the year regular informal meetings were held between the Chairman of this Committee and Members of Senior Management especially the Chief Executive Officer, the Head of Internal Audit and the Chief Financial Officer.

Senior Managers of the bank are invited to attend any of the Audit Committee's meetings as directed by the Committee.

The Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and representatives of the external auditors attend all the meetings. In line with Listing Rule 5.131, the Head of Internal Audit is also present for its meetings and has a right of direct access to the Chairman of the Committee at all times.

Ms Azzopardi 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 she is a Certified Public Accountant and Auditor and a Fellow of the Institute of Accountants and also a Member of the Institute of Internal Auditors.

In terms of Listing Rule 5.127.7, the Audit Committee is responsible for developing and implementing policy on the engagement of the external auditor to supply non-audit services. The provision of non-audit services to EU Public Interest Entities

(PIEs) and to parent and controlled undertakings in the EU are regulated in terms of EU rules. Under the regulations there are also certain prohibitions to controlled entities outside the EU.

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

Risk Committee

This Committee is responsible for advising the Board on high-level risk-related matters, including both financial and non-financial risks, impacting the bank and its subsidiaries. In providing such oversight and advice to the Board, the Committee oversees: current and forward looking risk exposures, the bank's risk appetite profile and future risk strategy. The Committee has to satisfy itself that the risk appetite informs the bank's strategy and business plans and takes account of the macroeconomic and financial environment. It is the Committee's responsibility to advise the Board on overall current and future risk appetite, risk tolerance-related matters and strategy and assist the Board in overseeing implementation of that strategy by senior management.

The Committee reviews and recommends as applicable the bank's Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process. The Committee has to satisfy itself that the stress testing framework, governance and related internal controls are robust.

The Committee reviews the effectiveness of the bank's conduct framework designed to deliver fair outcomes for customers, preserve the orderly and transparent operation of financial markets and protect the bank against adverse outcomes to the bank's financial and non-financial condition and prospects.

The Committee also considers the effectiveness of management's policies for addressing risks relating to the bank's cyber security, information security and operational resilience programmes. Moreover, the Committee oversees matters relating to Financial Crime Risk and controls relating to anti-bribery and corruption. Furthermore, the Committee approves the annual plan for the Regulatory Compliance Function and receives regular reports on progress against the plan and other matters relating to regulatory compliance risk and the bank's relationship with Regulators.

The Committee is empowered to review whether prices of liabilities and assets offered to clients take full account of the bank's business model and risk strategy. Moreover, it reviews how effectively management is embedding and maintain an effective risk management culture and strong internal control environment designed to foster compliance with the bank's regulatory compliance requirements.

The Committee met seven times during 2019 and was composed of Dr Gordon Cordina as Chairman, and Mr John Bonello and Mr Yiannos Michaelides as Members. Upon his appointment as chairman of the Board on 2 August 2019, Mr Bonello resigned his membership on the committee and Ingrid Azzopardi was appointed in his stead.

Attendance at Risk Committee meetings

	Attended
Gordon Cordina	**7 out of 7**
John Bonello	**6 out of 6**
Yiannos Michaelides	**7 out of 7**
Ingrid Azzopardi	**1 out of 1**

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 Financial Officer, the Head of Financial Crime Compliance and the Head of Regulatory Compliance and representatives of the external auditors are invited to attend the meetings. Dr Manfred Galdes is Advisor to the Committee on Financial Crime Compliance matters.

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.

During 2019 REMNOM met seven times. 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. It periodically assesses 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 of the Board collectively and report on this to the Board.

The Committee continued to perform its role regarding 'fit and proper' assessments of present and prospective Board Members, with power of rejection of any proposed Board candidate on the basis of unsuitability. In order to enable the Committee carry out its assessment of the suitability of each individual director and of the collective suitability of the Board, in terms of the bank's Suitability Policy, Directors had to complete two self-assessment questionnaires. The following criteria are considered by the Committee for the individual assessment: knowledge, skill and experience, reputation, honesty and integrity, conflicts of interest and independence and time commitment. For the collective assessment, the Committee considers the business model requirements, governance, risk management, compliance, audit, management and decision-making, and experience overview. The results of these assessments are then submitted to the Board and to the Regulator to serve as an integral part of the Regulator's due diligence exercise.

Letters of appointment issued to non-executive Directors set out the expected time commitment and by their acceptance thereof the Directors undertake that they will have sufficient time to discharge their duties as Directors.

The members of the REMNOM were Mr Sonny Portelli (Chairman), Professor Andrew Muscat and Dr Sue Vella until 2 August 2019, when following the resignation of Mr Portelli, Dr Sue Vella was appointed Chairperson of the Committee, Professor Andrew Muscat was confirmed as member and Mr John Bonello was appointed as member of the Committee.

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 members of the senior management of the bank. ExCo is empowered by its terms of reference to delegate its powers to sub-committees:

The Risk Management Meeting ('RMM')

This Committee meets at least eight times a year and is chaired by the Chief Risk Officer, with the Chief Executive Officer, or any member appointed by the Chief Risk Officer as alternate chairman, in his/her absence. 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.

The Chief Risk Officer is also invited to attend Board meetings and meetings of the Audit and Risk Committees 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 Meeting ('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 liquidity and capital adequacy, making use of capital forecasts to ensure that enough capital are available at all times to meet the demand arising from business activities and regulation.

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 markets, finance, 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 Executive Officer, meets once a month.

Financial Crime Risk Management Committee ('FCRMC')

This Committee provides 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, Fraud and Tax evasion. The membership of this Committee, which is chaired by the bank's Chief Executive Officer, is composed of most of the bank's ExCo team and the Money Laundering Reporting Officer.

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 met seventeen times: eight were formal Board meetings, four were informal meetings and five were topic-specific deep dives.

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 by promoting a culture of openness and debate. Moreover, Directors are encouraged to discuss any issue, which they deem appropriate.

Minutes are taken 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. The holding of other directorships in other companies is in line with regulatory provisions.

Directors' attendance at Board Meetings

	Attended
Sonny Portelli	**4 out of 4**
Andrew Beane	**8 out of 8**
John Bonello	**8 out of 8**
Gordon Cordina	**8 out of 8**
Michel Cordina	**6 out of 6**
Christopher Davies	**4 out of 8**
Yiannos Michaelides	**7 out of 8**
Andrew Muscat	**8 out of 8**
Sue Vella	**8 out of 8**
Ingrid Azzopardi	**3 out of 4**

Principle 6: Information and professional development

The Board appoints the Chief Executive Officer of the bank upon guidance and recommendation by 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.

A structured Board training and development programme is organised for the Directors and facilitated by an External Accounting Firm. The key objective of the programme is to improve the Board's awareness in risk, regulation, and compliance developments in the financial services sector.

Topics covered during these awareness sessions range from the new regulatory environment to managing risk. Directors also participate in the Group's mandatory training, which covers Financial Crime Compliance topics, regulatory matters, data privacy and cyber security. Additional training is also held for individual Directors sitting on Board committees.

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.

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.

The Chairmen of the Audit and Risk Committees attend on an annual basis the Group Audit/Risk Committee Chairmen Forum where they are updated on the latest topical issues from an Audit/Risk Committees' perspective.

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 among the bank's personnel.

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 a questionnaire adopted by Group. This process was conducted by the REMNOM Committee through the support of the Company Secretary. No material changes in the governance structures and organisation resulted from this Board evaluation exercise.

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 the 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 that 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 provided to shareholders upon request and made 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. Meetings have also been held between the Chief Executive Officer and the Malta Association of Small Shareholders.

As the Board always endeavours to protect the interests of both the bank and its shareholders, present and future, the Board takes into account the fact that shareholders are constantly changing. This is reflected in the Board's decisions on long-term sustainability objectives to safeguard the interests of future shareholders. The Chairman ensures that the views of shareholders are communicated to the Board. Moreover, the Chairmen of the Audit Committee, of the Risk Committee and of 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. Without prejudice to Articles 136A (3)(C) and 143 of the Companies Act, this policy stipulates that a director must obtain an authorisation from the Board before a situational conflict arises. Notably, in accordance with this policy, all directorships and other non-HSBC appointments should be authorised by the Board.

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. Moreover, in terms of the Board's Conflicts Policy, a Director having a continuing material interest that conflicts with the interests of the Bank, should take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict then the Director should consider resigning.

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. The Board continues to recognise that the bank has a role within, and responsibility towards, the community it serves. To discharge these roles and responsibilities, during 2019, 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.

In Malta, the bank fulfils the Group's CS strategy primarily through the HSBC Malta Foundation (the 'Foundation'). The pillars of the HSBC Malta Foundation aim to improve the quality of life and education for children, especially the disadvantaged, to promote and work towards a more sustainable environment, to preserve Malta's rich and unique historical heritage, and in the area of medical research. As from 2018, in line with the Group's strategy, the Foundation also supported projects, which focus on Future Skills. The objective of Future Skills is on helping people develop their employability and financial skills in order to thrive in the modern world. A report to showcase all the work done by the HSBC Malta Foundation between June 2017 and June 2019 was completed in 2019 – https://www.about.hsbc.com.mt/-/media/malta/en/hsbc-in-malta/190917-corporate-social-responsibility-report.pdf

Voluntary work continues to be highly encouraged and HSBC staff who contribute to the charities and causes that they feel passionate about are encouraged to take an active role in initiatives supported by the Foundation, with an extra day's leave granted for voluntary work.

The HSBC Malta Water Programme – Catch the Drop Campaign, a nationwide environmental and educational water conservation campaign, came to an end in 2019. The main emphasis of this programme for the last six years was to raise awareness on water shortage, encourage water consumption reduction, and water harvesting. Bank employees were at the heart of this campaign with over 500 staff members volunteering to deliver the information sessions in all 172 schools around the country. Additionally, the HSBC Malta Foundation supported also the international 'Water Explorer' programme, which was delivered locally by Nature Trust – FEE Malta through its Eco-Schools (EkoSkola) programme. In 2019 the HSBC Malta's CSR Institute managed to train up to 470 members of public and business organisations on the values and ideals of corporate social responsibility as well as sustainability.

With the support of 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 middle/secondary schools and centres. To date, more than 600 students are participating in the Achieve Programme that is helping these young people in Malta to develop the skills and confidence they need to reach a positive future through relevant, engaging and informal learning.

From an environmental friendly perspective the bank continued to take several measures to raise its commitment to support a sustainable environment for Malta and Gozo. The bank continued to make use of its seven electric vehicles and to further investment in the installation of more PV panels.

Non-compliance with the Code

Principle 9 (Code Provision 9.3)

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.

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.

The First line of Defence has ultimate ownership for risk and controls and delivering good conduct outcomes. Risk Owners are also responsible for assessing, identifying and understanding the conduct impacts across the risk types and identifying and understanding the controls they rely on to support the delivery of these outcomes.

The Second Line of Defence review and challenge the activities of the First line to ensure that they have met the minimum requirements for risk management and delivery of the conduct and other outcomes. The Second Line is independent of the commercial risk-taking activities undertaken by the First Line and is accountable for oversight and co-ordination of financial and non-financial risk management, including how they impact the delivery of conduct outcomes.

The Third Line of Defence is Internal Audit, which provides independent assurance to management and the non-executive Risk and Audit Committees on the design and operating effectiveness of our risk management, governance and internal control processes.

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 Meeting, 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. Further improvements have been, and will continue to be, implemented to combat the inherent challenges posed by financial crime. In addition, attention remained focused on regulatory developments and engagement, including the ongoing supervisory review and evaluation process under the ECB's Single Supervisory Mechanism; regulatory commitments and consent orders that culminated in meeting the obligations under the Deferred Prosecution Agreement; challenges to balance business growth and risk management imperatives; internet crime and fraud; level of change creating operational complexity and heightened execution risk; and 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, markets risk and operational risk. Risks are monitored via Risk Management Meeting which meets regularly and via reporting to the Executive Committee, the 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 Board on matters concerning the operation of the Function, including independence and resourcing.
- Internal Audit issues. Executive management is responsible for ensuring that any issues raised by the Internal Audit function are remediated within an appropriate and agreed timetable. Confirmation to this effect must be provided to Internal Audit who subsequently validates the remediation.

- The bank's Regulatory 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.
- The bank's Financial Crime Compliance Department is responsible for the oversight of Anti Money Laundering and Terrorist Financing, Sanctions, Anti-Bribery and Corruption, Fraud and Tax Evasion risks. Particular attention is given to the proactive management of identified Financial Crime Compliance risk issues. Routine governance is managed via the entity-wide Financial Crime Risk Management Committee, and material matters reported to the Executive Committee, the Risk Committee and to the Board.
- Through the Audit Committee 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 subject to third line of defence review by Internal Audit.

Listing Rule 5.97.5

The information relating to the Shareholder register 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 is responsible for recommending to the HSBC Bank Malta p.l.c. Board of Directors ('Board') the approvals of the total compensation spend within an annual operating plan.

The Chief Risk Officer attends meetings as necessary to inform the Committee on the alignment of the reward policy and proposals with the bank's risk profile and risk management. The Chief Risk Officer also confirms to the Committee that the performance objectives applied to incentive packages are appropriately aligned to the business strategy, objectives, values and long-term interest of the bank. The Board, via the Committee's recommendation, uses these updates in applying the Policy and considering the risk-related adjustments made to the variable pay pool, to ensure that return, risk and remuneration are aligned.

Besides the Chief Risk Officer, the Chief Financial Officer attends meetings where deemed appropriate to report on the alignment of the reward policy and any relative proposals with the bank's capital profile.

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

Membership and meetings

Until 2nd August 2019, the Committee was composed of Mr Sonny Portelli as Chairman and Dr Sue Vella and Professor Andrew Muscat. With effect from the same date Dr Sue Vella was appointed Chairperson of the Committee and Mr John Bonello was appointed as a new member of the Committee together with Professor Andrew Muscat.

Seven meetings were held by the Committee during 2019 and were attended as follows:

Attendance at Remuneration Committee meetings

	Attended
Sonny Portelli	**4 out of 4**
Andrew Muscat	**6 out of 7**
Sue Vella	**7 out of 7**
John Bonello	**3 out of 3**

During the year, the Chief Executive Officer attended all the Committee meetings. The Head of HR, the Chief Risk Officer and the Chief Financial 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 2019, the Committee did not engage any external adviser. It only seeks 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 competitively reward the achievement of sustainable performance and to attract, retain 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. During 2018, the remuneration policy has been updated to include that:

- the board shall approve the remuneration policy, after taking advice from compliance team;
- the Chief Risk Officer would need to consult with the compliance team; and
- the spirit of the policy is to remunerate employees while at the same time still acting in the best interest of the client.

In November 2019 the committee reviewed the remuneration policy and no changes were made to the remuneration policy.

In accordance with the Listing rules 12.26A, which was introduced during 2019, the bank is required to establish a 'remuneration policy as regards directors' and to grant the right to shareholders to vote on the remuneration policy at the Annual General Meeting (AGM). The amendments to the Listing Rules also require the bank to draw up a remuneration report in accordance with the 'remuneration policy as regards directors' and with the criteria in Appendix 12.1 'Information to be provided in the Remuneration Report ' of the said Listing Rules. As a result the bank will be requesting a vote in respect of the 'remuneration policy as regards directors' at the forthcoming AGM. Subsequent to this the bank will update the remuneration report to ensure conformity with the new requirements within the Listing Rules.

In determining remuneration levels for 2019, 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.

Key principles of the remuneration framework include:

- Assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
- A focus on total compensation (fixed plus variable pay) with variable pay (namely annual bonus) differentiated by performance and adherence to HSBC values;
- The use of discretion to assess the extent to which performance has been achieved; and
- Deferral of a proportion of variable pay (where appropriate) to tie recipients to the future performance of the Bank and align the relationship between risk and reward.

Within this framework, risk alignment of the remuneration structure is achieved through the following measures:

- Assessment of risk and compliance is a critical part of the process to determine the performance of all employees, especially senior executives and material risk takers.
- Adherence to HSBC values is a prerequisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC Values rating which directly influences their variable pay determinations.
- For senior executives and certain Material Risk Takers (MRTs), part of their variable pay is deferred (where appropriate) and thereby subject to malus, which allows unvested/unpaid deferred awards to be reduced or cancelled if warranted.
- Employees must not use personal hedging strategies or remuneration or liability-related contracts of insurance in connection with any unvested deferred remuneration awards or any vested awards subject to a retention period.
- Instances of non-compliance with risk procedures or with expected behaviours are escalated for consideration in variable pay decisions, including variable pay adjustments for that performance year and malus/clawback of unpaid awards granted in prior years. For MRTs, the Committee and the Board have oversight of such decisions to reduce or cancel all or part of any unpaid deferred award.

The bank's reward strategy

To attract, retain and motivate the very best people, HSBC's reward package comprises three key elements:

- Fixed Pay,
- Benefits, and
- 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 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 soundness and sustainability of the business.

Structure of remuneration

The following table shows the purpose and relevant features of each of the three key elements of 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 as well as to all local employees.	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 practices and include the provision of medical insurance, health assessment, life assurance, and tax assistance where appropriate.	Y	

Description	Purpose, relevant features and link to strategy	Senior management	Non-executive Directors
Variable Pay – annual incentive	Variable Pay award is discretionary, and is determined and paid in line with internal bank policies and procedures. At HSBC we assess individual performance based on what is achieved and how it is achieved, as we believe the latter contributes to the long term sustainability of the business. Performance targets are set taking into account the economic environment, strategic priorities and risk appetite. Variable pay awards are made to drive and reward performance against annual financial and non-financial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy and aligned to shareholder interests. Variable pay is delivered in the form of cash and shares. Individuals in control functions are assessed according to the objectives specific to the functional role they undertake, to ensure their remuneration is determined independent of the performance of the business areas they control. Where variable pay for Material Risk Takers is more than €100,000 or where variable pay is greater than 33% of Total Compensation 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 five years in case of Senior Management or such other period as determined by the Committee, and hence subject to malus or claw back 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, individual performance, the performance of the bank and the performance of the HSBC Group. These are all 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 in line with our annual operating plan. Through the variable pay, our aim is to attract, retain and motivate the very best people in a competitive market while at the same time acting in the best interest of our customers.

Performance measurement and risk adjustment

Under the bank's remuneration framework, decisions relating to remuneration of individuals are 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 adjust an employee's current year variable pay in such cases as set out in the table below.

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 claw back provision. Examples of applicable circumstances are also set out in table below. 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 claw back is considered.

Type of action	Type of variable pay awared 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. • Failure to complete mandatory learning.
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 are not eligible to receive a base salary, fixed pay allowance, benefits, pension or any variable pay. Non-executive Directors receive a fee for their services and may be reimbursed expenses incurred in performing their role and any related tax.

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 non-executive Directors' fees are approved in aggregate by the shareholders at the Annual General Meeting.

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 appointed. The Board may approve changes to the fees within the aggregate amount approved by 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:

	2019 Fees €
Sonny Portelli	**44,100**
John Bonello	**65,825**
Andrew Muscat	**45,600**
Sue Vella	**36,800**
Gordon Cordina	**59,700**
Yiannos Michaelides	**39,600**
Ingrid Azzopardi	**24,875**
Total	**316,500**

Directors who are employed by the bank or by 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 Material Risk Takers (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 Directors and Senior Management who make up the Executive Committee and hereafter referred to collectively as Senior Executives, members of the Asset and Liabilities Management Meeting and the Risk Management Meeting and 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 all MRTs 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 their employment on grounds of redundancy.

International assignees appointed to Senior Executive positions are covered by the standard Group contracts policy. Termination of this assignment by either the individual or the bank requires a notice period of up to six months.

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

Remuneration amounts – MRTs

Remuneration – fixed and variable amounts

	2019			2018		
	Senior management	**MRTs (non-senior management)**	**Total**	Senior management	MRTs (non-senior management)	Total
Number of MRTs	**22**	**32**	**54**	24	26	50
	€000	**€000**	**€000**	€000	€000	€000
Fixed pay						
Cash-based remuneration	**2,390**	**1,877**	**4,267**	2,476	1,607	4,083
Other remuneration						
– pensions	**67**	**53**	**120**	63	19	82
– benefits	**502**	**208**	**710**	532	194	726
Total fixed pay	**2,959**	**2,138**	**5,097**	3,071	1,820	4,891
Variable pay						
Cash	**570**	**301**	**871**	622	302	924
Non-deferred shares	**82**	**–**	**82**	65	–	65
Deferred cash	**55**	**–**	**55**	43	–	43
Deferred shares	**63**	**–**	**63**	52	–	52
Total variable pay	**770**	**301**	**1,071**	782	302	1,084
Total remuneration	**3,729**	**2,439**	**6,168**	3,853	2,122	5,975

In 2019, the bank continued its strategy to develop and promote local talent. Whilst proactively managing the international assignee population downwards, there remains a need to attract resources with specialist skills which are not readily available in Malta. All international assignees are employed on a time specific contract and as such, do not benefit from the collective agreement which provides significant benefits such as security of employment and other financial/ non-financial benefits.

We have continued to invest in our people to sharpen their skills and increase their capabilities. A specific programme on customer service has been cascaded across the bank to increase our customer satisfaction and level of service. All employees attend the programme where everyone provides input to address areas of improvement and to ensure that the customer is at the heart of everything we do.

The regulatory environment continues to change and the requirements to manage the associated risk have increased in complexity together with the focus of the remediation of the business. The focus of the bank still remains on ensuring we create the right culture to mitigate Financial Crime. To this effect, we have continued to develop the skills of our employees with extensive training and development. This will ensure that we will continue to protect our bank and customers for ongoing sustainability in the future as regulation continues to grow and evolve.

Deferred remuneration

	2019			2018		
	Senior management €000	**MRTs (non-senior management) €000**	**Total €000**	Senior management €000	MRTs (non-senior management) €000	Total €000
Cash						
Total outstanding deferred remuneration	**103**	**–**	**103**	102	–	102
– of which:						
total amount of deferred remuneration paid out in the financial year	***49***	**–**	***49***	*51*	–	*51*
Shares						
Total outstanding deferred remuneration	**167**	**–**	**167**	186	–	186
– of which:						
total amount of amendment during the year due to ex-post explicit adjustment	***(11)***	**–**	***(11)***	*(27)*	–	*(27)*
total amount of deferred remuneration paid out in the financial year	***57***	**–**	***57***	*139*	–	*139*

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 five years from the date of the award, and normally subject to the individual remaining in employment.

Sign-on and severance payments

During 2019 and 2018, no severance payments or sign-on payments were made.

Payments to past Directors

During 2019 and 2018, no payments were made to past Directors.

Report on the audit of the financial statements

Our opinion

In our opinion:

- HSBC Bank Malta p.l.c.'s consolidated and stand-alone parent company financial statements (the "financial statements") give a true and fair view of the financial position of the local group and bank as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

HSBC Bank Malta p.l.c.'s financial statements, set out on pages 58 to 148, comprise:

- the consolidated and parent company income statements and statements of comprehensive income for the year ended 31 December 2019;
- the consolidated and parent company statements of financial position as at 31 December 2019;
- the consolidated and parent company statements of changes in equity for the year then ended;
- the consolidated and parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

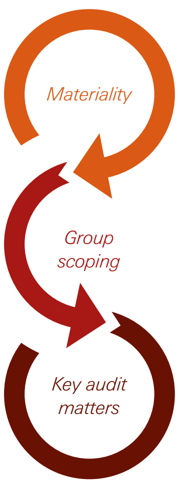
We are independent of the local group and the bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the parent company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the bank and its subsidiaries, in the period from 1 January 2019 to 31 December 2019 are disclosed in Note 18 to the financial statements.

Our audit approach

Overview



- Overall group materiality: €2.3 million, which represents 5% of profit before tax adjusted for one-time items.

- The audit carried out by the group engagement team covered all the components within the local group as at and for the year ended 31 December 2019 comprising HSBC Bank Malta p.l.c. and its subsidiaries HSBC Life Assurance (Malta) Limited and HSBC Global Asset Management (Malta) Limited, which are all based in Malta.

- Credit loss allowances in respect of loans and advances to customers of the local group and bank
- Measurement of non-linked life insurance contract liabilities and of the present value of in-force business (PVIF)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	€2,267,000 (2018: €1,826,000)
How we determined it	5% of profit before tax adjusted for one-time items
Rationale for the materiality benchmark applied	We chose profit before tax adjusted for one-time items as the benchmark because, in our view, it is the benchmark against which the performance of the local group is most commonly measured by users and is a generally accepted benchmark. We chose 5% based on professional judgement, noting that it is also within the range of commonly accepted profit-related benchmarks.

In the audit of HSBC Life Assurance (Malta) Limited, we have applied a higher materiality of €3,200,000 solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €113,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Credit loss allowances in respect of loans and advances to customers of the local group and bank

Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date.

In the previous financial year, the local group transitioned to IFRS 9, a new and complex accounting standard which introduced the measurement of impairment allowances based on an expected loss model rather than an incurred loss model previously applied under IAS 39. A considerable level of judgement is required in the development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. In general, the local group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the local group is exposed to credit risk.

Credit loss allowances relating to all loans and advances within the Wholesale portfolio are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, the bank uses an ECL model that relies on risk parameters, specifically proxy PDs determined at Group level attributable to another country/portfolio with similar credit risk characteristics. The output proxy PD is then adjusted using a scalar to reflect local macroeconomic

How our audit addressed the key audit matter

Subsequent to the first year of adoption of IFRS 9, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, updates to key parameters, new assumptions and enhancements were evaluated and tested. Discussions with the Audit Committee included:

- inputs, assumptions and adjustments to ECL, in particular changes to risk factors and other inputs within the bank's models, in respect of which we provided updates on the results of our testing procedures;
- the application of forward economic guidance, including the severity and magnitude of modelled downside scenarios;
- considerations around post model adjustments; and
- individually significant loan impairments.

With respect to the ECL models utilised by the bank, the continued appropriateness of the modelling policies and methodologies used was independently assessed by reference to the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter

Credit loss allowances in respect of loans and advances to customers of the local group and bank

conditions. The LGD used for the Wholesale portfolio is driven by the loan-to-value ratio of the individual facilities and takes into account other assumptions, including market value haircut (which includes costs to sell), time to sell and the impact of discounting the collateral from the date of realisation back to the date of default.

Management also applies overlays where their view is that the calculated assumptions based on historical experience are not appropriate or that ECLs estimated by the models do not capture the risks in the portfolio.

For defaulted (Stage 3) exposures within the Wholesale portfolio, discounted cash flow models are utilised in order to estimate ECLs. Judgement is required to determine when a default has occurred and then to estimate the expected future cash flows related to that loan which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows. The bank is required to assess multiple scenarios in this respect, which scenarios will have probabilities attached.

Credit loss allowances relating to all loans and advances within the Retail portfolio (Stages 1, 2 and 3), comprising mortgages, personal loans and overdrafts as well as credit cards are determined on a collective basis through the use of ECL models.

The models are used to calculate ECLs based on key assumptions, such as loss rates (reflecting a combined impact of PDs and EADs) and loss severities (including the impact of implied cure rates, valuation haircuts of collateral in the case of mortgages, and recovery rates). Loss rates and LGDs are estimated using internally developed statistical models and historical model development data based on the bank's own experience as available at the reporting date. The LGD for the mortgage portfolio is also driven by the loan-to-value ratio of exposures, taking into account similar assumptions as those applied for the Wholesale portfolio. During the year, the model for loss severities in respect of the mortgage portfolio was redesigned to take into consideration multiple work-out options.

The loss severities for the remaining Retail portfolios is based on the local group's recovery history.

Under IFRS 9, the bank is required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables and environments, into the ECL estimates. A number of macro-economic scenarios based on the selected macro-economic variables are considered to capture non-linearity across credit portfolios. The complexity attributable to this factor requires management to develop multiple macro-economic scenarios involving the use of significant judgements. The bank utilises a methodology to generate the economic inputs applied within the ECL models.

Data used in the impairment calculation is sourced from a number of systems, including systems that are not necessarily used for the preparation of accounting records.

ECL calculation for non-defaulted Wholesale exposures and for all Retail exposures

We understood and critically assessed the models used for ECL estimation in both Wholesale and Retail portfolios. Since modelling assumptions and parameters are also based on historic data, we assessed whether historic experience was representative of current circumstances and of the recent losses incurred within the portfolios. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, calibration of PDs/loss rates and LGDs, segmentation, selection of macroeconomic variables and post-model overlays. Model calculations were also tested independently.

The design and operating effectiveness of key controls management has established across the processes relevant to the ECL models were tested as follows:

- Model performance monitoring, including reconciliation of model parameters against approved models, and approval of model changes.
- Review and challenge of multiple economic scenarios by an expert panel and internal governance committee.
- Inputs of critical data, into source systems, and the flow and transformation of data between source systems to the impairment calculation engine.
- User acceptance testing over changes to the automated calculation of ECLs to ensure it is performed in line with business requirements.
- Review and challenge process to assess ECL output and approval of overlays.

We determined that we could rely on these controls for the purposes of our audit.

Substantive procedures were performed as follows:

- Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment.
- Tested a sample of loans to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management.
- Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.
- Tested the completeness and accuracy of the critical data, extracted from the underlying systems, that is utilised within the models for the purposes of the year end ECL calculation.
- Reviewed the SAS script codes for the impairment engine against business requirements and our expectations of how the calculation should operate.

Key audit matter	How our audit addressed the key audit matter
Credit loss allowances in respect of loans and advances to customers of the local group and bank	

This increases risk around completeness and accuracy of certain data used to create assumptions and operate the models. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed.

Since the estimation of ECLs is subjective in nature and inherently judgemental, the bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus.

We focused on credit loss allowances due to the subjective nature of specific data inputs into the calculation and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment.

Accordingly, summarising the key areas relevant to the bank's measurement of expected credit losses (ECLs) would include:

- Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9;
- Accounting interpretations and modelling assumptions used to build the models that calculate the ECL;
- Completeness and accuracy of data used to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple macro- economic scenarios; and
- Measurements of individually assessed provisions including the assessment of multiple scenarios.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: Note 3(b);
- Credit risk management: Note 4;
- Note on Change in expected credit losses and other credit impairment charges: Note 15;
- Note on Loans and advances to customers: Note 25; and
- Critical accounting estimates and judgements: Note 58(a).

- Risk based testing of models, including independent re-build of certain assumptions. We tested the assumptions, inputs and formulas used in ECL models on a sample basis. This included assessing the appropriateness of model design and formulas used, and recalculating PDs, LGDs and EADs on a sample basis.
- Independent testing of model calculations.
- Tested the multiple macro-economic scenarios and variables using our experts to assess their reasonableness. We assessed the base case and alternative economic scenarios, including challenging probability weights. We assessed whether forecasted macroeconomic variables were appropriate and we challenged the correlation and impact of the macroeconomic factors on the ECL.
- Assessed the completeness and appropriateness of post model adjustments including through the recalculation of a sample.

Our testing of models and model assumptions did not highlight material differences.

Based on the evidence obtained, we found the model assumptions, data used within the models and overlays to be reasonable.

ECL calculation for defaulted Wholesale exposures

For defaulted exposures within the Wholesale portfolio, the appropriateness of the methodology and policy used to calculate ECLs was independently assessed. We understood and evaluated the processes for identifying default events within loan portfolios, as well as the impairment assessment processes.

In respect of defaulted exposures the design and operating effectiveness of key controls management has established were tested over:

- The compilation and review of the credit watch list and the credit file review processes.
- The determination of which loans and advances are credit-impaired, including the timely identification of such defaulted exposures.
- The perfection of security and revaluation of collateral in line with the bank's policy.

We determined that we could rely on these controls for the purposes of our audit.

Substantive procedures were performed in respect of identification of defaults as follows:

- Assessed critically the criteria used for determining whether a default event had occurred by testing a sample of loans with characteristics that might imply a default event had occurred (for example a customer experiencing financial difficulty) to challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner.

Key audit matter	How our audit addressed the key audit matter
Credit loss allowances in respect of loans and advances to customers of the local group and bank	
	• Selected a sample of performing loans, which had not been identified by management as potentially defaulted, to form our own judgement as to whether that was appropriate and to further challenge whether all relevant events had been identified by management. Substantive procedures were performed on defaulted exposures in respect of the estimation of the amounts of the respective ECL provisions, as follows: • Reviewed the credit files of a selected sample of corporate loans to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements were appropriate given the borrowers' circumstances. • Challenged the severity of scenarios being applied for these exposures, together with their respective probability weights by forming an independent view of the recoverability of the selected corporate loans under different scenarios, assigning probabilities independently and comparing the outcome to that of the bank. • Tested key inputs to and reperformed the impairment calculation used to derive expected cash flows under different scenarios. • Assessed the appropriateness of a sample of property valuations securing impaired loans through the use of our experts. In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.
Measurement of non-linked life insurance contract liabilities and of the present value of in-force business (PVIF) of the local group	
Management's valuation of the provisions for the settlement of future non-linked claims attributable to life insurance contracts and of the PVIF involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these items. We focused on this area due to the materiality and subjectivity of the judgements made. Economic assumptions (investment return and associated discount rates) and non-economic assumptions (mortality, lapse rates and expenses associated with servicing policies), including the respective margins applied, are the key inputs to which the carrying amounts of these long-term liabilities and intangible asset are highly sensitive. Relevant references in the financial statements are: • Significant accounting policies: Notes 3(h) and 3(m); • Note on Intangible assets: Note 33; • Note on Liabilities under insurance contracts: Note 41; and • Critical accounting estimates and judgements: Note 58(c).	Our audit procedures addressing the valuation of the local group's non-linked life insurance contract liabilities and of the PVIF included the following procedures using our actuarial expert team members: • we tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source; • we applied our industry knowledge and experience in comparing the methodology, models and assumptions used to recognised actuarial practices; and • we tested management's controls in respect of the valuation and assumption setting processes, and we assessed management's key judgements throughout the processes. In respect of the assumptions underlying the measurement of the non-linked life insurance contract liabilities, we performed the following procedures using our actuarial expert team members:

Key audit matter	How our audit addressed the key audit matter
Measurement of life insurance contract liabilities and of the present value of in-force business (PVIF) of the local group	

- we assessed the assumptions for investment mix and projected investment returns by reference to company-specific and market observable data (euro swap curve);
- we considered the appropriateness of the mortality assumptions by reference to company and industry data on historical mortality experience and expectations of future mortality; and
- we tested the future expense assumption by understanding and challenging the basis on which expenses are allocated between new business and renewals and by reference to market observable data (inflation curve).

The following procedures addressing the assumptions underlying the valuation of the PVIF were performed, also through the involvement of our actuarial expert team members:

- we leveraged the testing performed in relation to those assumptions that are aligned with the insurance contract liability valuation, reviewing the differences in margins applied between the two; and
- we considered the appropriateness of the lapse rate assumptions by reference to company data, considering the results of management's analysis of recent lapse experience.

In respect of all the assumptions referred to above, we have reviewed management's approach to setting the assumptions, assessed the assumptions' appropriateness based on internal and external data, and tested management's governance and controls over the assumption basis review.

We also reviewed the modelled results and manual adjustments, and we assessed the reasonableness of management's analysis of the changes in the carrying amounts.

Based on the results of our work we concluded that the data and assumptions used by management were reasonable.

How we tailored our group audit scope

The local group is composed of three components: HSBC Bank Malta p.l.c. (the parent company), and its subsidiaries HSBC Life Assurance (Malta) Limited, which is determined to be a financially significant entity, and HSBC Global Asset Management (Malta) Limited.

We tailored the scope of our audit in order to perform sufficient work on all components to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the local group, the accounting processes and controls, and the industry in which the local group operates, and local statutory requirements.

The audit team of the local group performed all of this work by applying the overall materiality at the level of the local group's consolidated financial statements, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the local group financial statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the Chairman's Statement, the Chief Executive Officer's Review, the Board of Directors and Company Secretary, the Executive Committee, the Report of the Directors, the Directors' Responsibilities Statement, the Remuneration Report, the Additional Regulatory Disclosures, the Five-year comparisons and the Branches and Offices (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the Report of the Directors.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Report of the Directors, we also considered whether the Report of the Directors includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the local group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Report of the Directors and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Directors and those charged with governance for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), 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.

In preparing the financial statements, the Directors are responsible for assessing the local group's and the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the local group or the bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the local group's and the bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 local group's and the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the local group's or the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the local group or the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the local group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the statement of compliance with the 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 34 to 42 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Opinion on other matters prescribed by the Maltese Banking Act (Cap. 371)

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.

Other matters on which we are required to report by exception

We also have responsibilities under:

- the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
- returns adequate for our audit have not been received from branches not visited by us; and
- 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.

Appointment

We were first appointed as auditors of the local group and the bank on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 5 years.

F Axisa

Fabio Axisa (Partner) for and on behalf of

PricewaterhouseCoopers
Registered Auditors
78 Mill Street, Qormi, Malta

18 February 2020

Income statements

for the year ended 31 December

	Notes	Group 2019 €000	Group 2018 €000	Bank 2019 €000	Bank 2018 €000
Interest and similar income					
– on loans and advances to banks and customers and other assets	*7*	**112,671**	112,188	**112,547**	112,188
– on debt and other fixed income instruments	*7*	**7,902**	9,671	**7,902**	9,659
Interest expense	*8*	**(10,462)**	(13,237)	**(10,462)**	(13,237)
Net interest income		**110,111**	108,622	**109,987**	108,610
Fee income		**24,759**	24,114	**21,443**	19,695
Fee expense		**(2,009)**	(1,338)	**(1,728)**	(1,134)
Net fee income	*9*	**22,750**	22,776	**19,715**	18,561
Net trading income	*10*	**7,188**	5,386	**7,188**	5,386
Net income from financial instruments of insurance operations measured at fair value through profit and loss		**52,644**	(20,289)	**–**	–
Dividend income	*11*	**29**	18	**22,383**	11,425
Net insurance premium income	*12*	**57,708**	58,500	**–**	–
Movement in present value of in-force long-term insurance business		**(1,865)**	(5,774)	**–**	–
Other operating income	*13*	**1,948**	3,307	**1,817**	2,976
Total operating income		**250,513**	172,546	**161,090**	146,958
Net insurance claims, benefits paid and movement in liabilities to policyholders	*14*	**(100,101)**	(24,173)	**–**	–
Net operating income before changes in expected credit losses and provisions		**150,412**	148,373	**161,090**	146,958
Change in expected credit losses and other credit impairment charges	*15*	**(389)**	(3,488)	**(389)**	(3,488)
Movement in provision for brokerage remediation costs	*16*	**1,371**	2,028	**1,371**	2,028
Net operating income		**151,394**	146,913	**162,072**	145,498
Employee compensation and benefits	*17*	**(64,462)**	(50,158)	**(61,427)**	(47,506)
General and administrative expenses	*18*	**(50,294)**	(53,024)	**(46,330)**	(48,171)
Depreciation of property, plant and equipment and right-of-use assets	*32,34*	**(4,150)**	(3,401)	**(4,150)**	(3,401)
Amortisation of intangible assets	*33*	**(1,779)**	(1,774)	**(1,668)**	(1,681)
Total operating expenses		**(120,685)**	(108,357)	**(113,575)**	(100,759)
Profit before tax	*18*	**30,709**	38,556	**48,497**	44,739
Tax expense	*19*	**(10,541)**	(9,860)	**(16,664)**	(12,148)
Profit for the year		**20,168**	28,696	**31,833**	32,591
Earnings per share	*20*	**5.6c**	8.0c		

The notes on pages 64 to 148 are an integral part of these financial statements.

Statements of comprehensive income

for the year ended 31 December

		Group		Bank	
		2019	2018	**2019**	2018
	Notes	**€000**	€000	**€000**	€000
Profit for the year		**20,168**	28,696	**31,833**	32,591
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Debt instruments measured at fair value through other comprehensive income:		**311**	(3,592)	**311**	(3,582)
– fair value gains/(losses)	*46*	**478**	(5,527)	**478**	(5,511)
– income taxes	*46*	**(167)**	1,935	**(167)**	1,929
Items that will not be reclassified subsequently to profit or loss:					
Properties:		**(475)**	382	**(475)**	382
– (loss)/surplus arising on revaluation	*46*	**(528)**	424	**(528)**	424
– income taxes	*46*	**53**	(42)	**53**	(42)
Defined benefit obligation:		**(619)**	(334)	**(619)**	(334)
– remeasurement of defined benefit obligation	*42*	**(952)**	(514)	**(952)**	(514)
– income taxes		**333**	180	**333**	180
Equity instruments designated at fair value through other comprehensive income:		**–**	1,045	**–**	1,045
– fair value gains	*46*	**–**	1,608	**–**	1,608
– income taxes	*46*	**–**	(563)	**–**	(563)
Other comprehensive income for the year, net of tax		**(783)**	(2,499)	**(783)**	(2,489)
Total comprehensive income for the year		**19,385**	26,197	**31,050**	30,102

The notes on pages 64 to 148 are an integral part of these financial statements.

Statements of financial position

for the year ended 31 December

	Notes	Group 2019 €000	Group 2018 €000	Bank 2019 €000	Bank 2018 €000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	21	**586,072**	190,768	**586,072**	190,768
Items in the course of collection from other banks		**3,436**	5,404	**3,436**	5,404
Financial assets mandatorily measured at fair value through profit or loss	22	**754,020**	694,081	**4,507**	—
Held for trading derivatives	23	**5,320**	4,956	**5,320**	4,956
Loans and advances to banks	24	**676,031**	1,097,714	**672,952**	1,092,773
Loans and advances to customers	25	**3,257,433**	3,110,412	**3,257,433**	3,110,412
Financial investments	26	**943,603**	904,920	**943,601**	904,918
Prepayments and accrued income	27	**23,578**	27,312	**20,715**	22,760
Current tax assets		**1,719**	16,728	**256**	15,960
Reinsurance assets	28	**78,945**	85,205	**—**	—
Other non-current assets held for sale	29	**8,422**	5,908	**8,422**	5,908
Investments in subsidiaries	30	**—**	—	**30,859**	30,859
Investment property	31	**9,788**	9,714	**7,589**	7,515
Property, plant and equipment	32	**47,403**	55,413	**47,403**	55,520
Intangible assets	33	**61,518**	59,136	**10,193**	5,831
Right-of-use assets	34	**4,685**	—	**4,685**	—
Deferred tax assets	35	**22,427**	21,509	**22,427**	21,509
Other assets	36	**13,217**	21,814	**11,064**	20,531
Total assets		**6,497,617**	6,310,994	**5,636,934**	5,495,624
Liabilities					
Deposits by banks	37	**840**	2,542	**840**	2,542
Customer accounts	38	**4,976,580**	4,887,473	**5,026,066**	4,940,980
Held for trading derivatives	23	**5,190**	4,991	**5,190**	4,991
Accruals and deferred income	39	**20,335**	19,151	**17,844**	17,063
Current tax liabilities		**2,489**	538	**2,489**	538
Liabilities under investment contracts	40	**183,706**	166,347	**—**	—
Liabilities under insurance contracts	41	**658,470**	620,781	**—**	—
Provisions for liabilities and other charges	42	**33,271**	20,689	**32,214**	19,752
Deferred tax liabilities	35	**22,443**	23,427	**4,899**	5,119
Subordinated liabilities	43	**62,000**	62,000	**62,000**	62,000
Other liabilities	44	**62,327**	44,277	**58,757**	38,857
Total liabilities		**6,027,651**	5,852,216	**5,210,299**	5,091,842
Equity					
Called up share capital	45	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	46	**32,202**	34,265	**32,202**	34,265
Retained earnings	46	**329,672**	316,421	**286,341**	261,425
Total equity		**469,966**	458,778	**426,635**	403,782
Total liabilities and equity		**6,497,617**	6,310,994	**5,636,934**	5,495,624
Memorandum items					
Contingent liabilities	47	**158,654**	149,783	**158,656**	149,785
Commitments	48	**1,075,524**	1,433,773	**1,075,524**	1,434,634

The notes on pages 64 to 148 are an integral part of these financial statements.

The financial statements on pages 58 to 148 were approved and authorised for issue by the Board of Directors on 18 February 2020 and signed on its behalf by:

John Bonello
Chairman

Andrew Beane
Chief Executive Officer

Statements of changes in equity

for the year ended 31 December

		Group			
		Share capital	**Revaluation reserve**	**Retained earnings**	**Total equity**
	Notes	**€000**	**€000**	**€000**	**€000**
At 1 January 2019		**108,092**	**34,265**	**316,421**	**458,778**
Profit for the year		**—**	**—**	**20,168**	**20,168**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	*46*	**—**	**311**	**—**	**311**
– reclassification to retained earnings, net of tax	*46*	**—**	**(1,268)**	**1,268**	**—**
Properties:					
– loss arising on revaluation, net of tax	*46*	**—**	**(475)**	**—**	**(475)**
– transfer to retained earnings, net of tax		**—**	**(631)**	**631**	**—**
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		**—**	**—**	**(619)**	**(619)**
Total other comprehensive income		**—**	**(2,063)**	**1,280**	**(783)**
Total comprehensive income for the year		**—**	**(2,063)**	**21,448**	**19,385**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– dividends	*50*	**—**	**—**	**(8,197)**	**(8,197)**
Total contributions by and distributions to owners		**—**	**—**	**(8,197)**	**(8,197)**
At 31 December 2019		**108,092**	**32,202**	**329,672**	**469,966**
At 31 December 2017		108,092	36,430	334,516	479,038
Impact of transition to IFRS 9		—	—	(8,048)	(8,048)
At 1 January 2018		108,092	36,430	326,468	470,990
Profit for the year		—	—	28,696	28,696
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	*46*	—	(2,547)	—	(2,547)
Properties:					
– surplus arising on revaluation, net of tax	*46*	—	382	—	382
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		—	—	(334)	(334)
Total other comprehensive income		—	(2,165)	(334)	(2,499)
Total comprehensive income for the year		—	(2,165)	28,362	26,197
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– dividends	*50*	—	—	(38,409)	(38,409)
Total contributions by and distributions to owners		—	—	(38,409)	(38,409)
At 31 December 2018		108,092	34,265	316,421	458,778

The notes on pages 64 to 148 are an integral part of these financial statements.

Statements of changes in equity (continued)

for the year ended 31 December

		Bank			
		Share capital	**Revaluation reserve**	**Retained earnings**	**Total equity**
	Notes	**€000**	**€000**	**€000**	**€000**
At 1 January 2019		**108,092**	**34,265**	**261,425**	**403,782**
Profit for the year		—	**—**	**31,833**	**31,833**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	*46*	—	**311**	**—**	**311**
– reclassification to retained earnings, net of tax	*46*	—	**(1,268)**	**1,268**	**—**
Properties:					
– loss arising on revaluation, net of tax	*46*	—	**(475)**	**—**	**(475)**
– transfer to retained earnings, net of tax	*46*	—	**(631)**	**631**	**—**
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		—	**—**	**(619)**	**(619)**
Total other comprehensive income		—	**(2,063)**	**1,280**	**(783)**
Total comprehensive income for the year		—	**(2,063)**	**33,113**	**31,050**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– dividends	*50*	—	**—**	**(8,197)**	**(8,197)**
Total contributions by and distributions to owners		—	**—**	**(8,197)**	**(8,197)**
At 31 December 2019		**108,092**	**32,202**	**286,341**	**426,635**
At 31 December 2017		108,092	36,420	275,625	420,137
Impact of transition to IFRS 9		—	—	(8,048)	(8,048)
At 1 January 2018		108,092	36,420	267,577	412,089
Profit for the year		—	—	32,591	32,591
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	*46*	—	(2,537)	—	(2,537)
Properties:					
– surplus arising on revaluation, net of tax	*46*	—	382	—	382
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		—	—	(334)	(334)
Total other comprehensive income		—	(2,155)	(334)	(2,489)
Total comprehensive income for the year		—	(2,155)	32,257	30,102
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– dividends	*50*	—	—	(38,409)	(38,409)
Total contributions by and distributions to owners		—	—	(38,409)	(38,409)
At 31 December 2018		108,092	34,265	261,425	403,782

The notes on pages 64 to 148 are an integral part of these financial statements.

Statements of cash flows

for the year ended 31 December

		Group		Bank	
		2019	2018	**2019**	2018
	Notes	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Interest, fees, loan recoveries and premium receipts		**230,002**	193,161	**142,598**	127,123
Interest, fees and claims payments		**(87,499)**	(75,222)	**(12,086)**	(12,049)
Payments to employees and suppliers		**(100,759)**	(100,533)	**(91,071)**	(92,660)
Cash flows from operating activities before changes in operating assets/liabilities		**41,744**	17,406	**39,441**	22,414
(Increase)/decrease in operating assets:					
– financial assets mandatorily measured at fair value through profit or loss		**8,737**	11,372	**—**	—
– reserve deposit with Central Bank of Malta		**(329)**	(1,176)	**(329)**	(1,176)
– loans and advances to customers and banks		**(301,045)**	(89,233)	**(301,045)**	(89,216)
– Treasury Bills		**(31,518)**	(15,527)	**(31,518)**	(15,527)
– other receivables		**4,253**	(5,543)	**4,253**	(4,339)
(Decrease)/increase in operating liabilities:					
– customer accounts and deposits by banks		**83,379**	66,657	**78,290**	35,209
– other payables		**(14,115)**	(40,880)	**(14,137)**	(2,616)
Net cash used in operating activities before tax		**(208,894)**	(56,924)	**(225,045)**	(55,251)
– tax refunded/(paid)		**4,838**	(14,452)	**7,678**	(10,183)
Net cash used in operating activities		**(204,056)**	(71,376)	**(217,367)**	(65,434)
Cash flows from investing activities					
Dividends received		**29**	18	**14,829**	7,618
Interest received from financial investments		**16,229**	20,091	**16,229**	18,282
Purchase of financial investments		**(315,277)**	(242,523)	**(315,277)**	(242,523)
Proceeds from sale and maturity of financial investments		**270,965**	254,972	**270,965**	253,759
Purchase of property, plant and equipment, investment property and intangible assets		**(6,980)**	(5,194)	**(6,643)**	(5,018)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		**1,865**	1,300	**1,766**	—
Net cash (used in)/from investing activities		**(33,169)**	28,664	**(18,131)**	32,118
Cash flows from financing activities					
Dividends paid		**(8,197)**	(38,409)	**(8,197)**	(38,409)
Issue of subordinated liabilities		**—**	62,000	**—**	62,000
Repayment of subordinated liabilities		**—**	(29,277)	**—**	(30,000)
Net cash used in financing activities		**(8,197)**	(5,686)	**(8,197)**	(6,409)
Net decrease in cash and cash equivalents		**(245,422)**	(48,398)	**(243,695)**	(39,725)
Cash and cash equivalents at beginning of year		**801,882**	848,649	**796,941**	835,035
Effect of exchange rate changes on cash and cash equivalents		**(1,812)**	1,631	**(1,753)**	1,631
Cash and cash equivalents at end of year	*51*	**554,648**	801,882	**551,493**	796,941

The notes on pages 64 to 148 are an integral part of these financial statements.

Notes on the 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 2019 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 issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these consolidated and separate financial statements, and HSBC's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

These financial statements have also been drawn up in accordance with the provisions of the Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), 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;
- Treasury Bills;
- Financial assets mandatorily measured at fair value through profit or loss;
- Financial investments;
- Property within 'Property, plant and equipment' and 'Investment property'; and
- Liabilities under investment contracts.

(c) Interpretations and amendments to standards adopted by the local group

During 2019, the bank adopted a number of interpretations and amendments to standards in the consolidated financial statements of the local group and the separate financial statements of the bank.

Standards adopted during the year ended 31 December 2019

IFRS 16 'Leases'

On 1 January 2019, the local group adopted the requirements of IFRS 16 retrospectively. The adoption of the standard increased assets by €5.6m and increased financial liabilities by the same amount with no effect on net assets or retained earnings. Comparatives were not restated.

On adoption of IFRS 16, the local group recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in 'other liabilities' and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The associated right-of-use ('ROU') assets were recognised on the face of the Statements of financial position and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- reliance was placed on previous assessments on whether leases were onerous;
- operating leases with a remaining lease term of less than 12 months at 1 January 2019 were treated as short-term leases; and
- initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

The differences between IAS 17 and IFRS 16 are summarised in the table below:

IAS 17	IFRS 16
Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.	Leases are recognised as an ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis. In determining the lease term, the local group considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years. In general, it is not expected that the discount rate implicit in the lease is available so the local group's incremental borrowing rate is used. This is the rate that the local group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined for each term for each term by adjusting swap rates with funding spreads (own credit spread).

In addition, the local group has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the consolidated financial statements of the local group and the separate financial statements of the bank. In 2018, the local group adopted IFRS 9. The impact of this adoption is reflected in the changes in equity for that year end.

(d) New standards and interpretations not yet adopted

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2020, some of which have been endorsed for use in the EU. The local group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the local group and the separate financial statements of the bank. The local group has not early adopted any of the amendments effective after 31 December 2019.

Major new IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The local group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing and there may be changes to it, therefore the likely impact of its implementation remains uncertain.

(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 2019 Financial Statements. Management's selection of the local group's accounting policies which contain critical estimates and judgements (listed below) reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation of uncertainty involved:

- Expected credit losses on loans and advances: Note 3(b)(iv) and Note 15;
- Valuation of financial instruments: Note 5;
- Policyholder claims and benefits: Note 3(m)(ii) and Note 14;
- Present value of in-force long-term assurance business (PVIF): Note 3(m)(iv) and Note 33.

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 58.

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.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

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.

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.

(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. All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the financial asset.

ii Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics.

If a financial asset is held within a business model other than 'hold to collect' or 'hold to collect and sell' then the financial asset is required to be measured at fair value through profit or loss (FVTPL) without further analysis. For those financial assets where the contractual cash flows arising on specified dates are solely payments of principal and interest (SPPI) on the principal amount outstanding, classification at amortised cost or fair value through other comprehensive income (FVOCI) will depend on whether the business model is to hold financial assets for the collection of contractual cash flows or whether the objective of the business model is achieved by both the collection of contractual cash flows and selling financial assets. If an instrument contains contractual cash flows which do not represent solely payments of principal and interest, then the classification to be used is FVTPL even if it is held in a business model that is either hold to collect or hold to collect and sell.

The local group's business model is determined by key management personnel and reflects the strategic purpose and intention for the portfolio and how the performance of the portfolio is assessed. Since the business model is set at a portfolio level, the classification assessment for this criterion is accordingly performed at that level. Because the key distinction between the two business models identified in IFRS 9 is whether or not 'sales' are intrinsic to achieving the desired objectives, it is important to identify what is meant by 'sales'. For the purposes of the business model assessment, these are transfers which would result in derecognition.

For those assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the local group assesses whether the cash flow characteristics of these assets meet the SPPI requirements of IFRS 9. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin.

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

- variable interest rates and modified relationships with the time value of money;
- leverage, being a contractual cash flow characteristic of some financial assets that increases the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
- contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract;
- contractual cash flows may be caused by an underlying contingent event (a trigger) such as contractual term resetting interest to a higher amount in the event of a missed payment; and
- contractual changes in interest rates.

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets comprise primarily loans and advances to banks and customers.

The local group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the local group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily financial investments as debt securities.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

The local group's debt securities and Treasury Bills are classified at FVOCI under IFRS 9 given that the objective of the business model is achieved by both the collection of contractual cash flows and selling of the financial assets.

Equity securities measured at fair value with fair value movements presented in other comprehensive income

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where the local group holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss (dividend income is recognised in profit or loss). Otherwise, equity securities are measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. Financial assets held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These assets are classified in the 'other' business model and measured at FVTPL. In addition, financial assets are measured at FVTPL if they do not contain contractual terms that give rise on specified dates to cash flows that are SPPI.

The portfolios of all financial assets attributable to the local group's insurance operations are managed and performance is evaluated on a fair value basis. The insurance subsidiary is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the business model's objective. The subsidiary has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. Consequently, all investments attributable to insurance operations are mandatorily measured at fair value through profit or loss.

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 use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Under this criterion, the financial instruments designated by the local group comprise 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. Designation at fair value of the financial liabilities under investment contracts allows the changes in fair values of these financial liabilities to be recorded in profit or loss and presented in the same line as the changes in fair value of the assets held in the linked funds. These financial assets are mandatorily measured at fair value through profit or loss. If no fair value designation was made for the customer liabilities, an accounting mismatch would arise. The related financial assets and financial liabilities are managed and reported to management on a fair value basis.

Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments of insurance operations measured at fair value through profit and loss' .

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.

iv Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to banks and customers, other financial assets measured at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts.

At initial recognition, an allowance (or provision in the case of loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months (12-month ECL).

In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'stage 2'; and financial assets for which there is objective evidence of impairment, and which are so considered to be in default or otherwise credit impaired, would be classified as 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently, as set out below.

Unimpaired and without significant increase in credit risk (Stage 1)

ECL resulting from default events that are possible within the next 12 months (12-month ECL) are recognised for financial instruments that remain in stage 1.

Significant increase in credit risk (SICR or Stage 2)

The general principle of IFRS 9 ECL accounting requires that the credit risk of financial instruments within the scope of impairment to be assessed for significant increase since initial recognition at each balance sheet date. If there is a significant increase in credit risk, the financial instruments are transferred into Stage 2 and lifetime ECL is recognised. The principle of SICR is achieved by performing an assessment to compare the risk of default occurring at the reporting date with the risk of default occurring at the date of initial recognition.

Accordingly, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

Wholesale exposures are usually managed on an individual basis for credit purposes, through relationship managers who have access to the customers and their financial information. A Customer Risk Rating (CRR) is assigned to each customer and is reviewed at least annually.

Although the CRR is assigned on an obligor/counterparty level rather than at the financial instrument level, it can still be used to assess significant increase in credit risk as long as it meets the underlying principles.

In applying the above, the CRR of the counterparty is inferred onto the outstanding financial instruments. For example, if a customer has a CRR of 3 when a loan is underwritten, the loan will have on initial recognition a CRR of 3. If at the subsequent period end, the customer's CRR has deteriorated to 5 and a second loan is being granted to the customer, both loans will have a CRR of 5 on that day. For the first loan, the CRR has increased from 3 to 5. If this is considered significant, it will be transferred to Stage 2. For the second loan, the initial recognition CRR is 5. It will remain in Stage 1 until the CRR has increased significantly in subsequent periods. While all outstanding loans to the same obligor/counterparty will have the same CRR at the reporting date, the respective loans might be in different stages depending on the initial recognition CRR, unless the obligor is in the 'Watch or Worry Status' and/or past due by more than 30 days, in which case all associated facilities (excluding those cases on the list for non-credit related reasons) will be transferred to Stage 2 immediately.

A CRR on its own is not a measure that meets all the requirements of IFRS 9 (e.g. it does not incorporate forward looking information). However, within the HSBC Group, CRRs are used to determine regulatory Probabilities of Default (PDs), and with appropriate adjustments, these PDs are used for IFRS 9 purposes. Each CRR is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time. Therefore regulatory PD models calibrated at the level of HSBC Group are leveraged to derive a measure that is appropriate to assess significant increase in credit risk under IFRS 9.

As regulatory PDs are generally calculated over 12 months, one of the adjustments required is to incorporate the term structure into the PD to obtain the lifetime PD. The lifetime PD is determined by calculating the PD for each year over the life of the financial instrument. For example, for a five-year loan, PDs are calculated for each of the five years. The year-1 PD is calculated as the probability of the loan defaulting within the first year of it being issued. The year-2 PD is calculated as the probability of the loan surviving the first year but defaulting in the second year. The same principle of survival applies to the PDs of years 3 - 5. These yearly PDs are added together to arrive at the cumulative lifetime PD. As each year passes, the cumulative lifetime PD reduces in line with the reduction in the residual life of the loan. Albeit, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime PD which encompasses a wide range of information including the obligor's CRR, macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger - PD to increase by
0.1-1.2	15bps
2.1-3.3	30bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PDs must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below:

Origination CRR	Additional significance criteria - number of CRR grade notches deterioration required to identify as significant credit deterioration (stage2) (>or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.1	1 notch
8.3	0 notch

Retail exposures, unlike Wholesale exposures, are not managed on a credit by credit basis (e.g. through relationship managers), due to the high volume of relatively low value and homogeneous exposures. As a result, it is not feasible to replicate the Wholesale approach for Retail exposures. The Retail methodology takes into account the nature of the Retail exposures and the underlying credit risk management practices. The Retail portfolio comprises mortgages, personal loans and overdrafts, as well as credit cards.

Utilisation of the Retail methodology to determine whether a significant increase in credit risk has occurred is based on meeting the following three criteria:

- the credit risks of exposures within the portfolio are similar;
- any increase in the credit risk below the threshold is not considered significant; and
- the risk measure used (e.g. PD) includes all available information, including forward looking information.

Given how Retail customers are accepted and managed for credit risk, Retail customers within a particular segment will have similar credit risk at initial recognition. The measure, or threshold, used to assess significant increase in credit risk for the Retail portfolios is the average PD twelve months prior to exposures falling more than 30 days past due. Portfolio segments whose 12-month default rate is higher than this threshold would be classified as Stage 2 (the look back method). Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected, and higher than what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

With respect to mortgages, through the look back method, it has been determined that all exposures that are one day past due would require such exposures to be classified as Stage 2. In this respect, the transfer criterion for the mortgages portfolio is assessed on the instrument's delinquency period.

For portfolios of debt securities where external market ratings are available and internal credit ratings are not used in credit risk management, the debt securities will be in Stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cashflow obligations in the near term, and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cashflow obligations.

Credit impaired (Stage 3)

IFRS 9 requires an assessment of the extent of increase in credit risk of a financial instrument since initial recognition. This assessment is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. As a result, the definition of default is important.

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and requires consideration of qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

In this respect, the local group determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Therefore, the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

With respect to Wholesale exposures the local group has incorporated evidence of credit impairment/default into the internal CRR used to rate Wholesale exposures. A defaulted or credit-impaired financial asset is assigned CRR 9 or 10. These exposures are usually managed by the local group's loan management unit (LMU).

With respect to Retail exposures, evidence of credit impairment/default is also incorporated into the PD model. A retail exposure with a PD of 1 i.e. 100% probability is considered defaulted and credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) 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.

Renegotiated loans

A 'renegotiated loan' is a loan where the contractual payment terms have been renegotiated or otherwise modified because the local group has significant concerns about the borrower's ability to meet contractual payments when due. In general, renegotiated loans are regarded as credit-impaired upon renegotiation unless the concession is insignificant and there are no other indicators of impairment. Moreover, loans are considered renegotiated irrespective of whether the modification is significant or not. Thus, de-recognition or otherwise of the financial asset would not have a bearing on whether the financial asset remains classified in the respective stage allocation. A range of forbearance strategies are employed upon the renegotiation of a loan 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 (re-ageing is an account action where the customer account is reclassified as being up to date without the customer having paid the arrears in full).

The local group's policies and practices are based on criteria which enable local management to judge whether repayment is likely to continue. Forbearance measures typically provide a customer with terms and conditions that are more favourable than those provided initially. Forbearance/renegotiation 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.

Accordingly, loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if 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 a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

As suggested previously, Wholesale renegotiated loans are considered credit-impaired and accordingly classified as Stage 3 assets. They can be cured out of the credit impaired status subsequently. When evidence suggests that the renegotiated asset is no longer credit-impaired, the asset is transferred out of Stage 3. This is assessed on the basis on historical and forward looking information and an assessment of the credit risk over the expected life of the asset, including information about the circumstances that led to the renegotiation.

Similarly, Retail renegotiated loans are also classified as Stage 3 assets. Retail renegotiated loans cure out of the credit impaired status if the customers meet the new payment requirements for 12 months following the date on which the loan was renegotiated.

Purchased or originated credit impaired (POCI)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that 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.

In general, the local group calculates ECL using three main components: PD, loss given default (LGD), and exposure at default (EAD). The local group calculates the ECL for the Wholesale portfolio at an instrument level, whilst the ECL for Retail portfolios is calculated on a collective basis.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively. PDs are point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD). The lifetime PDs are determined by projecting the 12-month PD using a term structure.

With respect to the Wholesale portfolio, given the local group's inherent lack of history of defaults to derive coherent PDs, proxy PDs are used as part of a Smaller Site Methodology. These proxy PDs are derived from regulatory PDs determined at HSBC Group level, and are adjusted for a scalar and a management overlay to reflect the economic realities of the market the local group operates in. The scalar denotes a risk parameter that helps translate the regulatory PDs into PDs relevant to the local scenario. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life. In contrast, PDs for the Retail portfolio are based on internally developed statistical models using the local group's historical model development data based on the local group's own experience.

The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Expected LGD is based on estimate of loss given default including the expected impact of future economic conditions. It incorporates the impact of discounting back from point of default to balance sheet date using the original effective interest rate of the loan. Costs associated with obtaining / selling collateral are reflected.

The LGD used for the Wholesale portfolio is driven by the loan-to-value ratio of the individual facilities, and takes into account other assumptions, including market value haircut (which includes costs to sell), time to sell and discounting the collateral from the date of realisation back to the date of default. Similarly, the LGD for the Mortgages portfolio is also driven by the loan-to-value ratio of exposures, taking into account similar assumptions as those in the Wholesale portfolio. In contrast, the LGD for the remaining Retail portfolios (personal loans, overdrafts and credit cards), is based on the local group's recovery history.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the local group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the local group is exposed to credit risk. With respect to non-revolving credit facilities, the contractual life of the facility is considered. In contrast, in respect of revolving credit facilities, the local group distinguishes between individually managed exposures and collectively managed exposures. For individually managed exposures, which mostly form part of the Wholesale portfolio, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. In contrast, with respect to the remaining revolving credit facilities, the lifetime of such exposures is defined as the point where 95% of the defaults have materialised - thus, the lifetime of such assets may be longer than 12 months.

Where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the local group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the local group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between three and four years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward looking economic inputs

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

The local group will in general apply three forward-looking economic scenarios determined with reference to external forecast distributions representative of the group's view of forecast economic conditions. Three scenarios are considered to capture non-linearity across credit portfolios. If the economic environment is considered to be particularly adverse and results in a more pronounced non-linearity impact, senior management will exercise judgement, request additional analysis, recommend overlays and/or commission the production of additional scenarios. This approach on the whole is operationally feasible and will result in transparent outcomes. If conditions warrant, this could result in alternative scenarios and probability weightings being applied in arriving at the ECL.

The three scenarios will include a central or baseline view (most likely outcome) driven by a consensus among professional industry forecasts. The Central scenario is the basis for the annual operating planning process. Two additional outer scenarios - an 'upside' and a 'downside' - will be constructed using a 'rules-based' system supported by a scenario narrative that will reflect the current top and emergent risks. The relationship between the outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The key point to note is that the 'outer' scenarios will be economically plausible states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years for the Central scenario after which the forecasts will revert to a more 'through the cycle' view.

Upside and Downside scenarios use distributional forecasts for the first two years, after which they converge to the Central forecasts. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and property prices.

A Forward Economic Guidance (FEG) methodology has been developed to generate the economic inputs to help drive the IFRS 9 ECL models used for credit risk. The scenarios will have probabilities attached, based on a mixture of quantitative analysis and management judgement, with reference to an assessment of the economic risk landscape. In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The scenarios will be enriched to produce the necessary variables that are required by the impairment models.

Presentation of ECL in statement of financial position

For financial assets that are measured at amortised cost, the ECL allowance is presented against the carrying amount of the assets on the balance sheet, thereby reducing the carrying amount.

For financial assets measured at fair value through other comprehensive income, the loss allowance is presented within other comprehensive income and not against the carrying amount of the assets. The carrying amount of the asset is always the fair value.

(c) Derivative financial instruments

Derivatives are recognised initially and are subsequently re-measured at fair value though profit or loss. 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.

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 measured at fair value through profit or loss in which case gains and losses are reported in 'Net income from financial instruments of insurance operations measured at fair value through profit and loss'.

(d) 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) financial liabilities measured at amortised cost. The criteria for designating financial liabilities at fair value and their measurement are described in Note 3(b)(ii).

Financial liabilities measured at amortised cost, i.e. 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.

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.

(e) Reverse repurchase and repurchase agreements

When debt 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 an asset is recorded in respect of the initial consideration paid. In respect of the latter, 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.

(f) 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).

(g) 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.

(h) 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 PVIF long-term insurance business is reflected within Note 3(m)(iv).

Deferred acquisition costs

Incremental costs that are incurred in acquiring investment management contracts and creditor protection business are deferred and amortised as the related revenue is recognised. All deferred acquisition costs are reviewed regularly to determine if they are recoverable from future cash flows on the associated contracts.

Deferred acquisition costs that are not deemed to be recoverable are charged to profit or loss. The test for recoverability is performed at a portfolio level, on portfolios of relatively homogeneous contracts. Deferred acquisition costs are amortised in profit or loss on a straight line basis over the estimated useful life of the contract.

(i) 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.

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(k)).

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.

(j) 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.

(k) 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.

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.

(l) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups i.e. assets and liabilities forming part of disposal groups) 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 and liabilities is measured in accordance with the local group's accounting policies. Non-current assets (or disposal groups) classified as held for sale are generally measured at the lower of their carrying amount and fair value less cost to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', such as those measured in accordance with IFRS 9.

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, but are included in a disposal group classified as held for sale, are remeasured under applicable IFRSs before the fair value less costs to sell of the disposal group is determined.

(m) 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.

iv Present value of in-force (PVIF) 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 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 of insurance operations measured at fair value through profit and loss'. 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'.

(n) Provisions for legal proceedings and regulatory matters

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.

(o) 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.

(p) Financial guarantee contracts and loan commitments

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. Financial guarantee contracts are subsequently measured at the higher of:

- the amount of the loss allowance (calculated as described in Note 3(b)(iv)); and
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the local group are measured as the amount of the loss allowance (calculated as described in Note 3(b)(iv)).

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the local group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(q) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except those measured 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 gross carrying amount of the financial asset or financial liability (i.e. amortised cost before any impairment allowance for a financial asset). When calculating the effective interest rate, the local group estimates cash flows considering all contractual terms of the financial instrument but excluding expected credit losses. The calculation includes transaction costs, premiums or discounts and 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.

For POCI financial assets - assets that are credit impaired at initial recognition - the local group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest on credit 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.

When the local group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(r) Non-interest income

i Net fee and commission income

The local group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the local group delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the local group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The local group acts as principal in the majority of contracts with customers, with the exception of broking services. For brokerage trades, the local group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The local group recognises fees earned on transaction-based arrangements at a point in time when it would have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

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 of insurance operations measured at fair value through profit and loss

Net income from financial instruments of insurance operations measured at fair value through profit and loss includes:

- all gains and losses from changes in the fair value of financial assets and financial liabilities designated or otherwise mandatorily measured at fair value through profit or loss, including all financial investments attributable to insurance operations and financial liabilities under investment contracts; and
- interest income and expense and dividend income in respect of financial assets and financial liabilities designated or otherwise mandatorily measured at fair value through profit or loss.

(s) 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. The local group also contributes towards a Unit Linked Employee Pension Plan with 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 Long-term employee benefit obligations

The local group's liabilities for long service bonuses, retirement bonuses and benefits upon retirement on medical grounds, emanating from obligations within the collective agreement, are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build the final obligation. Consideration is given to expected future salary levels, experience of employee departures and periods of service.

The liability recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The projected unit credit method requires the local group to attribute benefit to the current period in order to determine current service cost and to the current and prior periods in order to determine the present value of the defined benefit obligations.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is reflected in profit or loss.

Actuarial gains and losses in relation to retirement bonuses and benefits upon retirement on medical grounds, comprising remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised immediately in other comprehensive income. Actuarial gains and losses in relation to the long term bonus liability are recognised in profit or loss in the period in which they occur. Amounts recognised in profit or loss in respect of these long-term employee benefit obligations are presented within 'Employee compensation and benefits'.

iii 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 local group can no longer withdraw the offer of termination benefits is the earlier of:

- when the employee accepts the offer; and
- when a restriction on the local group's ability to withdraw the offer takes effect.

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:

- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and the expected completion date; and
- 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.

iv 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.

(t) 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.

(u) 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.

(v) 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' 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.

(w) 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.

(x) 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 principally include loans and advances to 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 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(f).

(b) Credit risk excluding Insurance credit risk which is reported under Note 4(f)

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.

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.

All figures and tables relating to credit risk presented in this note exclude the local group's exposure to insurance credit risk, which is disclosed separately in Note 4(f), as well as the credit risk relating to the asset management subsidiary, which is deemed to be insignificant. Accordingly, other than for insurance credit risk, the local group's credit risk is deemed to correspond to that of the bank.

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 bank 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.

	2019	2018
	€000	€000
Balances with Central Bank of Malta and Treasury Bills	**553,797**	159,599
Items in course of collection from other banks	**3,436**	5,404
Loans and advances to banks	**672,952**	1,092,773
Loans and advances to customers	**3,257,433**	3,110,412
Debt instruments measured at fair value through other comprehensive income	**943,573**	902,215
Accrued income and other assets	**21,195**	28,564
Off-balance sheet		
– financial guarantee and similar contracts	**156,636**	147,579
– loan and other credit related commitments	**1,075,524**	1,434,634
At 31 December	**6,684,546**	6,881,180

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

The bank's exposure to credit risk mainly arises from its lending activities. In this respect all lending activities are classified under wholesale and personal lending.

Wholesale lending includes both small business owners served through Retail Banking to the financing of corporate and non financial institutions both from a working capital perspective and investing primarily in income producing assets and, to a lesser extent construction and development of the same. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects. In the table below, these wholesale lending exposures are presented as exposures to corporate and commercial entities as well as exposures to non-bank financial institutions. Non-banking financial institutions are mainly financial corporations other than banks and non corporate financial corporations that are mainly engaged in financial and insurance activities. Corporate and commercial entities are wholesale entities that have activities other than financial related.

The bank provides a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets acquired. The bank also offers loans secured on existing assets, such as first charges on residential property, and unsecured lending products such as overdrafts, credit cards and car loans.

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for Expected Credit Loss (ECL), as well as the fair value of debt instruments measured at FVOCI and the associated allowance for ECL.

	At 31 December 2019		At 31 December 2018	
	Gross carrying/ nominal amount	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL
	€000	**€000**	€000	€000
Loans and advances to customers at amortised cost	**3,294,294**	**(36,861)**	3,155,180	(44,768)
– personal	**2,269,855**	**(11,720)**	2,140,547	(12,179)
– corporate and commercial	**850,303**	**(23,669)**	852,719	(31,221)
– non-bank financial institutions	**174,136**	**(1,472)**	161,914	(1,368)
Loans and advances to banks at amortised cost	**672,953**	**(1)**	1,092,776	(3)
Other financial assets measured at amortised cost	**460,469**	**(9,116)**	89,474	(6,254)
– balances at central banks	**426,741**	**(19)**	49,253	(1)
– items in the course of collection from other banks	**3,436**	**–**	5,404	–
– accrued income and other assets	**30,292**	**(9,097)**	34,817	(6,253)
Total gross carrying amount on balance sheet	**4,427,716**	**(45,978)**	4,337,430	(51,025)
Loan and other credit-related commitments	**1,075,524**	**(796)**	1,434,634	(1,575)
– personal	**541,971**	**(16)**	587,005	(30)
– corporate and commercial (including non-bank financial institutions)	**533,553**	**(780)**	847,629	(1,545)
Financial guarantee and similar contracts	**156,636**	**(521)**	147,579	(238)
– personal	**5,059**	**(146)**	5,679	–
– corporate and commercial (including non-bank financial institutions)	**151,577**	**(375)**	141,900	(238)
Total nominal amount off balance sheet	**1,232,160**	**(1,317)**	1,582,213	(1,813)
Total	**5,659,876**	**(47,295)**	5,919,643	(52,838)

	Fair value	**Allowance for ECL**	Fair value	Allowance for ECL
	€000	**€000**	€000	€000
Debt instruments measured at fair value through other comprehensive income	**943,573**	**(31)**	902,215	(20)
Treasury Bills measured at fair value through other comprehensive income	**127,075**	**(1)**	110,347	(1)
Total	**1,070,648**	**(32)**	1,012,562	(21)

The following table contains an analysis of the maximum credit risk exposure from financial assets subject to credit risk but not subject to impairment (i.e. FVTPL):

	2019	2018
	€000	€000
Held for trading derivatives	**5,320**	4.956

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 bank 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.

Financial investments measured at FVOCI

The bank's holdings of debt securities are spread across a range of issuers in both 2019 and 2018, with the exception of 49% (2018: 54%) 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 €5,320,000 at 31 December 2019 (2018: €4,956,000).

Items in 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 bank 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 including credit impaired loans by business segment.

	Gross loans and advances to customers	Gross loans by business segment as a % of total gross loans	Credit impaired loans and advances to customers	Credit impaired loans by business segment as a % of sector gross loans
	€000	%	€000	%
At 31 December 2019				
Personal lending				
– first lien residential mortgages	**2,014,736**	**61.16**	**51,325**	**2.55**
– other personal lending	**255,119**	**7.74**	**10,960**	**4.30**
Wholesale lending				
– commercial real estate and other property related	**225,624**	**6.85**	**30,889**	**13.69**
– state-owned entities	**243,094**	**7.38**	**–**	**–**
– other commercial	**555,721**	**16.87**	**25,760**	**4.64**
Total	**3,294,294**	**100.00**	**118,934**	**3.61**
At 31 December 2018				
Personal lending				
– first lien residential mortgages	1,872,474	59.34	51,696	2.76
– other personal lending	268,073	8.50	13,399	5.00
Wholesale lending				
– commercial real estate and other property related	224,663	7.12	49,735	22.14
– state-owned entities	228,470	7.24	–	–
– other commercial	561,500	17.80	21,431	3.82
Total	3,155,180	100.00	136,261	4.32

The amount of gross loans and advances to customers of the bank stood at €3,294,294,000 (2018: €3,155,180,000) at 31 December 2019. As at 31 December 2019, there were no loans and advances payable to the bank by any of its subsidiaries.

A detailed sectorial analysis of the bank's on-balance sheet loans and advances to customers, before and after taking into account collateral held or other credit enhancements is presented in the following page.

With respect to collateral values used within the table, in the case of exposures secured by mortgages on immovable property, the value is limited to 70% of the market value of the property in case of residential property and 50% of the market value of the property in the case of commercial property.

Collateral included under 'Securities/Cash' comprise euro and foreign denominated cash and sovereign debt securities. Euro denominated cash is included at its full value, whilst foreign denominated cash is included at 90% of the cash value. A 20-50% haircut is applied to the value of sovereign debt securities, depending on the external credit rating assigned to such collateral. Moreover, the bank holds the following collateral, included in the table as 'Other eligible collateral':

- guarantees from the Government of Malta to cover exposures of public entities and corporations, included at 100% of the guarantee amount;
- guarantees from the Housing Authority to cover mortgage lending as part of social housing schemes, included at 100% of the guarantee amount;
- prime bank guarantees, included at 100% of the guarantee amount; and
- saving and endowment policies included at 100% of the surrender value, and pension plans included at 50% of the net asset value.

		Collateral				
	Gross on-balance sheet exposure	Residential property	Commercial property	Securities/ cash	Other	Net maximum exposure
	€000	€000	€000	€000	€000	€000
As at 31 December 2019						
Electricity, gas, water supply and waste management	**112,621**	**145**	**1,659**	**1,736**	**36,925**	**72,156**
Accommodation and food service	**84,200**	**1,731**	**30,886**	**170**	**21**	**51,392**
Construction, real estate activities	**158,424**	**18,692**	**68,852**	**1,773**	**130**	**68,977**
Wholesale and retail trade and repairs	**152,429**	**9,560**	**45,844**	**7,568**	**1,184**	**88,273**
Services	**488,707**	**14,083**	**81,515**	**16,407**	**192,342**	**184,360**
Manufacturing, agriculture and fishing	**56,045**	**2,722**	**28,960**	**556**	**286**	**23,521**
Household and individuals	**2,241,868**	**2,074,238**	**723**	**4,479**	**2,109**	**160,319**
	3,294,294	**2,121,171**	**258,439**	**32,689**	**232,997**	**648,998**
As at 31 December 2018						
Electricity, gas, water supply and waste management	99,044	108	1,644	26	38,975	58,291
Accommodation and food service	95,593	1,090	48,749	339	20	45,395
Construction, real estate activities	136,528	25,852	79,526	2,278	380	28,492
Wholesale and retail trade and repairs	157,910	13,676	51,461	7,510	86	85,177
Services	469,833	9,532	64,384	14,017	172,570	209,330
Manufacturing, agriculture and fishing	59,939	4,008	37,138	593	64	18,136
Household and individuals	2,136,333	1,924,886	1,051	20,261	56,227	133,908
	3,155,180	1,979,152	283,953	45,024	268,322	578,729

iii Credit quality of financial assets

As outlined previously, the bank'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 bank's standard credit rating system.

The five credit quality classifications below describe the credit quality of the bank's lending, debt securities and derivatives.

Quality classification definitions

'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.

'Good' exposures demonstrate good capacity to meet financial commitments, with low to moderate default risk. Personal accounts typically show only short periods of delinquency. For residential mortgages losses are expected to be minimal following the adoption of recovery processes.

'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Personal accounts typically show only short periods of delinquency. For residential mortgages, losses are expected to be minor 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.

'Credit impaired' exposures have been assessed as impaired, where the borrower is either more than 90 days past due or is facing significant financial difficulty such that a detrimental impact on the future estimated cash flows has occurred.

As illustrated in the table below, these classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and personal lending business as well as external rating grades, attributed by external agencies to debt securities. The quality classification for loans and advances to banks is also assessed using the same ratings as for wholesale lending.

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.

	Sovereign debt securities and bills – External credit rating	Other debt securities and bills - External credit rating	Wholesale lending	Personal lending - First lien residential mortgages	Personal lending - Other
Quality classification					
Strong	BBB and above	A- and above	CRR1 to CRR2	Not past due with LTV lower than 45%	Not past due facilities with no delinquency in the last 12 months
Good	BBB- to BB	BBB+ to BBB-	CRR3	Not past due with LTV between 45% and 85%	Not past due facilities with less than 30 days delinquency in the last 12 months
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	Not past due with LTV between 85% and 100%	Not past due facilities with more than 30 days delinquency in the last 12 months
Sub-standard	B- to C	B- to C	CRR6 to CRR8	Past due	Past due
Credit impaired	Default	Default	CRR9 to CRR10	Past due by 90 days, forborne, under legal action or connected to other facilities with credit impaired status	Past due by 90 days, forborne, under legal action or connected to other facilities with credit impaired status

For Wholesale counterparties, the Customer Risk Rating ('CRR') 10-grade scale represents the risk of Obligor default. For Retail Banking counterparties, the CRR 10-grade scale combines facility / product risk factors in a composite measure representing the risk of Obligor default.

In the personal lending portfolio, some current exposures are classified as substandard based on past delinquency in the last 12 months.

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

Distribution of financial instruments by credit quality

	As at 31 December 2019							
	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€000	€000	€000	€000	€000	€000	€000	€000
In scope for IFRS 9								
Loans and advances to customers held at amortised cost:	964,422	1,305,628	829,133	76,177	118,934	3,294,294	(36,861)	3,257,433
– personal	713,617	1,245,277	202,317	46,359	62,285	2,269,855	(11,720)	2,258,135
– corporate and commercial	250,805	57,037	457,030	29,416	56,015	850,303	(23,669)	826,634
– non-bank financial institutions	–	3,314	169,786	402	634	174,136	(1,472)	172,664
Loans and advances to banks held at amortised cost	672,953	–	–	–	–	672,953	(1)	672,952
Other financial assets held at amortised cost:								
Balances at central banks	426,741	–	–	–	–	426,741	(19)	426,722
Items in the course of collection from other banks	3,436	–	–	–	–	3,436	–	3,436
Other assets	7,832	1,838	4,650	402	15,570	30,292	(9,097)	21,195
– endorsements and acceptances	–	–	1,468	68	–	1,536	(2)	1,534
– accrued income	7,832	1,838	3,182	334	15,570	28,756	(9,095)	19,661
Total gross carrying amount on balance sheet	2,075,384	1,307,466	833,783	76,579	134,504	4,427,716	(45,978)	4,381,738
Percentage of total credit quality	46.9%	29.5%	18.9%	1.7%	3.0%	100%		
Loan and other credit-related commitments	242,262	106,734	712,303	12,859	1,366	1,075,524	(796)	1,074,728
Financial guarantees and similar contracts	13,154	11,169	128,973	2,702	638	156,636	(521)	156,115
Total nominal amount off balance sheet	255,416	117,903	841,276	15,561	2,004	1,232,160	(1,317)	1,230,843
At 31 December 2019	2,330,800	1,425,369	1,675,059	92,140	136,508	5,659,876	(47,295)	5,612,581

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	943,573	–	–	–	–	943,573	(31)
Treasury Bills measured at fair value through other comprehensive income	127,075	–	–	–	–	127,075	(1)
At 31 December 2019	1,070,648	–	–	–	–	1,070,648	(32)

Distribution of financial instruments by credit quality (continued)

	As at 31 December 2018							
	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€000	€000	€000	€000	€000	€000	€000	€000
In scope for IFRS 9 impairments								
Loans and advances to customers held at amortised cost:	1,118,062	406,869	1,415,310	78,678	136,261	3,155,180	(44,768)	3,110,412
– personal	900,093	356,704	808,110	10,545	65,095	2,140,547	(12,179)	2,128,368
– corporate and commercial	217,632	50,009	446,677	68,096	70,305	852,719	(31,221)	821,498
– non-bank financial institutions	337	156	160,523	37	861	161,914	(1,368)	160,546
Loans and advances to banks held at amortised cost	1,092,776	—	—	—	—	1,092,776	(3)	1,092,773
Other financial assets held at amortised cost:								
Balances at central banks	49,253	—	—	—	—	49,253	(1)	49,252
Items in the course of collection from other banks	5,404	—	—	—	—	5,404	—	5,404
Other assets	2,866	2,412	8,800	787	19,952	34,817	(6,253)	28,564
– endorsements	285	1,639	5,000	—	—	6,924	(14)	6,910
– accrued income	2,581	773	3,800	787	19,952	27,893	(6,239)	21,654
Total gross carrying amount on balance sheet	2,268,361	409,281	1,424,110	79,465	156,213	4,337,430	(51,025)	4,286,405
Percentage of total credit quality	52.3%	9.4%	32.8%	1.8%	3.7%	100%		
Loan and other credit-related commitments	134,839	182,560	1,085,600	25,984	5,651	1,434,634	(1,575)	1,433,059
Financial guarantees and similar contracts	5,167	9,425	116,506	16,076	405	147,579	(238)	147,341
Total nominal amount off balance sheet	140,006	191,985	1,202,106	42,060	6,056	1,582,213	(1,813)	1,580,400
At 31 December 2018	2,408,367	601,266	2,626,216	121,525	162,269	5,919,643	(52,838)	5,866,805

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	902,215	—	—	—	—	902,215	(20)
Treasury Bills measured at fair value through other comprehensive income	110,347	—	—	—	—	110,347	(1)
At 31 December 2018	1,012,562	—	—	—	—	1,012,562	(21)

Summary of credit quality of loans and advances to customers

The following table provides an overview of the bank's credit risk by stage and business segment, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.

The bank determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Impaired loans and advances are those that are classified as 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 bank.

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. Renegotiated loans remain classified 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.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by business segment

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost	3,093,194	82,166	118,934	3,294,294	(7,551)	(6,013)	(23,297)	(36,861)	0.2	7.3	19.6	1.1
– personal	2,158,870	48,700	62,285	2,269,855	(1,672)	(3,550)	(6,498)	(11,720)	0.1	7.3	10.4	0.5
– corporate and commercial	762,084	32,204	56,015	850,303	(4,601)	(2,412)	(16,656)	(23,669)	0.6	7.5	29.7	2.8
– non-bank financial institutions	172,240	1,262	634	174,136	(1,278)	(51)	(143)	(1,472)	0.7	4.0	22.6	0.8
Loans and advances to banks at amortised cost	672,953	–	–	672,953	(1)	–	–	(1)	–	–	–	–
Other financial assets measured at amortised cost	444,479	420	15,570	460,469	(21)	–	(9,095)	(9,116)	–	–	58.4	2.0
Loan and other credit-related commitments	1,053,365	20,793	1,366	1,075,524	(748)	(41)	(7)	(796)	0.1	0.2	0.5	0.1
– personal	537,501	4,394	76	541,971	(16)	–	–	(16)	–	–	–	–
– corporate and commercial (including non-bank financial institutions)	515,864	16,399	1,290	533,553	(732)	(41)	(7)	(780)	0.1	0.3	0.5	0.1
Financial guarantee and similar contracts	149,461	6,537	638	156,636	(274)	(243)	(4)	(521)	0.2	3.7	0.6	0.3
– personal	4,714	340	5	5,059	–	(146)	–	(146)	–	42.9	–	2.9
– corporate and commercial (including non-bank financial institutions)	144,747	6,197	633	151,577	(274)	(97)	(4)	(375)	0.2	1.6	0.6	0.2
At 31 December 2019	5,413,452	109,916	136,508	5,659,876	(8,595)	(6,297)	(32,403)	(47,295)	0.2	5.7	23.7	0.8

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The following disclosure presents the ageing of stage 2 financial assets. It distinguishes those assets that are classified as stage 2 when they are less than 30 days past due (1-29 DPD) from those that are due to ageing and are more than 30 DPD (30 and >DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 31 December 2019

	Gross exposure			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: <30 DPD*	*Of which: >30 DPD*	Stage 2	*Of which: <30 DPD*	*Of which: >30 DPD*	Stage 2	*Of which: <30 DPD*	*Of which: >30 DPD*
	€000	*€000*	*€000*	€000	*€000*	*€000*	%	*%*	*%*
Loans and advances to customers at amortised cost:	82,166	*75,184*	*6,982*	(6,013)	*(5,503)*	*(510)*	7.3	*7.3*	*7.3*
– personal	48,700	*41,907*	*6,793*	(3,550)	*(3,043)*	*(507)*	7.3	*7.3*	*7.5*
– corporate and commercial	32,204	*32,015*	*189*	(2,412)	*(2,409)*	*(3)*	7.5	*7.5*	*1.6*
– non-bank financial institutions	1,262	*1,262*	–	(51)	*(51)*	–	4.0	*4.0*	–
Other financial assets measured at amortised cost	420	*420*	–	–	–	–	–	–	–

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by business segment (continued)

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost	2,833,200	185,719	136,261	3,155,180	(7,829)	(7,060)	(29,879)	(44,768)	0.3	3.8	21.9	1.4
– personal	2,007,777	67,675	65,095	2,140,547	(2,974)	(3,802)	(5,403)	(12,179)	0.1	5.6	8.3	0.6
– corporate and commercial	668,600	113,814	70,305	852,719	(3,851)	(3,157)	(24,213)	(31,221)	0.6	2.8	34.4	3.7
– non-bank financial institutions	156,823	4,230	861	161,914	(1,004)	(101)	(263)	(1,368)	0.6	2.4	30.5	0.8
Loans and advances to banks at amortised cost	1,092,776	—	—	1,092,776	(3)	—	—	(3)	—	—	—	—
Other financial assets measured at amortised cost	62,744	6,778	19,952	89,474	(3)	(12)	(6,239)	(6,254)	—	0.2	31.3	7.0
Loan and other credit-related commitments	1,359,077	69,906	5,651	1,434,634	(1,191)	(295)	(89)	(1,575)	0.1	0.4	1.6	0.1
– personal	580,593	2,566	3,846	587,005	(30)	—	—	(30)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	778,484	67,340	1,805	847,629	(1,161)	(295)	(89)	(1,545)	0.1	0.4	4.9	0.2
Financial guarantee and similar contracts	130,635	16,539	405	147,579	(143)	(95)	—	(238)	0.1	0.6	—	0.2
– personal	5,417	5	257	5,679	—	—	—	—	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	125,218	16,534	148	141,900	(143)	(95)	—	(238)	0.1	0.6	—	0.2
At 31 December 2018	5,478,432	278,942	162,269	5,919,643	(9,169)	(7,462)	(36,207)	(52,838)	0.2	2.7	22.3	0.9

Stage 2 days past due analysis at 31 December 2018 (continued)

	Gross exposure			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: <30 DPD*	*Of which: >30 DPD*	Stage 2	*Of which: <30 DPD*	*Of which: >30 DPD*	Stage 2	*Of which: <30 DPD*	*Of which: >30 DPD*
	€000	*€000*	*€000*	€000	*€000*	*€000*	%	*%*	*%*
Loans and advances to customers at amortised cost:	185,719	*167,549*	*18,170*	(7,060)	*(5,706)*	*(1,354)*	3.8	*3.4*	*7.5*
– personal	67,675	*49,717*	*17,958*	(3,802)	*(2,548)*	*(1,254)*	5.6	*5.1*	*7.0*
– corporate and commercial	113,814	*113,602*	*212*	(3,157)	*(3,057)*	*(100)*	2.8	*2.7*	*47.2*
– non-bank financial institutions	4,230	*4,230*	—	(101)	*(101)*	—	2.4	*2.4*	—
Other financial assets measured at amortised cost	6,778	*6,778*	—	(12)	*(12)*	—	0.2	*0.2*	—

The credit quality of all financial instruments that are subject to credit risk is a point-in-time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution

	Gross carrying/nominal amount							
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit impaired**	**Total**	**Allowance for ECL**	**Net**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances to customers at amortised cost	**964,422**	**1,305,628**	**829,133**	**76,177**	**118,934**	**3,294,294**	**(36,861)**	**3,257,433**
– stage 1	**964,047**	**1,304,940**	**824,207**	**–**	**–**	**3,093,194**	**(7,551)**	**3,085,643**
– stage 2	**375**	**688**	**4,926**	**76,177**	**–**	**82,166**	**(6,013)**	**76,153**
– stage 3	**–**	**–**	**–**	**–**	**118,934**	**118,934**	**(23,297)**	**95,637**
Loans and advances to banks at amortised cost	**672,953**	**–**	**–**	**–**	**–**	**672,953**	**(1)**	**672,952**
– stage 1	**672,953**	**–**	**–**	**–**	**–**	**672,953**	**(1)**	**672,952**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets measured at amortised cost	**438,009**	**1,838**	**4,650**	**402**	**15,570**	**460,469**	**(9,116)**	**451,353**
– stage 1	**438,008**	**1,835**	**4,636**	**–**	**–**	**444,479**	**(21)**	**444,458**
– stage 2	**1**	**3**	**14**	**402**	**–**	**420**	**–**	**420**
– stage 3	**–**	**–**	**–**	**–**	**15,570**	**15,570**	**(9,095)**	**6,475**
Loan and other credit-related commitments	**242,262**	**106,734**	**712,303**	**12,859**	**1,366**	**1,075,524**	**(796)**	**1,074,728**
– stage 1	**242,072**	**105,925**	**705,368**	**–**	**–**	**1,053,365**	**(748)**	**1,052,617**
– stage 2	**190**	**809**	**6,935**	**12,859**	**–**	**20,793**	**(41)**	**20,752**
– stage 3	**–**	**–**	**–**	**–**	**1,366**	**1,366**	**(7)**	**1,359**
Financial guarantees and similar contracts	**13,154**	**11,169**	**128,973**	**2,702**	**638**	**156,636**	**(521)**	**156,115**
– stage 1	**13,140**	**11,169**	**125,152**	**–**	**–**	**149,461**	**(274)**	**149,187**
– stage 2	**14**	**–**	**3,821**	**2,702**	**–**	**6,537**	**(243)**	**6,294**
– stage 3	**–**	**–**	**–**	**–**	**638**	**638**	**(4)**	**634**
At 31 December 2019	**2,330,800**	**1,425,369**	**1,675,059**	**92,140**	**136,508**	**5,659,876**	**(47,295)**	**5,612,581**

	Fair value						
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit impaired**	**Total**	**Allowance for ECL**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Debt instruments measured at fair value through other comprehensive income	**943,573**	**–**	**–**	**–**	**–**	**943,573**	**(31)**
– stage 1	**943,573**	**–**	**–**	**–**	**–**	**943,573**	**(31)**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury Bills measured at fair value through other comprehensive income	**127,075**	**–**	**–**	**–**	**–**	**127,075**	**(1)**
– stage 1	**127,075**	**–**	**–**	**–**	**–**	**127,075**	**(1)**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution

	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers at amortised cost	1,118,062	406,869	1,415,310	78,678	136,261	3,155,180	(44,768)	3,110,412
– stage 1	1,109,897	404,052	1,319,251	–	–	2,833,200	(7,829)	2,825,371
– stage 2	8,165	2,817	96,059	78,678	–	185,719	(7,060)	178,659
– stage 3	–	–	–	–	136,261	136,261	(29,879)	106,382
Loans and advances to banks at amortised cost	1,092,776	–	–	–	–	1,092,776	(3)	1,092,773
– stage 1	1,092,776	–	–	–	–	1,092,776	(3)	1,092,773
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	57,523	2,412	8,800	787	19,952	89,474	(6,254)	83,220
– stage 1	57,225	1,914	3,420	185		62,744	(3)	62,741
– stage 2	298	498	5,380	602	–	6,778	(12)	6,766
– stage 3	–	–	–	–	19,952	19,952	(6,239)	13,713
Loan and other credit-related commitments	134,839	182,560	1,085,600	25,984	5,651	1,434,634	(1,575)	1,433,059
– stage 1	134,831	182,422	1,035,323	6,501	–	1,359,077	(1,191)	1,357,886
– stage 2	8	138	50,277	19,483	–	69,906	(295)	69,611
– stage 3	–	–	–	–	5,651	5,651	(89)	5,562
Financial guarantees and similar contracts	5,167	9,425	116,506	16,076	405	147,579	(238)	147,341
– stage 1	5,148	9,332	112,817	3,338	–	130,635	(143)	130,492
– stage 2	19	93	3,689	12,738	–	16,539	(95)	16,444
– stage 3	–	–	–	–	405	405	–	405
At 31 December 2018	2,408,367	601,266	2,626,216	121,525	162,269	5,919,643	(52,838)	5,866,805

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution (continued)

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	902,215	—	—	—	—	902,215	(20)
– stage 1	902,215	—	—	—	—	902,215	(20)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	110,347	—	—	—	—	110,347	(1)
– stage 1	110,347	—	—	—	—	110,347	(1)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers, including loan and other credit-related commitments, acceptances, accrued income and financial guarantees and similar contracts

The following disclosure provides a reconciliation by stage of the bank's gross carrying/nominal amount and allowances for loans and advances to customers, including loan and other credit-related commitments.

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying CRR movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'Changes in risk parameters' line item.

The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated allowance ECL impact from volume movements within the bank's lending portfolio.

	Non-credit impaired				**Credit impaired**		**Total**	
	Stage 1		**Stage 2**		**Stage 3**			
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 1 January 2019	**4,330,999**	**(9,165)**	**278,942**	**(7,462)**	**162,269**	**(36,207)**	**4,772,210**	**(52,834)**
Transfers of financial instruments	**95,395**	**(1,608)**	**(105,320)**	**1,526**	**9,925**	**82**	**–**	**–**
– transfers from Stage 1 to Stage 2	**(39,019)**	**483**	**39,019**	**(483)**	**–**	**–**	**–**	**–**
– transfers from Stage 2 to Stage 1	**138,775**	**(1,800)**	**(138,775)**	**1,800**	**–**	**–**	**–**	**–**
– transfers from Stage 3	**5,385**	**(345)**	**3,297**	**(292)**	**(8,682)**	**637**	**–**	**–**
– transfers to Stage 3	**(9,746)**	**54**	**(8,861)**	**501**	**18,607**	**(555)**	**–**	**–**
Net remeasurement of ECL arising from stage transfers	**–**	**1,375**	**–**	**(1,097)**	**–**	**(2,871)**	**–**	**(2,593)**
Changes in risk parameters	**–**	**(75)**	**–**	**(90)**	**–**	**(2,223)**	**–**	**(2,388)**
Net new and further lending/repayments	**(156,290)**	**898**	**(63,706)**	**826**	**(27,348)**	**478**	**(247,344)**	**2,202**
Assets written off	**–**	**–**	**–**	**–**	**(8,338)**	**8,338**	**(8,338)**	**8,338**
As at 31 December 2019	**4,270,104**	**(8,575)**	**109,916**	**(6,297)**	**136,508**	**(32,403)**	**4,516,528**	**(47,275)**
ECL release for the year								**5,559**
Recoveries								**1,233**
Other								**1,184**
Change in expected credit losses for the year								**7,976**
Assets written off								**(8,338)**
Change in expected credit losses and other credit impairment charges								**(362)**

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1.1m for the year ended 31 December 2019 and included in 'Other' in the above reconciliation.

The above reconciliation excludes the effect of loans and other credit related commitments to banks, the effect of which is included in the table below.

	At 31 December 2019		12 months ended 31 December 2019
	Gross carrying/ nominal amount	**Allowance for ECL**	**ECL (charge)/ release**
	€000	**€000**	**€000**
As above	**4,516,528**	**(47,275)**	**(362)**
Balances at central banks	**426,741**	**(19)**	**(18)**
Loans and advances to banks measured at amortised cost	**672,953**	**(1)**	**2**
Items in course of collection	**3,436**	**—**	**—**
Other accrued interest on debt instruments	**5,696**	**—**	**—**
Loan and other credit related commitments - banks	**34,522**	**—**	**—**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	**5,659,876**	**(47,295)**	**(378)**
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	**1,070,648**	**(32)**	**(11)**
Total allowance for ECL/total income statement ECL charge for the year	**N/A**	**(47,327)**	**(389)**

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
As at 1 January 2018	4,028,508	(10,292)	325,093	(9,864)	179,778	(32,861)	4,533,379	(53,017)
Transfers of financial instruments:	(37,757)	(1,232)	30,374	1,478	7,383	(246)	—	—
– transfers from Stage 1 to Stage 2	(90,609)	461	90,609	(461)	—	—	—	—
– transfers from Stage 2 to Stage 1	58,159	(1,701)	(58,159)	1,701	—	—	—	—
– transfers from Stage 3	2,326	(22)	3,393	(68)	(5,719)	90	—	—
– transfers to Stage 3	(7,633)	30	(5,469)	306	13,102	(336)	—	—
Net remeasurement of ECL arising from stage transfers	—	1,420	—	(1,202)	—	(258)	—	(40)
Changes in risk parameters	—	(564)	—	(918)	—	(8,234)	—	(9,716)
Net new and further lending/repayments	340,248	1,503	(76,525)	3,044	(19,035)	(465)	244,688	4,082
Assets written off	—	—	—	—	(5,857)	5,857	(5,857)	5,857
As at 31 December 2018	4,330,999	(9,165)	278,942	(7,462)	162,269	(36,207)	4,772,210	(52,834)
ECL release for the year								183
Recoveries								1,095
Other								1,073
Change in expected credit losses for the year								2,351
Assets written off								(5,857)
Change in expected credit losses and other credit impairment charges								(3,506)

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1m for the year ended 31 December 2018 and included in 'Other' in the above reconciliation.

	At 31 December 2018		12 months ended 31 December 2018
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,772,210	(52,834)	(3,506)
Balances at central banks	49,253	(1)	2
Loans and advances to banks measured at amortised cost	1,092,776	(3)	(2)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	5,914,239	(52,838)	(3,506)
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,012,562	(21)	18
Total allowance for ECL/total income statement ECL charge for the year	N/A	(52,859)	(3,488)

Credit loss allowances attributable to loans and advances to customers

As explained in further detail in note 52 'Segmental information', the bank's lending activities are organised in two business segments, Retail Banking and Wealth Management ('RBWM') and Commercial Banking ('CMB').

RBWM offers a broad range of products to meet the needs of individual customers. RBWM also offers Retail Business Banking ('RBB') products and services to small business owners. Transactions and balances with RBB customers are classified as wholesale in the following tables.

CMB offers products and services to commercial and non banking customers. Transactions and balances with CMB customers are all presented as Wholesale in tables to follow other than credit card transactions which are reported as Personal.

The following tables show the allowances for ECL recognised as at 31 December 2019 and 31 December 2018.

Impairment allowances on loans and advances to customers by business segment

Loans and advances to customers	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
RBWM	**1,685**	**3,496**	**6,496**	**11,677**
CMB	**5,866**	**2,517**	**16,801**	**25,184**
At 31 December 2019	**7,551**	**6,013**	**23,297**	**36,861**
Loan and other credit-related commitments and financial guarantee and similar contracts				
RBWM	**16**	**146**	**–**	**162**
CMB	**1,006**	**138**	**11**	**1,155**
At 31 December 2019	**1,022**	**284**	**11**	**1,317**
Loans and advances to customers				
RBWM	2,974	3,802	5,403	12,179
CMB	4,855	3,258	24,476	32,589
At 31 December 2018	7,829	7,060	29,879	44,768
Loan and other credit-related commitments and financial guarantee and similar contracts				
RBWM	30	–	–	30
CMB	1,304	390	89	1,783
At 31 December 2018	1,334	390	89	1,813

The measurement of allowances for ECL and the ECL charge for 2019 and 2018 are analysed in detail in the tables presented in the previous section. In addition, these movements are further analysed by impairment models in the tables presented on pages 92 and 95 within the sections entitled 'Wholesale lending to customers' and 'Personal lending to customers' respectively.

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.

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 retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in renegotiated loans.

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.

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 as outlined previously.

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.

The following table shows the gross carrying amounts of the bank's holdings of renegotiated loans and advances to customers by industry sector and by stage. Renegotiated loans are classified as stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment.

Renegotiated loans and advances to customers by business segment and credit quality classification

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
Gross carrying amount				
Personal				
– first lien residential mortgages	**—**	**15,066**	**12,187**	**27,253**
– other personal lending	**—**	**1,594**	**3,072**	**4,666**
Wholesale				
– corporate and commercial	**—**	**6,182**	**48,613**	**54,795**
– non-bank financial institutions	**—**	**—**	**633**	**633**
At 31 December 2019	**—**	**22,842**	**64,505**	**87,347**
Allowance for ECL				
Personal				
– first lien residential mortgages	**—**	**(1,156)**	**(1,172)**	**(2,328)**
– other personal lending	**—**	**(61)**	**(785)**	**(846)**
Wholesale				
– corporate and commercial	**—**	**(1,070)**	**(14,209)**	**(15,279)**
– non-bank financial institutions	**—**	**—**	**(143)**	**(143)**
At 31 December 2019	**—**	**(2,287)**	**(16,309)**	**(18,596)**
Gross carrying amount				
Personal				
– first lien residential mortgages	—	15,535	12,313	27,848
– other personal lending	—	2,306	3,138	5,444
Wholesale				
– corporate and commercial	789	3,131	60,476	64,396
– non-bank financial institutions	—	—	408	408
At 31 December 2018	789	20,972	76,335	98,096
Allowance for ECL				
Personal				
– first lien residential mortgages	—	(707)	(667)	(1,374)
– other personal lending	—	(311)	(440)	(751)
Wholesale				
– corporate and commercial	(48)	(157)	(18,972)	(19,177)
– non-bank financial institutions	—	—	(45)	(45)
At 31 December 2018	(48)	(1,175)	(20,124)	(21,347)

	2019 €000	2018 €000
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers	**2.65%**	3.11%
Interest income recognised in respect of forborne assets	**4,575**	4,275
Movement in forbearance activity during the year:		
At 1 January	**98,096**	145,116
Loans renegotiated without derecognition	**13,984**	33,398
Repayments	**(17,815)**	(78,951)
Amounts written off	**(6,918)**	(1,467)
At 31 December	**87,347**	98,096

Wholesale lending to customers

This section provides further detail on the distribution of allowances for ECL on wholesale loans and advances to customers, together with the respective gross carrying amounts, by industry and stage. Product granularity is also provided by stage with data presented for loans and advances to customers, banks, other credit commitments, financial guarantees and similar contracts. Additionally, this section provides a reconciliation of the opening gross carrying/nominal amounts as at 1 January 2019 and 2018 to the closing carrying/nominal amounts as at 31 December 2019 and 2018 respectively, together with the associated allowances for ECL.

Total wholesale lending for loans and advances to customers by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	**762,084**	**32,204**	**56,015**	**850,303**	**(4,601)**	**(2,412)**	**(16,656)**	**(23,669)**
– agriculture, forestry and fishing	**564**	**8**	**386**	**958**	**(12)**	**–**	**(26)**	**(38)**
– manufacture	**41,222**	**2,162**	**9,441**	**52,825**	**(330)**	**(198)**	**(2,203)**	**(2,731)**
– electricity, gas, steam and air-conditioning supply	**75,339**	**247**	**8**	**75,594**	**(297)**	**–**	**(8)**	**(305)**
– water supply, sewerage,waste management and remediation	**36,960**	**–**	**–**	**36,960**	**(6)**	**–**	**–**	**(6)**
– construction	**14,981**	**304**	**1,834**	**17,119**	**(119)**	**(26)**	**(680)**	**(825)**
– wholesale and retail trade,repair of motor vehicles and motorcycles	**131,704**	**10,865**	**8,138**	**150,707**	**(1,180)**	**(355)**	**(2,689)**	**(4,224)**
– transportation and storage	**17,577**	**2,201**	**199**	**19,977**	**(151)**	**(296)**	**(154)**	**(601)**
– accommodation and food	**77,333**	**1,887**	**4,054**	**83,274**	**(777)**	**(97)**	**(2,469)**	**(3,343)**
– information and communication	**32,507**	**4,162**	**43**	**36,712**	**(286)**	**(851)**	**(19)**	**(1,156)**
– real estate	**97,710**	**6,867**	**25,002**	**129,579**	**(1,091)**	**(401)**	**(4,816)**	**(6,308)**
– professional, scientific and technical activities	**90,710**	**670**	**357**	**91,737**	**(86)**	**(8)**	**–**	**(94)**
– administrative and support services	**2,584**	**683**	**6**	**3,273**	**(48)**	**(2)**	**(6)**	**(56)**
– education	**778**	**1,590**	**–**	**2,368**	**(5)**	**(133)**	**–**	**(138)**
– health and care	**17,517**	**67**	**5,036**	**22,620**	**(140)**	**(1)**	**(3,295)**	**(3,436)**
– arts, entertainment and recreation	**1,090**	**98**	**66**	**1,254**	**(13)**	**(1)**	**(41)**	**(55)**
– other services	**4,758**	**393**	**1,445**	**6,596**	**(44)**	**(43)**	**(250)**	**(337)**
– public administration and defence, compulsory social security	**118,750**	**–**	**–**	**118,750**	**(16)**	**–**	**–**	**(16)**
Non-bank financial institutions	**172,240**	**1,262**	**634**	**174,136**	**(1,278)**	**(51)**	**(143)**	**(1,472)**
At 31 December 2019	**934,324**	**33,466**	**56,649**	**1,024,439**	**(5,879)**	**(2,463)**	**(16,799)**	**(25,141)**
Other financial assets measured at amortised cost								
– endorsements and acceptances	**1,468**	**68**	**–**	**1,536**	**(2)**	**–**	**–**	**(2)**
– accrued income	**3,697**	**232**	**10,842**	**14,771**	**–**	**–**	**(7,229)**	**(7,229)**
At 31 December 2019	**5,165**	**300**	**10,842**	**16,307**	**(2)**	**–**	**(7,229)**	**(7,231)**
Corporate and commercial	668,600	113,814	70,305	852,719	(3,851)	(3,157)	(24,213)	(31,221)
– agriculture, forestry and fishing	321	885	530	1,736	(9)	(66)	(23)	(98)
– manufacture	41,541	5,540	10,410	57,491	(268)	(221)	(2,639)	(3,128)
– electricity, gas, steam and air-conditioning supply	59,083	850	9	59,942	(292)	(9)	–	(301)
– water supply, sewerage,waste management and remediation	39,020	20	–	39,040	(2)	–	–	(2)
– construction	19,815	1,805	3,221	24,841	(143)	(27)	(1,008)	(1,178)
– wholesale and retail trade,repair of motor vehicles and motorcycles	117,937	32,135	5,649	155,721	(816)	(697)	(2,070)	(3,583)
– transportation and storage	10,988	14,905	206	26,099	(172)	(94)	–	(266)
– accommodation and food	84,174	5,903	5,086	95,163	(767)	(141)	(1,879)	(2,787)
– information and communication	32,551	18,668	45	51,264	(408)	(805)	–	(1,213)
– real estate	53,961	18,700	38,278	110,939	(697)	(611)	(13,071)	(14,379)
– professional, scientific and technical activities	95,113	4,353	401	99,867	(82)	(216)	–	(298)
– administrative and support services	2,599	1,168	8	3,775	(33)	(3)	–	(36)
– education	2,467	–	3	2,470	(24)	–	–	(24)
– health and care	7,992	8,140	4,914	21,046	(58)	(211)	(3,348)	(3,617)
– arts, entertainment and recreation	2,059	34	103	2,196	(21)	–	(40)	(61)
– other services	5,326	659	1,356	7,341	(46)	(54)	(127)	(227)
– activities of households	1,245	49	86	1,380	(8)	(2)	(8)	(18)
– public administration and defence, compulsory social security	92,408	–	–	92,408	(5)	–	–	(5)
Non-bank financial institutions	156,823	4,230	861	161,914	(1,004)	(101)	(263)	(1,368)
At 31 December 2018	825,423	118,044	71,166	1,014,633	(4,855)	(3,258)	(24,476)	(32,589)
Other financial assets measured at amortised cost								
– endorsements and acceptances	1,166	5,758	–	6,924	(2)	(12)	–	(14)
– accrued income	3,893	678	15,178	19,749	–	–	(5,694)	(5,694)
At 31 December 2018	5,059	6,436	15,178	26,673	(2)	(12)	(5,694)	(5,708)

Total wholesale lending for loan and other credit-related commitments and financial guarantee and similar contracts by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	**621,217**	**19,744**	**1,923**	**642,884**	**(1,005)**	**(133)**	**(11)**	**(1,149)**
Non-bank financial institutions	**4,872**	**2,852**	**—**	**7,724**	**(1)**	**(5)**	**—**	**(6)**
At 31 December 2019	**626,089**	**22,596**	**1,923**	**650,608**	**(1,006)**	**(138)**	**(11)**	**(1,155)**
Corporate and commercial	900,704	83,835	1,953	986,492	(1,304)	(386)	(89)	(1,779)
Non-bank financial institutions	2,998	39	—	3,037	—	(4)	—	(4)
At 31 December 2018	903,702	83,874	1,953	989,529	(1,304)	(390)	(89)	(1,783)

Wholesale lending - reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan and other credit-related commitments, acceptances, accrued income and financial guarantees and similar contracts

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2018	**1,734,184**	**(6,161)**	**208,354**	**(3,660)**	**88,297**	**(30,259)**	**2,030,835**	**(40,080)**
Transfers of financial instruments	**84,670**	**(790)**	**(90,938)**	**996**	**6,268**	**(206)**	**—**	**—**
– transfers from Stage 1 to Stage 2	**(16,835)**	**184**	**16,835**	**(184)**	**—**	**—**	**—**	**—**
– transfers from Stage 2 to Stage 1	**102,439**	**(1,013)**	**(102,439)**	**1,013**	**—**	**—**	**—**	**—**
– transfers from Stage 3	**3**	**—**	**144**	**(4)**	**(147)**	**4**	**—**	**—**
– transfers to Stage 3	**(937)**	**39**	**(5,478)**	**171**	**6,415**	**(210)**	**—**	**—**
Net remeasurement of ECL arising from stage transfers	**—**	**294**	**—**	**(215)**	**—**	**(763)**	**—**	**(684)**
Changes in risk parameters	**—**	**(681)**	**—**	**(275)**	**—**	**—**	**—**	**(956)**
Net new and further lending/ repayments	**(253,276)**	**451**	**(61,054)**	**553**	**(17,813)**	**(149)**	**(332,143)**	**855**
Assets written off	**—**	**—**	**—**	**—**	**(7,338)**	**7,338**	**(7,338)**	**7,338**
As at 31 December 2019	**1,565,578**	**(6,887)**	**56,362**	**(2,601)**	**69,414**	**(24,039)**	**1,691,354**	**(33,527)**
ECL release for the year								**6,553**
Recoveries								**551**
Other								**1,168**
Change in expected credit losses for the year								**8,272**
Assets written off								**(7,338)**
Change in expected credit losses and other credit impairment charges								**934**

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1.1m for the year ended 31 December 2019 and included in 'Other' in the above reconciliation.

As at 1 January 2018	1,595,073	(5,806)	248,267	(6,066)	108,187	(29,417)	1,951,527	(41,289)
Transfers of financial instruments :	(22,697)	(594)	20,881	656	1,818	(63)	—	—
– transfers from Stage 1 to Stage	(67,687)	395	67,687	(395)	—	—	—	—
– transfers from Stage 2 to Stage	45,670	(1,005)	(45,670)	1,005	—	—	—	—
– transfers from Stage 3	676	(1)	407	(1)	(1,082)	1	—	—
– transfers to Stage 3	(1,356)	17	(1,543)	47	2,900	(64)	—	—
Net remeasurement of ECL arising from stage transfers	—	755	—	(464)	—	64	—	355
Changes in risk parameters	—	(815)	—	(950)	—	(5,754)	—	(7,519)
Net new and further lending/ repayments	161,808	299	(60,794)	3,164	(16,065)	(732)	84,951	2,730
Assets written off	—	—	—	—	(5,643)	5,643	(5,643)	5,643
As at 31 December 2018	1,734,184	(6,161)	208,354	(3,660)	88,297	(30,259)	2,030,835	(40,080)
ECL release for the year								1,209
Recoveries								858
Other								1,821
Change in expected credit losses for the year								3,888
Assets written off								(5,643)
Change in expected credit losses and other credit impairment charges								(1,755)

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1m for the year ended 31 December 2018 and included in 'Other' in the above reconciliation.

Total wholesale lending for loan and other credit-related commitments and financial guarantee and similar contracts by credit quality

	Gross exposure/nominal amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total		
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	84,838	19,560	523,129	13,434	1,923	642,884	(1,149)	641,735
Non-bank financial institutions	2	–	7,684	38	–	7,724	(6)	7,718
At 31 December 2019	**84,840**	**19,560**	**530,813**	**13,472**	**1,923**	**650,608**	**(1,155)**	**649,453**
Corporate and commercial	120,324	180,377	644,490	39,348	1,953	986,492	(1,779)	984,713
Non-bank financial institutions	2	–	2,996	39	–	3,037	(4)	3,033
At 31 December 2018	120,326	180,377	647,486	39,387	1,953	989,529	(1,783)	987,746

All corporate customers are rated using a 10-grade scale, with each CRR band being associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time. The table below shows the distribution of Wholesale loans and advances to customers as at 1 January 2019 and 31 December 2019, together with their associated ECL allowance by CRR.

Wholesale lending – credit risk profile by obligor grade for loans and advances to customers

	Gross carrying amount				Allowance for ECL				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL Coverage
	€000	€000	€000	€000	€000	€000	€000	€000	%
Corporate and Commercial	**762,084**	**32,204**	**56,015**	**850,303**	**(4,601)**	**(2,412)**	**(16,656)**	**(23,669)**	**2.8**
CRR1	24,631	38	–	24,669	(2)	–	–	(2)	–
CRR2	226,136	–	–	226,136	(114)	–	–	(114)	0.1
CRR3	56,918	119	–	57,037	(155)	(2)	–	(157)	0.3
CRR4	177,432	671	–	178,103	(922)	(2)	–	(924)	0.5
CRR5	276,967	1,960	–	278,927	(3,408)	(30)	–	(3,438)	1.2
CRR6	–	16,258	–	16,258	–	(698)	–	(698)	4.3
CRR7	–	6,198	–	6,198	–	(404)	–	(404)	6.5
CRR8	–	6,960	–	6,960	–	(1,276)	–	(1,276)	18.3
CRR9/10	–	–	56,015	56,015	–	–	(16,656)	(16,656)	29.7
Non-bank financial institutions	**172,240**	**1,262**	**634**	**174,136**	**(1,278)**	**(51)**	**(143)**	**(1,472)**	**0.8**
CRR1	–	–	–	–	–	–	–	–	–
CRR2	–	–	–	–	–	–	–	–	–
CRR3	3,314	–	–	3,314	(10)	–	–	(10)	0.3
CRR4	120,988	–	–	120,988	(784)	–	–	(784)	0.6
CRR5	47,938	860	–	48,798	(484)	(37)	–	(521)	1.1
CRR6	–	402	–	402	–	(14)	–	(14)	3.5
CRR7	–	–	–	–	–	–	–	–	–
CRR8	–	–	–	–	–	–	–	–	–
CRR9/10	–	–	634	634	–	–	(143)	(143)	22.6
At 31 December 2019	**934,324**	**33,466**	**56,649**	**1,024,439**	**(5,879)**	**(2,463)**	**(16,799)**	**(25,141)**	**2.5**
Corporate and Commercial	668,600	113,814	70,305	852,719	(3,851)	(3,157)	(24,213)	(31,221)	3.7
CRR1	39,300	10	–	39,310	(2)	–	–	(2)	–
CRR2	178,322	–	–	178,322	(50)	–	–	(50)	–
CRR3	50,009	–	–	50,009	(162)	–	–	(162)	0.3
CRR4	144,836	19,504	–	164,340	(758)	(129)	–	(887)	0.5
CRR5	256,133	26,204	–	282,337	(2,879)	(278)	–	(3,157)	1.1
CRR6	–	37,118	–	37,118	–	(974)	–	(974)	2.6
CRR7	–	21,174	–	21,174	–	(607)	–	(607)	2.9
CRR8	–	9,804	–	9,804	–	(1,169)	–	(1,169)	11.9
CRR9/10	–	–	70,305	70,305	–	–	(24,213)	(24,213)	34.4
Non-bank financial institutions	156,823	4,230	861	161,914	(1,004)	(101)	(263)	(1,368)	0.8
CRR1	337	–	–	337	–	–	–	–	–
CRR2	–	–	–	–	–	–	–	–	–
CRR3	156	–	–	156	–	–	–	–	–
CRR4	121,462	2,499	–	123,961	(710)	(51)	–	(761)	0.6
CRR5	34,868	1,694	–	36,562	(294)	(49)	–	(343)	0.9
CRR6	–	37	–	37	–	(1)	–	(1)	2.7
CRR7	–	–	–	–	–	–	–	–	–
CRR8	–	–	–	–	–	–	–	–	–
CRR9/10	–	–	861	861	–	–	(263)	(263)	30.5
At 31 December 2018	825,423	118,044	71,166	1,014,633	(4,855)	(3,258)	(24,476)	(32,589)	3.2

Personal lending to customers

This section presents further disclosures related to personal lending. It provides details of the products which are driving the change observed in personal loans and advances to customers. Additionally, this section provides a reconciliation of the opening gross carrying/ nominal amounts as at 1 January 2019 and 2018 to the closing carrying/nominal amounts as at 31 December 2019 and 2018 respectively, together with the associated allowances for ECL. Further product granularity is also provided by stage, with data presented for loans and advances to customers, loan and other credit-related commitments and financial guarantees.

Total personal lending for loans and advances to customers by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
By portfolio								
First lien residential mortgages	**1,925,840**	**37,571**	**51,325**	**2,014,736**	**(1,288)**	**(2,488)**	**(5,028)**	**(8,804)**
Other personal lending	**233,030**	**11,129**	**10,960**	**255,119**	**(384)**	**(1,062)**	**(1,470)**	**(2,916)**
– second lien residential mortgages	**119,267**	**5,588**	**8,928**	**133,783**	**(20)**	**(134)**	**(190)**	**(344)**
– credit cards	**32,502**	**3,192**	**101**	**35,795**	**(188)**	**(727)**	**(65)**	**(980)**
– other	**81,261**	**2,349**	**1,931**	**85,541**	**(176)**	**(201)**	**(1,215)**	**(1,592)**
At 31 December 2019	**2,158,870**	**48,700**	**62,285**	**2,269,855**	**(1,672)**	**(3,550)**	**(6,498)**	**(11,720)**
Other financial assets measured at amortised cost								
– accrued income	**3,441**	**120**	**4,728**	**8,289**	**–**	**–**	**(1,866)**	**(1,866)**
At 31 December 2019	**3,441**	**120**	**4,728**	**8,289**	**–**	**–**	**(1,866)**	**(1,866)**
By portfolio								
First lien residential mortgages	1,776,287	44,491	51,696	1,872,474	(2,497)	(2,049)	(3,348)	(7,894)
Other personal lending	231,490	23,184	13,399	268,073	(477)	(1,753)	(2,055)	(4,285)
– second lien residential mortgages	122,430	6,649	10,202	139,281	(106)	(149)	(382)	(637)
– credit cards	33,513	3,265	454	37,232	(193)	(764)	(168)	(1,125)
– other	75,547	13,270	2,743	91,560	(178)	(840)	(1,505)	(2,523)
At 31 December 2018	2,007,777	67,675	65,095	2,140,547	(2,974)	(3,802)	(5,403)	(12,179)
Other financial assets measured at amortised cost								
– accrued income	3,028	342	4,774	8,144	–	–	(545)	(545)
At 31 December 2018	3,028	342	4,774	8,144	–	–	(545)	(545)

Total personal lending for loan and other credit-related commitments and financial guarantee and similar contracts by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Personal	**542,215**	**4,734**	**81**	**547,030**	**(16)**	**(146)**	**–**	**(162)**
At 31 December 2019	**542,215**	**4,734**	**81**	**547,030**	**(16)**	**(146)**	**–**	**(162)**
Personal	586,010	2,571	4,103	592,684	(30)	–	–	(30)
At 31 December 2018	586,010	2,571	4,103	592,684	(30)	–	–	(30)

Personal lending - reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan and other credit-related commitments, lending related accrued income and financial guarantees and similar contracts

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
As at 1 January 2019	**2,596,815**	**(3,004)**	**70,588**	**(3,802)**	**73,972**	**(5,948)**	**2,741,375**	**(12,754)**
Transfers of financial instruments	**10,725**	**(818)**	**(14,382)**	**530**	**3,657**	**288**	**–**	**–**
– transfers from Stage 1 to Stage 2	**(22,184)**	**299**	**22,184**	**(299)**	**–**	**–**	**–**	**–**
– transfers from Stage 2 to Stage 1	**36,336**	**(787)**	**(36,336)**	**787**	**–**	**–**	**–**	**–**
– transfers from Stage 3	**5,382**	**(345)**	**3,153**	**(288)**	**(8,535)**	**633**	**–**	**–**
– transfers to Stage 3	**(8,809)**	**15**	**(3,383)**	**330**	**12,192**	**(345)**	**–**	**–**
Net remeasurement of ECL arising from stage transfers	**–**	**1,081**	**–**	**(882)**	**–**	**(2,108)**	**–**	**(1,909)**
Changes in risk parameters	**–**	**606**	**–**	**185**	**–**	**(2,223)**	**–**	**(1,432)**
Net new and further lending repayments	**96,986**	**447**	**(2,652)**	**273**	**(9,535)**	**627**	**84,799**	**1,347**
Assets written off	**–**	**–**	**–**	**–**	**(1,000)**	**1,000**	**(1,000)**	**1,000**
As at 31 December 2019	**2,704,526**	**(1,688)**	**53,554**	**(3,696)**	**67,094**	**(8,364)**	**2,825,174**	**(13,748)**
ECL charge for the year								**(994)**
Recoveries								**682**
Other								**16**
Change in expected credit losses for the year								**(296)**
Assets written off								**(1,000)**
Change in expected credit losses and other credit impairment charges								**(1,296)**

As at 1 January 2018	2,433,435	(4,486)	76,826	(3,798)	71,591	(3,444)	2,581,852	(11,728)
Transfers of financial instruments :	(15,058)	(639)	9,493	822	5,565	(183)	–	–
– transfers from Stage 1 to Stage 2	(22,922)	66	22,922	(66)	–	–	–	–
– transfers from Stage 2 to Stage 1	12,489	(696)	(12,489)	696	–	–	–	–
– transfers from Stage 3	1,651	(22)	2,986	(67)	(4,637)	89	–	–
– transfers to Stage 3	(6,276)	13	(3,926)	259	10,202	(272)	–	–
Net remeasurement of ECL arising from stage transfers	–	665	–	(738)	–	(322)	–	(395)
Changes in risk parameters	–	251	–	32	–	(2,480)	–	(2,197)
Net new and further lending repayments	178,438	1,205	(15,731)	(120)	(2,970)	267	159,737	1,352
Assets written off	–	–	–	–	(214)	214	(214)	214
As at 31 December 2018	2,596,815	(3,004)	70,588	(3,802)	73,972	(5,948)	2,741,375	(12,754)
ECL release for the year								(1,026)
Recoveries								237
Other								(748)
Change in expected credit losses for the year								(1,537)
Assets written off								(214)
Change in expected credit losses and other credit impairment charges								(1,751)

Personal lending – credit risk profile by obligor grade for loans and advances to customers

	Gross carrying amount				Allowance for ECL				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL Coverage
	€000	€000	€000	€000	€000	€000	€000	€000	%
First lien residential mortgages	**1,925,840**	**37,571**	**51,325**	**2,014,736**	**(1,288)**	**(2,488)**	**(5,028)**	**(8,804)**	**0.4**
Not past due	**1,912,199**	**25,528**	**20,241**	**1,957,968**	**(1,281)**	**(1,797)**	**(2,746)**	**(5,824)**	**0.3**
Past due by:									
less than 30 days	**13,641**	**7,352**	**4,323**	**25,316**	**(7)**	**(382)**	**(335)**	**(724)**	**2.9**
30 to 59 days	**—**	**3,488**	**2,184**	**5,672**	**—**	**(182)**	**(166)**	**(348)**	**6.1**
60 to 89 days	**—**	**1,203**	**1,990**	**3,193**	**—**	**(127)**	**(265)**	**(392)**	**12.3**
90 days and more	**—**	**—**	**22,587**	**22,587**	**—**	**—**	**(1,516)**	**(1,516)**	**6.7**
Other personal lending	**233,030**	**11,129**	**10,960**	**255,119**	**(384)**	**(1,062)**	**(1,470)**	**(2,916)**	**1.1**
Not past due	**227,402**	**7,131**	**2,438**	**236,971**	**(370)**	**(753)**	**(573)**	**(1,696)**	**0.7**
Past due by:									
less than 30 days	**5,628**	**1,896**	**892**	**8,416**	**(14)**	**(111)**	**(78)**	**(203)**	**2.4**
30 to 59 days	**—**	**1,581**	**411**	**1,992**	**—**	**(112)**	**(43)**	**(155)**	**7.8**
60 to 89 days	**—**	**521**	**410**	**931**	**—**	**(86)**	**(7)**	**(93)**	**10.0**
90 days and more	**—**	**—**	**6,809**	**6,809**	**—**	**—**	**(769)**	**(769)**	**11.3**
At 31 December 2019	**2,158,870**	**48,700**	**62,285**	**2,269,855**	**(1,672)**	**(3,550)**	**(6,498)**	**(11,720)**	**0.5**
First lien residential mortgages	1,776,287	44,491	51,696	1,872,474	(2,497)	(2,049)	(3,348)	(7,894)	0.4
Not past due	1,776,287	18,505	11,787	1,806,579	(2,497)	(800)	(692)	(3,989)	0.2
Past due by:									
less than 30 days	—	11,650	2,875	14,525	—	(226)	(174)	(400)	2.8
30 to 59 days	—	12,396	7,163	19,559	—	(743)	(510)	(1,253)	6.4
60 to 89 days	—	1,940	2,092	4,032	—	(280)	(111)	(391)	9.7
90 days and more	—	—	27,779	27,779	—	—	(1,861)	(1,861)	6.7
Other personal lending	231,490	23,184	13,399	268,073	(477)	(1,753)	(2,055)	(4,285)	1.6
Not past due	231,490	15,955	3,078	250,523	(477)	(1,386)	(326)	(2,189)	0.9
Past due by:									
less than 30 days	—	3,607	864	4,471	—	(136)	(77)	(213)	4.8
30 to 59 days	—	3,038	1,232	4,270	—	(184)	(76)	(260)	6.1
60 to 89 days	—	584	541	1,125	—	(47)	(49)	(96)	8.5
90 days and more	—	—	7,684	7,684	—	—	(1,527)	(1,527)	19.9
At 31 December 2018	2,007,777	67,675	65,095	2,140,547	(2,974)	(3,802)	(5,403)	(12,179)	0.6

Collateral and other credit enhancements

It is the bank'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 bank 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 bank 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.

The tables in following pages 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.

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.

Wholesale lending to customers

Wholesale lending includes both small business owners served through Retail Banking to the financing of corporate and non financial institutions both from a working capital perspective and investing primarily in income producing assets and, to a lesser extent construction and development of the same. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects.

The collateral measured in the table in following pages consists of fixed first charges on real estate. The values in the table represent the expected market value on an open market basis. Loans shown as not collateralised or partially collateralised may also benefit from other forms of credit mitigants.

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 commercial real estate collateral is determined by using a combination of professional and internal valuations and physical inspections. Due to the complexity of valuing collateral for commercial real estate, local valuation policies determine the frequency of review on the basis of local market conditions. Revaluations are sought with greater frequency as concerns over the performance of the collateral or the direct obligor increase.

Wholesale lending – loans and advances to customers by level of collateral by stage distribution

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Stage 1			
Not collateralised	334,924	(2,431)	0.7
Fully collateralised	564,187	(3,188)	0.6
– less than 50%	248,542	(2,492)	1.0
– 51% to 75%	63,174	(456)	0.7
– 76% to 90%	3,657	(55)	1.5
– 91% to 100%	248,814	(185)	0.1
Partially collateralised			
– greater than 100% LTV	35,213	(260)	0.7
– *of which: Collateral value*	*13,188*		
Total	934,324	(5,879)	0.6
Stage 2			
Not collateralised	6,596	(165)	2.5
Fully collateralised	23,995	(2,118)	8.8
– less than 50%	20,988	(1,936)	9.2
– 51% to 75%	2,863	(179)	6.3
– 91% to 100%	144	(3)	2.1
Partially collateralised			
– greater than 100% LTV	2,875	(180)	6.3
– *of which: Collateral value*	*211*		
Total	33,466	(2,463)	7.4
Stage 3			
Not collateralised	15,872	(5,642)	35.5
Fully collateralised	34,541	(7,526)	21.8
– less than 50%	21,639	(2,681)	12.4
– 51% to 75%	12,603	(4,778)	37.9
– 76% to 90%	30	(28)	93.3
– 91% to 100%	269	(39)	14.5
Partially collateralised			
– greater than 100% LTV	6,236	(3,631)	58.2
– *of which: Collateral value*	*5,499*		
Total	56,649	(16,799)	29.7
At 31 December 2019	1,024,439	(25,141)	2.5

Wholesale lending – loans and advances to customers by level of collateral by stage distribution (continued)

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Stage 1			
Not collateralised	268,954	(1,907)	0.7
Fully collateralised	513,404	(2,705)	0.5
– less than 50%	208,022	(1,937)	0.9
– 51% to 75%	80,418	(618)	0.8
– 76% to 90%	934	(7)	0.7
– 91% to 100%	224,030	(143)	0.1
Partially collateralised			
– greater than 100% LTV	43,065	(243)	0.6
– *of which: Collateral value*	*18,821*		
Total	825,423	(4,855)	0.6
Stage 2			
Not collateralised	31,122	(413)	1.3
Fully collateralised	80,975	(2,713)	3.4
– less than 50%	59,981	(2,394)	4.0
– 51% to 75%	10,073	(283)	2.8
– 76% to 90%	35	—	—
– 91% to 100%	10,886	(36)	0.3
Partially collateralised			
– greater than 100% LTV	5,947	(132)	2.2
– *of which: Collateral value*	*2,867*		
Total	118,044	(3,258)	2.8
Stage 3			
Not collateralised	19,633	(4,394)	22.4
Fully collateralised	49,387	(19,626)	39.7
– less than 50%	19,531	(2,016)	10.3
– 51% to 75%	24,758	(14,135)	57.1
– 76% to 90%	176	(127)	72.2
– 91% to 100%	4,922	(3,348)	68.0
Partially collateralised			
– greater than 100% LTV	2,146	(456)	21.2
– *of which: Collateral value*	*594*		
Total	71,166	(24,476)	34.4
At 31 December 2018	1,014,633	(32,589)	3.2

Wholesale lending – loans and advances to customers by level of collateral by obligor grade

	Gross carrying amount	**Allowance for ECL**	**ECL coverage**
	€000	**€000**	**%**
CRR 1 to 8			
Not collateralised	**341,520**	**(2,596)**	**0.8**
Fully collateralised	**588,182**	**(5,306)**	**0.9**
– less than 50%	**269,530**	**(4,428)**	**1.6**
– 51% to 75%	**66,037**	**(635)**	**1.0**
– 76% to 90%	**3,657**	**(55)**	**1.5**
– 91% to 100%	**248,958**	**(188)**	**0.1**
Partially collateralised			
– greater than 100% LTV	**38,088**	**(440)**	**1.2**
– *of which: Collateral value*	***13,399***		
Total	**967,790**	**(8,342)**	**0.9**
CRR 9 to 10			
Not collateralised	**15,872**	**(5,642)**	**35.5**
Fully collateralised	**34,541**	**(7,526)**	**21.8**
– less than 50%	**21,639**	**(2,681)**	**12.4**
– 51% to 75%	**12,603**	**(4,778)**	**37.9**
– 76% to 90%	**30**	**(28)**	**93.3**
– 91% to 100%	**269**	**(39)**	**14.5**
Partially collateralised			
– greater than 100% LTV	**6,236**	**(3,631)**	**58.2**
– *of which: Collateral value*	***5,499***		
Total	**56,649**	**(16,799)**	**29.7**
At 31 December 2019	**1,024,439**	**(25,141)**	**2.5**

Wholesale lending – loans and advances to customers by level of collateral by obligor grade (continued)

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
CRR 1 to 8			
Not collateralised	300,076	(2,320)	0.8
Fully collateralised	594,379	(5,418)	0.9
– less than 50%	268,003	(4,331)	1.6
– 51% to 75%	90,491	(901)	1.0
– 76% to 90%	969	(7)	0.7
– 91% to 100%	234,916	(179)	0.1
Partially collateralised			
– greater than 100% LTV	49,012	(375)	0.8
– *of which: Collateral value*	*21,688*		
Total	943,467	(8,113)	0.9
CRR 9 to 10			
Not collateralised	19,633	(4,394)	22.4
Fully collateralised	49,387	(19,626)	39.7
– less than 50%	19,531	(2,016)	10.3
– 51% to 75%	24,758	(14,135)	57.1
– 76% to 90%	176	(127)	72.2
– 91% to 100%	4,922	(3,348)	68.0
Partially collateralised			
– greater than 100% LTV	2,146	(456)	21.2
– *of which: Collateral value*	*594*		
Total	71,166	(24,476)	34.4
At 31 December 2018	1,014,633	(32,589)	3.2

Personal lending to customers

The bank provides a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets acquired. The bank also offers loans secured on existing assets, such as first charges on residential property, and unsecured lending products such as overdrafts, credit cards and card loans.

The collateral measured in the following table consists of fixed charges held over borrowers' real estate. The value of collateral is determined using professional valuations and excludes any adjustment for obtaining and selling the collateral. Loans shown as not collateralised or partially collateralised may also benefit from other forms of credit mitigants.

Personal Lending – residential mortgages, loans and advances by level of collateral by stage distribution

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Stage 1			
Not collateralised	105,543	(349)	0.3
Fully collateralised	2,048,497	(1,315)	0.1
– less than 50%	770,949	(98)	–
– 51% to 75%	741,613	(615)	0.1
– 76% to 90%	526,410	(591)	0.1
– 91% to 100%	9,525	(11)	0.1
Partially collateralised :			
– greater than 100% LTV	4,830	(8)	0.2
– *of which: Collateral value*	*1,625*		
Total	2,158,870	(1,672)	0.1
Stage 2			
Not collateralised	5,057	(897)	17.7
Fully collateralised	43,518	(2,647)	6.1
– less than 50%	25,830	(542)	2.1
– 51% to 75%	11,472	(1,232)	10.7
– 76% to 90%	5,675	(835)	14.7
– 91% to 100%	541	(38)	7.0
Partially collateralised:			
– greater than 100% LTV	125	(6)	4.8
– *of which: Collateral value*	*123*		
Total	48,700	(3,550)	7.3
Stage 3			
Not collateralised	1,316	(877)	66.6
Fully collateralised	60,504	(5,341)	8.8
– less than 50%	35,610	(948)	2.7
– 51% to 75%	15,658	(2,106)	13.4
– 76% to 90%	8,809	(2,202)	25.0
– 91% to 100%	427	(85)	19.9
Partially collateralised:			
– greater than 100% LTV	465	(280)	60.2
– *of which: Collateral value*	*444*		
Total	62,285	(6,498)	10.4
At 31 December 2019	2,269,855	(11,720)	0.5

Personal lending – residential mortgages, loans and advances by level of collateral by stage distribution (continued)

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Stage 1			
Not collateralised	98,252	(359)	0.4
Fully collateralised	1,905,253	(2,605)	0.1
– less than 50%	716,232	(436)	0.1
– 51% to 75%	663,512	(661)	0.1
– 76% to 90%	478,544	(1,393)	0.3
– 91% to 100%	46,965	(115)	0.2
Partially collateralised :			
– greater than 100% LTV	4,272	(10)	0.2
– *of which: Collateral value*	*1,739*		
Total	2,007,777	(2,974)	0.1
Stage 2			
Not collateralised	13,113	(1,332)	10.2
Fully collateralised	53,082	(2,422)	4.6
– less than 50%	28,474	(747)	2.6
– 51% to 75%	15,395	(550)	3.6
– 76% to 90%	6,926	(854)	12.3
– 91% to 100%	2,287	(271)	11.8
Partially collateralised:			
– greater than 100% LTV	1,480	(48)	3.2
– *of which: Collateral value*	*923*		
Total	67,675	(3,802)	5.6
Stage 3			
Not collateralised	2,750	(1,287)	46.8
Fully collateralised	62,123	(4,069)	6.5
– less than 50%	34,223	(1,408)	4.1
– 51% to 75%	21,959	(1,206)	5.5
– 76% to 90%	4,291	(824)	19.2
– 91% to 100%	1,650	(631)	38.2
Partially collateralised:			
– greater than 100% LTV	222	(47)	21.2
– *of which: Collateral value*	*148*		
Total	65,095	(5,403)	8.3
At 31 December 2018	2,140,547	(12,179)	0.6

Personal lending – residential mortgages, loans and advances by level of collateral by past due days

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Less than 30 days past due			
Not collateralised	110,126	(1,357)	1.2
Fully collateralised	2,113,309	(6,852)	0.3
– less than 50%	809,819	(1,176)	0.1
– 51% to 75%	755,836	(2,562)	0.3
– 76% to 90%	537,849	(3,049)	0.6
– 91% to 100%	9,805	(65)	0.7
Partially collateralised			
– greater than 100% LTV	5,236	(238)	4.5
– *of which: Collateral value*	*2,142*		
Total	2,228,671	(8,447)	0.4
30 days to 89 days past due			
Not collateralised	933	(218)	23.4
Fully collateralised	10,792	(768)	7.1
– less than 50%	5,788	(124)	2.1
– 51% to 75%	3,420	(422)	12.3
– 76% to 90%	1,230	(191)	15.5
– 91% to 100%	354	(31)	8.8
Partially collateralised			
– greater than 100% LTV	63	(2)	3.2
– *of which: Collateral Value*	*16*		
Total	11,788	(988)	8.4
More than 90 days past due			
Not collateralised	857	(548)	63.9
Fully collateralised	28,418	(1,683)	5.9
– less than 50%	16,782	(288)	1.7
– 51% to 75%	9,487	(969)	10.2
– 76% to 90%	1,815	(388)	21.4
– 91% to 100%	334	(38)	11.4
Partially collateralised			
– greater than 100% LTV	121	(54)	44.6
– *of which: Collateral value*	*34*		
Total	29,396	(2,285)	7.8
At 31 December 2019	2,269,855	(11,720)	0.5

Personal lending – residential mortgages, loans and advances by level of collateral by past due days (continued)

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Less than 30 days past due			
Not collateralised	111,934	(1,799)	1.6
Fully collateralised	1,958,437	(4,938)	0.3
– less than 50%	749,600	(1,572)	0.2
– 51% to 75%	677,671	(1,171)	0.2
– 76% to 90%	481,523	(1,697)	0.4
– 91% to 100%	49,643	(498)	1.0
Partially collateralised :			
– greater than 100% LTV	5,727	(54)	0.9
– *of which: Collateral value*	*2,635*		
Total	2,076,098	(6,791)	0.3
30 days to 89 days past due			
Not collateralised	816	(241)	29.5
Fully collateralised	28,086	(1,751)	6.2
– less than 50%	14,563	(432)	3.0
– 51% to 75%	7,660	(432)	5.6
– 76% to 90%	5,415	(805)	14.9
– 91% to 100%	448	(82)	18.3
Partially collateralised			
– greater than 100% LTV	84	(8)	9.5
– *of which: Collateral value*	*76*		
Total	28,986	(2,000)	6.9
More than 90 days past due			
Not collateralised	1,365	(938)	68.7
Fully collateralised	33,935	(2,407)	7.1
– less than 50%	14,766	(587)	4.0
– 51% to 75%	15,535	(814)	5.2
– 76% to 90%	2,823	(569)	20.2
– 91% to 100%	811	(437)	53.9
Partially collateralised			
– greater than 100% LTV	163	(43)	26.4
– *of which: Collateral value*	99		
Total	35,463	(3,388)	9.6
At 31 December 2018	2,140,547	(12,179)	0.6

The bank typically does not hold collateral against financial assets measured at fair value through profit or loss, financial investments and loans to banks, and no such collateral was held at 31 December 2019 and 2018.

Forward-looking information incorporated in the ECL model

ECL impairment allowances recognised in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis. The recognition and measurement of ECL involves the use of significant judgement and estimation. It is necessary to formulate multiple forward-looking economic forecasts and incorporate them into the ECL estimates. The bank uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgement, which may result in using alternative or additional economic scenarios and/or management adjustments.

Methodology

HSBC has developed a globally consistent methodology for the application of forward economic guidance ('FEG') into the calculation of ECL by incorporating macroeconomic variables into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD').

The bank has adopted the use of three scenarios, representative of forecast economic conditions, sufficient to calculate unbiased expected losses. They represent a 'most likely outcome' (the Central scenario), and two, less likely 'outer' scenarios, referred to as the Upside and Downside scenarios. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%, according to the decision of the bank's senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL. Key scenario assumptions are set using external forecasts, helping to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information. The Central, Upside and Downside scenarios selected with reference to external forecast distributions using the above approach are termed the 'consensus economic scenarios'.

For the Central scenario, key assumptions such as GDP growth, inflation, unemployment and policy interest rates are calibrated using external forecasts (commonly referred to as consensus forecasts). The Upside and Downside scenarios are designed to be cyclical, in that the forecasted macroeconomic variables usually revert back to the Central scenario after the first three years. The approach centres on GDP growth rate forecasts. The remaining variables are then forecasted subject to restrictions to enable consistency with GDP forecasts. The maximum divergence of GDP growth from the Central scenario is calibrated using the 10th and the 90th percentile of the entire distribution of forecast outcomes.

To generate the three economic scenarios, a shortlist of the most relevant upside and downside economic and political risks is developed. This is known as the 'economic risk assessment'. For the Central scenario, a predefined set of economic paths is taken as the average of different forecast distributions. Paths for the two outer scenarios are benchmarked to the Central scenario and reflect the economic risk assessment. Scenarios are representative of the probability weighting scheme, informed by the current economic outlook, data analysis of past recessions, and transitions in and out of recession. The key assumptions made, and the accompanying paths, represent the 'best estimate' of a scenario at a specified probability.

The Upside and Downside scenarios are generated at the year-end and are only updated during the year if economic conditions change significantly. The Central scenario is generated every quarter.

How economic scenarios are reflected in the wholesale calculation of ECL

In line with HSBC's methodology, for the wholesale portfolio, FEG is incorporated into the calculation of ECLs through the estimation of the term structure of PD and LGD.

For PDs, the correlation of FEG to default rates is considered. In this respect, forward-looking PDs are approximated by using a proxy country's PDs and macroeconomic paths, shifted by a scalar. A suitable proxy is selected using the Bhattacharyya methodology which compares various proxy sites' principal component macroeconomic variables to local variables to determine the most suitable site. The scalar is then calculated, which is intended to capture the difference between the proxy and local sensitivities to economic shocks.

For the LGD calculation, the correlation of FEG, derived from the assumed macroeconomic paths of the proxy site, to collateral values, which are in turn derived from the bank's data, is taken into account.

For credit impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on credit impaired loans that are individually considered not to be significant, the model incorporates forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

The following table describes key macroeconomic variables, reflecting those used by the proxy site, and the probabilities assigned in the consensus Central, Upside and Downside scenarios.

Consensus scenarios (average 2020-2024)

	Wholesale lending		
	Central scenario	**Upside scenario**	**Downside scenario**
Real GDP Growth rate (%)	**1.6**	**2.1**	**1.0**
Consumer price index (%)	**2.0**	**2.4**	**1.7**
Unemployment (%)	**4.4**	**4.0**	**4.8**
Short-term interest rate (%)	**0.6**	**0.6**	**0.1**
House price index (%)	**3.0**	**4.4**	**1.6**
Probability (%)	**80.0**	**10.0**	**10.0**

Consensus scenarios (average 2019-2023)

	Wholesale lending		
	Central scenario	Upside scenario	Downside scenario
Real GDP Growth rate (%)	1.7	2.2	1.1
Consumer price index (%)	2.1	2.3	1.7
Unemployment (%)	4.5	4.2	4.8
Short-term interest rate (%)	1.2	1.3	0.3
House price index (%)	2.9	4.1	1.0
Probability (%)	80.0	10.0	10.0

How economic scenarios are reflected in the retail calculation of ECL

With respect to the retail portfolio, the impact of economic scenarios on PDs is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by leveraging economic response models. The impact of these scenarios on PDs is modelled over a period equal to the remaining maturity of underlying assets.

For the mortgage portfolio, the impact on LGD is modelled by forecasting loan-to-value ('LTV') profiles up to the point of default. In this regard, LTV profiles are forecasted for the remaining maturity of the asset for exposures within stages 1 and 2 by leveraging national level forecasts of the house price index and applying the corresponding LGD expectation. However, no impact on LGD is modelled for stage 3 exposures to reflect the fact that these are already defaulted.

The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained above. The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central, Upside and Downside scenarios.

Consensus scenarios (average 2020-2024)

	Retail lending		
	Central scenario	**Upside scenario**	**Downside scenario**
Real GDP Growth rate (%)	**3.3**	**3.7**	**2.8**
House price index (%)	**6.3**	**7.2**	**5.1**
Probability (%)	**80.0**	**10.0**	**10.0**

Consensus scenarios (average 2019-2023)

	Retail lending		
	Central scenario	Upside scenario	Downside scenario
Real GDP Growth rate (%)	3.0	3.5	2.5
House price index (%)	3.6	3.9	3.1
Probability (%)	80.0	10.0	10.0

Economic scenarios sensitivity analysis of ECL estimates

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward-looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the ECL governance process.

The sensitivity impact was not considered to be significant taking cognisance of the level of ECL allowances and the effects of the application of macroeconomic inputs to ECL calculations.

Treasury Bills and debt securities

Debt securities and other bills by rating agency (S&P Rating Agency) designation of the bank, are reported in the table below. Information relating to the HSBC Life insurance business is disclosed in Note 4(f)(ii).

Debt securities and other bills by rating agency

	Treasury Bills	Debt securities	Total
	€000	€000	€000
AAA	–	**294,498**	**294,498**
AA- to AA+	–	**185,412**	**185,412**
A-	**127,075**	**463,663**	**590,738**
As at 31 December 2019	**127,075**	**943,573**	**1,070,648**
AAA	–	274,270	274,270
AA- to AA+	–	138,266	138,266
A-	110,347	489,679	600,026
As at 31 December 2018	110,347	902,215	1,012,562

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 satisfactorily settling it and it arises principally from over the counter (OTC) derivatives. Transactions vary in value by reference to a market factor such as interest rate, exchange rate or asset price. The bank manages its derivative market risk positions principally through back-to-back derivative transactions with HSBC Group entities. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA').

For transactions with HSBC Group entities, the bank has an International Swaps and Derivatives Association (ISDA) Master Agreement in place. It provides the contractual framework within which dealing activity across a full range of OTC products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other preagreed termination events occur. In this respect, gross derivative assets amounting to €697,000 (2018: €927,000) are subject to enforceable netting agreement, however, they are not offset in the balance sheet as they do not meet the on-balance sheet offsetting criteria for financial reporting purposes. Similarly, gross derivative liabilities amounting to €4,466,000 (2018: €4,055,000) are subject to enforceable netting agreement, however, they are not offset in the balance sheet as they do not meet the on-balance sheet offsetting criteria for financial reporting purposes.

(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 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 crises 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.

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 Net Stable Funding Ratio (NSFR) ratio is used to monitor the structural long-term funding position of the bank, and the Liquidity Coverage Ratio (LCR) metric is used to gauge the short-term resilience of the bank's liquidity profile. 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.

i Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission (EC) Delegated Regulation 2015/61. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets (HQLA) to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets.

LCR year end levels for the bank

	31 December 2019	31 December 2018
	%	%
Actual LCR	**200**	504
Regulatory Minimum	**100**	100

During the years ended 31 December 2019 and 2018 the LCR was within both the regulatory minimum and the risk appetite set by the bank.

ii Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The bank calculates NSFR in line with Basel Committee on Banking Supervision publication 295. This calculation requires various interpretations of the text, and therefore HSBC's NSFR may not be directly comparable with the ratios of other institutions.

Net stable funding ratio year end levels for the bank

	31 December 2019	31 December 2018
	%	%
Actual NSFR	**137**	137
Regulatory Minimum	**100**	100

During the years ended 31 December 2019 and 2018 the NSFR was within both the regulatory minimum and the risk appetite set by the bank.

The bank is in the process of updating its methodology for the calculation of the NSFR to conform with the provisions of the amendments to Regulation (EU) No.575/2013, formerly known as the Capital Requirements Regulation ("CRR II"), which is effective as from 28 June 2021.

iii Depositor concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within different depositor segments. The validity of these assumptions is challenged if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists. The bank is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

As at 31 December 2019 and 2018, the bank was within the risk appetite levels set for depositor concentration and term funding maturity concentration.

iv 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(f)(iv):

iv 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(f)(iv):

Financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) by remaining contractual maturities

	Group						
	At 31 December 2019						
	Not more than 3 months	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 year and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets							
Cash	**32,275**	**—**	**—**	**—**	**—**	**—**	**32,275**
Balances with Central Bank of Malta and Treasury Bills	**475,225**	**24,026**	**5,009**	**—**	**—**	**49,537**	**553,797**
Items in the course of collection from other banks	**3,436**	**—**	**—**	**—**	**—**	**—**	**3,436**
Financial assets mandatorily measured at fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**4,507**	**4,507**
Held for trading derivatives	**575**	**423**	**675**	**1,119**	**2,528**	**—**	**5,320**
Loans and advances to banks	**132,062**	**15,000**	**50,000**	**475,890**	**—**	**—**	**672,952**
Loans and advances to customers	**263,384**	**26,310**	**36,710**	**392,580**	**2,538,449**	**—**	**3,257,433**
Financial investments	**68,860**	**32,296**	**157,421**	**631,393**	**53,603**	**30**	**943,603**
Other assets	**29,038**	**2**	**4**	**—**	**—**	**—**	**29,044**
Total assets	**1,004,855**	**98,057**	**249,819**	**1,500,982**	**2,594,580**	**54,074**	**5,502,367**
Liabilities							
Deposits by banks	**840**	**—**	**—**	**—**	**—**	**—**	**840**
Customer accounts	**4,345,160**	**176,370**	**308,867**	**146,183**	**—**	**—**	**4,976,580**
Held for trading derivatives	**510**	**422**	**558**	**1,041**	**2,659**	**—**	**5,190**
Subordinated liabilities	**—**	**—**	**—**	**—**	**62,000**	**—**	**62,000**
Other liabilities	**52,978**	**1,315**	**1,231**	**2,694**	**906**	**—**	**59,124**
Total liabilities	**4,399,488**	**178,107**	**310,656**	**149,918**	**65,565**	**—**	**5,103,734**
Liquidity gap	**(3,394,633)**	**(80,050)**	**(60,837)**	**1,351,064**	**2,529,015**		
Cumulative liquidity gap	**(3,394,633)**	**(3,474,683)**	**(3,535,520)**	**(2,184,456)**	**344,559**		
	At 31 December 2018						
Assets							
Cash	31,169	—	—	—	—	—	31,169
Balances with Central Bank of Malta and Treasury Bills	69,364	38,025	3,003	—	—	49,207	159,599
Items in the course of collection from other banks	5,404	—	—	—	—	—	5,404
Held for trading derivatives	193	1,206	107	1,023	2,427	—	4,956
Loans and advances to banks	729,736	47,463	50,000	265,574	—	—	1,092,773
Loans and advances to customers	286,216	23,756	19,219	313,170	2,468,051	—	3,110,412
Financial investments	47,957	31,165	176,307	580,353	66,433	2,705	904,920
Other assets	33,016	—	77	—	—	—	33,093
Total assets	1,203,055	141,615	248,713	1,160,120	2,536,911	51,912	5,342,326
Liabilities							
Deposits by banks	2,542	—	—	—	—	—	2,542
Customer accounts	4,119,427	188,033	254,979	313,333	11,701	—	4,887,473
Held for trading derivatives	142	1,141	116	912	2,680	—	4,991
Subordinated liabilities		—	—	—	62,000	—	62,000
Other liabilities	38,479	671	617	1,159	—	—	40,926
Total liabilities	4,160,590	189,845	255,712	315,404	76,381	—	4,997,932
Liquidity gap	(2,957,535)	(48,230)	(6,999)	844,716	2,460,530		
Cumulative liquidity gap	(2,957,535)	(3,005,765)	(3,012,764)	(2,168,048)	292,482		

Financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) by remaining contractual maturities

	Bank						
	At 31 December 2019						
	Not more than 3 months	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 year and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets							
Cash	**32,275**	**–**	**–**	**–**	**–**	**–**	**32,275**
Balances with Central Bank of Malta and Treasury Bills	**475,225**	**24,026**	**5,009**	**–**	**–**	**49,537**	**553,797**
Items in the course of collection from other banks	**3,436**	**–**	**–**	**–**	**–**	**–**	**3,436**
Financial assets mandatorily measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**4,507**	**4,507**
Held for trading derivatives	**575**	**423**	**675**	**1,119**	**2,528**	**–**	**5,320**
Loans and advances to banks	**132,062**	**15,000**	**50,000**	**475,890**	**–**	**–**	**672,952**
Loans and advances to customers	**263,384**	**26,310**	**36,710**	**392,580**	**2,538,449**	**–**	**3,257,433**
Financial investments	**68,860**	**32,296**	**157,421**	**631,393**	**53,603**	**28**	**943,601**
Other assets	**29,114**	**2**	**4**	**–**	**–**	**–**	**29,120**
Total assets	**1,004,931**	**98,057**	**249,819**	**1,500,982**	**2,594,580**	**54,072**	**5,502,441**
Liabilities							
Deposits by banks	**840**	**–**	**–**	**–**	**–**	**–**	**840**
Customer accounts	**4,394,646**	**176,370**	**308,867**	**146,183**	**–**	**–**	**5,026,066**
Held for trading derivatives	**510**	**422**	**558**	**1,041**	**2,659**	**–**	**5,190**
Subordinated liabilities	**–**	**–**	**–**	**–**	**62,000**	**–**	**62,000**
Other liabilities	**52,978**	**1,315**	**1,231**	**2,694**	**906**	**–**	**59,124**
Total liabilities	**4,448,974**	**178,107**	**310,656**	**149,918**	**65,565**	**–**	**5,153,220**
Liquidity gap	**(3,444,043)**	**(80,050)**	**(60,837)**	**1,351,064**	**2,529,015**		
Cumulative liquidity gap	**(3,444,043)**	**(3,524,093)**	**(3,584,930)**	**(2,233,866)**	**295,149**		
	At 31 December 2018						
Assets							
Cash	31,169	–	–	–	–	–	31,169
Balances with Central Bank of Malta and Treasury Bills	69,364	38,025	3,003	–	–	49,207	159,599
Items in the course of collection from other banks	5,404	–	–	–	–	–	5,404
Held for trading derivatives	193	1,206	107	1,023	2,427	–	4,956
Loans and advances to banks	729,736	47,463	50,000	265,574	–	–	1,092,773
Loans and advances to customers	286,216	23,756	19,219	313,170	2,468,051	–	3,110,412
Financial investments	47,957	31,165	176,307	580,353	66,433	2,703	904,918
Other assets	28,487	–	77	–	–	–	28,564
Total assets	1,198,526	141,615	248,713	1,160,120	2,536,911	51,910	5,337,795
Liabilities							
Deposits by banks	2,542	–	–	–	–	–	2,542
Customer accounts	4,172,934	188,033	254,979	313,333	11,701	–	4,940,980
Held for trading derivatives	142	1,141	116	912	2,680	–	4,991
Subordinated liabilities	–	–	–	–	62,000	–	62,000
Other liabilities	36,530	671	617	1,159	–	–	38,977
Total liabilities	4,212,148	189,845	255,712	315,404	76,381	–	5,049,490
Liquidity gap	(3,013,622)	(48,230)	(6,999)	844,716	2,460,530		
Cumulative liquidity gap	(3,013,622)	(3,061,852)	(3,068,851)	(2,224,135)	236,395		

Current accounts and savings deposits payable on demand or at short notice amounted to €4,053 million at 31 December 2019 (2018: €3,808 million), for the local group and €4,103 million at 31 December 2019 (2018: €3,861 million) for the bank . This amount is disclosed within the 'Not more than three 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 amount 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 credit card balances included within 'Loans and advances to customers' amounted to €235 million at 31 December 2019 (2018: €261 million), both for the local group and the bank. This amount is disclosed within the 'Not more than three months' maturity grouping.

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

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(f)(iv):

Cash flows payable under non-derivative financial liabilities

	Group					
	At 31 December 2019					
	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Gross nominal outflow	Carrying amount
	€000	€000	€000	€000	€000	€000
Financial liabilities						
Deposits by banks	**840**	**–**	**–**	**–**	**840**	**840**
Customer accounts	**4,420,965**	**505,899**	**58,182**	**–**	**4,985,046**	**4,976,580**
Subordinated liabilities	**258**	**774**	**4,129**	**66,129**	**71,290**	**62,000**
Other liabilities	**52,978**	**2,601**	**2,898**	**1,007**	**59,484**	**59,124**
	4,475,041	**509,274**	**65,209**	**67,136**	**5,116,660**	**5,098,544**
Commitments	**1,234,178**	**–**	**–**	**–**	**1,234,178**	**1,234,178**
	At 31 December 2018					
Financial liabilities						
Deposits by banks	2,542	–	–	–	2,542	2,542
Customer accounts	4,127,403	446,192	322,684	12,688	4,908,967	4,887,473
Subordinated liabilities	271	542	4,335	67,690	72,838	62,000
Other liabilities	38,548	1,212	1,166	–	40,926	40,926
	4,168,764	447,946	328,185	80,378	5,025,273	4,992,941
Commitments	1,583,556	–	–	–	1,583,556	1,583,556

	Bank					
	At 31 December 2019					
Financial liabilities						
Deposits by banks	**840**	**–**	**–**	**–**	**840**	**840**
Customer accounts	**4,470,451**	**505,899**	**58,182**	**–**	**5,034,532**	**5,026,066**
Subordinated liabilities	**258**	**774**	**4,129**	**66,129**	**71,290**	**62,000**
Other liabilities	**52,978**	**2,601**	**2,898**	**1,007**	**59,484**	**59,124**
	4,524,527	**509,274**	**65,209**	**67,136**	**5,166,146**	**5,148,030**
Commitments	**1,234,180**	**–**	**–**	**–**	**1,234,180**	**1,234,180**
	At 31 December 2018					
Financial liabilities						
Deposits by banks	2,542	–	–	–	2,542	2,542
Customer accounts	4,180,909	446,192	322,684	12,688	4,962,473	4,940,980
Subordinated liabilities	271	542	4,335	67,690	72,838	62,000
Other liabilities	36,599	1,212	1,166	–	38,977	38,977
	4,220,321	447,946	328,185	80,378	5,076,830	5,044,499
Commitments	1,584,419	–	–	–	1,584,419	1,584,419

Cash flows payable by the local group under investment contracts and insurance contracts issued are disclosed in Note 4(f)(iv).

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

	Group/Bank				
	As at 31 December 2019				
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total
	€000	€000	€000	€000	€000
Inflows	**82,541**	**184,090**	**3,974**	**251**	**270,856**
Outflows	**(82,472)**	**(183,948)**	**(3,929)**	**(251)**	**(270,600)**
	69	**142**	**45**	**–**	**256**
	As at 31 December 2018				
Inflows	69,497	54,719	4,632	452	129,300
Outflows	(69,435)	(54,638)	(4,557)	(452)	(129,082)
	62	81	75	–	218

(d) Encumbered and unencumbered assets

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

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Total assets at 31 December	**6,497,617**	6,310,994	**5,636,934**	5,495,624
Less:				
Assets pledged against the provision of credit lines by Central Bank of Malta				
– debt securities	**60,974**	61,893	**60,974**	61,893
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	**21,941**	24,043	**21,941**	24,043
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**896**	710	**896**	710
Less:				
Other assets that cannot be pledged as collateral	**1,011,966**	979,868	**157,215**	173,993
Assets available to support funding and collateral needs at 31 December	**5,401,840**	5,244,480	**5,395,908**	5,234,985

Out of the €5,402,000 (2018: €5,244,000) assets available for the local group and €5,396,000 (2018: €5,235,000) for the bank, €3,257,000 (2018: €3,110,000) do not form part of the local group's and the bank's HQLA and are therefore not categorised as liquid assets.

(e) 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 emanate from the interest rate management of the local group's retail and commercial banking assets and liabilities and financial investments measured at FVOCI.

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.

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 Markets 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;
- 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.

VaR for the bank

	2019	2018
	€000	€000
At 31 December	**922**	803
Average	**852**	756
Minimum	**723**	557
Maximum	**947**	877

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 used 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 shown in the table below, assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario and 'down-shock' scenario subject to an established response strategy set by the bank. 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 one year net income of an incremental 100 basis points parallel fall or rise in the yield curves, based on current financial position/risk profiles and current managed interest rate policy.

Impact on future one year net income

	Group/Bank	
	Impact on profit for the year	Impact on profit for the year
	2019	2018
	€000	€000
+ 100 basis points	**12,186**	10,233
- 100 basis points	**(4,938)**	(4,834)

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(f)(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 year and 5 years	More than 5 years	Total
	Group					
	At 31 December 2019					
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Assets						
Balances with Central bank of Malta and Treasury Bills	**476,122**	**24,026**	**5,009**	**—**	**—**	**505,157**
Loans and advances to banks	**672,952**	**—**	**—**	**—**	**—**	**672,952**
Loans and advances to customers	**2,468,873**	**218,781**	**517,212**	**25,787**	**26,780**	**3,257,433**
Debt instruments measured at fair value through other comprehensive income	**211,914**	**49,742**	**135,517**	**492,797**	**53,603**	**943,573**
Total assets	**3,829,861**	**292,549**	**657,738**	**518,584**	**80,383**	**5,379,115**
Liabilities						
Deposits by banks	**840**	**—**	**—**	**—**	**—**	**840**
Customer accounts	**4,345,160**	**176,370**	**308,867**	**146,183**	**—**	**4,976,580**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**4,408,000**	**176,370**	**308,867**	**146,183**	**—**	**5,039,420**
Interest rate sensitivity gap	**(578,139)**	**116,179**	**348,871**	**372,401**	**80,383**	
Cumulative interest rate sensitivity gap	**(578,139)**	**(461,960)**	**(113,089)**	**259,312**	**339,695**	

	At 31 December 2018					
Assets						
Treasury Bills	69,319	38,025	3,003	—	—	110,347
Loans and advances to banks	729,736	47,463	50,000	265,574	—	1,092,773
Loans and advances to customers	2,074,844	306,756	486,093	217,405	25,314	3,110,412
Debt instruments measured at fair value through other comprehensive income	187,210	56,859	119,454	472,259	66,433	902,215
Total assets	3,061,109	449,103	658,550	955,238	91,747	5,215,747
Liabilities						
Deposits by banks	2,542	—	—	—	—	2,542
Customer accounts	4,114,113	188,033	421,107	158,905	5,315	4,887,473
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	4,178,655	188,033	421,107	158,905	5,315	4,952,015
Interest rate sensitivity gap	(1,117,546)	261,070	237,443	796,333	86,432	
Cumulative interest rate sensitivity gap	(1,117,546)	(856,476)	(619,033)	177,300	263,732	

	Bank					
	At 31 December 2019					
Assets						
Balances with Central bank of Malta and Treasury Bills	**476,122**	**24,026**	**5,009**	**—**	**—**	**505,157**
Loans and advances to banks	**672,952**	**—**	**—**	**—**	**—**	**672,952**
Loans and advances to customers	**2,468,873**	**218,781**	**517,212**	**25,787**	**26,780**	**3,257,433**
Debt instruments measured at fair value through other comprehensive income	**211,914**	**49,742**	**135,517**	**492,797**	**53,603**	**943,573**
Total assets	**3,829,861**	**292,549**	**657,738**	**518,584**	**80,383**	**5,379,115**
Liabilities						
Deposits by banks	**840**	**—**	**—**	**—**	**—**	**840**
Customer accounts	**4,394,646**	**176,370**	**308,867**	**146,183**	**—**	**5,026,066**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**4,457,486**	**176,370**	**308,867**	**146,183**	**—**	**5,088,906**
Interest rate sensitivity gap	**(627,625)**	**116,179**	**348,871**	**372,401**	**80,383**	
Cumulative interest rate sensitivity gap	**(627,625)**	**(511,446)**	**(162,575)**	**209,826**	**290,209**	

	At 31 December 2018					
Bank						
Assets						
Treasury Bills	69,319	38,025	3,003	—	—	110,347
Loans and advances to banks	729,736	47,463	50,000	265,574	—	1,092,773
Loans and advances to customers	2,074,844	306,756	486,093	217,405	25,314	3,110,412
Debt instruments measured at fair value through other comprehensive income	187,210	56,859	119,454	472,259	66,433	902,215
Total assets	3,061,109	449,103	658,550	955,238	91,747	5,215,747
Liabilities						
Deposits by banks	2,542	—	—	—	—	2,542
Customer accounts	4,167,620	188,033	421,107	158,905	5,315	4,940,980
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	4,232,162	188,033	421,107	158,905	5,315	5,005,522
Interest rate sensitivity gap	(1,171,053)	261,070	237,443	796,333	86,432	
Cumulative interest rate sensitivity gap	(1,171,053)	(909,983)	(672,540)	123,793	210,225	

Balances with Central Bank of Malta included in above table relate to balances subject to interest rate risk.

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(f)(ii).

	Group				
	2019				
	Reporting currency €000	**In USD €000**	**In GBP €000**	**Other currencies €000**	**Total €000**
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**585,032**	**339**	**431**	**270**	**586,072**
Items in the course of collection from other banks	**3,319**	**28**	**73**	**16**	**3,436**
Financial assets mandatorily measured at fair value through profit or loss	**4,507**	**—**	**—**	**—**	**4,507**
Held for trading derivatives	**4,110**	**1,193**	**17**	**—**	**5,320**
Financial investments	**705,531**	**132,202**	**97,427**	**8,443**	**943,603**
Loans and advances to banks	**574,884**	**48,121**	**17,174**	**32,773**	**672,952**
Loans and advances to customers	**3,231,372**	**25,398**	**270**	**393**	**3,257,433**
Other assets	**26,878**	**1,949**	**171**	**46**	**29,044**
Total assets	**5,135,633**	**209,230**	**115,563**	**41,941**	**5,502,367**
Liabilities					
Deposits by banks	**16**	**—**	**—**	**824**	**840**
Customer accounts	**4,619,938**	**205,025**	**111,666**	**39,951**	**4,976,580**
Held for trading derivatives	**3,627**	**1,545**	**17**	**1**	**5,190**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**62,000**
Other liabilities	**58,104**	**951**	**44**	**25**	**59,124**
Total liabilities	**4,743,685**	**207,521**	**111,727**	**40,801**	**5,103,734**
Net open position	**391,948**	**1,709**	**3,836**	**1,140**	
	2018				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	189,439	398	594	337	190,768
Items in the course of collection from other banks	5,166	47	177	14	5,404
Held for trading derivatives	4,016	904	35	1	4,956
Financial investments	708,679	80,208	105,257	10,776	904,920
Loans and advances to banks	955,869	57,304	27,363	52,237	1,092,773
Loans and advances to customers	3,086,101	23,139	677	495	3,110,412
Other assets	30,912	1,815	3	363	33,093
Total assets	4,980,182	163,815	134,106	64,223	5,342,326
Liabilities					
Deposits by banks	2,542	—	—	—	2,542
Customer accounts	4,535,180	157,384	131,319	63,590	4,887,473
Held for trading derivatives	3,588	1,367	35	1	4,991
Subordinated liabilities	62,000	—	—	—	62,000
Other liabilities	38,814	1,971	110	31	40,926
Total liabilities	4,642,124	160,722	131,464	63,622	4,997,932
Net open position	338,058	3,093	2,642	601	

	Bank				
	2019				
	Reporting currency	In USD	In GBP	Other currencies	Total
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**585,032**	**339**	**431**	**270**	**586,072**
Items in the course of collection from other banks	**3,319**	**28**	**73**	**16**	**3,436**
Financial assets mandatorily measured at fair value through profit or loss	**4,507**	**—**	**—**	**—**	**4,507**
Held for trading derivatives	**4,110**	**1,193**	**17**	**—**	**5,320**
Financial investments	**705,529**	**132,202**	**97,427**	**8,443**	**943,601**
Loans and advances to banks	**574,884**	**48,121**	**17,174**	**32,773**	**672,952**
Loans and advances to customers	**3,231,372**	**25,398**	**270**	**393**	**3,257,433**
Other assets	**26,954**	**1,949**	**171**	**46**	**29,120**
Total assets	**5,135,707**	**209,230**	**115,563**	**41,941**	**5,502,441**
Liabilities					
Deposits by banks	**16**	**—**	**—**	**824**	**840**
Customer accounts	**4,666,447**	**206,430**	**112,271**	**40,918**	**5,026,066**
Held for trading derivatives	**3,627**	**1,545**	**17**	**1**	**5,190**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**62,000**
Other liabilities	**58,104**	**951**	**44**	**25**	**59,124**
Total liabilities	**4,790,194**	**208,926**	**112,332**	**41,768**	**5,153,220**
Net open position	**345,513**	**304**	**3,231**	**173**	
	2018				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	189,439	398	594	337	190,768
Items in the course of collection from other banks	5,166	47	177	14	5,404
Held for trading derivatives	4,016	904	35	1	4,956
Financial investments measured at fair value through other comprehensive income	708,677	80,208	105,257	10,776	904,918
Loans and advances to banks	955,869	57,304	27,363	52,237	1,092,773
Loans and advances to customers	3,086,101	23,139	677	495	3,110,412
Other assets	26,383	1,815	3	363	28,564
Total assets	4,975,651	163,815	134,106	64,223	5,337,795
Liabilities					
Deposits by banks	2,542	—	—	—	2,542
Customer accounts	4,585,134	159,097	133,135	63,614	4,940,980
Held for trading derivatives	3,588	1,367	35	1	4,991
Subordinated liabilities	62,000	—	—	—	62,000
Other liabilities	36,865	1,971	110	31	38,977
Total liabilities	4,690,129	162,435	133,280	63,646	5,049,490
Net open position	285,522	1,380	826	577	

All derivatives are transacted primarily to create risk management solutions for clients. All positions entered into with clients are covered by back-to-back derivative transactions with HSBC Group entities. Accordingly, the local group or bank does not use currency derivatives to close open currency positions.

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 overnight and intra-day net positions are monitored.

(f) Insurance risk

The local group operates an integrated bank assurance model which provides wealth and protection insurance products principally for customers with whom the local group has a banking relationship. Insurance products are sold predominantly by RBWM. 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 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 results in a significant portion of the insurance risk being shared with the insured party.

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 benefits 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 following table provides an analysis of the insurance risk exposures by type of business gross of re-insurance:

	2019 €000	2018 €000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**295,323**	292,494
Term assurance and other long-term contracts	**117,748**	116,988
Total non-linked	**413,071**	409,482
Life insurance (linked)	**245,399**	211,299
Liabilities under insurance contracts	**658,470**	620,781

Financial Risk

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 obligations arising from its insurance and investment contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

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 direct equity price, currency, credit or interest risk exposure for these contracts which is borne by the local group.

i 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 Approved Actuary. The local group is exposed to adverse market conditions which could lead to the value of assets backing the liabilities to fall below the guaranteed benefit at policy maturity.

ii 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 risk in the insurance subsidiary company is minimised primarily by matching estimated future cash outflows to be paid to policyholders with expected cash flows from assets. The pool of investments backing liabilities is managed to duration targets that aim to make the net effect of interest rate changes on assets and liabilities 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 €3,700,819 (2018: €4,209,000) and a sensitivity analysis is not deemed necessary on the basis of insignificance.

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 as summarised below. 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 for the year and net assets	
	2019	2018
	€000	€000
+100 basis points shift in yield curves	**1,505**	895
-100 basis points shift in yield curves	**(984)**	(1,314)
+10 per cent increase in equity prices	**766**	712
-10 per cent decrease in equity prices	**(766)**	(720)

iii 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;
- insurance and other receivables; 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 by using reinsurers with a minimum rating of AA-. 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, amounting to €1,104,000 (2018: €2,025,000), are rated A- and above. As from 2018, in line with IFRS 9, the insurance subsidiary company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2019 cash deposits are held with reputable counter parties and are due on demand. Management consider the probability of default to be closed to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the insurance subsidiary company.

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	
	2019	2018	**2019**	2018	**2019**	2018
	€000	€000	**€000**	€000	**€000**	€000
AAA	**—**	—	**946**	10,218	**946**	10,218
AA+ to AA-	**—**	—	**25,261**	43,204	**25,261**	43,204
A+ to A-	**179**	—	**162,046**	151,906	**162,225**	151,906
BBB+ to BBB-	**1,422**	193	**62,289**	41,723	**63,711**	41,916
BB+ to B-	**1,760**	679	**—**	1,594	**1,760**	2,273
Lower than B-	**—**	—	**—**	—	**—**	—
Unrated	**800**	1,047	**12,509**	10,093	**13,309**	11,140
Total	**4,161**	1,919	**263,051**	258,738	**267,212**	260,657

The insurance subsidiary company is not exposed to credit risk in respect of unit-linked business, although the relevant credit information is disclosed. Insurance and other receivables amounting to €4,806,000 (2018: €3,851,000), include accrued interest amounting to €2,701,0000 (2018: €3,264,000) which would exhibit a similar rating profile to debt securities above.

iv 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 achieve a competitive rate of return within the prevailing risk objectives delineated by asset liquidity, credit quality and asset-liability matching.

The following table shows the cash flows expected to arise pertaining to insurance and investment liabilities as well as the contractual maturity of financial assets as at reporting date.

Expected maturity of financial assets and insurance and investment liabilities

	At 31 December 2019					
	No fixed maturity	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Financial investments	**482,435**	**1,990**	**16,243**	**105,769**	**143,209**	**749,646**
Reinsurance assets	**78,945**	**—**	**—**	**—**	**—**	**78,945**
Cash	**3,079**	**—**	**—**	**—**	**—**	**3,079**
	564,459	**1,990**	**16,243**	**105,769**	**143,209**	**831,670**

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Liabilities to customers:						
– insurance contracts	**—**	**20,937**	**42,748**	**203,259**	**407,440**	**674,384**
– investment contracts	**123,814**	**1,166**	**4,406**	**15,058**	**41,205**	**185,649**
	123,814	**22,103**	**47,154**	**218,317**	**448,645**	**860,033**

	At 31 December 2018					
	No fixed maturity	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Financial investments	433,533	4,421	2,602	100,560	153,079	694,195
Reinsurance assets	85,205	—	—	—	—	85,205
Cash	4,876	—	—	—	—	4,876
	523,614	4,421	2,602	100,560	153,079	784,276

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Liabilities to customers:						
– insurance contracts	—	19,749	46,181	189,752	404,059	659,741
– investment contracts	116,166	596	1,450	14,722	38,342	171,276
	116,166	20,345	47,631	204,474	442,401	831,017

The insurance subsidiary company's Asset Liability Committee reviews and approves investment strategies on a periodic basis, ensuring that assets are managed efficiently within approved risk mandates.

The methodology used for estimating cash outflows on liabilities to customers can be found below:

- Linked Insurance Reserves: derived via undiscounted cash flows. No future premiums are assumed and investment returns are not included in the provisions. All decrements are considered.
- Linked Investment Reserves: derived via undiscounted cash flows but only considering contractual maturities and no other form of decrement. When there is no contractual maturity, the reserve is placed within the 'on demand' bucket.
- Non-Linked Reserve: derived via undiscounted 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 reserves.

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 there is a difference between the transaction price and the fair value of the financial asset where fair value will be based on a quoted price in an active market (such as 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 one, being the difference between the transaction price and the fair value. In all other cases (such as when significant unobservable parameters are used), the entire day one 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(f).

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:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- 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.
- 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 it 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).

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:

Financial instruments by fair value

	Group			
	At 31 December 2019			
	Valuation techniques			
	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets				
Treasury Bills	**–**	**127,075**	**–**	**127,075**
Held for trading derivatives	**–**	**5,320**	**–**	**5,320**
Financial assets mandatorily measured at fair value through profit or loss	**738,180**	**4,461**	**11,379**	**754,020**
Financial investments	**943,573**	**–**	**30**	**943,603**
	1,681,753	**136,856**	**11,409**	**1,830,018**
Liabilities				
Held for trading derivatives	**–**	**5,190**	**–**	**5,190**
Liabilities under investment contracts	**182,496**	**893**	**317**	**183,706**
	182,496	**6,083**	**317**	**188,896**
	At 31 December 2018			
Assets				
Treasury Bills	–	110,347	–	110,347
Held for trading derivatives	–	4,956	–	4,956
Financial assets mandatorily measured at fair value through profit or loss	678,293	7,635	8,153	694,081
Financial investments	902,217	–	2,703	904,920
	1,580,510	122,938	10,856	1,714,304
Liabilities				
Held for trading derivatives	–	4,991	–	4,991
Liabilities under investment contracts	163,359	2,408	580	166,347
	163,359	7,399	580	171,338
	Bank			
	At 31 December 2019			
Assets				
Treasury Bills	**–**	**127,075**	**–**	**127,075**
Held for trading derivatives	**–**	**5,320**	**–**	**5,320**
Financial assets mandatorily measured at fair value through profit or loss	**–**	**–**	**4,507**	**4,507**
Financial investments	**943,573**	**–**	**28**	**943,601**
	943,573	**132,395**	**4,535**	**1,080,503**
Liabilities				
Held for trading derivatives	**–**	**5,190**	**–**	**5,190**
	–	**5,190**	**–**	**5,190**
	At 31 December 2018			
Assets				
Treasury Bills	–	110,347	–	110,347
Held for trading derivatives	–	4,956	–	4,956
Financial investments	902,215	–	2,703	904,918
	902,215	115,303	2,703	1,020,221
Liabilities				
Held for trading derivatives	–	4,991	–	4,991
	–	4,991	–	4,991

The local group's and bank's assets categorised within Level 2 comprise Treasury Bills, debt securities, equity investments and units in collective investment schemes which are traded in inactive markets, with fair value determined on the basis of quoted prices in such inactive markets.

The local group's and bank's derivative instruments are categorised as Level 2, since they are fair valued principally using discounted cash flow models where all significant inputs are observable, such as exchange rates and interest rate yield curves.

Certain assets attributable to insurance operations, categorised as Level 2, are held to cover linked liabilities and accordingly, corresponding liabilities to customers under investment contracts are also categorised as Level 2.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2019 and 2018, other than transfers from Levels 1 and 2 to Level 3 referred to below. The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy:

Reconciliation of the fair value measurements in Level 3

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 January	**8,153**	7,474	**–**	–
Disposal of assets	**(1,915)**	(1,713)	**–**	–
Additions	**3,309**	59	**2,675**	–
Transferred from assets attributable to disposal group held for sale	**–**	307	**–**	–
Transfer from Level 2	**–**	1,259	**–**	–
Gains recognised in profit or loss	**1,832**	767	**1,832**	–
At 31 December	**11,379**	8,153	**4,507**	–
Assets attributable to disposal group held for sale				
At 1 January	**–**	2,734	**–**	–
Disposal of assets	**–**	(454)	**–**	–
Transfer to financial assets mandatorily measured at fair value through profit or less	**–**	(307)	**–**	–
Gains recognised in profit or loss - partially offset through loss/gain on linked liabilities	**–**	20	**–**	–
Transfer to third party	**–**	(1,993)	**–**	–
At 31 December	**–**	–	**–**	–

The financial assets mandatorily measured at fair value through profit or loss are principally attributable to insurance operation and assets attributable to disposal group held for sale, categorised within Level 3, mainly comprise holdings of units in collective investment schemes. 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 necessarily supported by audited financial statements.

On 7 December 2018 as part of the portfolio transfer to a third party, investments with a carrying amount of €1,993,000 were transferred out and investments with a carrying amount of €307,000 were reclassified from assets attributable to disposal group held for sale to financial assets mandatorily measured at fair value through profit or loss attributable to insurance operations, as the respective policies were excluded from the portfolio transfer. During 2018, two units of collective investment schemes with a carrying amount of €1,259,000 were transferred from Level 2 to Level 3. The price for these funds is no longer being quoted on the market. Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstances that caused the transfer.

A portion of 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. In view of this factor and the immateriality of the residual Level 3 assets, 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. Gains recognised in profit or loss arising on these assets are partially offset through losses incurred on linked liabilities.

As at 31 December 2019, Level 3 assets amounting to €317,000 (2018: €580,000) are held to cover linked liabilities. The decrease from the prior year is attributable to redemptions of such liabilities and therefore included within 'Disposal of assets' in the above table.

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 December2019 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 2019, 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.

At 31 December 2019 and 2018 the carrying amounts of the local group's land and buildings within property, plant and equipment, were adjusted to reflect the properties' estimated open market value.

The carrying amount of investment property at 31 December 2018 was adjusted to reflect the properties' estimated open market value on an individual asset level. No fair value adjustments were deemed necessary for 2019.

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).

The local group's land and buildings, within property, plant and equipment, comprises 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 53). All the recurring property fair value measurements at 31 December 2019 and 2018 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 on the date the event or change in circumstances that causes the transfer occurs. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2019 and 2018.

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.

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 4.75% – 8.8% (2018: 4.75% – 8.8%), 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.

	At 31 December 2019			
	Fair value	**Valuation technique**	**Significant unobservable input**	**Range of unobservable inputs (weighted average)**
Description by class based on highest and best use	**€000**	**€000**	**€000**	**€000**
Current use as commercial branches, bank offices and other related premises	**38,186**	**Capitalised rental approach**	**Rental rate per square metre**	**40 – 220 (118)**
Current use as third party offices	**9,788**	**Capitalised**	**Rental rate**	**(102)**
	At 31 December 2018			
Current use as commercial branches, bank offices and other related premises	43,578	Capitalised rental approach	Rental rate per square metre	40 – 220 (107)
Current use as third party offices	9,714	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.

vii Disclosures in respect of fair values of financial instruments not carried at fair value

Certain financial instruments are carried at amortised cost. The fair values of these financial instruments 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 the bank has the ability to re-price them at its own discretion, or because these are short-term in nature.

The following table sets out the carrying amounts of these financial instruments:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta and cash	**458,997**	80,421	**458,997**	80,421
Items in course of collection from other banks	**3,436**	5,404	**3,436**	5,404
Loans and advance to banks	**676,031**	1,097,714	**672,952**	1,092,773
Loans and advance to customers	**3,257,433**	3,110,412	**3,257,433**	3,110,412
Accrued interest	**21,723**	24,710	**18,858**	21,277
Other assets	**10,186**	6,910	**10,262**	6,910
	4,427,806	4,325,571	**4,421,938**	4,317,197
Liabilities				
Deposits by banks	**840**	2,542	**840**	2,542
Customer accounts	**4,976,580**	4,887,473	**5,026,066**	4,940,980
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**3,397**	3,702	**3,163**	3,478
Other liabilities	**30,973**	22,130	**30,973**	22,130
	5,073,790	4,977,847	**5,123,042**	5,031,130

Fair values for these financial instruments (other than for cash) are estimated using discounted cash flows applying current market interest rates for instruments with similar remaining maturities and hence utilising mainly Level 3 inputs.

Fair values in relation to loans and advances to customers and in relation to customer accounts repayable on demand are deemed to be fairly close to carrying amounts principally in view of the local group's ability to reprice at its discretion. The majority of customer term deposit accounts are held for a period of less than 12 months and therefore their fair value is also deemed to closely approximate the carrying amount due to their short-term nature. These estimates are considered Level 3 fair value estimates.

Similarly deposits by banks are principally repayable on demand and, as a result, their fair value is approximated by their carrying amount. The fair value of balances with the Central Bank of Malta, loans and advances to banks and subordinated liabilities is deemed to approximate the carrying amount due to the fact that they are short term in nature and reprice frequently.

6 Capital Risk Management

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital base to support the risks inherent in our business, invest in accordance with our strategy and meeting both consolidated as well as local regulatory capital requirements at all times.

Our capital management process culminates in the annual local group capital plan, which is approved by the Board and which determines the optimal amount and mix of capital required to support planned business growth whilst at the same time 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.

For regulatory purposes, the local group's capital base is divided into two main categories, CET 1 (Common Equity Tier) capital and Tier 2 capital, as defined in Part Two of the Capital Requirement Regulation (CRR). CET 1 capital is the highest quality form of capital, comprising shareholders' equity. Under the CRR, various capital deductions and regulatory adjustments are made against these items – these include deductions for intangible assets and the depositor compensation scheme reserve. Tier 2 capital comprises eligible subordinated debt.

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 and operational risk and Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements.

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. The 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.

	2019	2018
	€000	€000
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**329,672**	316,421
Revaluation reserve	**32,202**	34,265
Adjustments		
– depositor compensation scheme	**(21,921)**	(23,618)
– intangible assets	**(10,193)**	(5,831)
– expected final dividend	**(4,918)**	(4,310)
– retained earnings – HSBC Life Assurance (Malta) Limited	**(42,786)**	(53,584)
– prudential valuation adjustment	**(1,085)**	(1,025)
– IFRS 9 transitional adjustments	**6,841**	7,646
– single resolution fund	**(896)**	(710)
Total Tier 1 capital	**395,008**	377,346
Tier 2 capital		
Subordinated debt	**62,000**	62,000
Total Tier 2 capital	**62,000**	62,000
Total own funds	**457,008**	439,346

7 Interest and similar income

	Group		Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
On loans and advances to banks	**2,562**	1,797	**2,562**	1,797
On loans and advances to customers	**109,985**	110,391	**109,985**	110,391
On other assets	**124**	–	**–**	–
On loans and advances to bank and customers and other assets	**112,671**	112,188	**112,547**	112,188
Interest on debt and other fixed income instruments	**16,340**	17,346	**16,340**	17,334
Amortisation of net premiums on debt and other fixed income instruments	**(8,438)**	(7,675)	**(8,438)**	(7,675)
On debt and other fixed income instruments	**7,902**	9,671	**7,902**	9,659
	120,573	121,859	**120,449**	121,847

Interest income recognised on credit impaired loans and advances, which is entirely included in interest income on loans and advances to customers, amounted to €5,268,000 (2018: €5,962,000).

8 Interest expense

	Group		Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
On balances with Central Bank of Malta	**406**	26	**406**	26
On Treasury Bills	**525**	515	**525**	515
On loans and advances to banks	**402**	2,375	**402**	2,375
On deposits by banks	**583**	562	**583**	562
On customer accounts	**7,418**	8,353	**7,418**	8,353
On lease liabilities	**51**	–	**51**	–
On subordinated liabilities	**1,077**	1,406	**1,077**	1,406
	10,462	13,237	**10,462**	13,237

9 Net fee income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Fee income earned on:				
– financial assets or liabilities not at fair value through profit or loss, other than fees included in effective interest rate calculations	**16,167**	13,852	**16,167**	13,852
– trust and other fiduciary activities where the local group holds or invests in assets on behalf of its customers	**6,968**	8,488	**2,898**	3,473
– other	**1,624**	1,774	**2,378**	2,370
	24,759	24,114	**21,443**	19,695
Fee expense	**(2,009)**	(1,338)	**(1,728)**	(1,134)
	22,750	22,776	**19,715**	18,561

Net fee income amounting to €938,000 (2018: €1,122,000) is derived from the investment services activities of the local group.

10 Net trading income

	Group/Bank	
	2019	2018
	€000	€000
Net income from foreign exchange activities	**4,831**	5,061
Net income from held for trading financial instruments	**525**	325
Other	**1,832**	—
	7,188	5,386

11 Dividend income

Dividend income received by the bank in 2019 amounted to €22,383,000 (2018: 11,425,000), out of which €22,354,000 (2018: €11,407,000) represents dividend received from subsidiary companies.

12 Net insurance premium income

	Group		
	Non-linked life insurance	**Linked life insurance**	**Total**
	€000	**€000**	**€000**
Gross insurance premium income	**36,510**	**26,500**	**63,010**
Reinsurers' share of gross premium income	**(5,302)**	**—**	**(5,302)**
Year ended 31 December 2019	**31,208**	**26,500**	**57,708**
Gross insurance premium income	38,349	23,875	62,224
Reinsurers' share of gross premium income	(3,724)	—	(3,724)
Year ended 31 December 2018	34,625	23,875	58,500

13 Other operating income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Operating income				
Rental income from investment property	**752**	862	**752**	862
Gains arising on disposal of re-possessed properties	**239**	1,045	**239**	1,045
Gains arising on disposal of owned properties	**368**	15	**260**	15
Other income	**631**	986	**608**	1,054
	1,990	2,908	**1,859**	2,976
Loss arising on disposal of equipment	**(42)**	—	**(42)**	—
Fair value changes in respect of investment property	**—**	399	**—**	—
	1,948	3,307	**1,817**	2,976

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

	Group	
	2019	2018
	€000	€000
Claims, benefits and surrenders paid	**57,701**	81,701
Movement in liabilities	**37,686**	(38,010)
Gross claims, benefits paid and movement in liabilities	**95,387**	43,691
Reinsurers' share of claims, benefits and surrenders paid	**(1,406)**	(20,365)
Reinsurers' share of movement in liabilities	**6,120**	847
Reinsurers' share of claims, benefits paid and movement in liabilities	**4,714**	(19,518)
	100,101	24,173

15 Change in expected credit losses and other credit impairment charges

	Group/Bank	
	2019	2018
	€000	€000
Change in expected credit losses:		
– loans and advances to customers including accrued interest	**(6,235)**	(1,377)
– balances with central banks	**18**	(2)
– loans and advances to banks	**(2)**	2
– loan commitments and guarantees	**(496)**	184
– other financial assets	**(12)**	(63)
– debt instruments measured at fair value through other comprehensive income	**11**	(18)
Other credit impairment charges:		
– bad debts written off	**8,338**	5,857
– bad debts recovered	**(1,233)**	(1,095)
	389	3,488

16 Movement in provision for brokerage remediation costs

In 2016, the bank recognised a provision amounting to €8,000,000 for a customer remediation programme (refer to Note 42) in respect of a legacy operational and regulatory failure in the bank's brokerage business, which has been wound down during 2014. The failure relates to 'execution only' trades effected by customers purchasing complex instruments through the bank, wherein the bank failed to undertake the appropriateness test in accordance with the requirements stipulated within Markets in Financial Instruments Directive (MiFID). The bank had self-identified and self-reported the issue to the supervisory authorities.

Execution of the remediation programme commenced during 2017 and continued in 2018.

During 2017, the bank effected a partial reversal of this provision,amounting to €1,800,000 taking into account the impact on the provision of the revised categorisation of certain instruments as non-complex, on the basis of expert independent advice obtained. Remediation payments amounting to €346,000 were processed in 2018 and €2,455,000 in 2017. These instruments had been re-categorised as non-complex as they were considered to be traded on either regulated or liquid markets.

In 2018 and 2019 the bank effected reversals of provisions amounting to €2,028,000 and €1,371,000 respectively, such that at 31 December 2019, the provision was fully released. Reversals were based on both a review of the residual liabilities and confirmation that no further operational costs relating to the programme will be incurred. The amount of the reversals effected during 2019 was equivalent to the balance of the provision as at 31 December 2018.

17 Employee compensation and benefits

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Wages, salaries and allowances	**43,786**	45,804	**41,277**	43,297
Defined contribution social security costs	**2,640**	2,759	**2,497**	2,614
Termination benefits and long-term employee benefits	**17,633**	1,194	**17,255**	1,194
Share-based payments	**403**	401	**398**	401
	64,462	50,158	**61,427**	47,506
Average number of employees:				
– executive and senior managerial	**318**	324	**299**	316
– other managerial, supervisory and clerical	**950**	1,019	**901**	956
– others	**3**	9	**3**	9
	1,271	1,352	**1,203**	1,281

Termination benefits and long-term employee benefits

During the year the local group announced a strategic plan to increase its focus on digital banking services and to modernise its branch network. As part of this plan the bank closed a number of branches and devised an associated voluntary redundancy scheme in view of the expected reduction in roles within the organisation.

Termination benefits for the current year comprise a provision for restructuring costs amounting to €18,837,000 attributable to local group employees and €18,459,000 attributable to bank employees that opted for voluntary redundancy under the voluntary redundancy scheme which closed by the year end. The amount reflects the estimated payments to the affected individual employees which are approximately 195 applicants, representing 180 Full Time Equivalent employees, for the local group and 191 applicants, representing 176 Full Time Equivalent employees, for the bank.

The local group and the bank have liabilities for long-term employee benefits, treated as defined benefit obligations, arising out of the provisions of the Collective Agreement (refer to Note 42). The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement on medical grounds. As a result of the restructuring exercise (refer to above), the long-term employee benefits provision was revised to reflect the reduction in the number of employees as these employees are no longer eligible for the benefits stipulated within the Collective Agreement. This resulted in a release of the provision to the income statement amounting to €2,826,000 (refer to Note 42). On the other hand, an expense amounting to €1,150,000 (2018: €1,153,000), predominantly representing current service costs attributable to these obligations, was recognised in the income statement during the current year.

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 restricted share awards are 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. These share option plans are expired and were replaced by Share Match (refer to note below).

Awards to local group employees also comprise restricted share awards (including Group Performance Share Plans GPSP) referred to above. 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. GPSP awards vest after five years, whereas other deferred awards generally vest over a period of three 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.

In 2015, the local group's employees were invited to join Share Match, an 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 for 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 not been deemed necessary.

18 Profit before tax

Profit before tax of the local group is stated after charging auditors' fees (excluding VAT) amounting to €362,000 (2018: €353,000) in relation to the annual statutory audit of the financial statements. Other fees, exclusive of VAT, charged by the appointed independent auditors, comprise other assurance services amounting to €58,000 (2018: €48,000).

General and administration expenses are analysed as follows:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Premises and equipment costs	**4,477**	5,410	**4,461**	5,389
IT support and telecommunication costs	**9,938**	9,365	**9,519**	8,701
Insurance, security and maintenance costs	**2,221**	2,645	**2,221**	2,645
Investment management and administrator fees	**1,177**	1,509	**–**	–
Actuarial services	**434**	794	**–**	–
Service contracted out costs	**9,489**	9,916	**8,627**	9,036
Regulatory fees	**5,160**	5,286	**5,044**	5,087
Professional fees	**1,920**	1,912	**1,516**	1,693
Other administrative expenses	**15,478**	16,187	**14,942**	15,620
	50,294	53,024	**46,330**	48,171

Other administrative expenses mainly comprise of expense items which are incurred in the course of the operations of the local group and bank.

19 Tax expense

The local group's and the bank's tax expense recognised in profit or loss is analysed below:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Current tax:	**12,224**	11,905	**17,583**	11,790
– for this year	**12,227**	14,589	**17,633**	14,474
– adjustments in respect of prior year	**(3)**	(2,684)	**(50)**	(2,684)
Deferred tax:	**(1,683)**	(2,045)	**(919)**	358
– origination and reversal of temporary differences	**(1,637)**	(1,452)	**(919)**	951
– adjustments in respect of prior year	**(46)**	(593)	**–**	(593)
	10,541	9,860	**16,664**	12,148

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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Profit before tax	**30,709**	38,556	**48,497**	44,739
Tax at the applicable rate of 35%	**10,748**	13,495	**16,974**	15,659
Tax effect of:				
– non-taxable income	**(163)**	(403)	**(270)**	(182)
– income taxed at different rates	**(68)**	(345)	**(68)**	(236)
– non-deductible expenses	**38**	20	**36**	20
– disallowed expense arising from depreciation of property, plant and equipment	**210**	222	**210**	222
– further allowances on rental income	**(53)**	(61)	**(53)**	(61)
– current tax adjustment in respect of prior years	**(50)**	(2,684)	**(50)**	(2,684)
– deferred tax not previously recognised	**–**	(593)	**–**	(593)
– others	**(121)**	209	**(115)**	3
Tax expense	**10,541**	9,860	**16,664**	12,148

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:

	Group					
	2019			2018		
	Before tax	**Tax (charge)/ credit**	**Net of tax**	Before tax	Tax (charge)/ credit	Net of tax
	€000	**€000**	**€000**	€000	€000	€000
Fair valuation of financial investments:						
– net changes in fair value	**478**	**(167)**	**311**	(3,919)	1,372	(2,547)
Fair valuation of properties:						
– net changes in fair value	**(528)**	**53**	**(475)**	424	(42)	382
Remeasurement of defined benefit obligation:						
– net changes in remeasurement	**(952)**	**333**	**(619)**	(514)	180	(334)
	(1,002)	**219**	**(783)**	(4,009)	1,510	(2,499)

	Bank					
	2019			2018		
Fair valuation of financial investments:						
– net changes in fair value	**478**	**(167)**	**311**	(3,903)	1,366	(2,537)
Fair valuation of properties:						
– net changes in fair value	**(528)**	**53**	**(475)**	424	(42)	382
Remeasurement of defined benefit obligation:						
– net changes in remeasurement	**(952)**	**333**	**(619)**	(514)	180	(334)
	(1,002)	**219**	**(783)**	(3,993)	1,504	(2,489)

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 €20,168,000 (2018: €28,696,000), while the weighted average number of ordinary shares in issue was 360,306,099 (2018: 360,306,099). The basic earnings per share of the local group amounted to 5.6c (2018: 8.0c). 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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Balances with Central Bank of Malta	**426,722**	49,252	**426,722**	49,252
Malta Government Treasury Bills				
– classified at fair value through other comprehensive income	**127,075**	110,347	**127,075**	110,347
Cash	**32,275**	31,169	**32,275**	31,169
	586,072	190,768	**586,072**	190,768

The average reserve deposit held with the Central Bank of Malta for the relevant maintenance period in terms of Regulation (EC) No. 1745/2003 of the European Central Bank amounted to €48,641,000 (2018: €48,497,000).

Balances with Central Bank of Malta include an amount of €896,000 (2018: €710,000) placed in an account held in respect of the Single Resolution Fund as an Irrevocable Payment Commitment (IPC) to the latter in terms of the Recovery and Resolution Regulations.

Balances with Central Bank of Malta in the table above are shown net of credit loss allowances which amounted to €19,000 (2018: €1,000).

22 Financial assets mandatorily measured at fair value through profit or loss

	Group	
	2019	2018
	€000	€000
Debt securities and other fixed income instruments	**267,211**	260,657
Equity and other non-fixed income instruments	**486,809**	433,424
	754,020	694,081

Debt securities and other fixed income instruments

	Group	
	2019	2018
	€000	€000
Issued by public bodies:		
– local government	**96,366**	96,039
– foreign governments	**56,554**	69,603
Issued by other bodies:		
– local banks	**2,078**	2,706
– foreign banks	**23,167**	19,970
– other local issuers	**12,508**	10,093
– other foreign issuers	**76,538**	62,246
	267,211	260,657
Listing status:		
– listed on the Malta Stock Exchange	**110,953**	108,838
– listed on other recognised exchanges	**155,299**	151,574
– unlisted	**959**	245
	267,211	260,657
At 1 January	**260,657**	261,895
Acquisitions	**63,111**	36,256
Disposals/redemptions	**(66,543)**	(30,988)
Transfers from Assets attributable to disposal group held for sale	**–**	950
Changes in fair value	**9,986**	(7,456)
At 31 December	**267,211**	260,657

Equity and other non-fixed income instruments

	Group	
	2019	2018
	€000	€000
Issued by other bodies:		
– local banks	**1,135**	1,292
– foreign banks	**7,462**	5,511
– other local issuers	**101,330**	91,776
– other foreign issuers	**376,882**	334,845
	486,809	433,424
Listing status:		
– listed on the Malta Stock Exchange	**17,245**	16,175
– listed on other recognised exchanges	**56,585**	50,011
– local unlisted	**88,158**	76,893
– foreign unlisted	**324,821**	290,345
	486,809	433,424
At 1 January	**433,424**	465,375
Acquisitions	**287,845**	299,491
Disposals	**(303,565)**	(296,671)
Transfers from Assets attributable to disposal group held for sale	**–**	6,884
Changes in fair value	**69,105**	(41,655)
At 31 December	**486,809**	433,424

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 manages its derivative risk positions principally through offsetting derivative transactions with HSBC Group entities. For accounting purposes, all derivative instruments are classified as held for trading.

	Group/Bank	
	2019	2018
	€000	€000
Derivative assets		
Held for trading	**5,320**	4,956
Derivative liabilities		
Held for trading	**5,190**	4,991

Derivatives held for trading

	Group/Bank			
	2019			
	Notional	**Fair Value Assets**	**Notional**	**Fair Value Liabilities**
	€000	**€000**	**€000**	**€000**
Foreign exchange derivatives				
Currency forwards	**135,159**	**1,635**	**133,377**	**1,446**
Interest rate derivatives				
Interest rate swaps	**97,659**	**3,685**	**97,659**	**3,744**
Total derivatives		**5,320**		**5,190**
	2018			
Foreign exchange derivatives				
Currency forwards	62,359	1,474	63,918	1,363
Interest rate derivatives				
Interest rate swaps	128,218	3,482	128,218	3,628
Total derivatives		4,956		4,991

The notional contract amounts of derivatives indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Currency forwards represent commitments to purchase and sell pre-established amounts of currencies, and are gross settled.

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.

All 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.

24 Loans and advances to banks

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Repayable on call and at short notice	**124,543**	674,239	**121,464**	669,298
Term loans and advances	**551,488**	423,475	**551,488**	423,475
	676,031	1,097,714	**672,952**	1,092,773

25 Loans and advances to customers

	Group/Bank	
	2019	2018
	€000	€000
Repayable on call and at short notice	**234,621**	260,906
Term loans and advances	**3,059,673**	2,894,274
Gross loans and advances to customers	**3,294,294**	3,155,180
Allowance for ECL	**(36,861)**	(44,768)
Net loans and advances to customers	**3,257,433**	3,110,412
Allowance for ECL		
– allowances booked under Stage 1	**7,551**	7,829
– allowances booked under Stage 2	**6,013**	7,060
– allowances booked under Stage 3	**23,297**	29,879
	36,861	44,768

26 Financial investments

	Group		Bank	
	2019	2018	**2019**	2018
Measured at fair value through Other Comprehensive Income:	**€000**	€000	**€000**	€000
Debt securities and other fixed income instruments	**943,573**	902,215	**943,573**	902,215
Equity and other non-fixed income instruments	**30**	2,705	**28**	2,703
	943,603	904,920	**943,601**	904,918

Debt securities and other fixed income instruments

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Issued by public bodies:				
– local government	**463,663**	489,679	**463,663**	489,679
– foreign governments	**224,797**	225,453	**224,797**	225,453
Issued by other bodies:				
– other foreign issuers	**255,113**	187,083	**255,113**	187,083
	943,573	902,215	**943,573**	902,215
Listing status:				
– listed on the Malta Stock Exchange	**463,663**	489,679	**463,663**	489,679
– listed on other recognised exchanges	**479,910**	412,536	**479,910**	412,536
	943,573	902,215	**943,573**	902,215
At 1 January	**902,215**	924,999	**902,215**	923,786
Exchange adjustments	**5,006**	2,867	**5,006**	2,851
Amortisation of premium/discount	**(8,438)**	(7,675)	**(8,438)**	(7,675)
Additions	**315,277**	242,523	**315,277**	242,523
Disposals/redemptions	**(270,965)**	(254,972)	**(270,965)**	(253,759)
Changes in fair value	**478**	(5,527)	**478**	(5,511)
At 31 December	**943,573**	902,215	**943,573**	902,215

Debt instruments with a carrying amount of €60,974,000 (2018: €61,893,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2019 and 2018, no balances were outstanding against these credit lines. In addition debt securities with a carrying amount of €21,941,000 (2018: €24,043,000) have been pledged in terms of the Depositor Compensation Scheme (refer to Note 46).

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 or loss recognised in profit or loss.

Equity and other non-fixed income instruments

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks:				
– local issuers	**6**	7	**4**	5
– foreign issuers	**24**	2,698	**24**	2,698
	30	2,705	**28**	2,703
Listing status:				
– listed on the Malta Stock Exchange	**6**	7	**4**	5
– unlisted	**24**	2,698	**24**	2,698
	30	2,705	**28**	2,703

27 Prepayments and accrued income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Gross accrued interest	**30,818**	30,949	**27,953**	27,516
Expected credit loss allowances	**(9,095)**	(6,239)	**(9,095)**	(6,239)
Net accrued interest	**21,723**	24,710	**18,858**	21,277
Other accrued income	**789**	1,473	**803**	377
Prepayments	**1,066**	1,129	**1,054**	1,106
	23,578	27,312	**20,715**	22,760

28 Reinsurance assets

	Group	
	2019	2018
	€000	€000
Life insurance assets (non-linked)		
Long-term insurance contracts	**78,227**	84,465
Claims outstanding	**2,038**	1,908
Other payables	**(1,320)**	(1,168)
	78,945	85,205

29 Other non-current assets held for sale

	Group/Bank	
	2019	2018
	€000	€000
Assets acquired in satisfaction of debt	**5,206**	5,908
Assets held for sale attributable to closed branches	**3,216**	–
	8,422	5,908

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.

During 2019, a number of branches were closed in accordance with the bank's strategic plan to modernise its operations and enhance its branch network infrastructure. Hence land and buildings and other equipment with a carrying amount of €3,216,000 attributable to specific closed branches were reclassified from Property, plant and equipment (refer to Note 32). The carrying amount of these assets will be recovered through a sale transaction rather than through continuing use.

30 Investments in subsidiaries

	Bank			
	Nature of business	Equity interest	**2019**	2018
		%	**€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	**2,281**	2,281
			30,859	30,859

All subsidiaries are incorporated in Malta.

31 Investment property

	Fair value 2019 €000	Cost 2019 €000	Fair value 2018 €000	Cost 2018 €000
Group				
Freehold land and buildings				
As at 1 January	**9,714**	**8,463**	10,600	9,216
Additions	**74**	**74**	15	15
Disposals	**—**	**—**	(1,300)	(768)
Fair value adjustments	**—**	**—**	399	—
At 31 December	**9,788**	**8,537**	9,714	8,463
Bank				
Freehold land and buildings				
As at 1 January	**7,515**	**6,743**	7,500	6,728
Additions	**74**	**74**	15	15
At 31 December	**7,589**	**6,817**	7,515	6,743

During the year ended 31 December 2019 €752,000 (2018: €862,000) was recognised as rental income in profit or loss relating to investment property for the local group and the bank. Related repair and maintenance expenses incurred by the local group and the bank on these properties are reimbursed by the tenant.

Fair values are determined by professional valuers who apply recognised valuation techniques. The local group has in place set benchmarks to ensure that these valuers hold the necessary recognised and relevant professional qualifications as well as the knowledge and experience depending on the location and category of the investment property being valued.

32 Property, plant and equipment

	Group			
	Land and buildings €000	**Computer equipment €000**	**Others €000**	**Total €000**
Cost/revaluation				
At 1 January 2019	**45,277**	**20,830**	**48,107**	**114,214**
Additions	**137**	**395**	**105**	**637**
Revaluation	**(1,013)**	**—**	**—**	**(1,013)**
Disposals	**(1,455)**	**(54)**	**(1,270)**	**(2,779)**
Transfers (refer to Note 29)	**(3,181)**	**—**	**(247)**	**(3,428)**
At 31 December 2019	**39,765**	**21,171**	**46,695**	**107,631**
Accumulated depreciation and impairment losses				
At 1 January 2019	**1,699**	**18,150**	**38,952**	**58,801**
Depreciation charge for the year	**391**	**943**	**1,753**	**3,087**
Revaluation	**(485)**	**—**	**—**	**(485)**
Disposals	**(20)**	**(54)**	**(1,166)**	**(1,240)**
Transfers (refer to Note 29)	**(6)**	**—**	**(206)**	**(212)**
Impairment losses	**—**	**—**	**277**	**277**
At 31 December 2019	**1,579**	**19,039**	**39,610**	**60,228**
Carrying amount at 1 January 2019	**43,578**	**2,680**	**9,155**	**55,413**
Carrying amount at 31 December 2019	**38,186**	**2,132**	**7,085**	**47,403**
Cost/revaluation				
At 1 January 2019	44,996	19,832	47,028	111,856
Additions	4	998	1,080	2,082
Revaluation	277	—	—	277
Disposals	—	—	(1)	(1)
At 31 December 2018	45,277	20,830	48,107	114,214
Accumulated depreciation and impairment losses				
At 1 January 2018	1,420	17,048	37,080	55,548
Depreciation charge for the year	426	1,102	1,873	3,401
Revaluation	(147)	—	—	(147)
Disposals	—	—	(1)	(1)
At 31 December 2018	1,699	18,150	38,952	58,801
Carrying amount at 1 January 2018	43,576	2,784	9,948	56,308
Carrying amount at 31 December 2018	43,578	2,680	9,155	55,413

	Bank			
	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Cost/Revaluation				
At 1 January 2019	**45,375**	**20,592**	**47,900**	**113,867**
Additions	**39**	**395**	**105**	**539**
Revaluation	**(1,013)**	**—**	**—**	**(1,013)**
Disposals	**(1,455)**	**(54)**	**(1,270)**	**(2,779)**
Transfers (refer to Note 29)	**(3,181)**	**—**	**(247)**	**(3,428)**
At 31 December 2019	**39,765**	**20,933**	**46,488**	**107,186**
Accumulated depreciation and impairment losses				
At 1 January 2019	**1,699**	**17,903**	**38,745**	**58,347**
Depreciation charge for the year	**391**	**943**	**1,753**	**3,087**
Revaluation	**(485)**	**—**	**—**	**(485)**
Disposals	**(20)**	**(54)**	**(1,157)**	**(1,231)**
Transfers (refer to Note 29)	**(6)**	**—**	**(206)**	**(212)**
Impairment losses	**—**	**—**	**277**	**277**
At 31 December 2019	**1,579**	**18,792**	**39,412**	**59,783**
Carrying amount at 1 January 2019	**43,676**	**2,689**	**9,155**	**55,520**
Carrying amount at 31 December 2019	**38,186**	**2,141**	**7,076**	**47,403**
Cost/revaluation				
At 1 January 2019	45,094	19,594	46,821	111,509
Additions	4	998	1,080	2,082
Revaluation	277	—	—	277
Disposals	—	—	(1)	(1)
At 31 December 2018	45,375	20,592	47,900	113,867
Accumulated depreciation and impairment losses				
At 1 January 2019	1,420	16,801	36,873	55,094
Depreciation charge for the year	426	1,102	1,873	3,401
Revaluation	(147)	—	—	(147)
Disposals	—	—	(1)	(1)
At 31 December 2018	1,699	17,903	38,745	58,347
Carrying amount at 1 January 2018	43,674	2,793	9,948	56,415
Carrying amount at 31 December 2018	43,676	2,689	9,155	55,520

As a result of the bank's strategic plan to modernise its operations, the branch network infrastructure is being enhanced to reflect this change. As part of this plan, a number of branches have been closed. In this regard, land and buildings and other equipment with a carrying amount of €3,216,000 attributable to specific closed branches were reclassified to Other non-current assets held for sale, as their carrying amount will be recovered through a sale transaction rather than through continuing use, they are available for sale in their current condition and their sale is highly probable as at reporting date (refer to Note 29). Land and buildings and fixtures and fittings pertaining to specific closed branches with a carrying amount of €4,434,000 have not been reclassified to Other non-current assets held for sale as these assets do not meet the criteria within IFRS 5, Non-current assets held for sale and discontinued operations for initial classification as held for sale.

The equipment of all impacted branches has been tested for impairment and an impairment charge of €277,000 has been recognised to reflect estimated recoverable amounts based on fair value less cost to sell.

With the exception of the above, other land and buildings reported are all utilised for own activities.

If the land and buildings were stated on the historical cost bases, the carrying amounts would be:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
At 31 December				
Cost	**16,921**	18,239	**16,921**	18,337
Accumulated depreciation	**(1,579)**	(1,699)	**(1,579)**	(1,699)
Carrying amount	**15,342**	16,540	**15,342**	16,638

Valuations of land and buildings 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.

33 Intangible assets

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Software	**10,618**	6,128	**10,193**	5,831
PVIF	**50,858**	52,723	**—**	—
Deferred acquisition costs	**42**	285	**—**	—
	61,518	59,136	**10,193**	5,831

Software

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Cost				
At 1 January	**33,747**	30,635	**32,063**	29,126
Additions	**6,269**	3,112	**6,030**	2,937
At 31 December	**40,016**	33,747	**38,093**	32,063
Accumulated amortisation				
At 1 January	**27,619**	25,845	**26,232**	24,551
Amortisation charge for the year	**1,779**	1,774	**1,668**	1,681
At 31 December	**29,398**	27,619	**27,900**	26,232
Carrying amount at 1 January	**6,128**	4,790	**5,831**	4,575
Carrying amount at 31 December	**10,618**	6,128	**10,193**	5,831

PVIF

	Group	
	2019	2018
	€000	€000
At 1 January	**52,723**	58,497
Addition from current year new business	**6,874**	5,668
Movement from in-force business	**(8,739)**	(11,442)
At 31 December	**50,858**	52,723

The local group's 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:

	2019	2018
	%	%
Risk free rate	**Euro Swap Curve**	Euro Swap Curve
Risk adjusted discount rate	**Euro Swap Curve + 50 Bps Operational Risk Margin**	Euro Swap Curve + 50 Bps Operational Risk Margin
Expenses inflation	**Wage inflation and French Inflation Swap Curve modified for Malta**	Wage inflation and French Inflation Swap Curve modified for Malta
Lapse rate	**Different rates for different products and duration in-force**	Different rates for different products and duration in-force

The following table shows the effect on the PVIF of reasonably possible changes in the main economic assumptions across the life insurance business:

		Group	
		PVIF Impact	
		2019	2018
Assumptions	Movement	**€000**	€000
Risk free rate	+100 basis points	**(445)**	(587)
Risk free rate	-100 basis points	**376**	4,529
Expenses inflation	+10%	**(1,305)**	(1,241)
Expenses inflation	-10%	**1,454**	1,318
Lapse rate	+100 basis points	**3,344**	2,111
Lapse rate	-100 basis points	**(4,652)**	(3,043)

Deferred acquisition costs

	Group	
	2019	2018
	€000	€000
At 1 January	**285**	775
Addition from current year new business	**–**	169
Amortisation	**(243)**	(659)
At 31 December	**42**	285

34 Right-of-use assets

The local group leases various offsite ATMs, offices and branches as well as low value items such as IT equipment. Rental contracts are typically made for fixed periods but may have extension options. Extension and termination options are included in a number of property leases across the local group. These are used to maximise operational flexibility in terms of managing the assets used in the local group's operations. The majority of extension and termination options held are exercisable only by the local group and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

	Group/Bank
	2019
Right-of-use assets	**€000**
At 1 January 2019	
Impact of application of IFRS 16	**5,624**
Additions	**124**
Depreciation	**(1,063)**
At 31 December 2019	**4,685**
Lease liabilities at 31 December 2019	
Current	**1,051**
Non-current	**3,601**
	4,652

	Group/Bank
	2019
	€000
The income statement reflects the following amounts relating to leases:	
Depreciation charge of right-of-use assets	**1,063**
Interest expense	**51**
Expense relating to short-term leases (included in administrative expenses)	**103**
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**492**

The total cash payments for leases, including short-term and low-value leases, in 2019 was €1,742,000.

35 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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Deferred tax assets	**22,427**	21,509	**22,427**	21,509
Deferred tax liabilities	**(22,443)**	(23,427)	**(4,899)**	(5,119)
	(16)	(1,918)	**17,528**	16,390

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% (2018: 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 mainly giving rise to a tax effect of 8% or 10% (depending on date of acquisition) of the transfer value (2018: 8% or 10%).

The balance at 31 December represents temporary differences attributable to:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Depreciation of property, plant and equipment	**(905)**	(913)	**(918)**	(913)
Expected credit loss allowances	**16,564**	19,444	**16,564**	19,444
Fair valuation of properties	**(5,075)**	(5,295)	**(4,899)**	(5,119)
Fair value gains on financial instruments	**(4,590)**	(3,782)	**(4,591)**	(3,783)
Value of in-force life insurance business	**(17,800)**	(18,453)	**—**	—
Provisions for liabilities and other charges	**11,184**	6,607	**10,814**	6,279
Other	**606**	474	**558**	482
	(16)	(1,918)	**17,528**	16,390

The movement in deferred tax assets and liabilities during the year is as follows:

	Group				
	At 1 January 2019	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised in retained earnings**	**At 31 December 2019**
	€000	**€000**	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(913)**	**8**	**—**	**—**	**(905)**
Expected credit loss allowances	**19,444**	**(2,880)**	**—**	**—**	**16,564**
Fair valuation of properties	**(5,295)**	**167**	**53**	**—**	**(5,075)**
Fair value movements on financial instruments	**(3,782)**	**(641)**	**(167)**	**—**	**(4,590)**
Value of in-force life insurance business	**(18,453)**	**653**	**—**	**—**	**(17,800)**
Provisions for liabilities and other charges	**6,607**	**4,244**	**333**	**—**	**11,184**
Other	**474**	**132**	**—**	**—**	**606**
	(1,918)	**1,683**	**219**	**—**	**(16)**

	At 1 January 2018	Recognised in profit or loss	Recognised in OCI	Recognised in retained earnings	At 31 December 2018
	€000	€000	€000	€000	€000
Depreciation of property, plant and equipment	(1,418)	505	—	—	(913)
Expected credit loss allowances	15,749	(639)	—	—	15,110
IFRS 9 transitional adjustment	—	—	—	4,334	4,334
Fair valuation of properties	(5,852)	599	(42)	—	(5,295)
Fair value movements on financial instruments	(5,154)	—	1,372	—	(3,782)
Value of in-force life insurance business	(20,425)	1,972	—	—	(18,453)
Provisions for liabilities and other charges	7,053	(626)	180	—	6,607
Other	240	234	—	—	474
	(9,807)	2,045	1,510	4,334	(1,918)

	Bank				
	At 1 January 2019	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised in retained earnings**	**At 31 December 2019**
	€000	**€000**	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(913)**	**(5)**	**—**	**—**	**(918)**
Expected credit loss allowances	**19,444**	**(2,880)**	**—**	**—**	**16,564**
Fair valuation of properties	**(5,119)**	**167**	**53**	**—**	**(4,899)**
Fair value movements on financial instruments	**(3,783)**	**(641)**	**(167)**	**—**	**(4,591)**
Provisions for liabilities and other charges	**6,279**	**4,202**	**333**	**—**	**10,814**
Other	**482**	**76**	**—**	**—**	**558**
	16,390	**919**	**219**	**—**	**17,528**

	At 1 January 2018	Recognised in profit or loss	Recognised in OCI	Recognised in retained earnings	At 31 December 2018
	€000	€000	€000	€000	€000
Depreciation of property, plant and equipment	(1,418)	505	—	—	(913)
Expected credit loss allowances	15,749	(639)	—	—	15,110
IFRS 9 transitional adjustment	—	—	—	4,334	4,334
Fair valuation of properties	(5,578)	501	(42)	—	(5,119)
Fair value movements on financial instruments	(5,149)	—	1,366	—	(3,783)
Provisions for liabilities and other charges	6,794	(695)	180	—	6,279
Other	512	(30)	—	—	482
	10,910	(358)	1,504	4,334	16,390

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than 12 months from the end of the reporting period.

36 Other assets

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Committed letters of credit	**1,534**	6,910	**1,534**	6,910
Other	**11,683**	14,904	**9,530**	13,621
	13,217	21,814	**11,064**	20,531

37 Deposits by banks

	Group/Bank	
	2019	2018
	€000	€000
Term deposits	**824**	—
Repayable on demand	**16**	2,542
	840	2,542

38 Customer accounts

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Term deposits	**922,615**	1,079,917	**922,615**	1,079,917
Repayable on demand	**4,053,965**	3,807,556	**4,103,451**	3,861,063
	4,976,580	4,887,473	**5,026,066**	4,940,980

39 Accruals and deferred income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Accrued interest	**3,397**	3,702	**3,163**	3,478
Accrued expenses	**16,387**	15,094	**14,282**	13,369
Deferred income	**551**	355	**399**	216
	20,335	19,151	**17,844**	17,063

40 Liabilities under investment contracts

	Group	
	2019	2018
	€000	€000
At 1 January	**166,347**	203,136
Transfers from Liabilities attributable to disposal group held for sale	**—**	9,119
Premiums received	**9,185**	10,130
Amounts paid on surrender and other terminations during the year	**(15,486)**	(41,411)
Changes in unit prices and other movements	**23,660**	(14,627)
At 31 December	**183,706**	166,347

41 Liabilities under insurance contracts

	Group	
	Gross	Gross
	2019	2018
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**410,048**	407,040
Outstanding claims	**3,023**	2,443
Total non-linked	**413,071**	409,483
Life insurance (linked)		
Provisions for policyholders	**244,585**	210,542
Outstanding claims	**814**	756
Total linked	**245,399**	211,298
Total liabilities under insurance contracts	**658,470**	620,781

	Group			
	Non-linked business	Linked business	All business	
	Provisions for policy-holders	Provisions for policy-holders	Outstanding claims	Total
	€000	€000	€000	€000
At 1 January 2019	**407,040**	**210,542**	**3,199**	**620,781**
Premiums received	**—**	**26,500**	**—**	**26,500**
Other movements for the year	**3,008**	**27,844**	**638**	**31,490**
Account balances paid on surrender and other terminations during the year	**—**	**(20,301)**	**—**	**(20,301)**
At 31 December 2019	**410,048**	**244,585**	**3,837**	**658,470**
At 1 January 2018	432,201	222,767	3,824	658,792
Premiums received	—	23,875	—	23,875
Other movements for the year	(25,161)	(19,484)	(625)	(45,270)
Account balances paid on surrender and other terminations during the year	—	(16,616)	—	(16,616)
At 31 December 2018	407,040	210,542	3,199	620,781

42 Provisions for liabilities and other charges

	Group					
	Restructuring costs	Legal proceedings and regulatory matters	Brokerage remediation	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)						
At 31 December 2018	**99**	**881**	**1,371**	**14,882**	**1,643**	**18,876**
Additions	**18,837**	**255**	**—**	**2,102**	**155**	**21,349**
Amounts utilised	**(3,206)**	**(39)**	**—**	**(610)**	**—**	**(3,855)**
Unused amounts reversed	**—**	**(7)**	**(1,371)**	**(2,826)**	**(212)**	**(4,416)**
At 31 December 2019	**15,730**	**1,090**	**—**	**13,548**	**1,586**	**31,954**
Contractual commitments						
At 31 December 2018						**1,813**
Change in expected credit losses						**(496)**
At 31 December 2019						**1,317**
Total Provisions						
At 31 December 2018						**20,689**
At 31 December 2019						**33,271**

	Bank					
Provisions (excluding contractual commitments)						
At 31 December 2018	**99**	**835**	**1,371**	**14,882**	**752**	**17,939**
Additions	**18,459**	**255**	**—**	**2,102**	**155**	**20,971**
Amounts utilised	**(3,206)**	**—**	**—**	**(610)**	**—**	**(3,816)**
Unused amounts reversed	**—**	**—**	**(1,371)**	**(2,826)**	**—**	**(4,197)**
At 31 December 2019	**15,352**	**1,090**	**—**	**13,548**	**907**	**30,897**
Contractual commitments						
At 31 December 2018						**1,813**
Change in expected credit losses						**(496)**
At 31 December 2019						**1,317**
Total Provisions						
At 31 December 2018						**19,752**
At 31 December 2019						**32,214**

	Group					
	Restructuring costs	Legal proceedings and regulatory matters	Brokerage remediation	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)						
At 31 December 2017	491	641	3,745	13,712	1,473	20,062
Additions	—	240	—	1,667	210	2,117
Amounts utilised	(364)	—	(346)	(497)	(40)	(1,247)
Unused amounts reversed	(28)	—	(2,028)	—	—	(2,056)
At 31 December 2018	99	881	1,371	14,882	1,643	18,876
Contractual commitments						
At 31 December 2017						37
Impact on transition to IFRS 9 on 1 January 2018						1,592
Change in expected credit loss provision						184
At 31 December 2018						1,813
Total Provisions						
At 31 December 2017						20,099
At 31 December 2018						20,689

	Bank					
Provisions (excluding contractual commitments)						
At 31 December 2017	491	641	3,745	13,712	784	19,373
Additions	—	194	—	1,667	8	1,869
Amounts utilised	(364)	—	(346)	(497)	(40)	(1,247)
Unused amounts reversed	(28)	—	(2,028)	—	—	(2,056)
At 31 December 2018	99	835	1,371	14,882	752	17,939
Contractual commitments						
At 31 December 2017						37
Impact on transition to IFRS 9 on 1 January 2018						1,592
Change in expected credit loss provision						184
At 31 December 2018						1,813
Total Provisions						
At 31 December 2017						19,410
At 31 December 2018						19,752

(a) Restructuring costs

In line with the local group's strategic plan announced during the current year which focuses on investing in digital banking services, modernising the branch network, increasing efficiency and productivity and managing costs, a provision for €18,837,000 was raised for the local group and €18,459,000 for the bank for restructuring cost emanating from applications by local group's employees under a voluntary redundancy scheme which closed by the end of the year (refer to note 17). The scheme was devised in view of the expected reduction in headcount as a result of the closure of a number of branches. 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. This provision is required to enable the local group to implement these strategic actions and as this is accomplished a number of roles in the bank will reduce. The provision is expected to be fully utilised during the forthcoming financial year.

(b) Litigation provision

Litigation provision as at 31 December 2019 amounted to €1,090,000 for both local group and bank (2018: €881,000 for the local group and €835,000 for the bank). 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 these provisions for 2019 comprising mainly a net increase in provision of €209,000 for the local group (2018: €240,000) and €255,000 for the bank (2018: €194,000), is recognised through the income statement 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 litigation highlighted.

(c) Brokerage remediation provision

At 31 December 2016, a provision of €8,000,000 was recognised in respect of the estimated cost of brokerage remediation in relation to the 'execution only' trades effected by customers purchasing complex instruments through the bank, without the bank undertaking an appropriateness test required by MiFID (refer to Note 16).

During 2016, the bank had engaged a 'Group Business Review Team' that had experience in handling similar remediation projects in the UK to investigate the bank's failure, support the design of a remediation programme, carry out detailed estimates of the remediation costs and to eventually execute the programme.

The estimated liability for brokerage remediation was arrived at after taking into consideration transactions made by customers who dealt in complex bonds, equities and funds over the period of time during which the bank had failed to adhere strictly to the requirements stipulated within MiFID. This included both customers who had purchased and sold such instruments while the bank was still undertaking the brokerage business, as well as customers whose portfolios were transferred to other institutions as a result of the bank's decision to wind down its brokerage business.

Remediation costs for customers that had sold such instruments through the bank's brokerage business were calculated by taking account of the exact amount of units that were purchased and eventually sold by those customers as well as the price at which those units were sold. In respect of instruments that were transferred to other institutions, the estimation for the remediation costs was based on current unit prices, assuming the customer still held those instruments.

The classification of the instruments between those deemed complex and non-complex was carried out by the bank and was subject to an independent review carried out by third party firms specialised in the subject matter.

The remediation costs also included a provision for income/return that such customers would have received on non-complex instruments had they not dealt in such complex instruments, as well as for operational expenditure that was incurred to execute the programme.

Execution of the remediation programme was carried out between 2017 and 2018 giving rise to processed remediation payments amounting to an aggregate of €2,801,000.

During 2017 the bank effected a partial reversal of this provision amounting to €1,800,000 taking into account the impact on the provision of the revised categorisation of certain instruments as non-complex, on the basis of expert independent advice obtained.

In 2018 and 2019 the bank effected further reversals of the provision amounting to €2,028,000 and €1,371,000 respectively. These releases were based on both a review of the residual liabilities and confirmation that no further operational costs relating to the programme will be incurred (refer to Note 16). The amount of the reversal effected during 2019 was equivalent to the balance of the provision as at 31 December 2018.

(d) Provisions in respect of long-term employee benefits

The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement for medical grounds. This provision is principally non-current in nature, with the maturity profile of the obligation spanning over the estimated remaining working life. These obligations emanate from the provisions of the Collective Agreement. The defined benefit obligation as at 31 December 2019 has been estimated at €13,548,000 (2018: €14,882,000) by independent actuaries using the projected unit credit method. As a result of the restructuring exercise referred to above, the long-term employee benefits provision was revised to reflect the reduction in the number of employees resulting in a release to the income statement amounting to €2,826,000. Furthermore, charges of €1,150,000 (2018: €1,153,000) and €952,000 (2018: 514,000) were recognised in profit or loss and in other comprehensive income respectively, during the current financial year. The charge recognised in the income statement mainly relates to current service costs while the charge recognised in other comprehensive income principally comprises actuarial losses attributable to financial assumptions and experience adjustments.

The present value of the defined benefit obligation at 31 December 2019 and 2018 has been estimated after taking into consideration the following assumptions:

i a rate of 0.72% (2018: 1.55%) to discount the future obligations to present value, which is based on the eurozone corporate bond yield curve. The yield curve is derived by considering the market yields on high-quality corporate bonds with currency and term of the corporate bonds (rated AA- or better) consistent with the currency and term of the liabilities. For longer durations, where such data is not available, the shape of the composite AA-rated government bond yield curve is used to extrapolate the curve to very long durations;

ii an inflation rate of 1.80% (2018: 1.65%) in line with the eurozone inflation curve;

iii a salary increase assumption of 2.00% (2018: 2.00%);

iv withdrawal rates, representing the local group’s expectations in respect of retirement of employees, which were based on standard tables used by actuaries after taking into consideration the observed retirement history of the local group;

v retirement age of 61;

vi mortality rates based on generational tables used by actuaries; and

vii ill health rates mainly based on the local group’s historical experience.

A sensitivity analysis for significant actuarial assumptions as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at that date is not deemed necessary taking into account the materiality and significance of the amount of the provisions in the context of the aggregate level of assets and liabilities of the local group and the level of financial results registered during the current period.

43 Subordinated liabilities

The subordinated 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.

The €62,000,000 subordinated unsecured loan stock, with maturity date of 14 December 2028, was issued in December 2018 and has a floating rate linked to a three-month Euribor. As at 31 December 2019 the interest rate was 1.67% (2018: 1.75%).

44 Other liabilities

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Bills payable	**19,674**	15,041	**19,674**	15,041
Committed letters of credit	**1,515**	6,924	**1,515**	6,924
Lease liabilities (refer to note 34)	**4,652**	—	**4,652**	—
Other	**36,486**	22,312	**32,916**	16,892
	62,327	44,277	**58,757**	38,857

45 Called up share capital

	Group/Bank	
	2019	2018
	€000	€000
Authorised		
470,000,000 ordinary shares of 30 cent each	**141,000**	141,000
Issued and fully paid up		
360,306,099 ordinary shares of 30 cent each	**108,092**	108,092

46 Reserves

(a) Revaluation reserve

The revaluation reserve comprises the surplus arising on the revaluation of the local group's freehold and long leasehold properties and the cumulative net change in fair value of financial investments measured at fair value through other comprehensive income held by the local group, net of deferred taxation. The revaluation reserve is not available for distribution.

	Group	Bank
	€000	€000
On land and buildings		
1 January 2018	26,856	26,856
– surplus arising on revaluation	424	424
– deferred tax on revaluation surplus	(42)	(42)
31 December 2018	27,238	27,238
– loss arising on revaluation	(528)	(528)
– deferred tax on revaluation loss	53	53
– transfer to retained earnings upon realisation through disposal	(701)	(701)
– deferred tax on transfer upon realisation through disposal	70	70
31 December 2019	26,132	26,132
On financial investments		
1 January 2018	9,574	9,564
– fair value adjustments	(3,919)	(3,903)
– deferred tax on fair value adjustments	1,372	1,366
31 December 2018	7,027	7,027
– fair value adjustments	478	478
– deferred tax on fair value adjustments	(167)	(167)
– reclassification to retained earnings	(1,950)	(1,950)
– deferred tax on reclassification to retained earnings	682	682
31 December 2019	6,070	6,070
Total as at 31 December 2018	34,265	34,265
Total as at 31 December 2019	32,202	32,202

(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 €21,921,000 (2018: €23,618,000). As at 31 December 2019, debt securities with a carrying amount of €21,941,000 (2018: €24,043,000) had been pledged in terms of the Depositor Compensation Scheme (refer to Note 26).

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 31 December 2019, the General Banking Risk reserve amounts to €6,209,000 (2018: €6,209,000).

47 Contingent liabilities

	Group Contract amount		Bank Contract amount	
	2019	2018	2019	2018
	€000	€000	€000	€000
Guarantees	**137,609**	126,374	**137,611**	126,376
Standby letters of credit	**19,025**	21,203	**19,025**	21,203
Other contingent liabilities	**2,020**	2,206	**2,020**	2,206
	158,654	149,783	**158,656**	149,785

The local group provides guarantees and standby letters of credit on behalf of third party customers. These 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 and standby letters of credit are captured and managed in accordance with the local group's overall credit risk management policies and procedures.

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and standby letters of credit is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

Guarantees and standby letters of credit have a term of less than one year.

The expected credit loss allowances relating to guarantees and standby letters of credit is disclosed in Note 42.

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 benefits in the case of these legal claims, or the amount of the obligation cannot be reliably measured.

48 Commitments

	Group Contract amount		Bank Contract amount	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Documentary credits	**16,556**	20,235	**16,556**	20,235
Undrawn formal standby facilities, credit lines and other commitments to lend	**1,058,968**	1,413,538	**1,058,968**	1,414,399
	1,075,524	1,433,773	**1,075,524**	1,434,634

The expected credit loss allowances on loan commitments are disclosed on Note 42.

The above commitments exclude commitments in relation to capital expenditure which is disclosed in Note 49.

49 Capital commitments

Capital commitments as at 31 December 2019 amounting to €292,000 (2018: €181,000) are mainly related to the acquisition of property, plant and equipment.

50 Dividends

	Group			
	2019	2018	**2019**	2018
	Cent per 30c share	Cent per 30c share	**€000**	€000
Gross of income tax				
– prior year's final dividend	**1.80**	12.40	**6,486**	44,677
– current year's interim dividend	**1.70**	4.00	**6,125**	14,412
	3.50	16.40	**12,611**	59,089
Net of income tax				
– prior year's final dividend	**1.17**	8.06	**4,216**	29,041
– current year's interim dividend	**1.10**	2.60	**3,981**	9,368
	2.27	10.66	**8,197**	38,409

The Directors have proposed a final gross ordinary dividend of 2.10 cent (2018: 1.80 cent) per share. The final dividend will be payable to shareholders on the bank's register as at 9 March 2020.

	Group	
	2019	2018
	€000	€000
Proposed dividend		
Profit for the year	**20,168**	28,696
Proposed dividend	**8,899**	13,678
Less: interim dividend paid	**(3,981)**	(9,368)
Available for distribution	**4,918**	4,310
Proposed final dividend	**4,918**	4,310
Issued and fully paid up shares (Note 45)	**360,306,099**	360,306,099
	Cent per share	Cent per share
Proposed final dividend		
– gross of income tax per share	**2.1**	1.8
– net of income tax per share	**1.4**	1.2

No allocations were made during the current and previous year to the General Banking Risk Reserve as a result of the drop in the level of non-performing loans (refer to Note 46).

51 Cash and cash equivalents

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**32,275**	31,169	**32,275**	31,169
Malta Government Treasury Bills of three months or less	**30,007**	68,318	**30,007**	68,318
Balances with Central Bank of Malta (excluding reserve deposit) of three months or less	**377,202**	45	**377,202**	45
Loans and advances to banks of three months or less	**135,201**	712,152	**132,046**	707,211
Items in course of collection from other banks	**3,436**	5,404	**3,436**	5,404
Items in course of transmission to other banks	**(23,473)**	(15,206)	**(23,473)**	(15,206)
Per Statements of Cash Flows	**554,648**	801,882	**551,493**	796,941
Adjustment to reflect balances with contractual maturity of more than three months	**648,564**	447,727	**652,210**	453,147
Per Statements of Financial Position	**1,203,212**	1,249,609	**1,203,703**	1,250,088
Analysed as follows:				
Cash and balances with Central Bank of Malta	**458,997**	80,421	**458,997**	80,421
Malta Government Treasury Bills	**127,075**	110,347	**127,075**	110,347
Loans and advances to banks	**676,031**	1,097,714	**672,952**	1,092,773
Items in course of collection from other banks	**3,436**	5,404	**3,436**	5,404
Other liabilities	**(62,327)**	(44,277)	**(58,757)**	(38,857)
	1,203,212	1,249,609	**1,203,703**	1,250,088

52 Segmental information

Our global businesses

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 the following global businesses which are the local group's reportable segments under IFRS 8, 'Operating Segments'.

- 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 commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit, lending, international trade and receivables finance. CMB also offers its customers access to products and services offered by other global businesses, for example Global Markets ('GM').
- GM 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.
- Corporate Centre comprises mainly Central Treasury, including Balance Sheet Management.

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, 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 considered to be the global businesses.

Global business results are assessed by the CEO on the basis of adjusted performance that removes the effects of significant items. Results are therefore presented on an adjusted basis as required by IFRSs. As required by IFRS 8, reconciliations of the reported results to adjusted results by global business, excluding significant items, are presented below. The local group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs that are not allocated to global businesses are included in Corporate Centre. Where relevant, income and expense amounts presented include the results of inter-segment funding. All such transactions are undertaken on arm's length terms.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the effects of significant items, which distort year-on-year comparisons. The local group considers adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant, and providing insight into how management assesses year-on-year performance.

Significant items

'Significant items' refers collectively to the items that management and investors would ordinarily identify and consider separately to improve the understanding of the underlying trends in the business.

	Group					
	2019					
	Retail Banking and Wealth Management	Commercial Banking	Global Markets	Corporate Centre - BSM	Corporate Centre - Other	Group Total
	€000	€000	€000	€000	€000	€000
Net interest income	**70,538**	**29,771**	**–**	**9,802**	**–**	**110,111**
– external	**69,752**	**32,957**	**–**	**7,402**	**–**	**110,111**
– internal	**786**	**(3,186)**	**–**	**2,400**	**–**	**–**
Net non-interest income	**25,206**	**12,297**	**2,548**	**250**	**–**	**40,301**
Net operating income before loan impairment charges	**95,744**	**42,068**	**2,548**	**10,052**	**–**	**150,412**
Change in expected credit losses and other credit impairment charges	**(1,296)**	**934**	**–**	**(27)**	**–**	**(389)**
Movement in provision for brokerage remediation costs	**1,371**	**–**	**–**	**–**	**–**	**1,371**
Net operating income	**95,819**	**43,002**	**2,548**	**10,025**	**–**	**151,394**
Employee compensation and benefits	**(42,575)**	**(13,779)**	**(833)**	**(618)**	**(6,657)**	**(64,462)**
General and administrative expenses	**(35,550)**	**(13,505)**	**(388)**	**(851)**	**–**	**(50,294)**
Depreciation of property, plant and equipment and right-of-use assets	**(2,670)**	**(1,361)**	**(34)**	**(85)**	**–**	**(4,150)**
Amortisation of intangible assets	**(1,229)**	**(500)**	**(14)**	**(36)**	**–**	**(1,779)**
Total operating expenses	**(82,024)**	**(29,145)**	**(1,269)**	**(1,590)**	**(6,657)**	**(120,685)**
Reported profit before tax	**13,795**	**13,857**	**1,279**	**8,435**	**(6,657)**	**30,709**
Assets						
Segment total assets	**3,250,040**	**1,060,241**	**5,812**	**2,181,524**	–	**6,497,617**
Total equity	**232,381**	**167,708**	**6,854**	**63,023**	–	**469,966**

Reconciliation of reported and adjusted profit by global business

Reported profit before tax	**13,795**	**13,857**	**1,279**	**8,435**	**(6,657)**	**30,709**
Significant items:	**5,726**	**2,033**	**223**	**–**	**6,657**	**14,639**
– Restructuring provision	**7,097**	**2,033**	**223**	**–**	**6,657**	**16,010**
– Brokerage remediation provision	**(1,371)**	**–**	**–**	**–**	**–**	**(1,371)**
Adjusted profit before tax	**19,521**	**15,890**	**1,502**	**8,435**	**–**	**45,348**

	2018					
Net interest income	65,832	35,294	–	7,496	–	108,622
– external	62,958	39,091	–	6,573	–	108,622
– internal	2,874	(3,797)	–	923	–	–
Net non-interest income	25,669	11,523	2,478	81	–	39,751
Net operating income before loan impairment charges	91,501	46,817	2,478	7,577	–	148,373
Change in expected credit losses and other credit impairment charges	(1,751)	(1,755)	–	18	–	(3,488)
Movement in provision for brokerage remediation costs	2,028	–	–	–	–	2,028
Net operating income	91,778	45,062	2,478	7,595	–	146,913
Employee compensation and benefits	(36,626)	(12,273)	(640)	(619)	–	(50,158)
General and administrative expenses	(37,653)	(13,906)	(542)	(923)	–	(53,024)
Depreciation of property, plant and equipment	(2,326)	(975)	(28)	(72)	–	(3,401)
Amortisation of intangible assets	(1,235)	(489)	(14)	(36)	–	(1,774)
Total operating expenses	(77,840)	(27,643)	(1,224)	(1,650)	–	(108,357)
Reported profit before tax	13,938	17,419	1,254	5,945	–	38,556
Assets						
Segment total assets	3,087,012	1,046,556	6,579	2,170,847	–	6,310,994
Total equity	223,328	158,955	8,274	68,221	–	458,778

Reconciliation of reported and adjusted profit by global business

Reported profit before tax	13,938	17,419	1,254	5,945	–	38,556
Significant item:	(2,028)	–	–	–	–	(2,028)
– Brokerage remediation provision	(2,028)	–	–	–	–	(2,028)
Adjusted profit before tax	11,910	17,419	1,254	5,945	(2,028)	36,528

53 Related party transactions

The immediate parent company of the local group and the bank is HSBC Europe B.V., a company incorporated in the Netherlands, with its registered address at 8, Canada Square, London E14 5HQ, United Kingdom.

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.

(a) Transactions, arrangements and agreements involving Directors and other key management personnel

Particulars of transactions, arrangements and agreements entered into with Directors and other key management personnel, close family members and companies controlled or jointly controlled by them:

	Group/Bank			
	Highest balance during the year	**Balance at end of year**	Highest balance during the year	Balance at end of year
	2019	**2019**	2018	2018
	€000	**€000**	€000	€000
Credit card balances	**10**	**10**	7	7
Commitments to lend	**100**	**92**	100	100

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

(b) Compensation 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 local group and the bank for the period they served during the year.

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Directors' emoluments (including non-executive Directors)				
Salaries and other emoluments	**2,374**	2,187	**1,099**	934
Benefits	**254**	217	**151**	112
Share-based payments	**40**	33	**30**	23
	2,668	2,437	**1,280**	1,069
Other key management personnel				
Salaries and other emoluments	**1,752**	1,608	**2,325**	2,380
Benefits	**156**	179	**215**	280
Share-based payments	**3**	—	**13**	10
	1,911	1,787	**2,553**	2,670

Directors' emoluments for the local group include the compensation of certain key management personnel of the bank amounting to €901,000 (2018: €884,000) that also serve as Directors of subsidiary companies, as well as the compensation of non-executive Directors of subsidiary companies amounting to €75,000 (2018: €84,000).

(c) Balances and transactions with other related parties

Balance and transactions with HSBC Bank plc

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Assets				
Derivatives	**697**	927	**697**	927
Loans and advances to banks	**401,088**	1,073,922	**401,088**	1,073,922
Prepayments and accrued income	**54**	684	**28**	619
Liabilities				
Derivatives	**4,466**	4,055	**4,466**	4,055
Deposits by banks	**840**	1,380	**840**	1,380
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accruals and deferred income	**774**	926	**275**	295
Income statement				
Interest income	**1,845**	1,796	**1,845**	1,796
Interest expense	**1,803**	2,945	**1,803**	2,945
Fee income	**232**	672	**114**	604
Fee expense	**123**	48	**75**	48
Net trading income	**742**	655	**742**	655
Other income	**166**	—	**166**	—
General and administrative expenses	**1,194**	497	**390**	1,904

Balances and transactions with other subsidiaries of HSBC Holdings plc

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Assets				
Financial assets mandatorily measured at fair value through profit or loss	**179**	—	**—**	—
Loans and advances to banks	**270,121**	18,333	**268,146**	15,419
Prepayments and accrued income	**180**	149	**59**	—
Other assets	**1,009**	3,859	**830**	3,859
Liabilities				
Customer accounts	**3,303**	—	**3,303**	—
Deposits by banks	**—**	1,162	**—**	1,162
Accruals and deferred income	**5,951**	5,410	**5,312**	4,294
Income statement				
Interest income	**717**	1	**717**	1
Interest expense	**—**	3	**—**	3
Fee income	**1,319**	1,531	**12**	50
Fee expense	**20**	9	**19**	9
Other income	**1,177**	1,820	**1,177**	1,820
General and administrative expenses	**23,063**	20,277	**21,637**	16,232

Balances and transactions with local group entities

	Bank	
	2019	2018
	€000	€000
Assets		
Prepayments and accrued income	**289**	307
Investment in subsidiaries	**30,859**	30,859
Liabilities		
Customer accounts	**49,486**	53,507
Income statement		
Interest income	**—**	1
Fee income	**3,253**	3,024
Dividend income	**22,354**	11,407

The outstanding balances, reflected in tables above, arose from the ordinary course of business and are of substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

54 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. • To generate fees from managing assets on behalf of third party investors.	• Investments in units issued by the fund • 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 €3,578,000 (2018: €3,611,000).

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.

	2019	2018
	€000	€000
Carrying amount of units in HSBC managed investment funds - classified as financial investments measured at fair value through profit or loss	**85,220**	76,893
Total assets of HSBC managed funds	**397,089**	375,865

The maximum exposure to loss is equivalent to the carrying amount of the assets held at the reporting date.

55 Trust and custody activities

The local group provides custody services to individuals and retirement benefit plans, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer.

The local group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the local group and are not recognised in the statements of financial position. The local group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2019, total assets held by the local group on behalf of customers amounted to €585,907,000 (2018: €571,944,000).

56 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. is Karspeldreef 6K, Amsterdam, 1101 CJ, Netherlands. Copies of the HSBC Holdings plc Annual Review 2019, Strategic Report 2019, and Annual Report and Accounts 2019 may be obtained from its registered office or viewed on www.hsbc.com.

57 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.

58 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) Expected credit loss allowances on loans and advances

Credit loss allowances represent management's best estimate of expected credit losses in the loan portfolios and other financial assets subject to IFRS 9 impairment requirements at the balance sheet date. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk in determining the lifetime and point of initial recognition of revolving facilities, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions.

In particular, the measurement of the expected credit loss allowance is an area that requires the use of complex models and of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current and future macroeconomic conditions are such that the level of expected credit losses is likely to be greater or less than historical experience. The PD, LGD and EAD models, which support the measurement of ECLs, are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, detailed in note 3(b)(iv), but in particular to changes in economic and credit conditions (to reflect a point in time estimate). Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Significant judgement is required in establishing the number and relative weightings of forward looking scenarios.

For individually assessed loans, judgement is required in determining whether these are credit impaired. In this respect, 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. For individually significant credit impaired loans, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios as well as to attach probabilities to those scenarios.

(b) Policyholder claims and benefits

The estimation of future benefit payments and premiums arising from long-term insurance contracts is one of the local group's most critical accounting estimates. 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 future benefit payments. 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. New estimates are made each subsequent year to reflect the current long-term outlook.

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 €17,011,000 (2018: €15,135,000) or increase by €17,469,000 (2018: €21,638,000). 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 €1,112,000 (2018: €1,241,000) or decrease by €1,296,000 (2018: €1,360,000). These impacts are calculated before considering changes to other assets and liabilities which may offset the gross impacts of these changes.

(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 present value of the expected future shareholder cash flows discounted using the risk discount rate.

The risk free rate of return used within the valuation is the Euro swap rate curve as at 31 December 2019 (2018: same approach). The risk discount rate is based on the risk free curve with an additional 0.5% margin (2018: 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 18.3% p.a. (2018: from 0% to 18.7% p.a.). 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 1.8% p.a. to 2.3% p.a. (2018: 1.4% p.a. to 2.6% p.a.).

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The effect on the PVIF of reasonably possible changes in the main assumptions across the insurance business are included in Note 33.

59 Comparative financial information

With effect from the current financial year, negative interest income attributable to certain financial assets is presented within interest expense rather than netted off within interest income (refer to note 7 and 8).

In this respect, comparative figures disclosed in the main components of these financial statements and the notes have been reclassified to conform with the current year's presentation for the purposes of fairer representation.

Additional regulatory disclosures

Introduction

Regulatory framework for disclosures

HSBC Bank Malta p.l.c. falls under the direct supervision of the Joint Supervisory Team (JST) and the Malta Financial Services Authority (MFSA). The JST consists of representatives from the European Central Bank (ECB).

The two regulatory bodies receive information on the capital adequacy requirements for HSBC Bank Malta p.l.c. as an entity. At a consolidated level, we calculate capital for regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision (the 'Basel Committee') as implemented by the European Union ('EU') in the amended Capital Requirements Directive and Regulation ('CRD IV').

The Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements, Pillar 2 in relation to supervisory review process which is complemented by Pillar 3 that concerns market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, hence their capital adequacy.

Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

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 MFSA. Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive — Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation — Pillar 2) of the European Parliament and of the Council of 26 June 2013.

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.

Pillar 3 disclosures

Purpose

HSBC's Pillar 3 disclosures at 31 December 2019 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation within CRD IV and the European Banking Authority's ('EBA') final standards on revised Pillar 3 disclosures issued in December 2016.

In light of the fact that the local group is considered a significant subsidiary of HSBC Holdings plc within the local market, 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.

The Pillar 3 disclosures are governed by the Group's disclosure policy framework. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to an internal review process in accordance with the banks' financial reporting and governance processes.

Basis of preparation

In our disclosures, to give insight into movements during the year, we provide comparative figures for the previous year or period, analytical review of variances and 'flow' tables for capital requirements.

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk weighted assets ('RWAs') by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Where disclosures have been enhanced, or are new, we do not generally restate or provide prior-year comparatives. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to HSBC's activities, we omit them and follow the same premise for comparative disclosures. The capital resources tables track the position from a CRD IV transitional to an end-point basis.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Annual Report and Accounts 2019* or to other locations.

Table 1: Key metrics

Ref*		Footnotes	2019	2018
	Available capital (€000)			
1	Common equity tier 1 (‘CET1’) capital	1	**395,008**	377,346
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**388,167**	369,700
3	Tier 1 capital		**395,008**	377,346
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**388,167**	369,700
5	Total capital		**457,008**	439,346
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**450,167**	431,700
	Risk-weighted assets (‘RWAs’) (€000)			
7	Total RWAs		**2,403,621**	2,581,346
	Capital ratios (%)			
9	CET1		**16.4**	14.6
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**16.1**	14.3
11	Tier 1		**16.4**	14.6
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**16.1**	14.3
13	Total capital		**19.0**	17.0
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**18.7**	16.7
	Additional CET1 buffer requirements as a percentage of RWA (%)			
	Capital conservation buffer requirement		**2.5**	1.9
	Countercyclical buffer requirement		**—**	—
	Bank G-SIB and/or D-SIB additional requirements		**1.5**	1.1
	Total of bank CET1 specific buffer requirements		**8.5**	7.5
	CET1 available after meeting the bank’s minimum capital requirements		**8.4**	6.6
	Total capital requirement (%)			
	Total capital requirement		**19.0**	17.0
	Leverage ratio			
15	Total leverage ratio exposure measure (€000)		**5,818,253**	5,738,737
16	Leverage ratio (%)		**6.8**	6.6
	Liquidity Coverage Ratio (‘LCR’)			
	Total high-quality liquid assets (€000)		**1,434,158**	1,043,761
	Total net cash outflow (€000)		**716,230**	207,243
	LCR ratio (%)		**200.2**	503.6

* *The references in this, and subsequent tables, identify the lines prescribed in the relevant European Banking Authority (‘EBA’) template where applicable and where there is a value.*

1 *The CET1 for the current year is revised to include the Retained Earnings, Other Comprehensive Income, Reserves less regulatory adjustments to the Tier 1 Capital. Comparative information is being restated in accordance with current year reporting.*

Regulatory Developments

RWAs and leverage ratio

The Basel Committee

In December 2017, Basel published the Basel III Reforms. The package aims for a 1 January 2022 implementation, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks’ total RWAs are no lower than 72.5% of those generated by the standardised approaches.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the final rules amending the Capital Requirements Regulation, known as the CRR2. This was the EU’s implementation of the Financial Stability Board’s (‘FSB’) requirements for Total Loss Absorbing Capacity (‘TLAC’), known in Europe as the Minimum Requirements for Own Funds and Eligible Liabilities (‘MREL’). Furthermore, it also included changes to the own funds regime.

The CRR2 will also implement the first tranche of changes to the EU’s legislation to reflect the Basel III Reforms, including the FRTB, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules and the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in Q2 2021, in advance of Basel’s timeline.

Since Basel’s review of the calibration of the FRTB came too late to be included in the final CRR2 text, the changes are being incorporated by way of a Delegated Act, which was published in near final format in December 2019. This introduces the FRTB in the EU as a reporting requirement only until a full impact assessment can be performed. Reporting on the standardised approach will begin 12 months after the enactment of the Delegated Act; a final date for the implementation of the FRTB in the EU has yet to be agreed.

The EU’s implementation of the Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the CRR (‘CRR3’). In 2019, the European Commission (‘EC’) began consulting on the implementation of the CRR3, which will include reforms to credit risk, operational risk, and the output floor. The EC is expected to produce a draft CRR3 text in the second quarter of 2020. The EU implementation will then be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

The UK's withdrawal from the EU

As a result of the decision of the referendum on 23 June 2016, the UK left the EU on 31 January 2020. In order to smooth the transition, the UK will remain subject to EU law during a transition period, which is currently expected to end on 31 December 2020. This period may be extended by a further 2 years, subject to political agreement between the EU bloc and the UK.

During that transition period, the UK will continue to be treated as a Member State from a prudential standpoint. At the end of the transition period, the UK will be treated as a non-EU third country, the treatment of which is subject to equivalence assessments. The European Commission aims to conclude its assessment of whether the UK applies equivalent regulatory standards by Q2 2020.

Other developments

In August 2019, the European Central Bank ('ECB') aligned its Pillar 2 expectations on non-performing loans ('NPLs'), the addendum to the ECB guidance on NPLs, with the Pillar I backstop which entered into force in April 2019. As a result, NPLs classified as such from 1 April 2018 are now subject to a single coverage expectation and overlapping between the ECB Pillar 2 expectations and the Pillar I backstop has been removed. The specific ECB requirements for the stock of NPLs as of 31 March 2018 remain unchanged.

In October 2019, the EBA published a consultation paper on draft guidelines concerning the carve out of "structural FX positions" from Pillar 1 market risk RWAs. The guidelines aim to ensure consistency in determining which positions qualify for the Pillar 1 carve out.

In October 2019, the Single Resolution Board ('SRB') consulted banks for the first time on its expectation for banks' resolution capabilities. The SRB will take this into account in future work programmes. The SRB policy is also expected to update its policy early this year ahead of the entry into force of revisions to the Bank Recovery and Resolution Directive ('BRRD2').

Linkage to the Annual Report and Accounts 2019

Basis of preparation

The basis of consolidation for the purpose of financial reporting under International Financial Reporting Standards (IFRSs), described in 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. Therefore for the purposes of ARD, the investment in HSBC Life Assurance (Malta) Limited is excluded for the purpose of regulatory reporting.

The table below provides a full reconciliation of the local group's total own funds to the Statement of Financial Position within the audited financial statements for the year ended 31 December 2019, as required by article 437(1)(a) of the CRR.

Table 2: Reconciliation between accounting and regulatory scope of consolidation

	2019	2018
	€000	€000
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**329,672**	316,421
Revaluation reserve	**32,202**	34,265
Adjustments		
– depositor compensation scheme	**(21,921)**	(23,618)
– intangible assets	**(10,193)**	(5,831)
– expected final dividend	**(4,918)**	(4,310)
– retained earnings - HSBC Life Assurance (Malta) Limited	**(42,786)**	(53,584)
– prudential valuation adjustment	**(1,085)**	(1,025)
– IFRS 9 transitional adjustments	**6,841**	7,646
– single resolution fund	**(896)**	(710)
	395,008	377,346
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
	62,000	62,000
Total own funds	**457,008**	439,346

Capital management

Approach and policy

HSBC Bank Malta p.l.c. objective in managing the Bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory requirements at all times.

HSBC Bank Malta p.l.c. manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2019, HSBC Bank Malta p.l.c. complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital.

The policy on capital management is underpinned by the HSBC group capital management framework, which enables a consistent management of the capital.

Each HSBC Bank Malta p.l.c.'s subsidiary subject to individual regulatory capital requirements manages its own capital to support its planned business growth and meet its local regulatory requirements.

Capital Measurement

HSBC Bank Malta p.l.c. is supervised by the Joint Supervisory Team of the ECB and the MFSA. The Joint Supervisory Team sets HSBC Bank Malta p.l.c.'s capital requirements, in line with the regulatory framework.

The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD IV legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Capital measures

Regulatory capital is the capital which HSBC Bank Malta p.l.c. is required to hold in accordance with the rules established by regulators; and Economic capital is the internally calculated capital requirement to support risks to which HSBC Bank Malta p.l.c. is exposed and forms a core part of the internal capital adequacy assessment process.

Regulatory Requirements

As a result of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank (ECB) has set to 2.25% for 2020 (versus 2.0% for 2019) the minimum capital requirement under Pillar 2 (P2R) for HSBC Bank Malta p.l.c. and will be required to meet on a consolidated basis a minimum total capital ratio of at least 14.25%, from January 1st, 2020 (versus 14.00% in 2019). The Overall capital requirement (OCR) is composed of: the 8% minimum capital in respect of article 92.1 of the 575/2013 Regulation, the 2.50% for the conservation buffer in 2019 in respect of article 129 of the 2013/36 Directive and the Pillar 2 requirement mentioned above.

The requirement in respect of Common equity tier 1 for 2020 is 12.25%, excluding Pillar 2 guidance (P2G).

Regulatory Capital

HSBC Bank Malta p.l.c.'s capital base is divided into two (out of three) main categories, namely Common Equity Tier 1 and Tier 2, but holds no instruments under Additional Tier1.

Common Equity Tier 1 ('CET 1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRD IV/CRR various capital deductions and regulatory adjustments are made against these items - these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability as well as prudential recognition for Non-Performing Exposures in line with latest regulations and requirements.

Tier 2 capital comprises eligible subordinated debt and any related share premiums. Holdings of Tier 2 capital of financial sector entities are deducted.

Capital Instruments Main Features	**HSBC Ordinary shares**	**Subordinated Tier 2 Regulatory Capital 2028**
Issuer	**HSBC Bank Malta p.l.c.**	
Unique identifier	**MT0000030107**	**N/A**
Governing Law(s) of the instrument	**Maltese Law**	**Maltese Law**
Regulatory Treatment	**—**	**—**
Transitional CRR rules	**Common Equity Tier 1**	**Tier 2**
Post-transitional CRR rules	**Common Equity Tier 1**	**Tier 2**
Eligible at solo/(sub)consolidated /solo and (sub)consolidated	**Solo and (Sub) consolidated**	**Solo and (Sub) consolidated**
Amount recognised in regulatory capital	**108,091,800**	**62,000,000**
Nominal amount of instrument	**108,091,800**	**62,000,000**
Issue price	**N/A**	**At par (€100 per bond)**
Redemption price	**N/A**	**At €100**
Accounting classification	**Share Equity**	**Liability - amortised cost**
Original date of issuance	**January 27, 1993***	**December 14, 2018**
Perpetual or dated	**N/A**	**Dated**
Original maturity date	**No**	**December 14, 2028**
Issuer call subject to prior supervisory approval	**No**	**Yes**
Coupons/dividends		
Fixed or floating dividend coupon	**Floating**	**Floating**
Coupon rate and any related index	**N/A**	**3 month EURIBOR**
Existence of dividend stopper	**No**	**No**
Fully discretionary, partially discretionary or mandatory (in terms of timing)	**Fully discretionary**	**Mandatory**
Fully discretionary, partially discretionary or mandatory (in terms of amount)	**Partially discretionary**	**Mandatory**
Existence of step up or other incentive to redeem	**N/A**	**No**
Non-cumulative or cumulative	**Non-cumulative**	**Non-cumulative**
Convertible or non-convertible	**Non-convertible**	**Non-convertible**
Position in subordination hierarchy in liquidation	**Subordinated to HSBC Subordinated Tier 2 Capital**	**Subordinated to senior creditors and depositors**
Non-compliant transitional features	**No**	**No**

* *Date when the bank was initially listed on the Malta Stock Exchange*

Malta p.l.c. (companysecretarymalta@hsbc.com). Information with respect to any capital instrument in these documents should not be used for investment advice and does not constitute an offer to sell or solicitation of an offer to buy any such capital instrument or any advice or recommendation with respect to any such capital instrument. When making a decision about your investments, you should seek the advice of a professional financial adviser.

Further to the above, the local group's total own funds include other items the terms of which are described below.

Retained earnings

The retained earnings represent earnings not paid out as dividends. 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 include an amount of €21,921,000 pledged in favour of the Depositor Compensation Scheme as at 31 December 2019, that are not available to the local group for unrestricted and immediate use to cover risk of losses as soon as they occur. It also includes an amount of €896,000 as an Irrevocable Payment Commitment (IPC) to the Single Resolution Board in terms of the Recovery and Resolution Regulations. These reserves are excluded for the purposes of the Own Funds calculation.

Moreover, an amount of €6,209,000 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. No further allocations to the reserve were necessary as a result of a reduction in non-performing exposures.

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.

Financial investments reserve

This represents the cumulative net change in fair values of financial investments held by the local group, net of related deferred tax effects.

Table 3: Own funds disclosure

Ref		Footnotes	2019
	Common equity tier 1 (CET1) capital: instruments and reserves		**€000**
1	Capital instruments and the related share premium accounts		**108,092**
	– *of which: ordinary shares*		***108,092***
2	Retained earnings	1	**275,759**
3	Accumulated other comprehensive income (and other reserves)		**32,202**
3a	Funds for general banking risk (related to BR09)		**6,209**
6	**Common equity tier 1 capital before regulatory adjustments**		**422,262**
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments		**(1,085)**
8	Intangible assets (net of related deferred tax liability)		**(10,193)**
9a	IFRS 9 transitional adjustments		**6,841**
9b	Single resolution fund		**(896)**
26a	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR		**(21,921)**
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**		**(27,253)**
29	**Common equity tier 1 (CET1) capital**		**395,008**
51	**Tier 2 (T2) capital before regulatory adjustments**		**62,000**
57	**Total regulatory adjustments to Tier 2 (T2) capital**		**—**
58	**Tier 2 (T2) capital**		**62,000**
59	**Total capital (TC = T1 + T2)**		**457,008**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment		
	– *of which:* *Items not deducted from CET1: direct holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*		***28,578***
	– *of which: Items not deducted from CET1: deferred tax assets arising from temporary differences*		***22,427***
60	**Total risk-weighted assets**		**2,403,621**
	Capital ratios and buffers		
61	Common equity tier 1		**16.4%**
62	Tier 1		**16.4%**
63	Total capital		**19.0%**
64	Institution specific buffer requirement		**8.5%**
65	– *of which: capital conservation buffer requirement*		***2.5%***
66	– *of which: counter cyclical buffer requirement*		***0.0%***
67	– *of which: systemic risk buffer requirement*	2	***0.0%***
67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*		***1.5%***
68	Common Equity Tier 1 available to meet buffers		**8.4%**
	Amounts below the threshold for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**22,427**

1 *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 subsidiary engaged in insurance activities from the regulatory consolidation.*

2 *The bank does not have any systemic risk buffer as at year end 31 December 2019.*

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total weighted on and off-balance sheet exposures, and further netting possibilities on market instruments. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. Although there is currently no binding leverage ratio requirement on the Bank, the risk of excess leverage is managed as part of HSBC's appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS')

The RAS articulates the aggregate level and types of risk that HSBC Bank Malta p.l.c. is willing to accept in its business activities in order to achieve its strategic business objectives.

The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

For HSBC Bank Malta p.l.c., the leverage exposure measure is also calculated and presented to the Asset and Liability Management Committee every month.

The following is the local group's leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

The following tables show the difference on balance sheet exposures in relation to the calculation of the leverage ratio.

Table 4: Summary reconciliation of accounting assets and leverage ratio exposures

		Footnotes	2019 €000	2018 €000
1	Total assets as per published financial statements	1	**6,497,617**	6,310,994
	Adjustments for:			
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		**(862,374)**	(824,662)
4	– derivative financial instruments		**5,016**	4,275
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)		**218,231**	283,164
7	– other		**(40,237)**	(35,034)
8	**Total leverage ratio exposure**		**5,818,253**	5,738,737

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

Table 5: Leverage ratio common disclosure

		Footnotes	2019 €000	2018 €000
	On-balance sheet exposures (excluding derivatives)	1		
1	On-balance sheet items (excluding derivatives)		**5,616,939**	5,477,526
2	(Asset amounts deducted in determining tier 1 capital)		**(27,254)**	(31,184)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**		**5,589,685**	5,446,342
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)		**5,320**	4,956
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)		**5,016**	4,275
11	**Total derivative exposures**		**10,336**	9,231
17	Off-balance sheet exposures at gross notional amount		**1,161,404**	1,056,083
18	(Adjustments for conversion to credit equivalent amounts)		**(943,173)**	(772,919)
19	**Total Other off-balance sheet exposures**		**218,231**	283,164
	Capital and total exposures			
20	Tier 1 capital		**395,008**	377,346
21	Total leverage ratio exposure		**5,818,253**	5,738,737
	Leverage ratios			
22	**Leverage ratio (%) – transitional**		**6.8**	6.6

Table 6: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives and exempted exposures)

		Footnotes	2019 €000	2018 €000
EU-	exposures treated as sovereigns	1	**1,203,506**	874,730
EU-6	exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns		**491,371**	334,061
EU-	institutions		**666,281**	1,090,319
EU-	secured by mortgages of immovable properties		**1,973,310**	2,498,459
EU-	retail exposures		**419,071**	128,929
EU-	corporate		**584,108**	199,439
EU-	exposures in default		**91,836**	117,089
EU-	other exposures (e.g. equity and other non-credit obligation assets)		**187,456**	234,500
	Total		**5,616,939**	5,477,526

1 *Comparative period has been restated in accordance with current year presentation.*

Capital buffers

The local group is compliant with the CRD IV capital requirements. In respect of the local group, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', requires 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 is required to maintain a capital conservation buffer of 2.5%, O-SII buffer of 1.5% and the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU. These capital buffers are to be composed of CET 1 capital, as a percentage of the Risk Weighted Assets as from 1 January 2019. These buffers were phased in over the period from 1 January 2016 to 31 December 2019.

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 contained within Malta, this buffer results in a marginal percentage.

The tables below discloses the geographical distribution of the bank's credit exposure relevant to the calculation of the institution-specific countercyclical buffer rate and the amount of institution-specific countercyclical capital buffer. The disclosures are performed in accordance with Article 440 of Regulation (EU) 575/2013.

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	Group				
	General credit exposures	**Own funds requirement**			
	Exposure value for SA	**of which: general credit exposures**	**Total**	**Own funds requirement weights**	**Counter-cyclical capital buffer rate**
Breakdown per country	**€000**	**€000**	**€000**	**%**	**%**
Malta	**4,381,801**	**150,065**	**150,065**	**99.70**	**—**
Czech Republic	**3**	**—**	**—**	**0.00**	**1.50**
France	**8**	**—**	**—**	**0.00**	**0.25**
United Kingdom	**888**	**51**	**51**	**0.03**	**1.00**
Hong Kong	**12**	**—**	**—**	**0.00**	**2.00**
Norway	**22**	**1**	**1**	**0.00**	**2.50**
Sweden	**14**	**1**	**1**	**0.00**	**2.50**
Bulgaria	**1**	**—**	**—**	**0.00**	**0.50**
Ireland	**14**	**—**	**—**	**0.00**	**1.00**
Slovakia	**23**	**1**	**1**	**0.00**	**1.50**
Other	**6,270**	**407**	**407**	**0.27**	**—**
Total as at 31 December 2019	**4,389,056**	**150,526**	**150,526**	**100.00**	

Table 8: Amount of institution-specific countercyclical capital buffer

	Group	
	2019	2018
	€000	€000
Total risk amount	**2,403,621**	2,581,346
Institution specific countercyclical buffer rate (%)	—	—
Institution specific countercyclical buffer requirement	**9**	—

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 mitigate structural macro-prudential 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.

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Bank Malta p.l.c.
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	For consolidated Group reporting, we have adopted the standardised approach for our business in accordance with Article 317. 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.
Counterparty credit risk	Four approaches to calculating CCR and determining exposure values are defined by the Basel Committee: mark-to-market, original exposure, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, foundation IRB or advanced IRB.	We use the mark-to-market approach to calculate to CCR exposure value as defined in Article 274 of the Capital Requirements Regulation.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For reporting purposes, all non-trading book equity exposures are treated under the standardised approach.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA').	The market risk capital requirement is measured using the standard rules.
Operational risk	The Basel Committee allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We currently use the standardised approach in determining our operational risk capital requirement.

Table 9: Net value of exposure at the end of year

	Group		
	2019		
	Net value of exposure at the end of year	Risk-weighted assets	Capital Required[1]
	€000	€000	€000
Central governments or central banks	1,250,635	56,068	4,485
Public sector entities	245,418	–	–
Multilateral development banks	239,821	–	–
International Organisations	16,173	–	–
Institutions	713,722	216,004	17,280
Corporates	1,158,091	540,769	43,262
Retail exposures	960,725	311,928	24,954
Secured by mortgages on immovable property	1,973,310	702,020	56,162
Exposures in default	97,008	103,952	8,316
Items associated with particularly high risk	53,182	68,321	5,466
Equity exposures	4,537	4,537	363
Other items	142,204	150,046	12,004
Credit risk	6,854,826	2,153,645	172,292
Operational risk		249,517	19,961
Foreign exchange risk		459	37
Total		2,403,621	192,290
Own funds			
Common Equity Tier			395,008
Tier 2			62,000
Total own funds			457,008
Total capital ratio			19.0%

Capital requirements, here and in all tables where the term is used, represents the Pillar I capital charge at 8% of RWAs.

Table 10: Overview of RWAs (OV1)[1]

		Risk-weighted assets		Minimum capital requirements
		2019	2018	**2019**
		€000	€000	**€000**
1	Credit risk (excluding CCR)	**2,020,304**	2,191,894	**161,624**
2	– *of which: the standardised approach*	***2,020,304***	*2,191,894*	***161,624***
6	CCR	**5,828**	6,749	**466**
7	– *of which: mark to market*	***5,828***	*6,749*	***466***
19	Market risk	**459**	592	**37**
20	– *of which: the standardised approach*	***459***	*592*	***37***
23	Operational risk	**249,517**	256,893	**19,961**
24	– *of which: standardised approach*	***249,517***	*256,893*	***19,961***
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**127,513**	125,218	**10,202**
29	**Total**	**2,403,621**	2,581,346	**192,290**

1 *'Capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*

Pillar 2 and Internal Capital Adequacy Assessment Process

Pillar 2

Pillar 2 (Supervisory and own funds management process) consists of the own assessment by banks and of the assessment from supervision authorities, of the need to allocate capital resources to risks that are not covered by the Pillar 1 framework. A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process ('ICAAP'), conducted by HSBC Bank Malta p.l.c., to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates HSBC Bank Malta p.l.c.'s risk management processes and governance framework. As part of this ICAAP, a range of stress tests are applied to our base capital plan.

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 multi-year 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.

This evaluation process is summarised in an annual ICAAP report. The ICAAP is approved by the Board, which has the ultimate responsibility for the effective management of risk and approval of HSBC Bank Malta p.l.c.'s risk appetite. It is then submitted to the supervisory authorities. Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirement and guidance under Pillar 2. This process can also include specific demands on all aspects of the bank's management. The SREP process results in a Pillar 2 requirement and a Pillar 2 guidance, which are added to the Pillar 1 requirements.

The Overall Capital Requirement, applicable on total capital is composed of the Pillar 1 requirement, the Pillar 2 requirement add-on, and the cumulated regulatory buffers. This stands as the applicable regulatory minimum on total capital for a bank falling under ECB supervision.

The Total SREP capital requirement, which is composed only of the Pillar 1 requirement and the Pillar 2 requirement add-on, applicable on the total capital ratio as well, is the ratio that banks should respect under stressed scenarios.

The Pillar 2 guidance applies on CET1 ratio, and represents the applicable regulatory minimum on CET1 along with the Pillar 1 requirements, the Pillar 2 requirements and the combined buffer. The Pillar 2 requirement is binding, and breaches can have direct legal consequences for the bank, for example with regards to dividends as well as coupons payments.

Internal capital adequacy assessment process

The Board approves the ICAAP, and together with the Risk Committee, examines the Bank's risk profile from both a regulatory and economic capital viewpoint. They aim to ensure that capital resources:

- remain sufficient to support the bank's risk profile and outstanding commitments;
- exceed current regulatory requirements, and that the bank is well placed to meet those expected in the future;
- allow the bank to remain adequately capitalised in the event of a severe economic downturn stress scenario; and
- remain consistent with the strategic and operational goals, and the shareholders and investors expectations.

The minimum regulatory capital that HSBC Bank Malta p.l.c. is required to hold is determined by the rules and guidance established by the Joint Supervisory Team. These capital requirements are a primary influence shaping the business planning process, in which RWA targets are established for global businesses in accordance with the bank's strategic direction and risk appetite.

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').

Credit risk

Overview and Responsibilities

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 direct lending, trade finance and leasing business, but also from other products such as guarantees, derivatives and from holding assets in the form of debt securities. Credit risk represents our largest regulatory capital requirement.

There have been no material changes to our policies and practices during 2019.

The tables below set out details of the group's net exposures values by exposure class and approach. The average net exposure value of this financial period is based on the last four end of quarter observations.

Table 11: Total and average net amount of exposures (CRB-B)

		2019	
		Net value of exposure at the end of year	Average net exposure over the year
		€000	€000
15	Total IRB approach	–	–
16	Central government or central banks	**1,250,635**	**1,149,793**
18	Public sector entities	**245,418**	**198,731**
19	Multilateral developments banks	**239,821**	**218,332**
20	International organisations	**16,173**	**4,043**
21	Institutions	**713,722**	**757,300**
22	Corporates	**1,158,091**	**1,111,497**
23	– *of which: SMEs*	***632,979***	***752,820***
24	Retail	**960,725**	**936,384**
25	– *of which: SMEs*	***601***	***18,744***
26	Secured by mortgages on immovable property	**1,973,310**	**1,928,380**
27	– *of which: SMEs*	***124,175***	***31,044***
28	Exposures in default	**97,008**	**107,170**
29	Items associated with particular high risk	**53,182**	**35,839**
33	Equity exposures	**4,537**	**3,892**
34	Other exposures	**142,204**	**189,375**
35	**Total standardised approach**	**6,854,826**	**6,640,736**
36	**Total at 31 December 2019**	**6,854,826**	**6,640,736**

Credit quality of exposures by exposures class and instruments

We form part of a universal bank with a conservative approach to credit risk. This is reflected in our credit risk profile being diversified across a number of asset classes with a credit quality profile mainly concentrated in the higher quality bands. The following tables present information on the credit quality of exposures by exposure class, industry and geography, covering both on-balance-sheet and off-balance-sheet exposures at year end.

Table 12: Credit quality of exposures by exposure class and instrument (CR1-A)

			Gross carrying values of					
			Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year	Credit risk adjustment charges of the period	Net carrying values[1]
		Footnotes	€000	€000	€000	€000	€000	€000
15	**Total IRB approach**		—	—	—	—	—	—
16	Central governments and central banks		—	1,250,709	74	—	74	1,250,635
18	Public sector entities		—	245,426	8	—	8	245,418
19	Multilateral development banks		—	239,828	7	—	7	239,821
20	International Organisations		—	16,174	1	—	1	16,173
21	Institutions		849	713,724	2	—	—	714,571
22	Corporates		56,749	1,167,455	9,364	—	660	1,214,840
23	*– of which: SMEs*		*—*	*637,354*	*4,375*	*—*	*3,233*	*632,979*
24	Retail		7,114	963,968	3,243	—	(1,044)	967,839
25	*– of which: SMEs*		*—*	*601*	*—*	*—*	*—*	*601*
26	Secured by mortgages on immovable property	1	59,196	1,977,855	4,545	—	3,937	2,032,506
27	*– of which: SMEs*		*853*	*126,342*	*2,167*	*—*	*2,167*	*125,028*
28	Exposures in default	2	123,908	—	26,900	8,338	(3,999)	97,008
29	Items associated with particularly high risk		8,935	47,430	3,183	—	3,183	53,182
33	Equity exposures		—	4,537	—	—	—	4,537
34	Other exposures		—	142,204	—	—	—	142,204
35	**Total standardised approach**		132,843	6,769,310	47,327	8,338	2,827	6,854,826
36	**Total at 31 December 2019**		132,843	6,769,310	47,327	8,338	2,827	6,854,826
37	*– of which: loans*		*127,663*	*4,290,679*	*45,978*	*8,338*	*3,312*	*4,372,364*
38	*– of which: debt securities*		*—*	*1,075,493*	*31*	*—*	*11*	*1,075,462*
39	*– of which: off-balance sheet exposures*		*5,180*	*1,223,635*	*1,318*	*—*	*(496)*	*1,227,497*
15	Total IRB approach		—	—	—	—	—	—
16	Central governments and central banks		—	874,730	—	—	—	874,730
18	Public sector entities		—	196,247	—	—	—	196,247
19	Multilateral development banks		—	187,083	—	—	—	187,083
20	International Organisations		—	—	—	—	—	—
21	Institutions		—	1,101,115	2	—	—	1,101,113
22	Corporates		—	329,960	2,247	—	(922)	327,713
23	*– of which: SMEs*		*—*	*278,363*	*1,142*	*—*	*(567)*	*277,221*
24	Retail		—	340,589	3,277	—	(840)	337,312
25	*– of which: SMEs*		*—*	*24,850*		*—*	*(494)*	*24,850*
26	Secured by mortgages on immovable property		—	3,214,999	8,075	—	1,449	3,206,924
27	*– of which: SMEs*		*—*	*620,803*		*—*	*592*	*620,803*
28	Exposures in default		158,318	—	39,238	5,857	6,020	119,081
29	Items associated with particularly high risk		—	40,806	—	—	(33)	40,806
33	Equity exposures		—	2,752	—	—	—	2,752
34	Other exposures		—	208,910	—	—		208,910
35	Total standardised approach		158,318	6,497,191	52,838	5,857	5,674	6,602,671
36	Total at 31 December 2018		158,318	6,497,191	52,838	5,857	5,674	6,602,671
37	*– of which: loans*		*156,327*	*4,159,045*	*51,025*	*5,857*	*5,674*	*4,264,347*
38	*– of which: debt securities*		*—*	*1,012,562*	*—*	*—*	*—*	*1,012,562*
39	*– of which: off-balance sheet exposures*		*1,991*	*1,113,922*	*1,813*	*—*	*—*	*1,114,100*

Net values is the summation of the defaulted and non-defaulted exposures less any specific credit risk adjustments.

1 *As shown in the above table and the comparative figures for 2018, during the current financial year the Bank refined the RWA calculation which resulted in a shift of exposures from the 'Secured by mortgages on immovable property' to the 'Retail' and 'Corporate' exposure classes.*

2 *From 1 January 2019, standardised exposures that are in default are reported within individual exposure classes and totalled in 'Exposures in default'. The reported amounts at 31 December 2018 have not been restated; 'Exposures in default' at that date principally comprised defaulted exposure to corporates of €87.0m and retail clients of €71.3m.*

Credit quality of exposures by industry type

The following table provides a comprehensive picture of the credit quality of an institution's on-balance sheet and off-balance sheet exposures by industry type.

Table 13: Credit quality of exposures by industry or counterparty types (CR1-B)

		Gross carrying values of					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year	Credit risk adjustment charges of the period	Net carrying values[1]
		€000	€000	€000	€000	€000	€000
1	Agriculture	**1,358**	**1,361**	**42**	**—**	**(4)**	**2,677**
2	Mining	**—**	**—**	**—**	**—**	**—**	**—**
3	Manufacturing	**11,894**	**100,645**	**5,280**	**213**	**1,477**	**107,259**
4	Utilities	**—**	**105,942**	**632**	**—**	**368**	**105,310**
5	Water supply	**—**	**25**	**—**	**—**	**(7)**	**25**
6	Construction	**2,160**	**88,532**	**901**	**271**	**(3,712)**	**89,791**
7	Wholesale & retail trade	**8,315**	**305,927**	**3,261**	**139**	**(557)**	**310,981**
8	Transportation & storage	**20**	**37,059**	**498**	**2**	**376**	**36,581**
9	Accommodation & food services	**5,100**	**108,225**	**4,203**	**111**	**148**	**109,122**
10	Information & communication	**21**	**50,447**	**345**	**—**	**(543)**	**50,123**
11	Financial & insurance activities	**1,704**	**1,653,343**	**1,290**	**7**	**(600)**	**1,653,757**
12	Real estate	**27,304**	**145,959**	**11,767**	**6,249**	**4,133**	**161,496**
13	Professional activities	**501**	**4,334**	**64**	**—**	**(348)**	**4,771**
14	Administrative service	**1,246**	**356,521**	**1,648**	**—**	**1,328**	**356,119**
15	Public administration and defence, compulsory social security	**—**	**716,034**	**40**	**—**	**34**	**715,994**
16	Education	**—**	**3,572**	**142**	**—**	**134**	**3,430**
17	Human health & social work	**5,426**	**28,390**	**3,731**	**110**	**(241)**	**30,085**
18	Arts & entertainment	**33**	**5,124**	**21**	**37**	**(7)**	**5,136**
19	Other services	**1,286**	**66,474**	**55**	**198**	**233**	**67,705**
20	Personal	**66,475**	**2,767,686**	**13,400**	**1,001**	**608**	**2,820,761**
21	Extra-territorial bodies	**—**	**204,252**	**7**	**—**	**7**	**204,245**
24	Other	**—**	**19,458**	**—**	**—**	**—**	**19,458**
25	**Total at 31 December 2019**	**132,843**	**6,769,310**	**47,327**	**8,338**	**2,827**	**6,854,826**
1	Agriculture	528	4,792	46	—	30	5,274
2	Mining	—	—	—	—	544	—
3	Manufacturing	9,841	83,755	4,016	1	64	89,580
4	Utilities	—	59,442	264	—	2	59,178
5	Water supply	—	49,478	7	—	(947)	49,471
6	Construction	34,435	73,517	4,884	575	(1,379)	103,068
7	Wholesale & retail trade	6,419	316,491	3,957	986	912	318,953
8	Transportation & storage	17	24,657	124	5	564	24,550
9	Accommodation & food services	4,896	216,856	4,166	18	3	217,586
10	Information & communication	106	39,572	888	—	613	38,790
11	Financial & insurance activities	1,512	1,337,096	1,897	—	2,044	1,336,711
12	Real estate	22,377	97,471	13,883	401	(260)	105,965
13	Professional activities	509	50,161	412	2	(127)	50,258
14	Administrative service	769	40,140	319	107	105	40,590
15	Public administration and defence, compulsory social security	—	123,908	6	—	(17)	123,902
16	Education	3	1,250	8	—	(885)	1,245
17	Human health & social work	4,960	25,722	4,082	3,014	3,007	26,600
18	Arts & entertainment	157	2,359	65	—	44	2,451
19	Other services	124	42,345	20	43	652	42,449
20	Personal	71,665	2,637,456	13,794	705	705	2,695,327
21	Extra-territorial bodies	—	—	—	—	—	—
22	Central government or central banks	—	874,730	—	—	—	874,730
23	Multilateral development banks	—	187,083	—	—	—	187,083
24	Other	—	208,910	–	—	—	208,910
25	Total at 31 December 2018	158,318	6,497,191	52,838	5,857	5,674	6,602,671

Net values is the summation of the defaulted and non-defaulted exposures less any specific credit risk adjustments.

Credit quality of exposures by geography

The tables provides a comprehensive picture of the credit quality of an institution's on-balance-sheet and off-balance-sheet exposures by geographical concentration.

Table 14: Credit quality of exposures by geography (CR1-C)

		Gross carrying values of					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year	Credit risk adjustment charges of the period	Net carrying values[1]
		€000	€000	€000	€000	€000	€000
1	**Europe**	**132,782**	**6,237,909**	**47,312**	**8,338**	**2,812**	**6,323,379**
2	Malta	**131,814**	**5,600,772**	**46,422**	**8,338**	**1,922**	**5,686,164**
3	Belgium					**–**	**–**
4	Switzerland	**–**	**3,613**	**4**	**–**	**4**	**3,609**
5	Germany	**–**	**134,415**	**2**	**–**	**2**	**134,413**
6	France	**1**	**219,788**	**1**	**–**	**1**	**219,788**
7	United Kingdom	**897**	**272,178**	**872**	**–**	**872**	**272,203**
8	Poland	**–**	**–**	**–**	**–**	**–**	**–**
9	Netherlands	**9**	**256**	**–**	**–**	**–**	**265**
10	Other countries	**61**	**6,887**	**11**	**–**	**11**	**6,937**
11	**North America**	**39**	**8,695**	**3**	**–**	**3**	**8,731**
12	Canada	**26**	**2,045**	**3**	**–**	**3**	**2,068**
13	United States	**13**	**6,650**	**–**	**–**	**–**	**6,663**
14	**Asia**	**21**	**2,049**	**4**	**–**	**4**	**2,066**
15	Philippines	**–**	**–**	**–**	**–**	**–**	**–**
16	Other countries	**21**	**2,049**	**4**	**–**	**4**	**2,066**
17	**Middle East**	**1**	**264,634**	**1**	**–**	**1**	**264,634**
18	United Arab Emirates	**–**	**260,137**	**–**	**–**	**–**	**260,137**
19	Other countries	**1**	**4,497**	**1**	**–**	**1**	**4,497**
20	**Other geographical areas**	**–**	**256,023**	**7**	**–**	**7**	**256,016**
21	**Total at 31 December 2019**	**132,843**	**6,769,310**	**47,327**	**8,338**	**2,827**	**6,854,826**
1	Europe	158,318	6,424,905	52,838	5,857	5,674	6,530,385
2	Malta	158,318	4,994,579	52,838	5,857	5,674	5,100,059
3	Belgium	–	67,531	–	–	–	67,531
4	Switzerland	–	2,887	–	–	–	2,887
5	Germany	–	174,432	–	–	–	174,432
6	France	–	150,713	–	–	–	150,713
7	United Kingdom	–	899,584	–	–	–	899,584
8	Poland	–	118,525	–	–	–	118,525
9	Netherlands	–	5,002	–	–	–	5,002
10	Other countries	–	11,652	–	–	–	11,652
11	North America	–	56,087	–	–	–	56,087
12	Canada	–	14,299	–	–	–	14,299
13	United States	–	41,788	–	–	–	41,788
14	Asia	–	15,909	–	–	–	15,909
15	Philippines	–	15,502	–	–	–	15,502
16	Other countries	–	407	–	–	–	407
17	Other geographical area	–	290	–	–	–	290
18	Total at 31 December 2018	158,318	6,497,191	52,838	5,857	5,674	6,602,671

1 *Net values is the summation of the defaulted and non-defaulted exposures less any specific credit risk adjustments.*
We have restated the comparative period and aggregate geographic exposure with current year reporting.

Past due but not impaired exposures, impaired exposures and credit risk adjustments ('CRA')

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.

We analyse past due but not impaired, impaired exposures and impairment allowances, and other credit risk provisions using accounting values on a regulatory consolidation basis. Our approach for determining impairment allowances is explained in HSBC Bank Malta p.l.c. Annual Report and Accounts 2019, and HSBC Bank Malta p.l.c.'s definitions for accounting purposes of 'past due' and 'impaired' are set out in Note 4 of the Annual Report and Accounts. Under the accounting standards currently adopted by HSBC Bank Malta p.l.c., impairment allowances, value adjustments and credit related provisions for off-balance sheet amounts are treated as specific CRAs.

The table below provides an ageing analysis of accounting on-balance sheet past due exposures regardless of their impairment status. The gross carrying values indicated is before impairments and provisions but after the write-offs reported in financial statements.

Table 15: Ageing of past-due unimpaired and impaired exposures (CR1-D)

		Gross carrying values					
		Less than 30 days	Between 30 and 60 days	Between 60 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	Greater than 1 year
		€000	€000	€000	€000	€000	€000
1	Loans	**79,347**	**10,999**	**6,803**	**7,491**	**9,313**	**49,606**
3	**Total exposures at 31 December 2019**	**79,347**	**10,999**	**6,803**	**7,491**	**9,313**	**49,606**
1	Loans	75,243	10,788	14,126	7,043	16,910	73,166
3	Total exposures at 31 December 2018	75,243	10,788	14,126	7,043	16,910	73,166

No debt securities were past due as at 31 December 2019 and 31 December 2018.

Non-performing and forborne exposures

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The definition of credit-impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Annual Report and Accounts 2019*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure, except in its treatment of 'cures'.

Under the EBA definition, exposures cease to be reported as forborne if they pass three tests:

- the forborne exposure must have been considered to be performing for a 'probation period' of at least two years;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- no exposure to the debtor is more than 30 days past due at the end of the probation period.

The tables below provide an overview of non-performing and forborne exposures as per the Commission Implementing Regulation (EU) No 680/2014

Table 16: Non-performing and forborne exposures

		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral and financial guarantees received	
			of which: performing but past due between 30 and 90 days	of which: performing forborne	of which: non-performing				On performing exposures		On non- performing exposures			
						of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne	On non-performing exposures	of which: forborne
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
At 31 December 2019														
1	**Debt securities**	**1,070,680**	**—**	**—**	**—**	**—**	**—**	**—**	**(32)**	**—**	**—**	**—**	**—**	**—**
2	**Loans and Advances**	**4,398,960**	**7,049**	**22,842**	**118,934**	**118,934**	**118,934**	**64,505**	**(13,586)**	**(2,287)**	**(23,297)**	**(16,309)**	**90,079**	**42,776**
3	**Off-balance sheet exposures**	**1,232,160**	**—**	**—**	**2,004**	**2,004**	**—**	**—**	**(1,306)**	**—**	**(11)**	**—**	**—**	**—**
At 31 December 2018														
1	Debt securities	1,012,562	—	—	—	—	—	—	(21)	—	—	—	—	—
2	Loans	4,309,478	7,944	21,761	136,261	136,261	136,261	76,335	(14,891)	—	(29,880)	(20,124)	100,359	66,738
3	Off-balance sheet exposures	1,582,213	—	—	2,890	2,890	—	—	(1,813)	—	—	—	—	—

The table above is presented based on the EBA definitions of 'non-performing' and 'forborne' exposures. Forborne exposures are referred to as renegotiated loans in the *Annual Report and Accounts 2019*. In the *Annual Report and Accounts 2019* we classify and report loans on which concessions have been granted under conditions of credit distress as 'renegotiated loans' when their contractual payment terms have been modified because we have significant concerns about the borrowers' ability to meet contractual payments when due. This is aligned to the EBA definitions of forborne exposures. The EBA and *Annual Report and Accounts 2019* differ in the treatment of cures from the forborne/renegotiated status. Under the EBA definition, exposures are no longer considered forborne once the exposures have complied with the revised contractual obligations for a period of at least three years and the exposures are no longer considered impaired or have any elements that are more than 30 days past due. In the *Annual Report and Accounts 2019*, renegotiated loans retain this classification until maturity or derecognition. The EBA definition of non-performing captures those debtors that have material exposures which are more than 90 days past due or where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are considered to be unlikely to pay. The *Annual Report and Accounts 2019* does not report non-performing exposure, however the definition of impaired loans is well aligned to the EBA non-performing definitions.

Non-performing and forborne exposures

Tables 17 to 20 are presented in accordance with the EBA's 'Guidelines on disclosure of non-performing and forborne exposures'.

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The Annual Report and Accounts 2019 does not define non-performing exposures, however, the definition of credit-impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

EBA defines forborne exposures are exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the Annual Report and Accounts 2019, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

Under the EBA definition, exposures cease to be reported as forborne if they pass 3 tests:

- the forborne exposure must have been considered to be performing for a 'probation period' of at least two years;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- no exposure to the debtor is more than 30 days past due at the end of the probation period.

In the Annual Report and Accounts, renegotiated loans retain this classification until maturity or de-recognition.

Table 17: Credit quality of forborne exposures

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which forborne non-performing exposures
		€000	€000	€000	€000	€000	€000	€000	€000
	At 31 December 2019								
1	**Loans and advances**	**22,842**	**64,505**	**64,505**	**64,505**	**(2,287)**	**(16,309)**	**70,080**	**42,776**
2	Central banks	—	—	—	—	—	—	—	—
3	General governments	—	—	—	—	—	—	—	—
4	Credit institutions	—	—	—	—	—	—	—	—
5	Other financial corporations	—	**186**	**186**	**186**	—	—	**186**	**186**
6	Non-financial corporations	**8,514**	**49,559**	**49,559**	**49,559**	**(1,115)**	**(14,361)**	**41,607**	**29,136**
7	Households	**14,328**	**14,760**	**14,760**	**14,760**	**(1,172)**	**(1,948)**	**28,288**	**13,455**
8	**Debt securities**	—	—	—	—	—	—	—	—
9	**Loan commitments given**	—	—	—	—	—	—	—	—
10	**Total**	**22,842**	**64,505**	**64,505**	**64,505**	**(2,287)**	**(16,309)**	**70,080**	**42,776**

Table 18 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 31 Dec 2019 was 2.99% calculated in line with the EBA guidelines.

Table 18: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
	At 31 December												
1	**Loans and advances**	4,280,026	4,272,977	7,049	118,934	52,525	7,490	9,313	17,728	15,921	6,800	9,157	118,934
2	Central banks	426,741	426,741	—	—	—	—	—	—	—	—	—	—
3	General governments	126,170	126,170	—	—	—	—	—	—	—	—	—	—
4	Credit institutions	676,389	676,389	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	3,095	3,095	—	186	—	—	—	—	—	—	186	186
6	Non-financial corporations	867,163	866,888	275	59,174	20,668	2,313	5,223	13,579	8,763	3,270	5,358	59,174
8	Households	2,180,468	2,173,694	6,774	59,574	31,857	5,177	4,090	4,149	7,158	3,530	3,613	59,574
9	**Debt securities**	1,070,680	1,070,680	—	—	—	—	—	—	—	—	—	—
10	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
11	General governments	815,560	815,560	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	255,120	255,120	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
15	**Off-balance-sheet exposures**	1,230,156	1,230,156	—	2,004	2,004	—	—	—	—	—	—	2,004
16	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
17	General governments	45,185	45,185	—	—	—	—	—	—	—	—	—	—
18	Credit institutions	43,087	43,087	—	—	—	—	—	—	—	—	—	—
19	Other financial corporations	8,218	8,218	—	—	—	—	—	—	—	—	—	—
20	Non-financial corporations	591,605	591,605	—	1,947	1,947	—	—	—	—	—	—	1,947
21	Households	542,061	542,061	—	57	57	—	—	—	—	—	—	57
22	**Total**	6,580,862	6,573,813	7,049	120,938	54,529	7,490	9,313	17,728	15,921	6,800	9,157	120,938

The table below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained by taking possession. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet whilst the accumulated negative changes is the accumulated impairment or negative change on the initial recognition value of the collateral obtained by taking possession including amortisation in the case of PP&E and investment properties.

Table 19: Collateral obtained by taking possession and execution processes

		2019	
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		€000	€000
1	Property, plant and equipment (PP&E)	—	—
2	Other than PP&E	5,303	(97)
3	Residential immovable property	2,066	(69)
4	Commercial Immovable property	3,196	(8)
5	Movable property (auto, shipping, etc.)	—	—
6	Equity and debt instruments	—	—
7	Other	41	(20)
8	**Total at 31 December 2019**	5,303	(97)

The following table provides information on the gross carrying amount of exposures and related impairment with further detail on the IFRS 9 stage, accumulated partial write off and collateral. The IFRS 9 stages have the following characteristics:

- stage 1: These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for ECL is recognised;
- stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised; and
- stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.

Table 20: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, negative changes in fair value due to credit risk and provisions		
			of which stage 1	of which stage 2		of which stage 2	of which stage 3		of which stage 1	of which stage 2		of which stage 2	of which stage 3
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
	At 31 December 2019												
1	**Loans and advances**	**4,280,026**	**4,197,792**	**82,234**	**118,934**	**—**	**118,934**	**(13,586)**	**(7,573)**	**(6,013)**	**(23,297)**	**—**	**(23,297)**
2	Central banks	**426,741**	**426,741**	**—**	**—**	**—**	**—**	**(19)**	**(19)**	**—**	**—**	**—**	**—**
3	General governments	**126,170**	**126,169**	**1**	**—**	**—**	**—**	**(33)**	**(33)**	**—**	**—**	**—**	**—**
4	Credit institutions	**676,389**	**676,389**	**—**	**—**	**—**	**—**	**(1)**	**(1)**	**—**	**—**	**—**	**—**
5	Other financial corporations	**3,095**	**3,092**	**3**	**186**	**—**	**186**	**(23)**	**(22)**	**(1)**	**—**	**—**	**—**
6	Non-financial corporations	**867,163**	**830,380**	**36,783**	**59,174**	**—**	**59,173**	**(8,405)**	**(5,833)**	**(2,572)**	**(16,889)**	**—**	**(16,889)**
7	Of which SMEs	**694,673**	**662,038**	**32,635**	**53,837**	**—**	**53,837**	**(8,069)**	**(5,644)**	**(2,425)**	**(15,409)**	**—**	**(15,409)**
7	Households	**2,180,468**	**2,135,021**	**45,447**	**59,574**	**—**	**59,574**	**(5,105)**	**(1,665)**	**(3,440)**	**(6,408)**	**—**	**(6,408)**
8	**Debt securities**	**1,070,680**	**1,070,680**	**—**	**—**	**—**	**—**	**(32)**	**(32)**	**—**	**—**	**—**	**—**
9	Central banks	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10	General governments	**815,560**	**815,560**	**—**	**—**	**—**	**—**	**(25)**	**(25)**	**—**	**—**	**—**	**—**
11	Credit institutions	**255,120**	**255,120**	**—**	**—**	**—**	**—**	**(7)**	**(7)**	**—**	**—**	**—**	**—**
12	Other financial corporations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
13	Non-financial corporations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
14	**Off-balance-sheet exposures**	**1,230,156**	**1,202,826**	**27,330**	**2,004**	**—**	**2,004**	**(1,306)**	**(1,022)**	**(284)**	**(11)**	**—**	**(11)**
15	Central banks	**—**	**—**	**—**	**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**
16	General governments	**45,185**	**45,180**	**5**	**—**	**—**	**—**	**(2)**	**(2)**	**—**	**—**	**—**	**—**
17	Credit institutions	**43,087**	**43,087**	**—**	**—**	**—**	**—**	**(1)**	**(1)**	**—**	**—**	**—**	**—**
18	Other financial corporations	**8,218**	**5,347**	**2,871**	**—**	**—**	**—**	**(5)**	**(1)**	**(4)**	**—**	**—**	**—**
19	Non-financial corporations	**591,605**	**571,406**	**20,199**	**1,947**	**—**	**1,947**	**(1,135)**	**(1,001)**	**(134)**	**(11)**	**—**	**(11)**
20	Households	**542,061**	**537,806**	**4,255**	**57**	**—**	**57**	**(163)**	**(17)**	**(146)**	**—**	**—**	**—**
	Total	**6,580,862**	**6,471,298**	**109,564**	**120,938**	**—**	**120,938**	**(14,924)**	**(8,627)**	**(6,297)**	**(23,308)**	**—**	**(23,308)**

Table 20: Performing and non-performing exposures and related provisions (continued)

			Collaterals and financial guarantees received	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
	At 31 Dec 2019			
1	**Loans and advances**	**(12,090)**	**2,555,216**	**90,079**
2	Central banks	**—**		
3	General governments	**—**	**119,703**	**—**
4	Credit institutions	**—**		
5	Other financial corporations	**—**	**—**	**186**
6	Non-financial corporations	**(12,086)**	**413,434**	**32,279**
7	Households	**(4)**	**2,022,079**	**57,615**
8	**Debt securities**	**—**	**—**	**—**
9	Central banks	**—**	**—**	**—**
10	General governments	**—**	**—**	**—**
11	Credit institutions	**—**	**—**	**—**
12	Other financial corporations	**—**	**—**	**—**
13	Non-financial corporations	**—**	**—**	**—**
14	**Off-balance-sheet exposures**	**—**	**—**	**—**
15	Central banks	**—**	**—**	**—**
16	General governments	**—**	**—**	**—**
17	Credit institutions	**—**	**—**	**—**
18	Other financial corporations	**—**	**—**	**—**
19	Non-financial corporations	**—**	**—**	**—**
20	Households	**—**	**—**	**—**
	Total	**(12,090)**	**2,555,216**	**90,079**

Table 21 analyses past due unimpaired and credit-impaired exposures on a regulatory consolidation basis using accounting values. There are no material differences between the regulatory and accounting scope of consolidation.

All amounts past due more than 90 days are considered credit impaired even where regulatory rules deem default as 180 days past due.

Table 21: Amount of past due unimpaired and credit-impaired exposures by geographical region

	Europe	Asia	MENA	North America	Latin America	Total
At 31 Dec 2019	€000	€000	€000	€000	€000	€000
Past due	**161,734**	**132**	**183**	**272**	**—**	**162,321**
– personal	**74,329**	**132**	**183**	**272**	**—**	**74,916**
– corporate and commercial	**74,208**	**—**	**—**	**—**	**—**	**74,208**
– financial	**13,197**	**—**	**—**	**—**	**—**	**13,197**

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.

Table 22: Geographical breakdown of exposure (CRB-C)

		2019			
		Malta	Europe	Other	Total
		€000	€000	€000	€000
6	**Total IRB approach**	**—**	**—**	**—**	**—**
7	Central government or central banks	**1,216,712**	**33,923**	**—**	**1,250,635**
9	Public sector entities	**53,535**	**191,883**	**—**	**245,418**
10	Multilateral developments banks	**—**	**—**	**239,821**	**239,821**
11	International Organisations	**—**	**—**	**16,173**	**16,173**
12	Institutions	**20,238**	**422,898**	**270,586**	**713,722**
13	Corporates	**1,157,099**	**986**	**6**	**1,158,091**
14	Retail	**959,530**	**923**	**272**	**960,725**
15	Secured by mortgages on immovable property[1]	**1,972,917**	**393**	**—**	**1,973,310**
16	Exposures in default	**96,866**	**89**	**53**	**97,008**
17	Items associated with particular high risk	**53,182**	**—**	**—**	**53,182**
21	Equity exposures	**2**	**—**	**4,535**	**4,537**
22	Other exposures	**142,204**	**—**	**—**	**142,204**
23	**Total standarised approach**	**5,672,285**	**651,095**	**531,446**	**6,854,826**
24	**Total at 31 December 2019**	**5,672,285**	**651,095**	**531,446**	**6,854,826**

Table 22: Geographical breakdown of exposure (CRB-C) (continued)

		2018			
		Malta	Europe	Other	Total
		€000	€000	€000	€000
6	Total IRB approach	—	—	—	—
7	Central government or central banks	649,278	220,450	5,002	874,730
9	Public sector entities	196,247	—	—	196,247
10	Multilateral developments banks	—	129,942	57,141	187,083
	International Organisations	—	—	—	—
12	Institutions	11,036	1,074,933	15,144	1,101,113
13	Corporates	327,713	—	—	327,713
14	Retail	337,312	—	—	337,312
15	Secured by mortgages on immovable property	3,206,924	—	—	3,206,924
16	Exposures in default	119,081	—	—	119,081
17	Items associated with particular high risk	40,806	—	—	40,806
21	Equity exposures	2,752	—	—	2,752
22	Other exposures	208,910	—	—	208,910
23	Total standarised approach	5,100,059	1,425,325	77,287	6,602,671
24	Total at 31 December 2018	5,100,059	1,425,325	77,287	6,602,671

1 As shown in the above table and the comparative figures for 2018, during the current financial year the Bank refined the RWA calculation which resulted in a shift of exposures from the Secured by mortgages on immovable property to the Retail and Corporate exposure classes.

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 12.4% of the total loan portfolio as at end of 2019. 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 2019 amounted to €111,565,000 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.

Credit concentration risk analysed by counterparty types

A counterparty sector analysis of the local group's exposure amounts split by exposure class is shown in the following table:

Table 23: Concentration of exposures by counterparty type (CRB-D)

		2019						
		Personal	Property	Manufacturing	Government	Other commercial	Financial	Total
		€000	€000	€000	€000	€000	€000	€000
6	**Total IRB approach**	—	—	—	—	—	—	—
7	Central government or central banks	—	—	—	**658,233**	**13,311**	**579,091**	**1,250,635**
9	Public sector entities	—	—	—	**57,761**	**47,067**	**140,590**	**245,418**
10	Multilateral development banks	—	—	—	—	**183,537**	**56,284**	**239,821**
	International Organisations	—	—	—	—	**16,173**	—	**16,173**
12	Institutions	—	—	—	—	—	**713,722**	**713,722**
13	Corporates	**14,940**	**86,719**	**82,472**	—	**939,005**	**34,955**	**1,158,091**
	of which: SME	***13,919***	***82,810***	***47,537***	—	***448,570***	***40,144***	***632,980***
14	Retail	**958,760**	—	**243**	—	**1,320**	**402**	**960,725**
	of which: SME	**601**	—	—	—	—	—	**601**
15	Secured by mortgages on immovable property [1]	**1,788,447**	**7,915**	**16,631**	—	**160,317**	—	**1,973,310**
	of which: SME	—	***5,440***	***16,631***	—	***102,104***	—	***124,175***
16	Exposures in default	**58,614**	**13,678**	**7,913**	—	**16,027**	**776**	**97,008**
17	Items associated with particular high risk	—	**53,182**	—	—	—	—	**53,182**
21	Equity exposures	—	—	—	—	**4,535**	**2**	**4,537**
22	Other exposures	—	—	—	—	**14,270**	**127,934**	**142,204**
23	**Total standardised approach**	**2,820,761**	**161,494**	**107,259**	**715,994**	**1,395,562**	**1,653,756**	**6,854,826**
	Total at 31 December 2019	**2,820,761**	**161,494**	**107,259**	**715,994**	**1,395,562**	**1,653,756**	**6,854,826**
6	Total IRB approach	—	—	—	—	—	—	—
7	Central government or central banks	—	—	—	874,730	—	—	874,730
9	Public sector entities	—	—	—	123,908	72,339	—	196,247
10	Multilateral development banks	—	—	—	—	—	187,083	187,083
	International Organisations	—	—	—	—	—	—	—
12	Institutions	—	—	—	—	—	1,101,113	1,101,113
13	Corporates	18,612	3,022	6,081	5,027	290,875	4,096	327,713
	of which SME	—	—	—	—	—	—	—
14	Retail	314,818	2,760	2,558	2	16,522	652	337,312
	of which: SME	—	—	—	—	—	—	—
15	Secured by mortgages on immovable property	2,371,754	83,488	74,889	—	675,962	831	3,206,924
	of which: SME	—	—	—	—	—	—	—
16	Exposures in default	67,882	34,837	3,175	—	12,876	311	119,081
17	Items associated with particular high risk	—	—	—	—	40,806	—	40,806
21	Equity exposures	—	—	—	—	2,752	—	2,752
22	Other exposures	—	—	—	—	208,910	—	208,910
23	Total standardised approach	2,773,066	124,107	86,703	1,003,667	1,321,043	1,294,085	6,602,671
	Total at 31 December 2018	2,773,066	124,107	86,703	1,003,667	1,321,043	1,294,085	6,602,671

1 As shown in the above table and the comparative figures for 2018, during the current financial year the bank refined the RWA calculation which resulted in a shift of exposures from the 'Secured by mortgages on immovable property' to the 'Retail' and 'Corporate' exposure classes.

The residual maturity breakdown by exposure class at year-end was as follows:

Table 24: Maturity of exposures at year-end (CRB-E)

			At 31 December 2019					
			On demand	Less than one year	Over one but less than five years	Over five years	No stated maturity	Total
		Footnotes	€000	€000	€000	€000	€000	€000
6	**Total IRB approach**		**—**	**—**	**—**	**—**	**—**	**—**
7	Central Government or central banks		**426,722**	**286,092**	**308,399**	**206,995**	**22,427**	**1,250,635**
9	Public sector entities		**—**	**75,746**	**132,637**	**37,035**	**—**	**245,418**
10	Multilateral developments banks		**—**	**39,918**	**199,903**	**—**	**—**	**239,821**
	International organisations		**—**	**6,111**	**10,062**	**—**	**—**	**16,173**
12	Institutions		**50,650**	**182,470**	**479,263**	**1,339**	**—**	**713,722**
13	Corporates		**288**	**580,787**	**328,908**	**248,108**	**—**	**1,158,091**
14	Retail		**188,374**	**61,656**	**41,985**	**668,710**	**—**	**960,725**
15	Secured by mortgages on immovable property	1	**—**	**69,317**	**67,900**	**1,836,093**	**—**	**1,973,310**
16	Exposures in default		**3,491**	**24,212**	**8,388**	**60,917**	**—**	**97,008**
17	Items associated with particular high risk		**—**	**8,464**	**38,696**	**6,022**	**—**	**53,182**
21	Equity exposures		**—**	**—**	**—**	**—**	**4,537**	**4,537**
22	Other exposures		**—**	**3,436**	**—**	**—**	**138,768**	**142,204**
23	**Total standardised approach**		**669,525**	**1,338,209**	**1,616,141**	**3,065,219**	**165,732**	**6,854,826**
24	**Total**		**669,525**	**1,338,209**	**1,616,141**	**3,065,219**	**165,732**	**6,854,826**
			At 31 December 2018					
6	Total IRB approach		—	—	—	—	—	—
7	Central Government or central banks		—	417,286	391,011	66,433	—	874,730
9	Public sector entities		10,000	1,517	10,002	174,728	—	196,247
10	Multilateral developments banks		—	105,835	81,248	—	—	187,083
12	Institutions		75,575	759,314	265,736	489	—	1,101,113
13	Corporates		133,081	19,371	115,827	59,434	—	327,713
14	Retail		25,677	234,527	43,138	33,970	—	337,312
15	Secured by mortgages on immovable property		394,965	103,267	206,183	2,502,509	—	3,206,924
16	Exposures in default		21,403	21,067	13,770	62,841	—	119,081
17	Items associated with particular high risk		8,787	15,728	16,062	228	—	40,806
21	Equity exposures		—	—	—	—	2,752	2,752
22	Other exposures		—	—	—	—	208,910	208,910
23	Total standardised approach		669,488	1,677,912	1,142,978	2,900,631	211,662	6,602,671
24	Total		669,488	1,677,912	1,142,978	2,900,631	211,662	6,602,671

1 *As shown in the above table and the comparative figures for 2018, during the current financial year the Bank refined the RWA calculation which resulted in a shift of exposures from the Secured by mortgages on immovable property to the Retail and Corporate exposure classes.*

Risk mitigation

Mitigation of credit risk is a key aspect of effective risk management. Specific, detailed policies cover the acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation, for example in the form of collateral security. These policies together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Our approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency.

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is often taken to help secure claims. Loans to private banking and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors.

Other forms of Credit Risk Mitigation

Facilities to Small and Medium Enterprises are commonly granted against guarantees given by their owners and/or directors. Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank. In our corporate lending portfolio we also take guarantees from corporates as part of a parent/subsidiary or common parent relationships.

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. Collateral values are determined through a combination of professional appraisals and house price indices. Specifically, HSBC Bank Malta p.l.c. utilises the price index to update its mortgage portfolio value at intervals of up to three years, or more frequently as the need arises, for example, where market conditions are subject to significant change. Professional valuations are obtained for high value mortgage loans annually for impaired loans. Valuation of collateral on commercial real estate is obtained on an 3 yearly basis.

In addition revaluation is also sought where, for example, as part of the regular credit assessment of the obligor, material concerns arise in relation to the performance of the collateral. CRE revaluation also commonly occurs where a decline in the obligor's credit quality gives cause for concern that the principal payment source may not fully meet the obligation.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses for credit derivatives, where appropriate) to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor. For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and, in the case of eligible debt securities, their credit quality) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

Table 25: Credit risk mitigation techniques – overview (CR3)

		Footnotes	Exposures unsecured: carrying amount €000	Exposures secured: carrying amount €000	Exposures secured by collateral €000	Exposures secured by financial guarantees €000
1	Loans	1	**4,149,773**	**222,591**	**91,155**	**131,436**
2	Debt securities		**1,075,461**	**—**	**—**	**—**
3	**Total at 31 December 2019**		**5,225,234**	**222,591**	**91,155**	**131,436**
4	– *of which: defaulted*		***99,421***	***4,087***	***4,087***	**—**
1	Loans		4,035,101	229,246	76,644	152,602
2	Debt securities		1,012,562	—	—	—
3	Total at 31 December 2018		5,047,663	229,246	76,644	152,602
4	– *of which: defaulted*		*17,847*	*101,233*	*100,404*	*829*

1 *As shown in the above table and the comparative figures for 2018, exposures included under exposure class 'Secured by mortgage on immovable property' are included mainly under 'Exposures unsecured: carrying amount'. Comparative information has been restated in accordance with current year presentation.*

Credit risk exposures and credit risk mitigant techniques

The table below illustrates the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in the application of Article 222 and Article 223 of the same regulation on standardised approach capital requirements' calculations. RWA density provides a synthetic metric on the riskiness of each portfolio.

Table 26: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

			Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		Footnotes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
			€000	€000	€000	€000	€000	%
	Asset classes	1						
1	Central governments or central banks		**1,203,506**	**45,179**	**1,329,768**	**25,865**	**56,068**	**4**
3	Public sector entities		**235,376**	**10,042**	**191,883**	**—**	**—**	**—**
4	Multilateral development banks		**239,821**	**—**	**239,821**	**—**	**—**	**—**
5	International Organisations		**16,173**	**—**	**16,173**	**—**	**—**	**—**
6	Institutions		**666,281**	**44,244**	**666,281**	**16,626**	**215,365**	**32**
7	Corporates		**584,108**	**568,793**	**480,384**	**83,023**	**535,579**	**95**
8	Retail		**419,071**	**541,654**	**415,599**	**398**	**311,928**	**75**
9	Secured by mortgages on immovable property	2	**1,973,310**	**—**	**1,973,310**	**—**	**702,020**	**36**
10	Exposures in default		**91,836**	**5,172**	**91,611**	**138**	**103,952**	**113**
11	Higher-risk categories		**40,716**	**12,467**	**40,196**	**5,351**	**68,321**	**150**
15	Equity		**4,537**	**—**	**4,537**	**—**	**4,537**	**100**
16	Other items		**142,204**	**—**	**142,204**	**—**	**150,047**	**106**
17	**Total at 31 December 2019**		**5,616,939**	**1,227,551**	**5,591,767**	**131,401**	**2,147,817**	**38**
1	Central governments or central banks		874,730	—	874,730	—	—	—
3	Public sector entities		146,978	49,269	2	—	1	50
4	Multilateral development banks		187,083	—	187,083	—	—	—
5	International Organisations		—	—	—	—	—	—
6	Institutions		1,090,321	10,794	1,090,319	2,953	257,341	24
7	Corporates		201,686	119,043	95,213	43,900	137,804	99
8	Retail		131,064	208,383	124,710	4,138	94,397	73
9	Secured by mortgages on immovable property		2,506,534	708,465	2,485,586	186,686	1,405,540	53
10	Exposures in default		156,327	1,991	116,390	163	137,192	118
11	Higher-risk categories		25,044	15,761	24,498	7,113	47,416	150
15	Equity		2,752	—	2,752	—	2,752	100
16	Other items		206,704	2,206	206,704	2,206	234,670	112
17	Total at 31 December 2018		5,529,223	1,115,913	5,207,986	247,158	2,317,111	42

1 Derivative instruments exposures are not included in the above table, on which RWA's amounted to €5,828,000 in 2019 (2018: €6,749,000).
2 As shown in the above table and the comparative figures for 2018, during the current financial year the Bank refined the RWA calculation which resulted in a shift of exposures from the 'Secured by mortgages on immovable property' to the 'Retail' and 'Corporate' exposure classes.

Counterparty credit risk

Overview

Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to counterparties in both the trading and non-trading books. The table below sets out details of the local Group's counterparty credit risk exposures through its over the counter (OTC) derivative exposures.

Four approaches may be used under CRD IV to calculate exposure values for CCR: mark-to-market, original exposure, standardised and IMM. Exposure values calculated under these approaches are used to determine RWAs; we use the mark-to-market approach. Under the mark-to-market approach, the EAD is calculated as current exposure plus regulatory add-ons.

Table 27: Analysis of counterparty credit risk ('CCR') exposure by approach

		Replacement cost	Potential future exposure	EAD post-CRM	RWAs
		€000	€000	€000	€000
1	Mark to market	**5,320**	**5,016**	**10,336**	**5,828**
11	**Total at 31 December 2019**	**5,320**	**5,016**	**10,336**	**5,828**
1	Mark to Market	4,956	4,275	9,231	6,749
11	Total at 31 December 2018	4,956	4,275	9,231	6,749

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

Quality classification definitions

'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.

'Good' exposures require closer monitoring and demonstrate 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.

'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minor 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.

	Sovereign debt securities and bills - External credit rating	Other debt securities and bills – External credit rating	Wholesale and retail lending – Internal credit rating
Quality classification			
Strong	**BBB and above**	**A- and above**	**CRR1 to CRR2**
Good	**BBB- to BB**	**BBB+ to BBB-**	**CRR3**
Satisfactory	**BB- to B and unrated**	**BB+ to B and unrated**	**CRR4 to CRR5**
Sub-standard	**B- to C**	**B- to C**	**CRR6 to CRR8**
Impaired	**Default**	**Default**	**CRR9 to CRR10**

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 five quality classifications.

Impaired loans and advances

Impaired loans and advances are those that are classified as CRR 9 or CRR 10. These grades are assigned when HSBC Bank Malta p.l.c. 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 bank.

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.

The table below analyses the change in stock of specific credit risk adjustment for the financial year ended 31 December 2019.

Table 28: Changes in the stock of general and specific credit risk adjustments

		Accumulated specific credit risk adjustment €000
1	**Opening balance at 01 January 2019**	**52,838**
2	Increases due to amounts set aside for estimated loan losses during the period	**2,827**
4	Decreases due to amounts taken against accumulated credit risk adjustments	**(8,338)**
	Recoveries on credit risk adjustments written off in previous years	**—**
6	Impact of exchange rate differences	**—**
8	Other adjustments	
9	**Closing balance at 31 December 2019**	**47,327**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	**1,233**
1	Opening balance at 1 January 2018[1]	53,021
2	Increases due to amounts set aside for estimated loan losses during the period [2]	5,674
3	Decreases due to amounts reversed for estimated loan losses during the period	(5,857)
4	Decreases due to amounts taken against accumulated credit risk adjustments	—
6	Impact of exchange rate differences	—
8	Other adjustments	—
9	Closing balance at 31 December 2018	52,838
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	1,095

1 *Includes a day one increase of €12.4m arising from the adoption of IFRS 9 'Financial Instruments'.*
2 *Following adoption of IFRS 9 'Financial instruments', the movement due to amounts set aside for estimated loan losses during the period has been reported net.*

The local group does not account for any general credit risk adjustments.

Defaulted exposures

The accounting definition of impaired and the regulatory definition of default are generally aligned. For particular retail exposures regulatory default is identified at 180 days past due, while the exposures are identified as impaired at 90 days past due.

Changes in stock of defaulted loans and debt securities

Table 29: Changes in stock of defaulted loans and debt securities

		Footnotes	Gross carrying value defaulted exposures 31 December 2019 €000
1	**Opening balance at 01 January 2019**	*1*	**162,269**
2	Loans and debt securities that have defaulted or impaired since the last reporting period		**18,607**
3	Returned to non-defaulted status		**(8,682)**
4	Amounts written off		**(8,338)**
5	Other changes		**(27,348)**
6	**Closing balance at 31 December 2019**		**136,508**
1	Opening balance at 01 January 2018		179,778
2	Loans and debt securities that have defaulted or impaired since the last reporting period		13,102
3	Returned to non-defaulted status		(5,719)
4	Amounts written off		(5,857)
5	Other changes		(19,035)
6	Closing balance at 31 December 2018		162,269

1 *Comparative figures have been restated in accordance with current year presentation*

In 2019, interest income amounting to €5,268,000 was recognised in profit or loss on loans for which individually assessed impairment provisions existed.

The local group's impaired and past due but not impaired loans and advances to customers are all concentrated in Malta.

Expected Loss ('EL') and credit risk adjustments

The local group analyses credit loss experience in order to assess the performance of our risk measurement and control processes, and to inform our understanding of the implications for risk and capital management of dynamic changes occurring in the risk profile of our exposures.

When comparing regulatory EL with measures of ECL under IFRS 9, differences in the definition and scope of each should be considered. These can give rise to material differences in the way economic, business and methodological drivers are reflected quantitatively in the accounting and regulatory measures of loss.

In general, HSBC calculates ECL using three main components namely probability of default, loss given default, and exposure at default.

ECLs include impairment allowances (or provisions, against commitments and guarantees) calculated for a 12-month period('12-month ECL'), for the remaining life of an exposure ('lifetime ECL'), and on financial assets that are considered to be in default or otherwise credit impaired. ECLs resulting from default events that are possible:

• within the next 12 months are recognised for financial instruments in stage 1; and

• beyond 12 months are recognised for financial instruments in stages 2 and 3.

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Change in ECL and other credit impairment charges represents the movement in the ECL during the year including write-offs, recoveries and foreign exchange. EL represents the one-year regulatory expected loss accumulated in the book at the balance sheet date.

Credit risk adjustments ('CRAs') encompass the impairment allowances or provisions balances, and changes in ECL and other credit impairment charges.

Further information on the measurement of loans and advances is disclosed in the Note 3 of the Significant accounting policies within the *Annual Report and Accounts*.

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 secured and unsecured 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, are being mostly captured under the exposures unsecured: carrying amount. 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; are being included under the exposures secured by financial guarantees. The local group does not use any guarantees or credit derivatives as referred to in Article 453(g) of the CRR as a credit risk mitigant to cover credit exposures.

Table 30: Credit risk mitigation techniques - Standardised

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees
	€000	€000	€000	€000
Central government or central banks	1,241,983	8,652	8,652	–
Public sector entities	191,883	53,535	13,355	40,180
Multilateral development banks	239,821	–	–	–
International organisations	16,173	–	–	–
Institutions	713,722	–	–	–
Corporates	842,084	316,007	188,191	127,816
Retail Exposures	945,901	14,824	14,824	–
Secured by mortgages on immovable property	1,967,813	5,497	5,497	–
Exposures in default	92,921	4,087	4,087	–
Items associated with particularly high risk	47,751	5,431	5,431	–
Equity exposures	4,537	–	–	–
Other exposures	142,204	–	–	–
Total at 31 December 2019	**6,446,793**	**408,033**	**240,037**	**167,996**

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the group's income or the value of our portfolios.

There were no material changes to the policies and practices for the management of market risk during 2019. A summary of our current policies and practices for the management of market risk is set out in Note 4 (e).

Exposure to Market risk

Exposure to market risk is split into two portfolios:

- Trading portfolios: these comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.
- Non-trading portfolios: these comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, debt instruments measured at amortised cost, and exposures arising from our insurance operations.

The local group operates in Non-trading portfolios, with the objective of managing and controlling market risk exposures, to optimise return on risk while maintaining a market risk profile consistent with our established risk appetite.

The table below reflects the components of capital requirement under the standardised approach.

Table 31: Market risk under standardised approach (MR1)

		At		
		31 December 2019	31 December 2018	**31 December 2019**
		RWAs	RWAs	**Capital requirements**
		€000	€000	**€000**
	Outright products			
3	Foreign exchange risk	**459**	592	**37**

Non-Financial risk

Non-financial risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. Sound non-financial risk management is central to achieving good outcomes for our customers. Non-financial risk is relevant to every aspect of our business and is managed through the operational risk management framework ('ORMF'). It covers a wide spectrum of issues, such as resilience risk, financial crime and fraud, regulatory compliance, reporting and tax risk, legal risk, model risk, people risk and failure in other principle risk processing. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk.

Operational risk capital requirements

Operational risk is part of non-financial risk. Table reports our operational risk capital requirements for the current year.

Table 32: Operational risk RWAs

		At		
		31 December 2019	31 December 2018	**31 December 2019**
		RWAs	RWAs	**Capital requirements**
		€000	€000	**€000**
	Standardised Approach			
3	Operational Risk	**249,517**	256,893	**19,961**

Organisation and responsibilities

Responsibility for managing non-financial risk lies with our people. During 2019 we continued to strengthen our approach to managing non-financial risk as set out in the ORMF. The framework sets out our approach to governance and risk appetite. It provides a single view of non-financial risks that matter the most and associated controls. The enhancement and embedding of the risk appetite framework for non-financial risk, and the improvement of the consistency of the adoption of the end-to-end risk and control assessment processes were a particular focus in 2019. While there remains more to do, we made progress in strengthening the control environment and the management of non-financial risk.

Activity to strengthen the three lines of defence model continued to be a key focus in 2019. The first line of defence owns the risk and is accountable for identifying, assessing, managing key existing and emerging risks. The second line of defence sets the policy and control standards to manage risks, and provides advice and guidance to support these policies. It also challenges the first line to ensure it is managing risk effectively. The third line of defence is Internal Audit, which provides independent assurance to the Board and management that our risk management approach and processes are designed and operating effectively.

Measurement and monitoring

We have codified our ORMF in a high level standard, supplemented by detailed policies. These policies explain our approach to identifying, assessing, monitoring and controlling non-financial risk, and give guidance on mitigating actions to be taken when weaknesses are identified.

Monitoring non-financial risk exposure against risk appetite on a regular basis, and setting out our risk acceptance process, drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

Risk scenario analysis provides a top down, forward-looking assessment of risks to help determine whether they are being effectively managed within our risk appetite or whether further management action is required. Business managers are responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Risk and control assessment approach

Non-financial risk and control assessments are performed by individual business units and functions. The risk and control assessment process is designed to provide business areas and functions with a forward-looking view of non-financial risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage non-financial risks within acceptable levels. Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment; and
- investigating whether cost-effective insurance cover is available to mitigate the risk.

Recording

We use a Group-wide risk management system to record the results of our non-financial risk management process. Non-financial risk and control assessments, as described above, are input and maintained by business units. Business management monitors and follow up the progress of documented action plans. Operational risk losses are entered into the group-wide risk management system and reported to governance on a monthly basis. Loss capture thresholds are in line with industry standards.

Other risks

Risk management of insurance operations

We operate an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term life contracts.

By focusing largely on the personal lines of business, we are able to optimise volumes and diversify individual insurance risks.

We choose to manufacture these insurance products in our subsidiary HSBC Life Assurance (Malta) Ltd. based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the group. We also engage with external third party insurance providers to provide general insurance as part of specific propositions or in relation to home loans.

The risk profile of our insurance manufacturing business is measured using an economic capital approach. Assets and liabilities are measured on a market consistent basis, and a capital requirement is defined to ensure that there is a less than one-in-200 chance of insolvency over a one year time horizon, given the risks to which the business is exposed. The methodology for the economic capital calculation is aligned to the Solvency II insurance capital regulations.

HSBC Life Assurance (Malta) Ltd is excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted).

Reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of the local Group and result in financial or non-financial effects or loss of confidence in the HSBC Bank Malta p.l.c. Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. We have taken, and are taking, measures to enhance our AML, sanctions and other regulatory compliance frameworks. These measures should also enhance our reputational risk management in the future.

Sustainability risk

Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.

Sustainability risk is:

- measured by assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high-risk transactions;
- monitored quarterly by the RMM on a monthly basis and by the Chief Risk Officer; and
- managed using sustainability risk policies covering project finance lending and sector-based sustainability policies for sectors and themes with potentially large environmental or social impacts.

Business risk

Business risk is the potential negative effect on profits and capital from the local Group not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our risk appetite, business planning and stress testing processes, so that our business model and planned activities are monitored, resourced and capitalised consistent with the commercial, economic and risk environment in which the local Group operates, and that any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non-recourse portfolio, we do not report any dilution risk, as we obtain an indemnity from the seller that indemnifies us against this risk. Moreover, factoring transactions involve lending at a discount to the face-value of the receivables which provides protection against dilution risk.

Interest rate risk

Interest rate risk in the banking book ('IRRBB') is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralised in the market is transferred to BSM to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the Group aims to balance mitigating the effect of future interest rate movements, which could reduce net interest income against the cost of hedging. The monitoring of the projected net interest income and economic value of equity sensitivity under varying interest rate scenarios is a key part of this.

Liquidity and funding risk

Strategies and processes in the management of liquidity risk

HSBC has an internal liquidity and funding risk management framework ('LFRF'), which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken locally (by country) in compliance with the Group's LFRF, and with practices and limits set by the GMB through the RMM and approved by the Board.

The key aspects of the internal LFRF which is used to ensure that HSBC maintains an appropriate overall liquidity risk profile are:

- the bank is to manage liquidity and funding risk on a standalone basis without reliance on other members of the group or central banks, unless pre-approved by Group;
- minimum liquidity coverage ratio ('LCR') requirement; and
- minimum net stable funding ratio ('NSFR') requirement or other appropriate metric.

Asset, Liability & Capital Management

HSBC Bank Malta p.l.c. ALCM team is responsible for the implementation of local regulatory policy at a legal entity level.

Balance Sheet Management

Along with the Group's Global Business Lines, the Balance Sheet Management ('BSM') team forms the first line of defence in the management of liquidity risk, ensuring continuous compliance with the local group risk appetite operating within their risk mandates.

Hedging and mitigating liquidity risk at HSBC Group

Management of liquidity and funding risk

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. For the calculation of the LCR, HSBC follows the EU Regulation LCR Delegated Act 2015/61.

Net stable funding ratio ('NSFR')

HSBC uses the NSFR or other appropriate metric as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR or other appropriate metric requires institutions to maintain minimum amount of stable funding based on assumptions of asset liquidity.

Overall adequacy of liquidity risk management

All operating entities are required to manage liquidity risk and funding risks on a stand-alone basis in accordance with the LFRF, which includes the preparation of an Individual Liquidity Adequacy Assessment Process ('ILAAP') document, to ensure that:

- liquidity resources are adequate, both as to the amount and quality;
- there is no significant risk that liabilities cannot be met as they fall due;
- a prudent structural funding profile is maintained;
- adequate liquidity resources continue to be maintained; and
- that the operating entity's liquidity risk framework is adequate and robust.

The two key objectives of the ILAAP process are to:

- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- validate the operating entity's risk tolerance/appetite by demonstrating that reverse stress testing scenarios are acceptably remote; and vulnerabilities have been assessed through the use of severe stress scenarios.

The final conclusion of the ILAAP, approved by the Board of Directors, is that each operating entity:

- maintains liquidity resources which are adequate in both amount and quality at all times, and ensures that
- there is no significant risk that its liabilities cannot be met as they fall due; and
- ensures its liquidity resources contain an adequate amount of high quality liquid assets ('HQLA') and maintains a prudent funding profile.

Liquidity stress testing

The local group undertakes liquidity stress testing to test that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the local group's business. The local group also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the local group to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken. Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

Liquidity management across the group

The structure of the local group means that liquidity and funding risk cannot practically be managed on a consolidated local group basis and can only be managed by entity on a stand-alone basis. HSBC Bank Malta p.l.c.'s liquidity and funding risk framework requires all operating entities to manage liquidity and funding risk on a stand-alone basis in accordance with the local Group's liquidity and funding risk management framework and the liquidity and funding risk tolerances set out in the Risk Appetite Statement.

The local group's internal liquidity and funding risk management framework does not therefore seek to manage liquidity and funding risk on a consolidated basis, other than to ensure that the position of the consolidated group meets the minimum regulatory requirements.

Asset encumbrance

The following is the disclosure of on-balance sheet encumbered and unencumbered assets, and off-balance sheet collateral (represented by median values of monthly data points in 2019) based on the requirement in Part Eight of CRD IV.

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.

In accordance with the EBA 'Guidelines on disclosure of encumbered and unencumbered assets', the amounts disclosed in the table below represent median values, being the rolling quarterly amounts over the previous 12 months.

Table 33: Encumbered and unencumbered assets

		At 31 December 2019			
		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
010	Assets of the reporting institution	**86,013**	**—**	**5,417,716**	**—**
020	Loans on demand	**—**	**—**	**229,801**	**—**
030	Equity instruments	**—**	**—**	**3,804**	**3,804**
040	Debt Securities	**85,186**	**85,186**	**1,011,962**	**1,011,962**
100	Loans and advances	**896**	**—**	**3,988,435**	**—**
120	Other Assets	**—**	**—**	**204,590**	**—**
		At 31 December 2018			
010	Assets of the reporting institution	87,375	—	5,389,405	—
020	Loans on demand	—	—	656	—
030	Equity instruments	—	—	2,842	2,842
040	Debt Securities	87,375	87,385	953,198	953,198
100	Loans and advances	—	—	4,223,197	—
120	Other Assets	—	—	205,990	—

The local group does not encumber any of the collateral received or any of its own debt securities issued.

As at 31 December 2019, 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 customer 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, cash pledged in terms of the Recovery and Resolution Regulations, and debt securities in favour of the Depositor Compensation Scheme.

Remuneration policy

Information on the local group's remuneration policy and practices is disclosed in the Remuneration Report section within the *Annual Report and Accounts.*

Five-year comparison: Income statements and statements of comprehensive income

Group income statements

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Interest receivable and similar income	**120,573**	118,943	132,850	142,062	150,567
Interest expense	**(10,462)**	(10,321)	(12,190)	(15,635)	(23,531)
Net interest income	**110,111**	108,622	120,660	126,427	127,036
Net non-interest income	**41,672**	41,779	42,029	47,115	49,319
Change in expected credit losses and other credit impairment charges	**(389)**	(3,488)	—	—	—
Loan impairment charges	**N/A**	N/A	1,168	(9,030)	(10,826)
Operating expenses	**(120,685)**	(108,357)	(114,034)	(102,291)	(118,757)
Profit before tax	**30,709**	38,556	49,823	62,221	46,772
Tax expense	**(10,541)**	(9,860)	(18,968)	(22,008)	(17,292)
Profit for the year	**20,168**	28,696	30,855	40,213	29,480
Earnings per share	**5.6c**	8.0c	8.6c	11.2c	8.5c

Group Statements of Comprehensive Income

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Profit for the year	**20,168**	28,696	30,855	40,213	29,480
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Debt instruments at fair value through other comprehensive income/available-for-sale investments:	**311**	(3,592)	(4,739)	(7,392)	2,767
– fair value (losses)/gains	**478**	(5,527)	(7,290)	(585)	4,938
– fair value losses reclassified to profit or loss on disposal	**—**	—	—	(10,787)	(682)
– income taxes	**(167)**	1,935	2,551	3,980	(1,489)
Items that will not be reclassified subsequently to profit or loss:					
Properties:	**(475)**	382	—	2,299	1,199
– (loss)/surplus arising on revaluation	**(528)**	424	—	2,299	—
– income taxes	**53**	(42)	—	—	1,199
Defined benefit obligation:	**(619)**	(334)	—	—	—
– remeasurement of defined benefit obligation	**(952)**	(514)	—	—	—
– income taxes	**333**	180	—	—	—
Equity instruments designated at fair value through other comprehensive income:	**—**	1,045	N/A	N/A	N/A
– fair value gains	**—**	1,608	N/A	N/A	N/A
– income taxes	**—**	(563)	N/A	N/A	N/A
Other comprehensive income, net of tax	**(783)**	(2,499)	(4,739)	(5,093)	3,966
Total comprehensive income	**19,385**	26,197	26,116	35,120	33,446

Five-year comparison: Statements of financial position

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**586,072**	190,768	164,059	122,418	187,563
Items in course of collection from other banks	**3,436**	5,404	18,158	16,796	12,559
Financial investments designated at fair value attributable to insurance operations	**N/A**	N/A	727,270	1,383,606	1,372,484
Financial assets mandatorily measured at fair value through profit or loss	**754,020**	694,081	N/A	N/A	N/A
Held for trading derivatives	**5,320**	4,956	5,175	11,440	11,492
Loans and advances to banks	**676,031**	1,097,714	1,059,308	1,077,859	841,411
Loans and advances to customers	**3,257,433**	3,110,412	3,128,833	3,320,332	3,284,615
Financial investments	**943,603**	904,920	926,096	1,053,200	1,203,638
Prepayments and accrued income	**23,578**	27,312	24,236	31,178	40,863
Current tax assets	**1,719**	16,728	13,911	12,963	11,792
Reinsurance assets	**78,945**	85,205	85,887	85,228	83,088
Assets attributable to disposal group held for sale	**–**	–	473,797	–	–
Other non-current assets held for sale	**8,422**	5,908	7,411	9,750	11,347
Investment property	**9,788**	9,714	10,600	13,026	15,458
Property, plant and equipment	**47,403**	55,413	56,308	59,147	58,559
Intangible assets	**61,518**	59,136	64,062	67,773	69,653
Right-of-use assets	**4,685**	–	–	–	–
Deferred tax assets	**22,427**	21,509	16,488	22,163	22,642
Other assets	**13,217**	21,814	16,384	19,085	13,959
Total assets	**6,497,617**	6,310,994	6,797,983	7,305,964	7,241,123
Liabilities					
Deposits by banks	**840**	2,542	54,703	10,770	14,286
Customer accounts	**4,976,580**	4,887,473	4,765,995	5,000,836	4,950,257
Held for trading derivatives	**5,190**	4,991	5,228	12,600	11,732
Accruals and deferred income	**20,335**	19,151	17,838	17,171	30,073
Current tax liabilities	**2,489**	538	–	177	3,508
Liabilities under investment contracts	**183,706**	166,347	203,136	930,937	987,008
Liabilities under insurance contracts	**658,470**	620,781	658,792	645,561	616,657
Provisions for liabilities and other charges	**33,271**	20,689	20,099	17,631	17,133
Deferred tax liabilities	**22,443**	23,427	26,295	34,586	32,249
Subordinated liabilities	**62,000**	62,000	29,277	87,418	87,363
Liabilities attributable to disposal group held for sale	**–**	–	473,797	–	–
Other liabilities	**62,327**	44,277	63,785	74,753	29,741
Total liabilities	**6,027,651**	5,852,216	6,318,945	6,832,440	6,780,007
Total equity	**469,966**	458,778	479,038	473,524	461,116
Total liabilities and equity	**6,497,617**	6,310,994	6,797,983	7,305,964	7,241,123
Memorandum items					
Contingent liabilities	**158,654**	149,783	122,959	118,469	133,771
Commitments	**1,075,524**	1,433,773	1,215,457	1,225,232	1,292,605

Five-year comparison: Statements of cash flows

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Net cash (used in)/from operating activities	**(204,056)**	(71,376)	(156,694)	16,105	(54,019)
Cash flows from investing activities					
Dividends received	**29**	18	—	—	—
Interest received from financial investments	**16,229**	20,091	32,305	33,435	54,037
Purchase of financial investments	**(315,277)**	(242,523)	(139,115)	(100,609)	(312,346)
Proceeds from sale and maturity of financial investments	**270,965**	254,972	231,950	227,414	323,562
Purchase of property, plant and equipment, investment property and intangible assets	**(6,980)**	(5,194)	(2,999)	(990)	(4,640)
Proceeds on sale of property, plant and equipment, investment property, intangible assets and liquidation of subsidiary company	**1,865**	1,300	—	2,639	3
Net cash flows (used in)/from investing activities	**(33,169)**	28,664	122,141	161,889	60,616
Cash flows from financing activities					
Dividends paid	**(8,197)**	(38,409)	(20,610)	(22,717)	(17,455)
Issue of subordinated liabilities	**—**	62,000	—	—	—
Repayment of subordinated liabilities	**—**	(29,277)	(58,158)	—	—
Net cash used in financing activities	**(8,197)**	(5,686)	(78,768)	(22,717)	(17,455)
(Decrease)/increase in cash and cash equivalents	**(245,422)**	(48,398)	(113,321)	155,277	(10,858)

Five-year comparison: Accounting ratios

	2019	2018	2017	2016	2015
	%	%	%	%	%
Net operating income before loan impairment charges to total assets	**2.3**	2.4	2.4	2.5	2.4
Operating expenses to total assets	**1.9**	1.7	1.7	1.4	1.6
Cost efficiency ratio	**80.2**	73.0	70.9	60.0	59.0
Profit before tax to total assets	**0.5**	0.6	0.7	0.9	0.6
Profit before tax to equity	**6.5**	8.4	10.4	13.1	10.1
Profit after tax to equity	**4.3**	6.1	6.5	8.5	6.4

	2019	2018	2017	2016	2015
Shares in issue (millions)	**360.3**	360.3	360.3	360.3	360.3
Net assets per 30 cent share (cent)	**130.4**	127.3	133.0	131.4	128.0
Earnings per 30 cent share (cent)	**5.6**	8.0	8.6	11.2	8.5
Dividend per 30 cent share (cent)					
– gross	**3.8**	5.8	17.1	11.2	7.7
– net	**2.5**	3.8	11.1	7.3	5.0
Dividend cover	**2.3**	2.1	0.8	1.5	1.5

Branches and offices

Malta offices

Registered Office/Head Office
116 Archbishop Street
Valletta VLT 1444
Tel: 2380 2380

Retail Banking and Wealth Management
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Premier Centre

Wealth Management Office
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2148 9100

Commercial Banking
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 8000

International Banking Centre
High Street, Sliema SLM 1549
Tel: 2380 2600

Trade Services
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1828

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

Card Operations
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Contact Centre
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Inheritance Unit
80 Mill Street, Qormi QRM 3101
Tel: 2380 3360/1/2/3/4

Legal Office
32 Merchants Street
Valletta VLT 1173
Tel: 2380 2411

Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2380 3382

Branches

Balzan
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1 Naxxar Road BKR 9049
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254 Main Street ZBG 1304
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Żurrieq
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Tel: 2380 2380

Gozo office

Victoria

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Tel: 2380 2380

Subsidiary companies

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Business Banking Centre

80 Mill Street Qormi QRM 3101

Tel: 2380 5128

HSBC Life Assurance (Malta) Limited

Business Banking Centre

80 Mill Street Qormi QRM 3101

Tel: 2380 8699

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