HSBC Bank Malta p.l.c.

Annual Report and Accounts 2021

HSBC

The HSBC Group

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24 February 2022

DIRECTORS' DECLARATION ON ESEF ANNUAL REPORT AND ACCOUNTS 2021

We, John Bonello and Simon Vaughan Johnson, in our capacity as Directors of HSBC Bank Malta p.l.c. (Company registration number: C3177, hereby **certify**:

i. That the Annual Report and Accounts 2021 ("ARA") for the year ended 31 December 2021 has been approved by the Board of Directors of the Company and is hereby being made available to the public.

ii. That the ARA has been prepared in terms of the applicable rules and regulations, including the Commission Delegated Regulation on the European Single Electronic Format ("ESEF")[1] and the Capital Markets Rules[2] .

iii. That the Audit Report on the ESEF ARA is an exact copy of the original signed by the auditor and that no alterations have been made to the audited elements of the ARA including the annual financial statements.

iv. That the ARA shall serve as the official document for the purposes of the Capital Markets Rules and the Companies Act (Chapter 386 of the Laws of Malta).

John Bonello
Chairman

Simon Vaughan Johnson
Director / Chief Executive Officer

[1] Commission Delegated Regulation 2019/815 on the European Single Electronic Format, as may be further amended from time to time.

[2] Capital Markets Rules as issued by the Malta Financial Services Authority (MFSA).

Contents

	Page
Chairman's Statement	2
Chief Executive Officer's review	6
Board of Directors and Company Secretary	13
Executive Committee and Head of Internal Audit	15
Report of the Directors	18
Directors' Responsibilities Statement	32
Statement of compliance with the Code of Principles of Good Corporate Governance	33
Remuneration Report	41
Income statements	48
Statements of comprehensive income	49
Statements of financial position	50
Statements of changes in equity	51
Statements of cash flows	53
Notes on the financial statements	54
Five-Year comparison: Income statements and statements of comprehensive Income	144
Five-Year comparison: Statements of financial position	145
Five-Year comparison: Statements of cash flows	146
Five-Year Comparison: Accounting ratios	147
Branches and offices	148
Independent auditor's report to the Shareholders of HSBC Bank Malta p.l.c.	149

Readers are reminded that the official statutory Annual Report and Accounts 2021, authorised for issue by the Board of Directors, is in European Single Electronic Format (ESEF) and is published on https://www.about.hsbc.com.mt/investor-relations. A copy of the Independent auditor's report issued on the official statutory Annual Report and Accounts 2021 is included within this printed document and comprises the auditor's report on compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the ESEF RTS), by reference to Capital Markets Rule 5.55.6.

Chairman's Statement

John Bonello, HSBC Malta Chairman

2021 has been another challenging year for our economy due largely to the pandemic. The appearance of the Omicron variant of Covid-19 towards the end of the year put paid to a feeling that our economy, in particular the tourism sector, was through the worst. Inflation, much of it imported, is rearing its head in no uncertain terms, global supply problems persist, and geo-political tensions are not helping and it remains impossible to predict with any certainty when our economy will recover from the consequences of the pandemic. That said, travel restrictions seem to be gradually lifting and the appetite of people to travel is increasing. Hopefully that will be of benefit to the important tourism and associated sectors. Following the advice of our Health Authorities it is clear that achieving the maximum effectiveness of our national inoculation programme remains essential to the recovery of our economy.

It has been an equally challenging year for our bank. The negative interest rate environment has persisted and all evidence suggests that it will not change materially in the near future for the Euro. We are still facing reducing returns on our investments and increased costs as we continue to build a safer and more digitalised bank. The cautious and conservative stance we took last year with regards to provisions on our loan book has meant that there was not the need for further exceptional Covid-19 related provisions in 2021. This has had a positive effect on our results and given our strong capital position I am pleased that our bank is proposing a dividend of 45% of the reported profit after tax.

Going forward it is crucial that the national effort to combat financial crime effectively, both at institutional and enterprise levels, continues at pace. In 2021 our country had the misfortune to find itself on the so-called FATF Grey List. Being taken off that Grey List must be one of our country's main priorities and everybody must play their part – not just the authorities. HSBC's part in this will be to continue to focus on being a safe and compliant bank working to the highest international standards and, at the same time, retaining our commitment to pursue safe growth.

Our bank is committed to making our operations here in Malta carbon neutral by 2030 and to focus on helping our customers to do the same. For the benefit of future generations, it is essential that we all strive to achieve the ambitious targets set at COP26 in Glasgow last year if we are to prevent catastrophic climate events in the next couple of decades.

Results

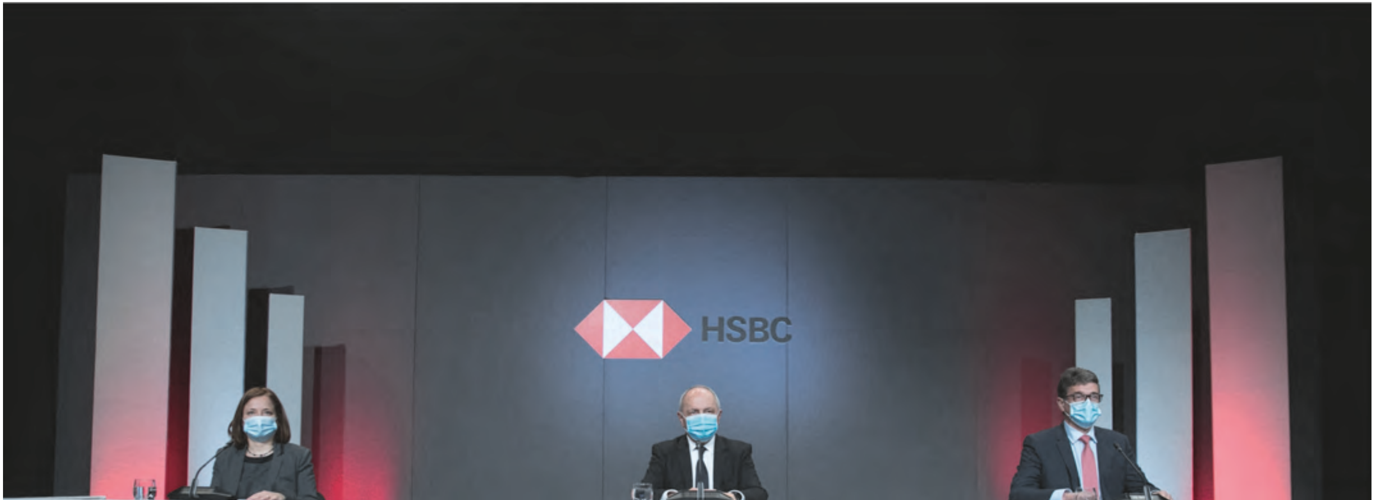
The reported profit before tax for the year ended 31 December 2021 was €26.9m. This represents an increase of €16.4m when compared with the prior year. The bank's improvement in performance was driven by a small release of expected credit losses compared to significant charges booked in 2020 as a result of the Covid-19 pandemic and the comparatively worse market outlook at the time. In 2021 the underlying results of the insurance company were impacted positively by an improvement in the market value of its investments. Our cost base increased in 2021 as a result of a restructuring provision, tighter regulatory monitoring, increased regulatory fees and continued investment in digitalised solutions.

The adjusted profit before tax increased by €19.2m, or 184% compared to 2020. Whilst there were no notable items in 2020, the adjusted profit before tax for 2021 excluded a restructuring provision of €2.8m. More details on the financial results can be found in the CEO's review.

Profit attributable to shareholders amounted to €17.8m, resulting in earnings per share of 4.9 cent compared with 2.1 cent in 2020.

The bank's capital ratios continued to improve with CET1 increasing from 18.0% to 18.4% and the total capital ratio improving from 20.7% to 21.1%. The bank continues to maintain a strong capital base and is fully compliant with the regulatory capital requirements.

Whilst we continue to strengthen our capital base, we recognise the importance of dividends to our shareholders. As stated above, the Board has thus recommended a dividend pay-out of 45% on reported profits after tax. The final gross dividend will be 3.42 cents per share (2.22 cents per share net of tax).



From left: Charlotte Cilia, HSBC Malta CFO, John Bonello, HSBC Malta Chairman, Simon Vaughan Johnson, HSBC Malta CEO

Our regulatory environment

During the course of 2021, the focus on prudential risk management by the regulatory and supervisory authorities continued, focusing in the large part on the longer-term impact of Covid-19 on the financial services industry. Despite the challenges encountered as a result of the Covid-19 pandemic, the bank has continued to successfully manage its prudential risk in a market which remains materially impacted by negative interest rates and significant cost pressures emanating from heightened compliance and risk management activities. In the course of 2021, the bank's business model remained aligned to the principle of safe growth, strict but safer prudential risk buffers and robust compliance standards.

The regulatory engagement with the bank's principal regulators has continued in a transparent manner, covering various risk themes and assessments which were undertaken as a result of the continued impact of Covid-19. During this period regulatory engagement was mainly focused on ensuring that governance and prudential risk management structures, procedures and internal controls are operating effectively, with a renewed and enhanced focus by the local regulators on the area of Financial Crime. This work continues to be pivotal to the regulators' supervisory evaluation process.

The Regulatory Development Programme of the bank has progressed on a number of new and enhanced requirements relating to the Payment Services Directive II ('PSD II'), Sustainable Finance Disclosure Regulation ('SFDR') and the Shareholders' Rights Directive II ('SRD II'). Continued compliance with the Central Bank of Malta Directive on Moratoria on Credit Facilities in Exceptional Circumstances ('CBM Directive 18'), in response to Covid-19, has been ensured, whilst the new Central Bank of Malta Directive on the Use of Cheques and Bank Drafts ('CBM Directive 19'), was implemented within the required timeframes. This Directive introduced a set of rules and regulations on the use of paper-based instruments in Malta to regulate the use of such instruments due to their inefficient nature, high processing costs and Anti-Money Laundering (AML) risks.

Throughout 2021, the bank remained in close engagement with regulators and industry bodies during the consultation and ongoing implementation processes of other regulatory changes, such as the FIAU Implementing Procedures. The bank will continue to observe and monitor all of the upcoming relevant regulatory developments in order to fully adhere to its legal and regulatory obligations, and to contribute to the European and local jurisdiction's evolving regulatory agenda and consultation process.

Our responsibility towards the community

The bank plays an important role in supporting the community through the customers we serve and its very active and expansive corporate social responsibility programs. Through the HSBC Malta Foundation, the bank seeks to work with numerous stakeholders in the community with the aim of creating a sustainable future. Drawing from HSBC Group resources and a network of partners, we work to tackle critical problems in key areas of sustainable finance, climate and future skills. We also remain committed to making a difference in other areas, such as, but not limited to, youth education and the protection of our environment and heritage. We have pledged long-term support to help people gain access to education and training, so they can acquire the skills they need to succeed in today's rapidly evolving workplace. In this context, we work closely with several stakeholders including government, policymakers, local businesses, charities and non-profit organisations. We take pride in HSBC colleagues who contribute to the charities and causes that they feel passionate about. In this regard, we grant employees a paid day to take leave and volunteer for work in the community. We also encourage our people to take an active role in initiatives supported by the HSBC Malta Foundation. The Foundation is, furthermore, immensely grateful for the support and guidance of our highly-experienced HSBC Malta Foundation Board members.

From left - Dario Vella, Mellieħa Local Council Mayor, Simon Vaughan Johnson, HSBC Malta CEO and Prof Alex Torpiano, Executive President, Din l-Art Ħelwa
Torri l-Abjad (White Tower) in l-Aħrax tal-Mellieħa inauguration after an extensive restoration project carried out by Din l-Art Ħelwa with the support of the HSBC Malta Foundation

During 2021, the bank focused on creating a more sustainable planet and society, both internationally and locally. The bank has set out a series of commitments to contribute to the global transition to a low-carbon economy and to become a net-zero bank. We are committed to reducing our footprint through our operations, supply chain and financing portfolio. Being net zero means reducing the emissions we add to the atmosphere while increasing the amount we remove, in order to achieve a balance that protects the planet, whilst creating a thriving and resilient global economy. Our aim is to achieve net zero in our own operations and supply chain by 2030 or sooner; using the Paris Agreement Capital Transition Assessment ('PACTA') tool to develop clear and measurable ways to achieve net zero. We will work with our peers, central banks and industry bodies to mobilise the financial system around a globally consistent standard for measuring financed emissions, and develop a functioning carbon-offset market. Furthermore, we will make regular and transparent disclosures to communicate our progress in line with guidelines set out by the Taskforce on Climate-related Financial Disclosures guidelines, the financial industry body that sets the standards for environmental disclosures. We warmly encourage our customers and clients to do the same.

Currently the HSBC Malta Foundation is sponsoring three major transformative projects in line with its strategic priorities. The first project is linked to Future Skills which is aimed at looking into the skills required in the future of work. This three-year research project aims to identify the skills needed for the future of work in Malta and to embed these skills in the national curriculum. The second project is linked with our climate ambition and net zero strategy. The objective of the project is to establish the requirements for a net zero carbon commercial building. The purpose of such a framework is to create a guideline as to what a zero-carbon building should look like in the Maltese context. The third project focuses on nature-based solutions to reduce pollution and capture emissions with the aim of creating urban resilience across Malta and Gozo. The project aims to reduce 50kg of CO_2 per year with the potential of scaling up to multiple areas across the Maltese Islands.

HSBC Malta organised a series of webinars with The Malta Chamber titled 'Business Plan for the Planet', exploring the importance of adopting sustainable practices in business operations

Every year, the HSBC Malta Foundation earmarks part of its funding for causes that are important to our community. During 2021, the Foundation supported a number of projects including the Prince's Trust International Achieve Programme, the JAYE (Young Enterprise) Malta Foundation, The Down Syndrome Association Malta, Caritas Djakonija Parroċċi, The Malta Chamber, the Chamber of SME's, Hospice Malta, the Opening Doors Association, the Malta Aviation Museum Foundation, Nature Trust Malta, the Malta Community Chest Fund Foundation and Fondazzjoni Patrimonju Malti amongst others.

I take this opportunity to thank all our employees whose support and dedication towards these initiatives and projects ensured their success.

Our People

Once again I have to congratulate and thank all the staff for the considerable effort they have put in to keeping themselves and our customers safe in these difficult times. At the same time, I must congratulate management for their leadership in this regard.

Our bank is led by a highly professional, multi-skilled and committed management team. Throughout the organisation, we are fortunate to have people who are equally professional and proud to be a part of HSBC and the brand it represents. I would therefore like to express my gratitude, on your behalf, to all our people who work diligently every day to deliver HSBC's services to our customers in compliance with the highest standards.

Our Board of Directors

During 2021, there were two changes to the membership of the Board. On 4 January 2021 and 11 August 2021, the bank announced the respective appointments of Manfred Galdes and Matthew Colebrook as Non-Executive Directors of the bank. These two changes had been announced during 2020 but at the time were awaiting regulatory approval. The Board of Directors of the bank is composed of colleagues whose varied areas of expertise and experiences contribute unparalleled insights into 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.

I feel privileged 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.

Looking ahead

Despite the difficulties that we are all facing, we will continue to seek safe growth by focusing on sensible opportunities that are aligned to our values and which will create long term benefits for all our stakeholders. Amongst other things, we will leverage our unique ability to connect Maltese companies to the global economy.

I will conclude by expressing my gratitude to you, our shareholders, for you 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.

Signed by John Bonello (Chairman) on 22 February 2022

Chief Executive Officer's review

As the Chairman stated, 2021 continued to be a challenging year for the bank and for the Maltese and global economy. The bank has demonstrated strong resilience, and has continued to invest and to innovate, with the aim of making it easier for our customers to bank with us and for our colleagues to serve our customers.

Despite the impact of Covid-19, the bank's fundamentals remain strong and underlying performance was resilient. HSBC's financial performance in 2021 improved but continued to be impacted by the persistent Covid-19 pandemic and negative market factors, including the sustained negative interest rate environment, pressures on margins and grey-listing, together with the continued uncertainty and impact that these factors have on market confidence in the short term.

I would characterise 2021 as a year in which HSBC Malta continued to navigate the aforementioned challenges, ensuring that the bank is well-positioned for growth in 2022, through increased investment for our customers in our products and delivery channels and an active transformation program to facilitate increased productivity and efficiency. We remain committed to executing our Safe Growth strategy that is focused on three strategic pillars: Growth, our Customers and our People.

In the area of **growth**, we strive to deliver safe growth from areas of strength where we have the right to win by accelerating growth from Commercial Banking and Wealth and Personal Banking and by maximising sustainable finance opportunities, leveraging our international advantage, maintaining proactive cost management and maintaining a robust risk management and Financial Crime Compliance culture.

Our **customer** strategy is focused on building a bank for the future that is centred around customers, connecting them to the highest growth potential and delivering world-class transaction banking capabilities.

Our **people** strategy is centred around empowering our people by investing in opportunities for our people, helping colleagues to develop skills, learn new capabilities and adapt to the future, whilst reducing complexity and bureaucracy.

We have invested in a number of initiatives during the year to enhance customer experience, including the opening of our largest branch at 80 Mill Street, Qormi, with extended weekday opening hours, providing our customers additional flexibility and convenience. We have also launched the Universal Banker relationship manager concept in Malta, whereby through investment in relationship manager training, customers can obtain multiple banking solutions through one point of contact. We successfully launched two factor authentication on the HSBC mobile app, providing customers with a seamless approval process which provides additional protection from online payment fraud. We continued to invest in our commercial banking platform, HSBCNet and last year our commercial banking customers recognised our market leading transaction banking capabilities. We were proud to have been awarded Best Trade Services Bank in Malta in the annual Euromoney Trade Services Survey. We were also awarded Market Leader and Best for Service in Malta in the annual Euromoney Cash Management Survey.

We continued to invest in the learning and development of our most valuable resource, our people, and were delighted to receive approval for a material investment in upgrading our office campus at Qormi. This investment will benefit our colleagues and our customers and will create a modern, fit for purpose business environment, delivering an important number of sustainability initiatives.

Throughout the year, the well-being of our people and the safety of our customers has continued to be our paramount concern. From the outset of the pandemic, we have taken steps to enable our front-line colleagues to do their jobs safely and effectively. We are enormously grateful to these teams who have continued to offer uninterrupted service to our customers throughout the pandemic. The experience of the last 18 months has taught us that many roles can be undertaken effectively outside the traditional workplace, accelerating our focus on enabling greater flexibility in how our people will work in the future.

I would like to express my sincere thanks and gratitude to our Board and my colleagues for their dedication, hard work and support in 2021.

Performance

The reported profit before tax for the year ended 31 December 2021 was €26.9m. This represents an increase of €16.4m or 157% compared to prior year. The adjusted profit before tax of €29.7m increased by €19.2m, or 184% versus 2020. The adjusted profit before tax for 2021 excludes the impact of a restructuring provision of €2.8m.

Reported profit attributable to shareholders was €17.8m resulting in earnings per share of 4.9 cent compared with 2.1 cent in the same period in 2020. Net interest income decreased by 8% to €97.8m compared to prior year. The decrease was mainly driven by lower average yields on debt securities, tighter margins and placement of surplus liquidity at negative rates. This was partially offset by lower interest paid on customer deposits and changes in deposit composition towards short term placements.

Net fee income increased by €3.1m compared to 2020, driven by increased activity across cards, payments and credit facilities, as well as new fees introduced during the year to partially offset the increased cost of providing our services and products to customers.

Net trading income decreased by €3.0m mainly due to fair value gains on equity investments reported in 2020. These equity investments were fully disposed of in 2020.

Operating costs for the year amounted to €105.4m, compared to €97.4m reported in 2020. 2021 operating expenses include a restructuring provision of €2.8m. Excluding the restructuring provision, expenses increased by €5.2m or 5% compared to prior year. While we continued to achieve sustainable savings from the transformation programmes announced in 2019 and 2021, non-staff costs increased by €9.5m. The increase in non-staff costs was driven by compliance costs due to increased monitoring, transformation expenses, regulatory fees, fraud losses, as well as higher investment in digitalisation.

During the year, we reported a release of Expected Credit Losses (ECL) of €1.0m, compared to a charge reported in 2020 of €25.6m. In 2020, higher ECL were booked to reflect the prevailing negative outlook and uncertainty arising from the Covid-19 pandemic. The net release in 2021 mainly reflected the performance of specific customers rather than an improvement in the economic outlook. In 2021, our Commercial Banking business reported a net release of €1.6m in view of the fact that recoveries on non-performing loans and improved performance for a number of corporate names outweighed charges linked to credit deterioration of other customers. Wealth and Personal Banking incurred a net charge of €0.6m as charges relating to extended moratoria measures exceeded reported recoveries.

The effective tax rate was 34%. This translated into a tax expense of €9.1m, €6.3m higher than the €2.9m expense for 2020. While the increase in tax expense arose mainly as a result of increased profits, in 2020, the bank also benefitted from a tax exemption on a particular transaction.

HSBC Life Assurance (Malta) Ltd reported a loss before tax of €3.0m compared to a loss of €9.1m reported in 2020. The positive variance in profitability of €6.1m is mainly attributable to better market conditions, whereby fears of rising inflation led to increased interest rates, that positively impacted revenues by €7.7m. Growth was also achieved due to higher new business versus prior year of €0.5m and lower expenses incurred of €1.2m, mainly in relation to the implementation of IFRS17. However, performance was negatively impacted by higher actuarial losses of €3.3m, mainly driven by the prediction of future negative experience for a legacy product. The positive variance for the year is mainly reflected in the following income statement captions: (i) Net income from financial instruments of insurance operations measured at fair value through profit or loss; (ii) Net insurance premium income; (iii) Movement in present value of in-force-long term insurance business; (iv) Net insurance claims, benefits paid and movement in liabilities to policyholders; and (v) General and administrative expenses.

Net loans and advances to customers decreased marginally by €67.9m to €3,197m. The decrease mainly related to the corporate portfolio due to unforeseen repayments. Despite the fact that the bank continues to monitor the asset quality of non-performing loans (NPL), we saw an annual net increase in NPL of €36.9m. The increase in wholesale NPL is mainly driven by the downgrade of a small number of corporate customers engaged in industries impacted by the Covid-19 pandemic, while the increase in retail NPL is primarily a result of individuals requesting a moratoria extension.

Customer deposits grew by 7% to €5,621m driven by both retail and commercial deposits. The bank maintained a healthy advances to deposits ratio of 57% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio decreased by 4% to €846m. The decrease relates to the investment of maturing debt securities in balances held with the Central Bank of Malta. 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 18.0% to 18.4% and the total capital ratio improving from 20.7% to 21.1%. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The bank continued in its effort to manage down Risk Weighted Assets across 2021 driven by placements of excess liquidity with the Central Bank of Malta and improved collateral recognition. Whilst we continue to strengthen our capital base, we recognise the importance of dividends to our shareholders. The Board has thus recommended a dividend pay-out ratio of 45% on reported profits after tax. The final dividend will be paid on 21 April 2022 to shareholders who are on the bank's register of shareholders at 14 March 2022 subject to approval by the Annual General Meeting scheduled for 13 April 2022.

Wealth and Personal Banking ('WPB')

2021 was a challenging year in which unprecedented events required us to continue to adapt in order to continue operating and providing our customers with appropriate support and flexible choices in how they prefer to interact with the bank. As the pandemic progressed, for the first time in our history, we adopted a hybrid working environment for most of our colleagues working at Head Office, whilst our front line teams continued supporting our customers on a face-to-face basis.

In addition to the introduction of Health & Safety measures in our branches and offices, we continued to increase awareness and promote usage of self-service machines, cards and internet banking through public campaigns.

In May 2021 we opened our largest branch at 80 Mill Street, Qormi, completing our branch footprint of 12 branches. 80 Mill Street, offers our customers the advantage of unrivalled opening hours until 7pm on weekdays, as well as the convenience of over 20 onsite parking spaces, including two charging bays for electric vehicles. This was the first branch in the HSBC Group to have the Group's new 'look and feel' branch branding.

From left: John Bonello, HSBC Malta Chairman, H.E The President of Malta George Vella, Simon Vaughan Johnson, HSBC Malta CEO during the official inauguration of 80 Mill Street, Qormi branch

Given the external environment, we adopted a prudent lending policy on both secured and unsecured lending. Business performance on lending was in line with expectations.

In 2021, we launched a Two Factor Authentication journey within the HSBC Mobile Banking App, increasing customer protection against online payment fraud and meeting a key requirement of the European Union's Revised Payments Services Directive (PSD2). Client user feedback has been excellent.

We have continued to grow digital channel usage, with over 95% of basic transactions now carried out digitally. Customer adoption of HSBC Malta's Mobile Banking App increased by 37% and monthly mobile logons increased by 57% in 2021. We have also launched 3 new needs-based Wealth Calculators on our public website and introduced a remote journey as a new channel to meet and service our Wealth customers, in addition to traditional face-to-face interaction. During the last quarter of 2021, we relaunched our Advance proposition providing improved value to customers with particular focus on graduates.

In the second half of the year, the insurance subsidiary launched the Employee Pension Plan, giving corporate customers the opportunity to contribute towards the pension benefits of their employees through a tax-efficient product. The insurance business remained focused on providing customers with improved access to services and the last quarter of the year saw the launch of an online protection quote tool through the public website. To ensure that the bank makes it easier for our customers to conduct business with us at their convenience and in a sustainable way, we have continued to invest in systems, laying the foundation for digitisation of all customer journeys.

HSBC Global Asset Management launched the HSBC Responsible Investment Fund Range to our clients in 2021, which has been very well received by the market. In addition, we continued to implement Environmental, Social and Governance considerations in the investment decision making process. In 2022, the goals and priorities of the asset management subsidiary will continue to focus on unlocking new growth opportunities to support both the global and local economy to transition from 'capitalism at any cost' to 'responsible investing'.

Commercial Banking ('CMB')

In the past year, Commercial Banking has continued focusing on its main strategic aims of supporting our customers and opening up a world of opportunity. Whilst our strategy in Malta is well aligned to the HSBC Group strategy, it is adapted to the needs of the local market with an understanding of its particular issues, challenges and risk profile, as well as the associated opportunities. Forming part of the HSBC Group means that we can provide strong support and expertise to customers who want to grow internationally, where we are well placed to connect them to international trade flows. We have continued investing in our transaction banking capabilities, including HSBCnet, leveraging a key Group strength. We have also continued innovating our business model and internal processes to be in a

position to provide market leading solutions to our customers in an ever-changing environment. Finally, we have collaborated with other areas and business lines of the bank to provide our customers with the products and services that they need. This was particularly relevant with respect to Global Markets who provide our customers with a full range of corporate treasury solutions to manage both their Foreign Exchange and Interest Rate risk.

HSBCnet campaign ad

We were very proud to have won a number of prestigious awards in 2021. Earlier in the year we were named by Euromoney as Best Trade Services Bank in Malta. The same survey, of more than 11,000 businesses globally, also named HSBC as the world's best bank in trade finance for a record fourth consecutive year. This recognition, which comes directly from the business community, is testament to our employees' dedication towards helping our customers chart a way forward, despite the challenges posed by the pandemic. A few months later we won two awards in Euromoney's Cash Management Survey 2021 – Market Leader and Best for Service in Malta. The Euromoney Cash Management Survey recognises the leading providers of cash management products and services through the receipt of responses from leading cash managers, treasurers and financial officers worldwide, and is considered the benchmark survey for the global cash management industry. This recognition from our clients acknowledges the efforts that we put into continuously improving our services and the hard work of our teams, who strive to deliver the best services to our partners and clients.

We have also seen an improvement in customer satisfaction following an internal survey conducted in 2021. This reflects the investment made in 2021, and in prior years, to improve the service that we provide to our customers, including material investment in HSBCnet, our internet banking platform and in our card products. In addition, we acted on customer feedback and have improved and simplified various processes and internal procedures making it easier for customers to bank with us – this is an ongoing process which is now well embedded in the business.

Last but not least, we invested in our people. Following the team restructuring carried out in 2020, we continued refining the structure, increasing the number of customer-facing roles particularly in the segments that provide the most opportunities and where customer needs are more complex. We also rolled out several training programmes to ensure that our teams are equipped with the knowledge they need to provide our customers with the highest level of service possible.

While we have continued feeling the effects of the pandemic on the local economy, which have resulted in dampened investor confidence and lower utilisation of working capital facilities, we have seen steady demand for new credit facilities. Indeed, the value of

credit facilities approved for non-public companies was higher in 2021 than in the prior year. We are however seeing slower take-up of such facilities as projects are taking longer to come to fruition.

We are working with a number of clients to identify the efficient and effective funding structures to support sustainability related initiatives and projects, which in turn will help our customers and the wider Maltese economy to transition to net zero. We are training our teams in this area to ensure that we can support our customers in their journeys towards a more sustainable operating model. We also ran a marketing and information campaign aimed at raising awareness within our customer base and the broader business community on the importance of becoming a sustainable business. Our teams have incorporated sustainability in their conversations with customers and our internal research is showing that many customers have now started to focus on making their business more sustainable.

As we enter into 2022, we can do so with confidence. Our teams remain focused on supporting our customers as economies continue to open up, increasing overall consumer demand and international trade flows. Our aim is to continue growing our lending book responsibly including trade finance, increasing overall transaction banking flows and supporting the hedging needs of our clients as the economy recovers.

Global Markets ('GM')

2021 has been another challenging year for Global Markets as the business continued to face tough external market factors. Whilst trading profits were slightly below those earned in 2020, underlying foreign exchange sales were strong, notwithstanding increased competition. The business continued to collaborate closely with Commercial Banking and Wealth and Personal Banking businesses in support of our customers and our safe growth strategy. Commercial clients continued to benefit from the technical expertise and digital solutions of HSBC Group. We continued our education outreach and during the year a number of seminars were held with leading industry specialists.

Corporate Centre ('CC')

Markets Treasury (Corporate Centre), which manages cash, liquidity, funding and interest rate risk for the entity, generated satisfactory revenues as a result of proactive management of excess liquidity, notwithstanding the challenges arising from the prevailing market conditions and the negative interest rate environment. The Hold to Collect and Sell portfolio is mainly invested in high quality liquid assets, reflecting our conservative risk appetite, which is delivering very low to negative revenue performance under the current negative interest rate environment scenario.

Digital Business Service ('DBS')

DBS supports and helps our business to grow safely by driving and providing digital solutions for the bank and delivering excellent services for our customers and colleagues.

Canopy erected at one of our branches to protect our customers

In 2021, various teams in DBS remained pivotal in providing improved customer service and business continuity during the Covid-19 pandemic. Evolving technology solutions enabled over 90% of our colleagues to work more efficiently from home while our Corporate Services team ensured that changes in Health Authority Guidelines continued to be respected in all work places and customer facing

locations. This involved a number of new initiatives such as installing temperature screening machines in branches as well as reinstalling sun shades to protect our customers during the hot summer months and so safeguard social distancing measures already in place. We take pride in the positive feedback received from customers, employees and the Unions on the way that HSBC Malta continued to manage the Covid-19 challenge.

DBS continued to deliver on key strategic projects in 2021. These included the opening of our flagship branch in Qormi which show-cases a truly modern take on today's evolving customer needs and service preferences.

With sustainability at the forefront of all that DBS stands for, in November 2021, Procurement supported the launch of a webinar entitled 'Driving Sustainable Operations & Services with our Partners and Suppliers'. The aim was to formally introduce a forum in which to discuss, share best practice and collaborate on the pressing topic of healing our planet. Our aspiration is to be net zero in our operations and supply chain by 2030 or sooner, aiming to reduce emissions, deliver low carbon solutions or adopt new technologies. We are keen to work together and support our partners on their environmental journey, providing the right tools and insights to help navigate or transition to net zero.

One of the most exciting initiatives in 2021 within Corporate Services resulted in formal approval of a multi-million Euro capital investment project to transform our Operations Centre in Qormi. This major property development will be the largest project of its kind for HSBC in Europe and will create a modern, fit for purpose business environment for all who work or visit there and will facilitate a number of carbon net zero initiatives fully aligned to our published targets.

Artistic impression of HSBC Malta reception area of our Operations Centre in Qormi

Our people

Our people and the community we serve 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. We want to drive a sustainable business so that the community in which we operate prospers, leaving a positive legacy for generations to come.

During 2021, we have had another demanding year as Covid-19 persisted. We continued to adapt our ways of working and our people have done a great job in maintaining business continuity throughout the year. We have capitalised on our employee platforms and tools so that our employees continue driving their personal development and improving their skills and abilities. We achieved this through various forms of virtual-led programs and with the introduction of a new learning platform assisted by artificial intelligence, using intuitive tools to provide bite-sized learning for all.

We completed another Future Leaders Programme online, aimed at building the next generation of Leaders for HSBC Malta who are now ready to take on bigger roles and grow their careers both in Malta and internationally. We have launched a myriad of well-being activities for our people specifically aimed at enhancing our ways of working in a remote environment. We have continued to provide employees with more flexibility and have given them all the tools needed to be able to work from home. We continued leading our HSBC HR roundtable sessions where we brought together Heads of Human Resources from other leading organisations in Malta to discuss best practices and share challenges to identify common solutions, especially those linked to the retention of talent.

In 2021, we have launched the Climate Action Network initiative aimed at driving sustainable projects through our people. We have over 100 employees who volunteer in driving different initiatives inside and outside the bank with the aim of reducing emissions, and creating a more sustainable economy and society. Most of these projects were delivered remotely and have created a positive impact in our community. During the year we have led numerous initiatives linked with the environment, sustainable finance and our ambition to become a net zero bank in line with our Group strategy.

2021 ended with the third edition of the Business Woman of the Year Awards held under the patronage of His Excellency the President of Malta, in collaboration with Nestle and Farsons Group to celebrate business women leaders across Malta. This award aims to promote and encourage more participation of women in the local business arena in line with HSBC's Diversity and Inclusion strategy.

His Excellency George Vella, President of Malta (centre) with all the winners of the third edition of the Malta Businesswoman of the Year Awards

Financial Crime Compliance ('FCC')

As part of its Anti-Money Laundering programme and agenda, HSBC continued to demonstrate its commitment to the highest standards of financial crime risk management in 2021. It is understood and appreciated that our high standards may occasionally result in inconvenience for clients as we work towards ensuring that we know our customers. We would therefore like to take this opportunity to thank our customers for their patience and understanding. We believe that the steps which are taken on this front provide stability and security to the financial system at large and to all those who make use of it, especially in the current environment. High compliance standards in the banking system continue to be a source of strength and competitive advantage, as we work diligently to support growth in Malta's economy by facilitating new business and cross-border trade.

Outlook

The outlook for 2022 will depend to a large extent on the evolution of the pandemic and remains challenging as the Covid-19 pandemic continues to impact economic growth and market confidence, both locally and globally.

HSBC remains a strong bank that continues to be strategically focused on growing our business in Malta. We continue to maintain high standards through applying our core values and doing the right thing by bringing the best that HSBC has to offer to the Malta market. We remain firmly committed to this ethos as we continue to pivot the business towards Safe Growth in the years ahead.

We will continue to navigate the impact of negative Euro interest rates which are likely to remain negative for the medium-term and the compliance risks that will continue to determine the bank's appetite for parts of the economy.

We continue to transform our business to enable the bank to navigate the future with resilience and mitigate any perceived risks. We have adjusted our cost structure to reduce the impact of negative interest rates and have re-aligned our branch network to respond to changing customer preferences.

I am immensely proud of the dedication and resilience that my colleagues have demonstrated and continue to demonstrate during the Covid-19 pandemic. The HSBC Malta team have made significant efforts to support each other, look after our customers and enable business continuity during the year.

We remain dedicated across the entity to operate in a sustainable, climate-aware fashion, aligning our activities to the Group's ambition to be net zero in operations and supply chain by 2030, and in financed emissions by 2050, in line with the goals of the Paris Agreement on climate. Looking ahead to 2022, we seek to embed our Climate Strategy, actively supporting the Maltese economy to transition towards the Paris Agreement goal of net zero by 2050. We shall be demonstrating our commitment to these goals through the exciting renovation project that we are embarking on at our Qormi business campus.

Our Safe Growth strategy is, I believe, in the best interest of all our stakeholders and remains central to HSBC's track record in generating dividends. Having further strengthened the foundation of our business in 2021, we remain focused on achieving safe growth and maintaining the highest standards through applying our core values and doing the right thing.

We remain fully committed to partnering with our customers, opening up a world of opportunity for both our customers and the wider community in Malta.

Signed by Simon Vaughan Johnson (Chief Executive Officer) on 22 February 2022

Board of Directors and Company Secretary

John Bonello, CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in July 2013 and Chairman in August 2019. Member of the bank's Remuneration and Nomination Committee, 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, Chairman of the Disciplinary Committee of the Institute and a Member of the Joint Disciplinary Board of the Accountancy Board.

Simon Vaughan Johnson, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer and Executive Director in July 2020. Chairman of HSBC Life Assurance (Malta) Ltd and of HSBC Global Asset Management (Malta) Limited. Joined HSBC Group in 1986. Mr Vaughan Johnson has broad and deep international banking experience as a Country Head, also working across Commercial Banking, Wealth and Personal Banking, and Global Markets. Additionally, he has worked in Financial Crime Risk, Trade Services, Payments and Cash Management, and e-Commerce. His postings span nine countries and four regions. Prior to taking up his appointment in Malta, Mr Vaughan Johnson was Head of the Remediation Management Office, HSBC France. He graduated with Honours from the University of Stirling, majoring in English and French. He is an Associate of the Chartered Institute of Bankers ('ACIB') and a Member of the Chartered Institute of Linguists. He is a Certified Anti-Money Laundering Specialist.

Michel Cordina, EXECUTIVE DIRECTOR

Appointed Executive Director in 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 40 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').

Andrew Muscat, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in 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 three 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.

Yiannos Michaelides, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in May 2017. Presently Member of the bank's Risk Committee. Mr Michaelides has over 28 years of international business experience involving telecoms and media as CEO and holder of other Executive positions. He is currently CEO of Cablenet Communication Systems Ltd. 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 in August 2019. She is a Chartered Director and 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) Ltd and former Chairperson of the Audit and Risk Committee of said company. Ingrid Azzopardi is presently the Group Internal Auditor of GO p.l.c., a position she has occupied since November 2000. She has chaired various committees at GO p.l.c., including the Group Fraud Forum and the Gender Equality Committee. She is a Certified Public Accountant and Auditor, a Fellow of the Malta Institute of Accountants, a Fellow of the UK Institute of Directors, and also a Member of the Institute of Internal Auditors.

Sue Vella, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in May 2016. Dr Vella is the Chairperson of the bank's Remuneration and Nomination Committee and Member of the bank's Audit Committee. Presently Head of the Department of Social Policy and Social Work at the University of Malta, Chairperson of DISCERN research institute. 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.

Manfred Galdes, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in January 2021. Manfred Galdes is the managing partner of the ARQ Group, a multi-disciplinary advisory firm. After graduating as a lawyer (LL.D.) from the University of Malta, he obtained a Masters Degree (LL.M.) in European (Commercial) Law at the University of Leicester. Dr Galdes has spent the last 22 years practising in the area of regulatory and financial crime compliance having held various leading roles both in the private and public sector. Between 2008 and 2016, Dr Galdes headed the FIAU, Malta's financial intelligence unit and principal AML/CFT supervisory authority.

Matthew Colebrook, NON-EXECUTIVE DIRECTOR

Appointed as Director in August 2021. Mr Colebrook is an experienced banker with 35 years of distinguished service with the HSBC Group. He has held various senior managerial positions within HSBC Group in the UK, the USA, Asia, the Middle East and Europe. He also occupied the roles of Executive Director of HSBC Bank Singapore Ltd, Chairman and Non-Executive Director of HSBC Global Asset Management (Singapore) Ltd and Non-Executive Director of HSBC Insurance (Singapore) Ltd. Presently, Mr Colebrook holds the role of Regional Head Wealth and Personal Banking for Europe, the Middle East and North Africa and Turkey.

George Brancaleone, COMPANY SECRETARY

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

Executive Committee and Head of Internal Audit

Simon Vaughan Johnson, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer and Executive Director in July 2020. Chairman of HSBC Life Assurance (Malta) Ltd and of HSBC Global Asset Management (Malta) Limited. Joined HSBC Group in 1986. Mr Vaughan Johnson has broad and deep international banking experience as a Country Head, also working across Commercial Banking, Wealth and Personal Banking, and Global Markets. Additionally, he has worked in Financial Crime Risk, Trade Services, Payments and Cash Management, and e-Commerce. His postings span nine countries and four regions. Prior to taking up his appointment in Malta, Mr Vaughan Johnson was Head of the Remediation Management Office, HSBC France. He graduated with Honours from the University of Stirling, majoring in English and French. He is an Associate of the Chartered Institute of Bankers ('ACIB') and a Member of the Chartered Institute of Linguists. He is a Certified Anti-Money Laundering Specialist.

Elizabeth Hardy, CHIEF OPERATING OFFICER

Appointed Chief Operating Officer in February 2021. Mrs Hardy will soon celebrate 40 years of international experience within the HSBC Group. She joined Midland Bank in the UK in 1982 and has held a variety of managerial roles in Personal Banking, Audit, Risk, Human Resources and Operations. Mrs Hardy held the position of Chief Operating Officer for Kazakhstan, Russia and Italy prior to taking up her role in Malta.

Charlotte Cilia, CHIEF FINANCIAL OFFICER

Appointed Chief Financial Officer in December 2020. Mrs Cilia is a certified public accountant and auditor with over 20 years of varied experience across audit and banking finance. She joined the HSBC Finance team as a senior manager in 2010 where she worked for four years and re-joined the bank in 2018 as Chief Accounting Officer and Deputy Chief Financial Officer. She served as Deputy Chief Financial Officer during her four years at MeDirect Group until 2018. Previously an auditor at KPMG in Malta and the UK where she performed key roles on various international engagements. She is a Director on the Board of HSBC Life Assurance (Malta) Ltd.

Crawford Prentice, HEAD OF WEALTH AND PERSONAL BANKING

Appointed to the role in July 2020. Mr Prentice has been with the HSBC Group since 1994 and has held a number of senior positions including Deputy CEO and Head of Customer Value Management for M&S Bank, as well as Head of Service Recovery, Head of People Experience and Head of Regulated Distribution for HSBC Wealth and Personal Banking in the UK. Prior to joining HSBC Bank Malta p.l.c., Mr Prentice was the Chief Operating Officer for Wealth and Personal Banking in the Channel Islands and Isle of Man.

Michel Cordina, EXECUTIVE DIRECTOR AND HEAD OF BUSINESS DEVELOPMENT

Appointed Executive Director in 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 40 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').

Executive Committee

Jesmond Apap, HEAD OF GLOBAL MARKETS

Appointed Head of Global Markets in April 2020. Joined the bank in 1989, then Mid-Med Bank. During his career Mr Apap has held a number of key roles that have seen him successfully drive transformation and performance. Mr Apap started his career in Operations before moving to Markets. Before taking up his role as Head of Global Markets he headed Markets Treasury, managing cash, liquidity, funding and the structural interest rate risk for the bank.

Caroline Buhagiar Klass, HEAD OF HUMAN RESOURCES

Appointed Head of Human Resources in April 2018, and in 2019, in addition to her HR responsibilities, she took over the responsibility for Corporate Sustainability. 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 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. Towards the 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

Ms Grech, who has been heading the Commercial Banking team for the past two years, has a broad 25 year career with HSBC, mainly in Malta. Before taking up her current role, she occupied various roles in the bank's Risk department including Deputy Head of Credit and, most recently was the bank's Chief Risk Officer for over six years. She had previously led Customer Value Management within the bank's Personal Banking area for a number of years. Having started her career in Trade Finance and Commercial Banking, Ms Grech has a strong affinity with the bank's commercial customers. She is an avid supporter of diversity and inclusion in its various forms and has chaired the bank's Diversity and Inclusion Committee for a number of years. She acts as mentor to a number of female colleagues, supporting their careers within the organisation. She sponsors internal initiatives and participates in various activities to ensure that the bank embraces diversity in a meritocratic manner throughout the employee life cycle.

Gerard Walsh, CHIEF RISK OFFICER

Mr Walsh was appointed as Chief Risk Officer of HSBC Bank Malta p.l.c., in 2019. He joined the bank 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.

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.

Mandy Falzon, CHIEF COMPLIANCE OFFICER

Appointed as Chief Compliance Officer in March 2021, leading the Regulatory Compliance and Financial Crime Compliance teams at HSBC Malta. She graduated as a Doctor of Laws from the University of Malta in 2005, and has 15 years' experience in banking and financial services at HSBC. Dr Falzon held managerial positions within the HSBC Malta Legal Office prior to joining the Regulatory Compliance function in 2015 in a senior management position. She is a Director on the Board of HSBC Global Asset Management (Malta) Limited.

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 has undertaken 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 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.

Morgan Carabott, HEAD OF INTERNAL AUDIT

In September 2021, the Bank announced the appointment of Morgan Carabott as Head of Internal Audit, subject to regulatory approval. Ms Carabott joined the Bank as Deputy Head of Internal Audit in 2018. Prior to joining the Bank she spent seven years as a Senior Internal Auditor within the Insurance industry and was an external auditor with one of the big four audit firms. Ms Carabott is a warranted Accountant and Auditor and is also a Certified Information Systems Auditor and Certified Anti-Money Laundering Specialist. She is a Member of the Malta Bankers Association Executive Committee and a Fellow of the Malta Institute of Accountants. She has strong auditing skills and sound industry knowledge coupled with extensive experience in managing numerous audit assignments across different sectors.

Report of the Directors

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 2021 the bank had 12 branches in Malta, one of which is located in Gozo.

The local group comprised the following subsidiaries at 31 December 2021: HSBC Life Assurance (Malta) Ltd and HSBC Global Asset Management (Malta) Limited.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Ltd is authorised by the Malta Financial Services Authority to carry on the 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) Ltd 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 individuals.

Business and strategy

HSBC Malta is part of HSBC Group, which has an unrivalled global position with around 220,000 employees working across the world to provide a 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.

In March, HSBC Group launched its refreshed purpose, strategy and values. HSBC Group's new purpose statement is: Opening up a world of opportunity. HSBC is here to use our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunities for our customers. Our purpose is to bring together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.

Our values define who we are as an organisation and make us distinctive. Our values have been re-defined and extended. We are dependable, by succeeding together, we make the connections that allow us to realise the full potential of those opportunities. We are open, we value difference and actively take a broader perspective, and so are alert to more opportunities for our customers. We are connected by taking personal responsibility and ensuring we leverage those opportunities with integrity. The new value is We get it done by committing to tenaciously follow through the actions that make those opportunities a reality.

Our customers range from individual savers and investors to large international companies. We aim to connect our customers 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, insurance solutions and wealth management products that help personal banking customers to plan and invest for the future. For our commercial customers, we offer loans to invest in growth, and transaction banking products such as foreign exchange, trade financing and cash management services that enable businesses to expand both locally and internationally. For large companies and organisations operating across borders, we also offer tailored advice on decisions such as financing major projects or making acquisitions.

Our strategy is aimed at growing safely whilst sustaining a robust risk management environment and maintaining a strong financial crime compliance culture. We take a long term view in terms of our customer relationships and we aim to build a bank that is fit for the future which is centred around our customers. Our Safe Growth strategy is aligned and consistent with the HSBC Group's strategy. We aim to generate stable returns for our shareholders, increase operational efficiency and simplify processes making it easier for our customers to do business with us and for our staff to serve our customers. In 2021, we established the Business Growth Forum to drive our growth agenda and the Climate Business Council to drive our Sustainability agenda. We launched new products and initiatives such as the Responsible Fund range and the Corporate Employee Pension Plan. Looking ahead to 2022, we seek to embed our Climate Strategy, actively supporting the local economy to achieve the Paris Agreement goal of net zero by 2050. This banking model is designed to enable the local group to effectively meet clients' diverse financial needs, support a strong capital and funding base and further reduce the risk profile and volatility.

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 2021.

Conduct

Throughout the course of 2021, focus continued on the responsibility and accountability that each employee has to perform their duties in line with the HSBC Conduct framework, which is aimed at the delivery of fair outcomes for customers and the support of the orderly and transparent operation of financial markets. In this respect, as the local group's safe growth strategy evolves, conduct-related matters have retained a pivotal position 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:

- continued adherence with the HSBC Global Principles, reflecting the core values, strategy and prudent approach to conduct risk management.
- continued emphasis on customer service, having as one of its main objectives the strengthening of a culture which provides customer experiences that are aligned with their needs and deliver fair customer outcomes; and
- continued and enhanced focus on the embedding of the principles of good conduct in all safe growth initiatives, whilst taking into consideration the current dynamic regulatory and business environment.

Throughout this year, regulatory engagement has continued to be conducted with high professional competence, representing trust, respect and full transparency that facilitated an ongoing value-adding constructive dialogue, which is a trademark of the local group's robust governance and oversight culture.

Results for 2021

HSBC Bank Malta p.l.c. ('the bank') and its subsidiaries (collectively referred to as the local group), reported a profit before tax of €26.9m for the year under review. The local group's profit attributable to shareholders was €17.8m.

The Directors have proposed a gross final dividend of 3.42 cents per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 14 March 2022.

Further information about the results of the local group is provided in the Income Statements and the Statements of Comprehensive Income on pages 48 and 49 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.

	2021	2020
Profit before tax (reported) (€m)	**26.9**	10.4
Profit before tax (adjusted) (€m)	**29.7**	10.4
Cost efficiency ratio (reported) (%)	**80.3**	73.0
Cost efficiency ratio (adjusted) (%)	**78.2**	73.0
Post-tax return on equity (reported) (%)	**3.7**	1.6
Post-tax return on equity (adjusted) (%)	**4.0**	1.6
Common Equity Tier 1 ratio (%)	**18.4**	18.0

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 higher year-on-year as a result of lower ECL and better performance from the insurance business. 2021 included a one-off restructuring provision to deliver future cost savings.

Outcome (adjusted): The adjusted profit before tax is higher than 2020 due to lower credit losses and better performance from the insurance business.

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 increased from 73% in 2020 to 78% in 2021. Adjusted costs increased by 5% year on year. While we continued to achieve sustainable savings from transformation programmes, non-staff costs increased due to higher compliance costs, regulatory fees, fraud losses and investment in digitalisation.

Post-tax return on equity (reported/adjusted): is measured as post-tax profit divided by average equity.

Outcome (reported): The reported return on equity was below the target range primarily due to the impact of Covid-19 and the prevailing negative rate environment. However it is significantly higher than prior year and in line with regional market expectations.

Outcome (adjusted): The adjusted return on equity excludes the notable items. It improved versus prior year but is still below target range due to the ongoing impact of negative interest rates and uncertainty in the market.

Common Equity Tier 1 capital ratio ('CET1'): represents the ratio of Common Equity Tier 1 capital comprising shareholders' equity less regulatory deductions and adjustments, to total risk-weighted 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 improved compared to 2020 due to retained profits and a reduction in RWAs driven by more effective placements of excess liquidity and more efficient collateral management.

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.

Employees

We are opening up a world of opportunities for our people by building an inclusive organisation that prioritizes well-being, investment in learning and career development and progression and prepares our people for the future of work.

Our culture

Our culture has been shaped by the diversity of thought of our 942 employees. We are founded on the strength of the experience of our people. We strive to value diversity and inclusion ('D&I') to reflect our customers and community. Our values are the foundation of how we operate by valuing differences, succeeding together, and taking responsibility and we get it done. 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.

Diversity and Inclusion

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 policies and principles through, recruitment processes, learning programmers and various initiatives across the bank and Malta. In 2021, 53% of our senior leadership roles were held by women and 70% of internal appointments into senior management roles were female. We have delivered quarterly career roadshows to support the promotion of our female colleagues into management roles. During the year, we held a session on celebrating cultures for all employees who had the opportunity to share their traditions, values and ways of working. This year HSBC Bank Malta p.l.c. was the proud Gold sponsor of Pride where again we showed our commitment to promoting and supporting the LGBTI+ community. We launched our Diversity and Inclusion plan which focuses on Ethnicity, Disability and Gender Diversity including LGBTI+. The plan is discussed at the People Committee where an update on KPIs and program sponsorship is discussed and executed across the bank.

The future of Work

The Covid-19 outbreak has provided us with many valuable lessons of how we can enable many roles to be performed remotely whilst continuing to provide uninterrupted service to our customers. This has allowed us to provide better flexibility in future working arrangements. We have invested heavily in different programs to equip our people with the resilience they need to succeed now and in the future. We have launched a flagship program called Future Skills for our employees and created an internal talent marketplace through technology to help improve career development by the matching skills and aspirations of our people with business needs.

Well-being

We have provided additional resources to help colleagues to manage mental and physical health challenges brought about by Covid-19. We have conducted over 70 mental health well-being sessions to all employees locally during 2021 and continued to work closely with our Employee Assistance Program provider to ensure that we support our people through these challenging

times. We have continued to invest in safety equipment and protocols for our front line. We introduced virtual appointments and made sure that cybersecurity controls and software continued to support employees to work remotely where possible. Conscious that the pandemic may have caused financial pressure we have launched the Financial well-being series for our employees together with the Wealth and Personal Banking business, to foster healthy financial habits. During the World Mental Health Day, we participated in a global campaign where we held numerous virtual sessions for employees supported by external experts. Our well-being index scored 88%, where employees stated that they know how to obtain support about their mental health and that they are confident to talk to their line manager about work-life balance and flexibility (83% score).

Learning and Development

We have launched numerous programs for our people to continue driving their development through a comprehensive digital learning platform. We offered numerous programs to our employees to enhance future skills and leadership abilities. HSBC University is our one-stop shop platform delivered via an online portal, providing access to a network of global training centres and training providers. We have launched My HSBC Career and a global Mentoring System to help employees take control of their personal development and career. All our employees are encouraged to have at least one mentor identified to support them in their development journey at HSBC. During 2021 we have delivered 12,814 programs and delivered over 15,161 hours of training. We have also delivered the 3rd cohort of a one-year Leadership Program called LEAP for our identified future leaders. Developing future leaders is critical to our long-term success. The People Committee conducts bi-annual reviews of the succession plans of the leadership teams and identify successors for critical roles.

Managing Change

Our transformation program was launched in June this year to continue delivering our Safe Growth Strategy and create a bank fit for the future. We work hard to ensure our employees understand the need for change and adapt to our ways of working to create a simpler and customer focused bank. We held numerous sessions led by senior leadership to communicate these changes and launched a number of monthly updates to all employees on where we are on our strategy and achievements. We have offered over 100 roles during the year, which has seen 70 employees advancing in their careers. We aim to continue providing programs to retrain and reskill our people to be ready for the ever increasing pace of change in our industry.

Listening to our People

We run a Snapshot Survey every six months to have a better understanding about our employees' needs. During 2021 we had a 46% response rate which saw an improvement over the previous semester. In the first quarter of 2021, we cascaded the newly revised purpose and values through an extensive range of virtual sessions and discussions across the bank. 75% of employees stated that they see colleagues demonstrate the values in their day to day work.

We promote a speak up culture where employees have various tools and channels they can use to speak up. Our bi-annual employee survey shows an improvement versus prior semester with 78% of colleagues stating that they are confident to speak up when they see behaviours which they consider are wrong. This is further enhanced by the trust index in line management with 86% of employees stating they trust their line manager. Our conduct framework and policies ensures that we deliver fair outcomes for our people to foster a healthy working environment.

The bank is committed to respect human rights, primarily as they apply to our employees, our customers and our suppliers. Businesses do not exist in isolation: they exist to support the communities they serve. 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.

Whistleblowing

HSBC encourages a speak up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels without fear of reprisal or retaliation. However, in certain circumstances it may be necessary for individuals to raise concerns through more targeted and confidential channels. For this purpose, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing. Our whistleblowing channel, HSBC Confidential allows colleagues to raise concerns in line with local laws. All whistleblowing reports received are investigated in a detailed and independent manner and remedial action is taken where appropriate. The prevalent themes raised are in relation to allegations on staff behaviour.

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 Services 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 Services.

Global Protective Security 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

Corporate sustainability is a high priority for businesses today and at HSBC we have revised and renewed our strategy to ensure we operate in a responsible manner and provide access to sustainable finance that will help economies and societies prosper today and in the future. Being sustainable means building strong relationships with all our key stakeholders and taking into account the issues that matter to them. We use our international expertise to connect our customers to opportunities around the world. We are powering new solutions to the climate crisis and supporting the transition to a low-carbon future. We are building an inclusive organisation that prioritizes well-being, invests in learning and careers and prepares our customers, employees, suppliers and the community to be fit for the future. We uphold high standards of corporate governance and ensure we meet our responsibilities to society. Through our Sustainability function we have two bodies responsible for driving this agenda. Our HSBC Malta Foundation and our Climate Business Council. These two bodies ensure that all stakeholders are involved in the decision making and execution of our sustainability strategy. In line with the Group's strategy, the Foundation is supporting a number of 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. This year HSBC Malta Foundation also launched its first Sustainable Finance project with The Malta Chamber to Help Achieve National Climate Goals. The framework may be used as a tool for the government and businesses to drive

the transition to a net zero carbon-built environment. The HSBC Malta Foundation is also supporting an important sustainability project 'Establishing Malta's Framework for a Net Zero Carbon Building' which targets the country's building and construction sector with the goal of raising standards in energy efficiency and conservation. The intended framework is inspired by models such as LEED certification, for example. In 2021, we also approved the first climate programme project for Malta which will be financed by the HSBC Malta Foundation and will also be part-financed by the Parks Department and the Water and Energy Agency. The project introduces the concept of urban resilience in Malta. This is in view of the predicted climate change impacts on the islands including higher temperatures, increased flooding events, the potential rise in sea-level, and the urgent need to curtail the increasing Greenhouse Gas ('GHG') emissions from urban areas primarily caused by vehicular traffic.

Our Climate Business Council ('CBC') has been set up in 2021 with the aim of facilitating collaboration and knowledge sharing, and supporting the Group's Sustainable Finance and Climate related initiatives. The CBC drives and monitors the implementation of the bank's sustainable finance strategy, It also ensures that the strategy is fit for purpose and is updated as required. The CBC provides guidance and resolves issues in developing the sustainable finance business across the bank. It also determines the objectives of agreed initiatives and appropriate ownership as well as ensuring measurement and reporting of progress. The CBC is chaired by the Chief Executive Officer of the bank and updates on progress are provided to stakeholders including the local Board and regional committees for oversight and endorsement of the strategies and actions.

During the year, the bank launched the Climate Action Network (CAN). This is a network led by employees of the bank where different teams from across business lines and functions drive sustainable projects inside and outside the bank. We had seven projects launched in 2021 thanks to the commitment of our employees ranging from environmental to social and sustainable finance topics. The CAN teams drive various internal learning initiatives to increase the capabilities of our own employees and also within the community. During this past year the focus was on forestation, recycling and responsible consumption. All these initiatives were led ably by our people who use a central platform where they share their achievements and successes of their projects.

Learning and development is key and during the year we launched a number of Sustainability programs for all employees. The programs ranged from raising awareness to developing technical skills for our front line and specialist roles within our control functions and business lines. This year the senior executives of the bank went through a two-day program on Sustainable Leadership delivered by HSBC University in collaboration with Earth watch. The aim of the program was to increase the awareness, capability and capacity for leaders to embed sustainability across their businesses and functions leading to growth opportunities. The program also had the objective of building a network for participants so they can work with colleagues and help each other across the group. It also ensured corporate values and principles are clearly understood and reconnected leaders with nature to inspire action. The content of the program covered topics such as global mega trends and climate change and was enriched by case studies using climate modelling tools used by the United Nations, together with a final detailed action plan that will contribute to the ambition of HSBC in becoming a net zero bank.

The Group and local target is to have 100% of our supply chain signed up to our Carbon Net Zero Charter by 2030. During November we held a webinar for our top suppliers focusing on 'Driving Sustainable Operations and Services with our Partners and Suppliers'. The aim of this webinar was to share and discuss best practices and collaborate together to transition to net zero. Whether our aim is to reduce emissions, deliver low carbon solutions or adopt new technologies, we want to work together with our suppliers so that we can achieve this ambition together and most importantly protect our planet for future generations. During this webinar we provided our suppliers with an overview of how we can all benefit from achieving a net zero operation and give them the tools and insights to help them transition to net zero.

With regards to energy consumption in 2019 (baseline) HSBC Bank Malta consumed 4,963 MWh of electricity. Our target is to reduce this by 50% by 2030. With this in mind, our 2020 target was to reduce our consumption to 4,738 MWh and we achieved a consumption of 3,443 MWh, which even exceeds our initial 2022 target. In 2020 and 2021 building occupation was lower and therefore consumption was lower due to Covid-19. To maintain the momentum to achieve our 2030 targets, in 2021 we planned and implemented more energy saving measures, including more LED lighting, power saving devices and controls and improved air conditioning and ventilation systems in a number of our buildings. With regard to renewable energy supplies, we are targeting to source as much energy as possible from renewable sources by 2030. This can be achieved in two ways: generation of our own energy through Photovoltaic Panels (PV), and also changing suppliers of consumed energy to a green tariff, which is challenging in Malta. In 2019 HSBC Bank Malta produced 3.7% of its energy through PV panels on its buildings, this rose to 5.2% in 2020 with the installation and connection of further PV panels at Operations Centre in Qormi. By the end of 2021, we reduced the number of desk phones by 73%, printers by 21% and mobile devices by 21%, whilst at the same time providing more digital solutions and new tools that are more sustainable.

We have accelerated our retail sustainable solutions by providing attractive rates on green loans, replacing over 100,000 credit cards using recycled plastic. We have also launched a range of responsible investment funds managed by HSBC Global Asset Management which exceeded €14 million in subscriptions. We launched a number of education campaigns for our retail clients and Small to Medium Enterprises on how to transition to a greener business model. We held student campaigns which offered attractive student loans to acquire more environmentally friendly modes of transportation. We have started internal discussions to increase education for our employees on their pension plans and the importance of sustainable investment.

Within Commercial Banking, we are committed to helping customers to transition to a more sustainable business. Our approach is multi-faceted, because we know that our customers face different challenges and opportunities and that there is no 'one size fits' all solution. Our Green Loans and Trade Finance solutions are designed to finance a range of projects and activities, including renewable energy, waste prevention/reduction, green buildings, energy efficiency, sustainable water and wastewater management. Our Relationship Managers receive ongoing training enabling them to provide customers with expert guidance, and are engaging actively with their customers to start discussions and identify areas where we can support customers to transition to net zero.

EU Taxonomy economic performance indicators[1]

Climate change mitigation and climate change adaptation objectives

In order to meet the European Union's climate and energy targets for 2030, the European Commission ('EC') has set out the EU Taxonomy classification system, establishing a list of environmentally sustainable economic activities. The EU Taxonomy provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In 2021, the EC adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act')[2]. Under these regulations, we are required to provide information to investors about the environmental performance of our assets and economic activities.

The Disclosures Delegated Act applies from 1 January 2022 on a phased approach and covers the 2021 annual reporting period. The first year of reporting is related to Taxonomy-eligibility of economic activities and serves to help prepare for the second phase of reporting related to Taxonomy-alignment of economic

activities (i.e. disclosure of the key performance indicators) from 1 January 2024. Taxonomy-eligible does not give any indication of the environmental performance and sustainability of the economic activity.

In this first year of disclosure, information is provided on our counterparty exposures toward Taxonomy 'eligible' economic activities. This helps to prepare for the second phase of disclosures related to Taxonomy-alignment of economic activities (i.e. disclosure of the key performance indicators) from 1 January 2024 when Taxonomy 'eligible' economic activities will be assessed to determine whether they are environmentally sustainable (i.e. Taxonomy 'aligned') against technical criteria

The table presented below is based on the methodology and content specified in the Disclosures Delegated Act as at the reporting date.

1 Taxonomy Regulation EU 2020/852.
2 Commission Delegated Regulation (EU) 2021/2178.

	31 Dec 2021	
	Mandatory as proportion of total assets	Voluntary as proportion of total assets
	%	%
Exposures towards taxonomy relevant sectors (Taxonomy eligible)	35	35
Exposures towards taxonomy non-relevant sectors (Taxonomy non-eligible)	2	2
Exposures to Counterparties not subject to NFRD[3] disclosure obligations	18	18
Exposures to central governments, central banks and supranational issuers and derivatives	20	20
Trading portfolio and On-demand interbank loans	4	4
Other assets	21	21
Total Assets	100	100

3 Non-Financial Reporting Directive (NFRD) - Directive 2013/34/EU.

Scope of consolidation

The ratios in the above table represent exposures and balances as a proportion of total assets for the principal operating entity within the local group's prudential scope of consolidation as at 31 December 2021. On this basis our subsidiaries engaged in insurance activities are excluded from the prudential consolidation.

Assets in scope

The calculation of the ratios for taxonomy-eligible economic activities and taxonomy non-eligible activities include on-balance exposures covering loans and advances, debt securities and equity instruments not held for trading. This includes exposures to undertakings such as large EU banks, asset managers, insurance companies and issuers that are subject to Non-Financial Reporting disclosure[4] obligation.

Other assets, which primarily include, cash, tangible and intangible assets, are excluded from the taxonomy framework and therefore cannot be assessed for taxonomy eligibility. On this basis, these assets are excluded from the eligibility assessment. However, these assets are included in the total assets used in the denominator for the calculation of the ratios.

4 NFRD as per Article 19a or Article 29a of Directive 2013/34/EU.

Taxonomy-eligible economic activities

Taxonomy-eligible economic activities are those activities which can be assessed in future disclosures as either environmentally sustainable.

Eligibility related disclosures shall be based on actual information provided by the financial or non-financial undertakings.

The classification of environmentally sustainable is based on criteria laid out in the Taxonomy Regulation. An eligible economic activity is defined in the Delegated Acts and in some instances corresponds to one or more specific Nomenclature of Economic Activities ('NACE') code. The assessment of taxonomy eligibility for mandatory disclosures is made using the specific description of the activity provided in the Delegated Acts.

As a result, the total exposures to taxonomy eligible economic activities ratio within mandatory disclosures is limited to exposures to green lending, green bonds, and property-related lending.

Taxonomy non-eligible economic activities

Taxonomy non-eligible economic activities are those activities which cannot be assessed as environmentally sustainable or not.

Included in taxonomy non-eligible are those assets in scope that cannot be assessed for taxonomy eligibility, either due to activities not covered by the taxonomy framework, limited data availability from our counterparties or lack of required information.

Total exposures to undertakings not subject to NFRD

Exposures to undertakings that are not obliged to publish Non-Financial Reporting[5] information have been excluded from the assessment of taxonomy-eligible economic activities. The total of these exposures as a proportion of total assets has been disclosed as a separate line item in the table.

5 NFRD as per Article 19a or Article 29a of Directive 2013/34/EU

Data limitations

The bank relies on a number of data sources to determine Taxonomy eligible and non-eligible exposures and exposures not subject to NFRD. Availability of data and improvements in data quality over time, as firms adopt the Taxonomy requirements for their own disclosures, could lead to differences in the data reported in future years as compared to the current year.

The bank will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as we develop our capabilities to assess the Taxonomy alignment of our portfolios in preparation for future Taxonomy reporting requirements from 1 January 2024.

In determining the methodology for identifying Taxonomy-eligible and non-eligible exposures and exposures not subject to NFRD it has been necessary to make some judgements, taking into account data availability. Methodologies will develop over time to align with changes in market practice and regulation. In particular, detailed below are key judgments and assumptions made:

- Counterparties which are subject to NFRD are large public interest undertakings with more than an average of 500 employees during the financial year and incorporated within the European Union. Due to data limitations, it has not been possible to assess all the criteria required to determine the NFRD status of an individual counterparty. Instead, reliance has been placed upon a simplification using the available data, as well as a sample-based review of the largest counterparties by exposure. The counterparty data considered in making an assessment included, where available: country of incorporation, customer group by global business segment, NACE code, turnover, and number of employees.
- Eligibility ratios have been reported in a combined manner for the two Taxonomy objectives adopted as of 1 January 2022: climate change mitigation and climate change adaptation.

Additional voluntary disclosures

Estimates and proxies are not allowed to be used for the mandatory reporting under Article 8 of the Taxonomy Regulation. We have therefore included additional disclosures on a voluntary basis. The basis of preparation, methodology and explanation supporting our voluntary disclosures is set out below.

Taxonomy-eligible economic activities

The Disclosures Delegated Act entered into force from 1 January 2022 based on 31 December 2021 data for both financial and non-financial undertakings.

Since this is the first year of reporting under the EU taxonomy, financial and non-financial undertakings have not yet reported on their taxonomy eligibility related disclosures. As a result, to determine the eligibility of exposures for the voluntary disclosures, we have relied on the NACE code of the principal activity of the immediate counterparty, except for certain types of lending and investing where the specific use of proceeds is known and relates to eligible activities or does not need to rely on data from the counterparty.

Where we have relied on the NACE code of the principal activity to determine the counterparty's eligibility, we consider this to be an estimate and have included these exposures in the additional voluntary disclosures. In addition, loans collateralised by commercial property to undertakings not subject to NFRD have been included on a voluntary basis as taxonomy eligible.

Exposures to central governments, central banks, supranational issuers, held for trading derivatives and on-demand interbank loans have been included in voluntary disclosures on the same basis and methodology as the mandatory disclosures. Other retail exposures and other assets are included in the same way as mandatory disclosures.

Financial Crime Compliance

In 2021 the bank continued to focus on embedding its financial crime risk management control framework, and sustain its capability through ongoing training, oversight and governance. We believe that the enforcement of high compliance standards is a competitive advantage, and is essential to our success and that of the jurisdiction.

Anti-bribery and corruption

HSBC Malta and the wider HSBC Group remain committed to maintaining 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 Anti-Bribery and Corruption training annually. 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 into consideration various pillars related to anti-bribery and corruption including Employee, Third Party, Strategic and Customer Risks.

Risk management

Our Approach to Risk Management

We recognise the importance of a strong culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transitional, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide the local group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

We aim to maintain a strong capital position, defined by regulatory and internal capital ratios. We carry out liquidity and funding management on a stand-alone basis.

Operating model

We seek to generate returns in line with a conservative risk appetite and strong risk management capability. We aim to deliver sustainable earnings and consistent returns for shareholders.

Business practice

We have zero tolerance for any of our people knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated. We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements. We have no appetite for inappropriate market conduct by any member of staff or by any Group business.

Risk Management

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model.

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. This framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. This framework designed to provide appropriate risk monitoring and assessment.

Risk appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an anchor between our lines of business and the Risk and Finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks. It also helps to develop aligned people and system capabilities.

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 Chief Compliance Officer, and the Head of Internal Audit, who together with other business functions, assess and mitigate risks within their respective areas of responsibility.

Our risk appetite is expressed in both quantitative and qualitative terms

The Board reviews and approves the banks' risk appetite on a regular basis to make sure it remains fit for purpose. Risk appetite is considered, developed and enhanced through:

- risks that we accept as part of doing business, such as credit risk, market risk, and treasury risk, which are controlled through both active risk management and our risk appetite;
- risks that we incur as part of doing business, such as non-financial risks, which are actively managed to remain within an acceptable appetite
- an alignment with our strategy, purpose, values and customer needs;
- trends highlighted in other risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our risk appetite statement ('RAS'). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning and remuneration and reported to the Risk Management Meeting ('RMM') alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and escalated to the Risk Committee and Board.

In 2021, we continued to evolve our risk appetite by adapting aspects of our risk appetite statement to ensure we remained able to support our customers and strategic goals against the ongoing backdrop of the Covid-19 outbreak. A specific emphasis was placed on capital and liquidity to ensure the Bank could withstand extreme but plausible stress, and had adequate capacity to provide increasing levels of financial support to customers. Associated non-financial risks were reviewed and, where applicable, processes and controls were enhanced to accommodate increases in lending volumes and help our people continue to manage the lending process from a home environment.

The financial impact of Covid-19 is apparent, as can be seen form the increased Wholesale Non-Performing Exposure portfolio, albeit that the ECL impact was muted, given provisions taken in 2020. These exposures are subject to close monitoring and management actions.

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide actionable insights into how key elements of our portfolios may behave during crises. Stress tests are used to calibrate our risk appetite and to review the robustness of our strategic and financial plans, helping to improve the quality of management's decision making. Stress testing analysis assists management in understanding the nature and extent of vulnerabilities to which the bank is exposed. The results from the stress tests also drive recovery and resolution planning to enhance the group's financial stability under various macroeconomic scenarios. Risk assessment through internal stress tests is used to assess the impacts of macroeconomic, geopolitical and other HSBC-specific risks. The selection of stress scenarios is based upon the identification and assessment of our top and emerging risks identified and our risk appetite.

In 2021, the local group participated in the European Banking Authority ('EBA') stress test exercise.

Additionally, we conducted a range of internal stress tests during 2021. These included stress tests to assess the ongoing impacts of the Covid-19 crisis and assessment of the resilience of key balance sheet metrics including capital adequacy. We regularly review key economic variables and their impact on key sectors to understand potential vulnerabilities in our balance sheet and to identify appropriate mitigating actions. We continue to monitor emerging geopolitical, economic and environmental risks impacting the bank's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on internal stress test outcomes.

Covid-19

The Covid-19 outbreak and its effect on the global economy continues to affect our customers and our performance, and the future effects of the outbreak remain uncertain, albeit that indications are that the position may be improving as a result of vaccination programmes. The outbreak necessitated governments to respond at unprecedented levels to protect public health, local economies and livelihoods.

In response to the crisis, the Maltese Government and Central Bank of Malta deployed, and continue to deploy, extensive measures to support households and corporates. Measures implemented by the Maltese Government include income support to households and funding support to corporates, while measures taken by the Central Bank of Malta include support to funding markets. These measures are expected to be unwound gradually as restrictions on mobility ease and as economic activity increases.

Throughout the Covid-19 outbreak, we have continued to support our customers and adapt our operational processes. We have maintained high levels of service throughout the Covid-19 outbreak and our people, processes and systems have responded to the changes needed and increased the workload in serving our customers through this time.

Market-specific measures introduced in 2020 to support our personal and business customers remained in place in 2021, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. These measures have been well received and we remain responsive to our customers' changing needs.

Overall the balance sheet and liquidity of the bank has remained strong. This enabled us to support our customers both during periods of government lockdowns and with signs of economic recovery when government lockdowns were eased.

There remains a degree of uncertainty associated with economic forecasts in the current environment and significant risks remain, especially when the government support schemes are unwound in 2021.

The ongoing impact of the outbreak on the long-term prospects of businesses in certain sectors is uncertain and may lead to further increases in non-performing exposures, and thus ECL.

In response to the Covid-19 outbreak, we have successfully implemented business continuity plans and continued to maintain service standards with minor disruption to customers throughout the dynamic pandemic situation. We did not experience any major impacts to the supply chain from our third party service providers due to Covid-19. There remain significant uncertainties in assessing the duration of the Covid-19 outbreak and its longer-term impact. The actions taken by the Maltese government and the central bank provide an indication of the potential severity of the downturn and post-recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period. A continued prolonged period of significantly reduced economic activity as a result of the impact of the outbreak would have a materially adverse effect on our operations, prospects, liquidity, capital position and credit ratings. We continue to monitor the situation closely, and given the novel or prolonged nature of the outbreak, additional mitigating actions may be required.

Our risk management framework

The following diagram and descriptions summarises key aspects of the risk management framework, including governance, structure, risk management tools and our culture, which together help align employee behaviour with risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the Banks's risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Bank.
Roles and responsibilities	Three lines of defence model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk and Compliance function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite	The Bank has processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Our responsibilities

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures as described below.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is our Global Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

Our Risk and Compliance functions are responsible for the local Group's risk management framework. This responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk. Risk and Compliance is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Risk and Compliance function is independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

Responsibility for minimising both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our chief risk officers.

We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risks that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the

Operational and Resilience Risk function, reporting to the Chief Risk Officer.

Stress testing and recovery planning

We operate a wide-ranging stress testing programme that is a key part of our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the Group, and provides confidence to regulators on the Group's financial stability.

Our stress testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, as well as other potential events that are specific to HSBC.

The selection of stress scenarios is based upon the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Bank is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

We also conduct reverse stress tests to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

Recovery and resolution plans

Recovery and resolution plans form part of the integral framework safeguarding the Bank's financial stability. The recovery plan together with the stress testing help HSCB Bank Malta p.l.c. understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate management actions to enable an orderly recovery. During 2021, the Bank continued to develop its recovery and resolution capabilities in line with both the SRB and BoE resolvability requirements. The Bank is committed to further developing its recovery and resolution capabilities to ensure it meets current and future requirements as well integrates the evolution of its business.

Key Risks

The most important types of financial risk comprise 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, and how this will shape risk management in the coming years

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.

Interest rate risk

Overview

Banking book interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. Interest rate risk in the banking book is generated by non-traded assets and liabilities and is monitored and controlled at Group level by Group Treasury and at HSBC Bank Malta p.l.c. level by Asset, Liability and Capital Management. Group Treasury and ALCM functions are supervised by RMM who approve risk limits used in the management of interest rate risk. Banking book interest rate risk is transferred to and managed by Markets Treasury.

Governance

Group Treasury and ALCM monitor and control non-traded interest rate risk as well as reviewing and challenging the lines of business prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing ALCO of the overall banking book interest rate risk exposure and managing the balance sheet in conjunction with Markets Treasury.

The internal transfer pricing framework is constructed to ensure that structural interest rate risk, arising due to differences in the re-pricing timing of assets and liabilities, is transferred to Markets Treasury and business lines are correctly allocated income and expense based on the products they write, inclusive of activities to mitigate this risk.

The internal transfer pricing framework is governed by Asset, Liability and Capital management committee ('ALCO') whose

responsibility it is to define each operating entities transfer pricing curve and review and approve the transfer pricing policy, including behaviouralisation assumptions used for products where there is either no defined maturity or customer optionality exists. HSBC Bank Malta p.l.c.'s ALCO is responsible for monitoring and reviewing the bank's overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group's behaviouralisation policies and approved at least annually by ALCO.

Non-traded assets and liabilities are transferred to Markets Treasury based on their re-pricing and maturity characteristics. For assets and liabilities with no defined maturity or re-pricing characteristics behaviouralisation is used to assess the interest rate risk profile.

Markets Treasury manages the banking book interest rate positions transferred to it within the Markets Risk limits approved by RMM. Markets treasury will only receive non-trading assets and liabilities as long as they can economically hedge the risk they receive. Any interest rate risk which Markets Treasury cannot economically hedge is not transferred and will remain within the business line where the risk is originated.

Key risk Drivers

The bank's interest rate risk in the banking book can be segregated into the following drivers:

Gap risk – also known as Duration Risk or Repricing Risk – arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk);

Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices; and

Option risk arises from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows.

Exposures

HSBC Bank Malta p.l.c. is exposed to a change of Eurozone interest rates curve on banking operations and structural elements of the balance sheet and would see its net interest income decrease by EUR 19 million on one year as of 31 December 2021 for an immediate decrease of 100 basis points. The impact of an up 200 basis points scenario on shareholders' equity would be EUR -30 million at 31 December 2021.

The historically low rates environment, should it last longer, would keep on burdening the banking book's Net Interest Margin.

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 WPB. 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 of the expected outcome will be. The local group uses reinsurance appropriately to reduce variability of the expected outcome.

Climate Risk

Climate-related risks

Climate change can have an impact across HSBC's risk profile through both transition and physical channels. Transition risk can arise from the move to a low-carbon economy, through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC. Financial impacts could materialise if transition and physical risks impact the ability of borrowers to repay their loans. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

We are subject to financial and non-financial climate-related and environmental risk, which increased over 2021, primarily due to the pace and volume of policy and regulatory changes, particularly on climate risk management, stress testing and scenario analysis and disclosures. If we fail to meet evolving regulatory expectations or requirements on climate risk management, this could have regulatory compliance and reputational impacts.

We also face increased reputational, legal and regulatory risk as we make progress towards HSBC Group's net zero ambition, with stakeholders placing greater focus on our actions, such as the development of climate-related policies and investment decisions. We will face additional reputational risk if we are perceived to knowingly or unknowingly mislead stakeholders regarding our climate strategy, the climate impact of a product or service, or regarding the commitments of our customers. To track and report on our progress towards achieving our ambition, we rely on internal and external data sources using guidance provided by certain industry standards.

There is increasing evidence that a number of nature-related risks beyond climate change – which include risks that can be represented more broadly by the economic dependency on nature – can and will have significant economic impact. These risks arise when the provision of natural services – such as water availability, air quality, and soil quality – is compromised due to overpopulation, urban development, natural habitat and ecosystem loss, and other environmental stresses beyond climate

change. They can manifest themselves in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC and our customers.

How climate risk can impact our customers

Climate change could impact our customers in two main ways. Firstly, customer business models may fail to align to a low-carbon economy, which could mean, for example, that new climate-related regulation may have a material impact on their business. Secondly, extreme weather events or chronic changes in weather patterns may damage our customers' assets leaving them unable to operate their business or live in their home.

One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. To do this effectively, we must understand the risks they are facing.

The table below summarises the key categories of transition and physical risk, with examples of how our customers might be affected financially by climate change and the shift to a low-carbon economy.

Climate risk		Main causes of financial impact on customers
Transition	Policy and legal	Mandates on, and regulation of, existing products and services Litigation from parties who have suffered from the effects of climate change
	Technology	Replacement of existing products with lower emission options
	End-demand (market)	Changing consumer behaviour
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction
Physical	Acute	Increased frequency and severity of weather events
	Chronic	Changes in precipitation patterns Rising temperatures

Integrating climate into enterprise-wide risk management

Our approach to climate risk management is aligned to our Group-wide risk management framework and three line of defence model to ensure robust oversight of climate risk. This approach ensures the Board and senior management have visibility and oversight of our key climate risks.

Climate Risk Appetite

Our climate risk appetite, which is recommended and approved by the Board defines the measures we intend to take to enable our climate ambition and meet our commitments to regulators, investors and stakeholders. Our measures are focused on the oversight and management of our key climate risks - wholesale credit risk, retail credit risk, strategic risk (reputational), resilience risk and regulatory compliance. Our future ambition for our climate risk appetite is to:

- Adapt the RAS metrics to incorporate forward looking transition plans and net zero commitments
- Introduce into the 2022 Risk Appetite Statement (with effect from March 2022) key management information on our Wholesale exposures to the 6 key sectors most impacted by climate change (see below). This will then be included as a formal risk appetite / tolerance metric in the second half of the year.
- Broaden the scope of risks to include climate considerations in Market Risk, Liquidity Risk, Legal Risk and Environmental Risk management.

We will continue to enhance our climate risk management capabilities throughout 2022, this will include further roll-out of training, refining our risk appetite and increasing the availability and quality of data so that new metrics can be developed to strengthen how we assess and manage climate risk and opportunities.

Climate Risk Governance and Reporting

Our key climate risks are reported and governed through our climate risk governance structure.

In October 2021 we set up the Climate Business Council, with the remit of this body being to manage inter alia the sustainable finance strategy of the local group, as well as cover climate and ESG risks. Given the importance of climate risk, in February 2022 a separate body, the Climate & ESG Risk Oversight Forum, was set up set up and is responsible for the oversight, management and escalation of climate risks.

Progress made on Climate-related and environmental risk will be reported on a regular basis to the Risk Management Meeting, Risk Committee and the Board.

HSBC implements sustainability risk policies as part of its broader reputational risk framework. We focus our policies on sensitive sectors which may have a high adverse impact on people or on the environment and in which HSBC has a significant number of customers. This includes sectors with potentially high carbon impacts including power generation, mining, agricultural commodities and forestry. HSBC is also a signatory to the Equator Principles which in 2020 introduced provisions aimed at reducing project-related greenhouse gas emissions during the design, construction and operation of projects.

Future policy reviews will be informed by Group Climate Ambition and risk appetite, implemented locally, taking into account EU regulatory requirements.

Climate Risk Disclosures

In November 2020, the European Central Bank published its Guide on climate-related and environmental risks setting out supervisory expectations relating to risk management and disclosures. In January 2022, the ECB provided feedback to the local Group on areas for improvement, certain of which have been addressed in the preceding page, and certain of which will be addressed in future disclosures.

- Key elements of future disclosures will incorporate:
- Transparency of the risk profile
- Transparency on methodologies, definitions and criteria used
- Strategy
- Governance
- Risk management
- Metrics and targets
- Other environmental risks

Mitigating actions

- We have identified six key sectors where our wholesale credit customers have the highest climate risk, based on their CO_2 emissions. These are oil and gas, building and construction, chemicals, automotive, power and utilities and metals and mining.
- We continue to deepen our understanding of the drivers of climate risk and managing our exposure to climate risk is a priority.
- Our climate risk programme continues to accelerate the development of our climate risk management capabilities across four key pillars – governance and risk appetite, risk management, stress testing and scenario analysis, and disclosures.
- We are currently engaged in the 2022 ECB Climate Risk Stress Test.
- We continue to engage with our customers, proactively on the management of climate risks as transition risk are assessed and monitored by the client facing and the credit teams for ten high transition risk sectors.

How climate risk can impact HSBC

Below, we provide detail on how climate risk impacts to our customers might manifest across our key climate risks, and the potential time frames involved using the Task Force on Climate Related Disclosures four main drivers of transition climate risk – policy and legal, technology, end-demand (market) and reputational – and two physical risk drivers – acute and chronic.

Risk management framework

	Financial risks			Non-financial risk	
Risk type	**Wholesale credit**	**Retail credit**	**Strategic risk (reputational)**	**Resilience risk**	**Regulatory compliance risk**
Timescale[1]	**Short–long term**	**Medium–long term**	**All term periods**	**Short–long term**	**Short–medium**
Transition risk drivers					
– policy and legal	●	●			●
– technology	●				
– end-demand (market)	●	●			
– reputational	●	●	●		
Physical risk drivers					
– acute – increased frequency and severity of weather events	●	●		●	
– chronic – changes in weather patterns	●	●		●	

1 Short term: less than one year; medium term: period to 2030; long term: period to 2050.

Supporting our stakeholders in response to Covid-19

The prolonged Covid-19 outbreak continued to have a strain on the day to day of many across the globe during 2021. As a bank we have kept true to our North Star which is to keep our stakeholders safe. We continued to encourage remote working where possible and use digital tools to ensure business continuity. We have kept close contact with our people, customers and all key stakeholders during this time.

We have delivered focused well-being sessions for all our employees during the year which covered a number of themes from coping mechanisms and adopting safe and healthy lifestyles during the pandemic.

We worked closely with our customers to increase the use of fintech tools and online services. This brought about a more efficient service and increase in digital capabilities of our customers. As the pandemic rages on across the globe, we will continue to remain committed to safeguard the well-being of our people, customer and partners.

As the pandemic progressed, CMB remained focused on providing corporate customers with the service and products that they need to meet the challenges brought about by the travel restrictions, business closures and supply chain disruptions, and to thrive in the post-pandemic environment. Technology adopted last year as well as further enhancements and investments carried out during the year ensured seamless service and timely interactions. There has been additional take-up of loans under the Malta Development Bank Covid-19 Guarantee Scheme, designed to support businesses experiencing cash flow challenges due to the pandemic. As we did in 2020, we also provided our customers with industry knowledge and perspectives, drawing on HSBC Group capabilities and subject matter experts. We did this through webinars organised on a wide variety of subjects, some of which were held jointly with local business organisations as well as by sharing thought leadership content.

Continued support in 2021 given impacts of the pandemic. Customer support measures continued to be provided to borrowers. However, conditions vastly improved on 2020 with significant majority of customers resuming payments.

In addition to the introduction of Health & Safety measures in our branches and offices we continued to increase awareness and promote usage of self-service machines, cards and internet banking through public campaigns. We have continued to grow adoption of digital channels and launched a Two Factor Authentication journey within the Mobile Banking app, increasing customer protection against online payment fraud and meeting PSD2 requirements.

For the first time in our history, we adopted a hybrid working environment for most of our people working at Head Office, whilst our front liners continued supporting our customers on a face to face basis.

More broadly WPB launched three new needs-based Wealth Calculators on our public website and introduced a remote journey as a new channel to meet and service our Wealth customers in addition to the traditional face-to-face interaction.

The insurance business remained focused in providing customers with improved access and Q4 saw the launch of an online protection quote tool enabling customers to seek an online quote for death cover through the public website.

We proactively monitor for regulatory developments to ensure they are interpreted and implemented effectively and in a timely way. We engage with regulators, policymakers and standard setters, as appropriate. We have continued to uphold our standards, track and document any changes and maintain our transparency with regulators.

Branches and offices

A list of branches and offices is found on page 148.

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 a large subsidiary of HSBC Holdings plc and is 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 equivalent disclosures are performed at the consolidated level which is at the 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 Capital Markets Rule 5.64

The bank's authorised share capital is €141,000,000. The issued and fully paid up capital is €108,091,830 divided into 360,306,099 ordinary shares of a nominal value of 30 cents 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.

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 Capital Markets 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 2021.

Shareholder register information pursuant to Banking rule 7 – Appendix 1

Directors' interest in the share capital of the bank

	At 31 Dec 2021
	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 2021 to 31 January 2022.

Shareholders holding five per cent (5%) or more of the equity capital at 31 January 2022: HSBC Europe B.V. 70.03%

Number of shareholders at 31 January 2022:

One class of shares 9,198 shareholders (All shares have equal voting rights).

Number of shareholders analysed by range

	At 31 Jan 2022	
	Total shareholders	Shares
Range of shareholding		
1 – 500	1,489	445,153
501 – 1,000	1,153	869,892
1,001 – 5,000	3,852	9,840,069
5,001 and over	2,704	349,150,985
Total shareholding	9,198	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 for Investment Services Providers (Part BI R4-5.3.5) and the Standard Licence Conditions ('SLCs') of the Investment Services Rules applicable to Investment Services Licence Holders which qualify as Custodians (Part BIV SLC 2.30), 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:

John Bonello
Simon Vaughan Johnson
Andrew Muscat
Sue Vella
Yiannos Michaelides
Michel Cordina
Ingrid Azzopardi
Manfred Galdes
Matthew Colebrook

Disclosures in Terms of Article 435 of Capital Requirements Regulations

Disclosure on Governance Arrangements

Number of directorships held by the Members of the Board of Directors

John Bonello	1 Non-Executive chairmanship
Simon Vaughan Johnson	1 Executive Directorship and 2 non-executive directorships all within the same Group
Michel Cordina	1 Executive Directorship
Matthew Colebrook	1 Non-Executive Directorship
Andrew Muscat	4 Non-Executive Directorships
Ingrid Azzopardi	1 Non-Executive Directorship
Sue Vella	1 Non-Executive Directorship
Yiannos Michaelides	1 Executive Directorship and 1 Non-Executive Directorship
Manfred Galdes	2 Executive Directorships in same Group and 2 Non-Executive Directorships.

None of the Directors required approval from the Competent Authority with regard to the number of directorships held.

Board Succession Policy

In terms of the Board's Succession Policy approved in February 2020, the Board acknowledges that good succession planning contributes to the long-term success of the bank. The objective of this policy is to ensure continuity of decision-making and prevent, where possible, too many Board Members having to be replaced simultaneously. The policy aims to have the bank prepared for any planned or unplanned vacancies. Moreover, it ensures that future Directors will be individually and collectively fit and proper to form part of the bank's Board of Directors, committing to its vision, values, objectives and to meet their statutory and regulatory obligations.

Without prejudice to the Shareholders' right to appoint and replace members of the Board, in line with the local Code of Principles of Good Corporate Governance, the Board has delegated to the bank's Remuneration and Nomination Committee (RemNom) with the power to lead the process for board appointments and make recommendations to the Board. RemNom has been empowered by the Company's Articles of Association to conduct a fit and proper assessment when seeking qualified candidates for board directorships, in line with local regulatory

guidance on the topic. In the suitability assessment, consideration is to be given to the Board's Diversity Policy and to the Board's Conflicts of Interest Policy.

Knowledge, Skills and Expertise of the Board Members

John Bonello	Accountancy
Simon Vaughan Johnson	Banking and Finance
Michel Cordina	Banking and Finance
Matthew Colebrook	Banking and Finance
Andrew Muscat	Financial and Corporate Legislation
Ingrid Azzopardi	Accountancy
Sue Vella	Management and Human Resources
Yiannos Michaelides	Information Technology
Manfred Galdes	Financial and Anti-Money Laundering Legislation

Executive Committee and Head of Internal Audit

As at 31 December 2021, the bank's Executive Committee of the local group was composed of the following:

Simon Vaughan Johnson	Chief Executive Officer
Elizabeth Hardy	Chief Operating Officer
Charlotte Cilia	Chief Financial Officer
Crawford Prentice	Head of Wealth and Personal Banking
Michel Cordina	Head of Business Development
Jesmond Apap	Head of Global Markets
Caroline Buhagiar Klass	Head of Human Resources and Corporate Sustainability
Joyce Grech	Head of Commercial Banking
Joseph Sammut	General Counsel
Gerard Walsh	Chief Risk Officer
Mandy Falzon	Chief Compliance Officer
Carine Arpa	Head of Communications
George Brancaleone	Company Secretary
Morgan Carabott	Head of Internal Audit

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 Capital Markets 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 Capital Markets Rule 5.70.1

Pursuant to Capital Markets 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 Capital Markets 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 bank's Board of Directors on 22 February 2022 by John Bonello (Chairman) and Simon Vaughan-Johnson (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2021.

Directors' Responsibilities Statement

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

- ensuring that the financial statements have been drawn up in accordance with the requirements of International Financial Reporting Standards as adopted by the EU;
- ensuring that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994;
- selecting and applying consistently suitable accounting policies;
- making accounting 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 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 2021 are included in the *Annual Report 2021*, 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 bank's Board of Directors on 22 February 2022 by John Bonello (Chairman) and Simon Vaughan Johnson (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2021.

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

The Board of Directors (the 'Board') of HSBC Bank Malta p.l.c. (the 'bank') 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 valuing difference, succeeding together, taking responsibility and getting it done. 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 Malta Financial Services Authority. As a company whose equity securities are listed on a regulated market, the bank endeavours to adopt the Code of Principles of Good Corporate Governance (the 'Code' or 'Principles') embodied in Appendix 5.1 of the Capital Markets Rules. In terms of Capital Markets Rule 5.94 and the Code's Preamble, the bank is obliged to disclose compliance or 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 in order to ensure effective and prudent management of the bank.

The bank is headed by an effective Board that leads the bank, directs 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 have been considered to be 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 shareholder value, protect the bank's assets and safeguard the interest of third parties.

All Directors ensure that they are informed about the overall activity, financial and risk situation of the bank, taking into account the economic environment. They are also cognisant of decisions that have a major impact on the bank's business.

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 and oversees the implementation of the bank's strategic objectives and risk strategy and internal governance. It regularly reviews management performance. and 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, adapts those policies.

The Board ensures the integrity of the bank's accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards.

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 meeting agenda and ensures that decisions of the Board are taken on a sound and well-informed basis. He 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, as well as between the Board and its Committees. The Chairman is responsible for an effective overall functioning of the Board.

The Chief Executive Officer advises the Board, formulates policies and makes recommendations to the Board. He develops, drives and delivers performance within strategic goals, commercial

objectives and business plans agreed by the Board. He is responsible for executing strategy and implementing plans. 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 on 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 assists in the selection and evaluation of prospective Board Members and senior management roles. He interfaces between the Board and employees and between the bank and other stakeholders.

Principle 3: Composition of the Board

Experience has shown that the size of the Board is appropriate to facilitate effective oversight over the bank's operations. Each of the Directors is skilful, competent, knowledgeable and experienced to fulfil his/her 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. This policy established a target of 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 at any level 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.

During 2021, the Board was composed of a Non-Executive Chairman, two Executive Directors and six Non-Executive Directors. Five of the Non-Executive Directors are deemed to be independent. Whereas the Executive Directors are involved in 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.

The appointment of Directors requires the 'non-objection' of the European Central Bank. This non-objection has been granted to all of 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 to 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 2021 were the following:

Ingrid Azzopardi, Yiannos Michaelides, Andrew Muscat, Sue Vella and Manfred Galdes.

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 Andrew Muscat is a partner in a Law firm that provides legal services to the bank does not influence this Director's objective and balanced judgement or in any way reduce his ability to take decisions independently.

On the other hand, in accordance with Code Provision 3.2.1, the Board had decided that the employment of Matthew Colebrook with the Group rendered him non-independent from the bank. This did 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 was deemed able to make his own sound, objective judgement and independent decisions 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 and strategy is discussed on a regular basis at Board meetings. The Board of Directors monitors the implementation by management of strategy and policy 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 recognises and supports innovation within the management of the bank and it 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 stays attuned to 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 Management Body and Key Function Holders Suitability Assessment Policy ('Board Suitability Policy') and has also adopted a succession policy and developed a succession plan for the future composition of the Board.

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 delivered by senior management during Board meetings;
- 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 ensures that its level of power is known by all Directors and the senior management of the bank. Any delegation of responsibility and function is clearly documented.

The Board delegates specific responsibilities to Committees, which operate under their respective formal Terms of Reference which are embodied in the Corporate Governance Framework which the Board reviews and approves on an annual basis.

Audit Committee

The Terms of Reference of this Committee are compliant with the Capital Markets 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 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 also has 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, can raise issues.

The Committee met six times during 2021 and was composed of Ingrid Azzopardi as Chairperson, and Andrew Muscat and Sue Vella as Members.

Attendance at Audit Committee meetings

	Attended
Ingrid Azzopardi	**6 out of 6**
Andrew Muscat	**6 out of 6**
Sue Vella	**6 out of 6**

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 Capital Markets Rule 5.131, the Head of Internal Audit is also present for the meetings and has a right of direct access to the Chairman of the Committee at all times.

Ingrid Azzopardi was appointed by the Board as the Director who is independent and competent in accounting and/or auditing in terms of Capital Markets Rule 5.117 on the basis that she is a Certified Public Accountant and Auditor and a Fellow of the Malta Institute of Accountants, a Fellow of the UK Institute of Directors, and also a Member of the Institute of Internal Auditors.

In terms of Capital Markets 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.

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 is aligned to the bank's strategy and business plans and takes into account 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 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 maintaining an effective risk management culture and strong internal control environment designed to foster compliance with the bank's regulatory compliance requirements.

The Committee met ten times during 2021 and was composed of Manfred Galdes as Chairman, and Ingrid Azzopardi and Yiannos Michaelides as Members.

Attendance at Risk Committee meetings

	Attended
Manfred Galdes	10 out of 10
Ingrid Azzopardi	10 out of 10
Yiannos Michaelides	6 out of 10

Senior managers of the bank and the external auditors 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 Chief Compliance Officer and the Head of Internal Audit are standing attendees at the meetings.

Remuneration and Nomination Committee ('RemNom' Committee)

The remuneration aspect of this Committee, its composition and information relating to its meetings during 2021 are dealt with under the Remuneration Report, which also includes, inter alia, the Remuneration Statement in terms of Code Provision 8.A.4 and information required in terms of Appendix 12.1 of the Capital Markets Rules.

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 makes recommendations to the Board with regard to any changes. It is also tasked with considering issues relating to succession planning and reviewing the Suitability Policy for selection and appointment of senior management. This Committee is also responsible to at least annually 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 to 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 have 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, time commitment and diversity. 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.

Executive Committee ('ExCo')

This Committee is accountable to the Board and its purpose is to support the bank's Chief Executive Officer in the performance of his duties and exercise of his powers, authorities and discretions in relation to the management and day-to-day running of the bank and its subsidiaries and to support him in the discharge of his/her responsibilities to the Board. This Committee is designed to strengthen decision making by ensuring collective input to decisions.

In terms of its Terms of Reference, this Committee is chaired by the Chief Executive Officer and its membership is composed of: the Head of Business Development, the Head of Wealth and Personal Banking, the Head of Commercial Banking, the Head of Global Markets, the Chief Financial Officer, the Chief Operating Officer, the Chief Risk Officer, the General Counsel, the Chief Compliance Officer, the Head of Human Resources, the Head of Communications and the Company Secretary. As the Head of Internal Audit should be seen as independent from management, the holder of said role is not a member of the Committee but is a standing attendee.

Meetings are held with such frequency and at such times as the Chair may determine. However, it is expected that the Committee meets at least ten times per annum.

Decision-making authority in relation to all matters considered by the Committee remains with the Chief Executive Officer of the bank pursuant to the authority delegated by the Board.

Whilst oversight remains the responsibility of ExCo, the Committee may delegate management of any matter within the scope of its authority to another Committee or individual. It has in fact delegated authority to the following Committees:

The Risk Management Meeting ('RMM')

The RMM met ten times during the year. It 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 the RMM is to exercise oversight of the risk/reward framework for the bank and its subsidiaries.

This governance forum is responsible for all risks in all businesses, functions and subsidiaries under the ownership of the bank, including inter alia Credit Risk, Market Risk, Operational Risk, Concentration Risk, Legal and Regulatory Risk, Resilience Risk, Security and Fraud Risk and Reputational Risk. The RMM 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/stress test analysis. Individual risk acceptance and approval is not within the Terms of Reference of the RMM, 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.

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 and Terrorist Financing. 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. With effect from January 2022 this Committee has been merged into the Risk Management meeting in line with Group policy.

The Asset and Liability Management Committee ('ALCO')

ALCO is responsible for managing the balance sheet with a view to achieve efficient allocation and utilisation of all resources.

This Committee, which is chaired by the Chief Financial Officer, reviews the asset and liability risks of the local group and oversees the prudent management of interest rate risk, liquidity and funding risk, capital, foreign exchange risk, and solvency 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 funding and capital adequacy, making use of forecasts as well

as stress tests to ensure the sustainability of the business model and ensuring that sufficient resources are available at all times to meet the demand arising from business activities and regulation.

ALCO is responsible for ensuring that the local group has the appropriate recovery plan in place to ensure it is prepared to restore viability in a timely manner under stress. It is also responsible for resolution planning, detailing the bank's preferred resolution strategy and approving the respective plans.

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, Wealth and Personal Banking, Markets Treasury, Finance, Asset and Liability Capital Management, Customer Value Management and Payments and Cash Management. ALCO, meets once a month and is chaired by the Chief Financial Officer and deputised by the Chief Executive Officer.

People Committee

This Committee, which is composed of all the ExCo Members and which is chaired by the Head of Human Resources & Corporate Sustainability meets on a quarterly basis. The purpose of this Committee is to support the bank's Head of Human Resources & Corporate Sustainability and Chief Executive Officer in the exercise of their powers, authorities and discretions in relation to the management and day-to-day running of the bank's people strategies, including people development, and related policies on Talent Management, Diversity & Inclusion and Culture, as approved by the HSBC Group People Committee for implementation in the bank. Amongst its responsibilities, this Committee performs an annual review of the HSBC Group Performance and Reward strategy, any material reward or benefits strategy, and policies changes. It also conducts a bi-annual Organisation Leadership Review for Entity Critical Roles and makes recommendations in respect of succession planning. It reviews and considers Employee Insights arising out of workforce engagement and insight measures, including results from Snapshot surveys, and determines the necessary follow-up actions. It also has responsibility to oversee issues related to the Employee Pension Plan.

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 thirteen times: ten were formal Board meetings and three were thematic 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 faithfully record attendance, discussed matters, tracked actions 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 a 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
John Bonello	10 out of 10
Simon Vaughan Johnson	10 out of 10
Michel Cordina	10 out of 10
Yiannos Michaelides	9 out of 10
Andrew Muscat	10 out of 10
Manfred Galdes	10 out of 10
Sue Vella	9 out of 10
Ingrid Azzopardi	10 out of 10
Matthew Colebrook	2 out of 3

For the period during which Matthew Colebrook, as designate Director, was still awaiting regulatory approval, he attended the following meetings:

	Attended
Matthew Colebrook	2 out of 7

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 members of ExCo. 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 Chairpersons 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 the 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 Board oversees the process of disclosures to and communications with external stakeholders. 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 made available on the bank's website, a printed version of which is provided to shareholders upon request;
- 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 Corporate Governance and Secretariat Function 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 Chairpersons 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, duly proceed 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 Board Conflicts of Interest 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-bank 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 such Director has a material interest, either directly or indirectly. Moreover, in terms of the Board's Conflicts of Interest 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 Capital Markets 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 Capital Markets Rules and the internal Code of Dealing.

Principle 12: Corporate Sustainability

The bank's Corporate Sustainability ('CS') strategy takes into account the Group-wide strategy. The Board continues to recognise that the bank has a responsibility towards people and the planet. The bank has continued to utilise its resources in order to carry out a series of initiatives and projects designed to provide value to various sectors for our key stakeholders (i.e. customers, employees, and the community). In Malta, the bank fulfils the Group's CS strategy primarily through its Sustainability function and the HSBC Malta Foundation (the 'Foundation'). The HSBC Malta Foundation seeks to unlock the full potential of individuals and the community to shape a sustainable future. Drawing from the HSBC Group resources and a network of partners, the bank works to tackle critical problems in sustainable finance, climate ambition and future skills. Locally, the bank remains committed to making a difference in the areas of child welfare, the environment, medical research and heritage. The bank has pledged long-term support to help people access education and training, so as to acquire the skills needed to succeed today and in the future at the place of work. There is close collaboration with several stakeholders including governmental organisations, policymakers, local businesses, other banks and financial institutions, charities, non-profit organisations and non-governmental organisations Through these partnerships, the bank encourages sustainable business and communities. The bank takes pride in HSBC colleagues who contribute to the charities and causes they feel passionate about and staff members are encouraged to take an active role in initiatives supported by the HSBC Malta Foundation.

Through the Sustainability function, a focus is placed on creating a sustainable future that leaves a positive impact on society, the environment and the economy. The HSBC Group has been working relentlessly on shaping its Corporate Sustainability agenda for future generations to come. HSBC strives to become a net zero bank with the aim to reduce its carbon footprint. This will be achieved by ensuring that the bank's operations are net zero by 2030 and that the financed emissions are aligned to achieve net zero by 2050 or sooner. Customers will be supported in this journey by dedicating up to $1 trillion of financing and investment globally in the next 10 years. With this ambition in mind, the bank has been very active locally during 2021 to drive initiatives aligned with this strategy. The creation of the Climate Business Council, led by the senior management team of the bank, oversees the execution of this ambition.

The net zero plan for the bank is divided into two sections: (1) Carbon Emissions and (2) Responsible Consumption. Within each of these sections, there are a number of categories, outcomes and ambitions. Within Carbon Emissions, the plan is split into three main categories: Supply Chain (74% of Carbon Emissions), Energy (16% of Carbon Emissions) and Travel (10% of Carbon Emissions).

Within Responsible Consumption, the plan is split into five categories: Waste, Green Buildings, Paper, Electronics and Sustainable Diets.

Non-compliance with the Code

Principle 9 (Code Provision 9.3 and Code Provision 9.4)

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 a 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. However, the bank maintains an open dialogue with the Malta Association of Small Shareholders.

Internal control Capital Markets Rule 5.97.4

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

The Group has established 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 the local group operational risk management framework.

The First Line of Defence has ultimate ownership of risk and controls, including read across assessments of identified issues, events, and near misses, and the delivery of good conduct outcomes. Risk Owners are accountable for identifying, assessing, managing and reporting key existing and emerging risks that they own for their business or function in line with the risk appetite set by the Board.

The Second Line of Defence reviews and challenges the First Line of Defence's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite, and supports the delivery of conduct outcomes. The Second Line of Defence is independent of the risk-taking activities undertaken by the First Line of Defence and includes CROs, Risk Stewards and the Operational and Resilience Risk function. Risk Stewards are accountable for setting policy and control standards to manage risks, providing advice and guidance to support these policies, and challenging the First Line of Defence to ensure it is managing risk effectively.

The Third Line of Defence is Internal Audit, which provides independent assurance to management and the non-executive Risk and Audit Committees that the bank's risk management, governance and internal control processes are designed and operating effectively.

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 they are 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, the focus has remained on regulatory developments and engagement, including the ongoing supervisory review and evaluation process under the ECB's Single Supervisory Mechanism; 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 and functions, including: legal, financial crime 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, market risk and operational risk. Risks are monitored via the Risk Management Meeting, which meets regularly, and via reporting to the Executive Committee, the Risk Committee and 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 Audit Committee and to the Board. It provides independent and objective assurance in respect of the 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 Internal Audit 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 timeframe. Confirmation to this effect must be provided to Internal Audit, which subsequently validates the remediation.

- The bank's Compliance Department undertakes Regulatory Compliance and Financial Crime Compliance. From a regulatory perspective it ensures that the local group continues to maintain the highest standards of corporate conduct, including compliance with all the local and international regulatory obligations and HSBC Group ethical standards and regulations. With regard to financial crime compliance, it 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 Executive Committee and reported to the Risk Committee and to the Board.
- Through the Audit Committee and the 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 periodic Third Line of Defence review by Internal Audit.

Capital Markets Rule 5.97.5

The information relating to the Shareholders' Register required by this Capital Markets 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 Capital Markets 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 calendar 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.

In view of the challenging environment (from a health and safety aspect) caused by Covid-19 during 2021, the Annual General Meeting was held remotely and live streamed on 22 April 2021 in accordance with Legal Notice 288 of 2020.

Remuneration Report

Governance

Role of the Remuneration Committee

The bank's Remuneration and Nomination Committee (the 'Committee' or 'RemNom') within its remuneration oversight remit, is responsible for making recommendations on the reward policy, including on fixed and variable pay. Therefore, its main activity is to ensure that remuneration policies, incentives created for managing risk, capital and liquidity, practices and procedures are in line with the business strategy, objectives, values and long term interests of the bank, shareholders, other stakeholders and public interest. The Committee has to satisfy itself that the bank's remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the Company.

The Committee is responsible for recommending to the HSBC Bank Malta p.l.c. Board of Directors (the 'Board') approvals of the total compensation spend within the annual operating plan. The Committee works in conjunction with the HSBC Group Remuneration Committee. However, it has its own Terms of Reference, which sets out its key responsibilities.

The Chief Risk Officer attends meetings as necessary to report to the Committee on the alignment of the bank's remuneration policy and proposals with the bank's risk profile and risk management. Other members of senior management who are sometimes in attendance are the Chief Financial Officer and the Head of Human Resources. The Chief Financial Officer reports on the alignment of the bank's Remuneration Policy and proposals with the Company's capital profile. The Head of Human Resources attends when the Remuneration Policy or remuneration matters are considered.

The Committee seeks advice from the Company's Risk Committee and the Company's Chief Risk Officer, on the alignment of risk and remuneration and, as necessary, any relevant adjustments for risk to be considered in respect of the variable pay pool and remuneration outcomes. The Board, via the Committee's recommendation, uses these updates when considering the risk-related adjustments necessary when setting the variable pay pool, to ensure that return, risk and remuneration are aligned.

Membership and meetings

The Members of RemNom are Sue Vella (Chairperson), John Bonello and Andrew Muscat.

Attendance at Remuneration and Nomination Committee meetings

	Attended
Sue Vella	7 out of 7
John Bonello	7 out of 7
Andrew Muscat	6 out of 7

During the year, the Chief Executive Officer, the Head of Human Resources, 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 2021, 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 Statement

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. It is also aligned with the EU's Capital Requirements Directive ('CRD') V, particularly with respect to those employees identified as having a material impact on the bank's risk profile, hereinafter referred to as 'Identified Staff', in accordance with Commission Delegated Regulation (EU) 2021/923, which came into effect during 2021 following its publication in the Official Journal of the European Union, superseding Commission Delegated Regulation (EU) 2014/604. Accordingly, the Remuneration Policy has been updated to align the classification of Identified Staff within the bank with the new regulation.

Changes made to the bank's Remuneration Policy during 2021 also include:

- Amendments to reflect updates to regulatory requirements in respect of sound remuneration policies emanating from the entry into force of CRD V;
- The reinforcement of remuneration principles in respect of employees in control functions. The Remuneration Policy was updated to the effect that the remuneration of such employees is independent of the performance of the business areas they control, but is driven by the achievement of objectives linked to their functions; and
- Updates in respect of the Sustainable Finance Disclosure Regulation (EU)2019/2088 designed to require that objectives included in the performance scorecards of senior management and employees take into account appropriate measures linked to sustainability risks, such as a reduction in carbon footprint; facilitating financing to assist customers with their transition to net zero; employee diversity targets; and risk and compliance measures. These targets / objectives started being applicable as from 1 January 2022.

In determining remuneration levels for 2021, the Committee applied the bank's Remuneration Policy, which takes into account the interests of shareholders, the 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;
- The use of behaviour and performance ratings for all employees which directly influence pay outcomes;
- Positive adjustments to variable pay for individuals who have exhibited exemplary conduct who went the extra mile to courageously do the right thing;
- Negative adjustment to variable pay for individuals who do not complete mandatory learnings or do not demonstrate the right values and behaviours which may put the bank, its customers and stakeholders at risk;
- Our global recognition program, where our employees can recognise peers and reward positive behaviour in real-time;
- 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 significant 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 Identified Staff.
- 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 overall performance rating, and is therefore considered for their variable pay determinations.

- For senior executives and certain Identified Staff, 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. Similarly, for paid/vested awards, these are subject to clawback for a minimum period of seven years from date of grant.
- 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 of unpaid awards granted in prior years. For Identified Staff, the Committee and the Board have oversight of such decisions and can make recommendations to the HSBC Group Remuneration Committee to reduce or cancel all or part of any unpaid deferred award.

The Remuneration Policy is available in full on the Bank's website: https://www.about.hsbc.com.mt/-/media/malta/en/investor-relations/210218-hsbc-remuneration-policy-2021.pdf

The bank's reward strategy

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

a. Fixed Remuneration;

b. Benefits; and

c. Variable Remuneration.

These elements are designed to ensure that the bank attains its targets by including both short-term and long-term incentives in the reward package. This strategy promotes the employees' remuneration with the bank's risk alignment of framework, risk outcomes and values. The personal conduct of the bank's people is critical to the bank's ability to live up to these commitments. The bank recognises and rewards exceptional conduct demonstrated by its employees. Poor conduct and inappropriate behaviour not in line with HSBC values, or which exposes the bank to financial, regulatory or reputational risk, is strongly discouraged.

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 encapsulated in the following statement: 'we value difference, we succeed together, we take responsibility and we get it done'. 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. The following structure applies to all employees including Executive Directors and Senior Management (i.e. members of the Executive Committee).

Description	Purpose, relevant features and link to strategy
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.
	Fixed pay allowance This is typically paid in cash on a monthly basis.
	Pensions These consist of cash allowances in lieu of personal/occupational pension arrangements of international assignees appointed to Senior Executive position. An employee pension plan scheme is offered to all local employees subject to the terms and conditions of the scheme.
Benefits	Benefits take account of local market practices and include the provision of medical insurance, health assessment, life assurance, and tax assistance where appropriate.
Variable Pay – annual incentive	Variable pay award is discretionary, and is determined and paid in line with internal bank policies and procedures. 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 aligns to shareholder interests.
	Performance targets are set taking into account the economic environment, strategic priorities and risk appetite. The bank has two rating scales to measure performance of employees: a four rating scale measuring performance targets achieved and another four rating scale measuring and assessing the behaviour of employees in line with the HSBC values. All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also how it is achieved. Each department comes together every year to calibrate the ratings given to employees to ensure a fair, consistent and bias free assessment. This exercise ensures that the process is transparent and fair across the bank. Performance reporting tools are available to all line managers for the purpose of undertaking an analytical review of the variable pay decisions for them. 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 Identified Staff is more than €50,000 or where variable pay is greater than 33% of Total Compensation, a minimum of 50% of awards are made in shares. Variable pay is restricted to a maximum of 100% of fixed pay.
	A substantial portion, and in any event at least 40 %, of the variable remuneration component, are subject to deferral and vested over a period which is not less than four years for Non Senior Management and not less than five years for Senior Management. This portion is correctly aligned with the nature of the business, its risks and the activities of the staff members concerned.
	The award is non-pensionable.

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 the bank's annual operating plan. Through the variable pay, the bank aims to attract, retain and motivate the very best people in a competitive market while at the same time acting in the best interest of customers and stakeholders.

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 clawback provisions. Appropriate circumstances include (but are not limited to) the examples set out in the 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 clawback is considered. Details of the circumstances where an adjustment, malus and/or clawback will be considered are set out below:

Type of action	Type of variable pay awared affected	Circumstances where action 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.

Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules

A Directors' Remuneration Policy was approved by the shareholders at the Annual General Meeting of the Company held on 27 November 2020. The Resolution relating to the Directors' Remuneration Policy had been passed as follows:

Those in favour	280,826,046 votes
Those against	255,305 votes
Abstentions	257,296 votes

The Policy is divided into three major sections; one relating to Executive Directors, another dedicated to Non-Executive Directors and the other containing provisions common to all directors. The said Policy and its implementation are reviewed regularly by RemNom. Any material amendments to the Policy shall be submitted to a vote by the General Meeting before their adoption and in any case at least every four years. No changes to the Policy are being proposed for approval at the next General Meeting.

The Directors' Remuneration Policy is available in full on https://www.about.hsbc.com.mt/investor-relations/annual-general-meetings.

There were no deviations from the procedure for the implementation of the Directors' Remuneration Policy.

Information on Directors' Remuneration in terms of Appendix 12.1 of the Capital Markets Rules

Executive Directors

As stated in the Directors' Remuneration Policy, Executive Directors' total remuneration as salaried employees is regulated in terms of the bank's Remuneration Policy and Group's Standard Employment Contracts. Therefore, Executive Directors are treated in a similar manner to all other employees. Hence, their remuneration is comprised of fixed remuneration, variable remuneration and other benefits as outlined above. These elements of remuneration support the achievement of the bank's objectives through balancing reward for both short-term and long-term sustainable performance. Remuneration is designed to reward success and is aligned with the bank's risk framework and risk outcomes. Executive Directors are expected to reflect the bank's values in their behaviour and business conduct. Personal conduct is critical to the ability of living up to these commitments. Exceptional conduct and behaviour are recognised and at the same time poor conduct and inappropriate behaviour which may expose the bank to financial, regulatory, or reputational risk are strongly discouraged.

Total awards of Executive Directors are subject to deferral and vest over a period of not less than five years or such other period as determined by the Committee, and hence subject to malus or claw back provisions as outlined earlier.

On termination of an executive directorship, Executive Directors are not entitled to any retirement benefits, supplementary pensions or termination benefits related to the said termination as Directors. Upon retirement from their employment, local Executive Directors shall be subject to the same conditions of any employee's Early/Voluntary Retirement Scheme.

Remuneration of Executive Directors for the year ended 31 December 2021:

	Simon Vaughan Johnson	Michel Cordina
	€	€
Fixed pay	**446,692**	**147,666**
Variable pay:		
– Immediate Cash	**70,454**	**34,850**
– Immediate Shares*	**70,454**	**–**
– Deferred Cash	**46,970**	**–**
– Deferred Shares*	**46,970**	**–**
Benefits	**130,510**	**12,184**
Aggregate	**812,050**	**194,700**
Effective period	**01/01/21 - 31/12/21**	**01/01/21 - 31/12/21**

* *The value of the shares awarded to Simon Vaughan Johnson amounting to €117,424 relate to performance year 2021. The number of shares to be awarded in this respect will be formally communicated on 1 March 2022 and determined on the share price as at that date. The number of shares awarded during 2021 in relation to performance year 2020 are disclosed in a subsequent table 'Share Awards and Share Options awarded in 2021' below.*

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the following table presents the annual change of remuneration of the executive directors, of the bank's performance, and of average remuneration on a full-time equivalent basis of the bank's employees (other than directors) over the two most recent financial years.

	Aggregate remuneration awarded during 2021	Percentage Annual Change of Remuneration (2020-2021)	Percentage Annual Change of the Bank's Performance (2020-2021)**	Percentage Annual change of the Average Remuneration of the Bank's employees, on a full-time equivalent basis (2020-2021)
	€	%	%	%
Simon Vaughan Johnson	**812,050**	**9%*****	**47%*******	**5%********
Michel Cordina	**194,700**	**10%******		

*** The percentage Annual Change of the Bank's Performance included in the above table is based on the bank's profit before tax, as this has been deemed by management to be the most appropriate basis for measuring performance.*

**** Simon Vaughan Johnson was appointed as an Executive Director part way during 2020. In this respect, for the purposes of the table above, the aggregate remuneration paid to him in respect of the financial year ended 31 December 2020 was annualised to allow for a meaningful comparison.*

***** The aggregate remuneration awarded during 2021 pertaining to Michel Cordina comprises a one-time Long Service Bonus awarded in relation to long tenure, which is also awarded to employees in line with the local policy.*

****** The percentage annual change of the bank's performance appears to be elevated in view of the substantial impact of the pandemic on the bank's financial results for the year ended 31 December 2020, with subdued profits reported driven primarily by the increase in credit loss allowances.*

******* In order to allow for a meaningful comparison, new joiners employed during 2021 are excluded from the calculation; the remuneration paid to terminated employees during 2021 is being annualised to enable comparison with the annual remuneration paid in 2020; and the remuneration paid to new joiners employed during 2020 is annualised to enable comparison with the annual remuneration paid in 2021. The annual remuneration paid to employees who were in employment for the full calendar years ended 31 December 2020 and 2021 is compared as normal.*

Shares and Share Options awarded in 2021

	Grant Date	Share Value €	Number of Shares	Performance Period
Immediate Shares	**01/03/2021**	**56,941**	**11,515**	**2020**
Deferred Shares*******	**01/03/2021**	**44,020**	**8,902**	**2020**

******* *The exact value of shares awarded will only be established on the date of issuance. The value of shares is indicative at the time of the award being reported. The deferred shares will vest in 2026.*

None of the Executive Directors received any remuneration from the bank's subsidiaries or the HSBC Group.

Determining Executive Directors' performance

Awards made to Executive Directors reflected the assessment of each of their performance against scorecard objectives and the strategic priorities and risk appetite of the bank. This assessment was conducted by the bank's RemNom after considering inputs from the Group General Manager and Chief Executive Officer, HSBC Europe.

The performance assessment of the Chief Executive Officer involved the evaluation of the targets achieved against a number of pre-set objectives. These objectives align with the bank's strategy and commitments with clear measurable targets. The objectives for the Chief Executive Officer include driving safe business growth, customer satisfaction, employee engagement, driving the Climate Ambition Program, effective management of risk and compliance and implementation of the bank's digital strategy. The extent to which the Chief Executive Officer would have reached each objective is discussed and reviewed by the bank's RemNom following an evaluation by the Group General Manager and Chief Executive Officer, HSBC Europe. These objectives are reviewed on a quarterly basis to ensure ongoing review and alignment with expected performance.

The variable pay of Simon Vaughan Johnson is reviewed and approved by the bank's RemNom on a discretionary basis taking into account the performance and behaviours demonstrated during the year in relation to the achievement of the objectives referred to above. This is also approved by the HSBC Group Remuneration Committee with due consideration of the bank's and individual performance results, with the focus on total compensation comparative to the internal peer group and the external market where appropriate.

In line with the bank's Remuneration Policy, the percentage of variable pay received by Simon Vaughan Johnson, which amounts to 53% of his fixed pay (excluding benefits), is lower than the 100% of fixed pay threshold. In addition, as illustrated in the tables above, 50% of the variable remuneration is subject to deferral in line with the bank's policy and the HSBC Group deferral requirements applied for all variable pay awards as explained in the table below.

Value of Total Variable Pay	Deferral % of variable pay is subject to variance and is split between cash and shares
Up to €50,000, provided that total variable pay does not exceed total fixed pay.	0%
Above €50,000 up to €500,000 or amounts below €50,000 where variable pay is greater than 33% of Total Compensation.	40%
Above €500,000	60%

The deferred remuneration of Simon Vaughan Johnson vests over a period of not less than five years. As explained in previous sections, variable pay is subject to malus and clawback provisions in certain circumstances, which allow unvested/unpaid deferred remuneration awards and vested remuneration awards to be reduced or cancelled if warranted respectively. No use has been made of provisions allowing the bank to reclaim variable

remuneration during the financial year ended 31 December 2021. This mechanism ensures that the remuneration of the bank's senior executives aligns with achieving the long-term objectives of the bank.

On the other hand, Michel Cordina's objectives and performance pay structure are not based on the mechanism described above in respect of Simon Vaughan Johnson. Michel Cordina's variable pay is reviewed and approved by the bank's RemNom following feedback from the Chief Executive Officer on an annual basis. It is based on the achievement of set objectives and behaviours demonstrated during the performance year. These objectives are linked to business growth, customer engagement, retention and strengthening of key customer relationships, mainly in the corporate segment, and engagement with other key stakeholders and regulators, and ensuring adherence to risk management and compliance measures. In line with the bank's Remuneration Policy the percentage of variable pay received by Michel Cordina, which amounts to approximately 24% of his fixed pay, is lower than the 100% of fixed pay threshold. In accordance with the bank's Remuneration Policy and on the basis of the value of the total variable pay remunerated, no deferral requirements applied to Michel Cordina during performance year 2021.

Non-Executive Directors

Non-Executive Directors are not employees of the bank 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 appointment of Non-Executive Directors is governed by a letter of appointment that sets out the terms of the appointment. This appointment is not a contract of employment and is subject to all the terms and conditions of the Company's Memorandum and Articles of Association. Non-Executive Directors do not receive any retirement benefits, supplementary pension or termination payments for termination or loss of office, whether in terms of the letter of appointment or otherwise. The appointment may be terminated before expiry of the term, by either party giving to the other party one month's prior written notice or in any manner allowed by law.

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. None of the said Directors received any remuneration from HSBC Life Assurance (Malta) Ltd, HSBC Global Asset Management (Malta) Ltd, or HSBC Group.

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

Details of Non-Executive Directors' Committee and Board fees for the financial years ended 31 December 2021 and 2020 were as follows:

	2021 Fees	2020 Fees
	€	€
John Bonello	**74,400**	74,400
Andrew Muscat	**45,600**	45,600
Sue Vella	**46,800**	51,423
Gordon Cordina	**–**	16,298
Yiannos Michaelides	**39,600**	47,700
Ingrid Azzopardi	**59,700**	59,700
Manfred Galdes	**50,400**	29,149
Total	**316,500**	324,270

Matthew Colebrook who is employed within the HSBC Group in the role of Regional Head of Wealth and Personal Banking for Europe, the Middle East and North Africa and Turkey, was appointed as a Non-Executive Director of the bank on 11 August 2021. Matthew Colebrook was not paid any fees for holding the office of director, neither by the bank nor by the HSBC Group. In this respect, the Directors believe that the requirements emanating from paragraph (c) of Appendix 12.1 of the Capital Markets Rules which requires the disclosure of "any remuneration from any undertaking belonging to the same group where the term group means parent undertaking and all its subsidiary undertakings" applies at the level of HSBC Bank Malta p.l.c., the parent bank, and its subsidiary undertaking respectively, taking cognisance of his role as Non-Executive Director of the bank. Accordingly, no disclosure in respect of his remuneration for his services at HSBC Group level is being made within this report. The bank has complied in full with the procedure for the implementation of the Directors' Remuneration Policy as defined in Chapter 12 of the Capital Markets Rules.

The Directors' Remuneration Report for 2020 was approved at the Annual General Meeting held on 22 April 2021, with 283,671,331 votes in favour, 111,625 votes against and 1,577,608 abstentions. There were no issues raised on the Report during the said Annual General Meeting.

This Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules is being put forward to an advisory vote of the 2022 Annual General Meeting in accordance with the requirements of the Capital Markets Rule 12.26 L.

In accordance with the requirements emanating from Appendix 12.1 of the Capital Markets Rules, the contents of the Directors' Remuneration Report within this Remuneration Report have been reviewed by the external auditor to ensure compliance with such requirements.

Additional remuneration disclosures

The following section of the Remuneration Report presents additional disclosures in respect of the bank's Remuneration Policy required under:

- The Capital Markets Rules issued by the Malta Listing Authority; and
- Banking Rule 21 (BR21/2022) – Remuneration Policies and Practices – issued by the Malta Financial Services Authority.

The bank's Remuneration Policy – Identified Staff including Executive Directors and Senior Management

Individuals have been classified as Identified Staff based on qualitative and quantitative criteria set out in the Commission Delegated Regulation (EU) 2021/923 that came into force in March 2021. Amongst others, Identified Staff include all Executive Directors and Senior Management (who make up the Executive Committee and are hereafter referred to collectively as 'Senior Executives'). Accordingly, the figures disclosed in the tables on the following page relating to Senior Executives also include the remuneration relating to the Executive Directors disclosed in the 'Information on Directors' Remuneration in terms of Appendix 12.1 of the Capital Markets Rules within the Remuneration Report. In addition, members of the Asset and Liabilities Management Meeting and the Risk Management Meeting, as well as staff that have the authority to approve or veto a decision on any credit

transaction representing 0.5% of the bank's CET1 capital are also classified as Identified Staff. The bank has taken regard of Commission Delegated Regulation (EU) 2021/923 following its publication in the Official Journal of the European Union which came into effect in 2021.

Standard contracts for all Identified Staff employed locally would generally be indefinite. Normal retirement from the bank would be in line with local legislation. A minimum three-month notice period is required for Senior Executives employed by the bank 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.

Meanwhile, termination of international assignees appointed to Senior Executive positions by either the individual or the bank requires a notice period of up to six months.

All Identified Staff are remunerated less than €1 million per annum.

Remuneration amounts – Identified Staff

Remuneration awarded for the financial year (REM1)

			MB Supervisory function	MB Management function	Other senior management	Other Identified Staff
1	Fixed remuneration	Number of Identified Staff	**6**	**2**	**15**	**37**
2		Total fixed remuneration (€000)	**317**	**738**	**1,832**	**2,393**
3		*Of which: cash-based (€000)*	***317***	***576***	***1,564***	***2,102***
EU-5x		*Of which: other instruments (€000)*	—	***19***	***82***	***48***
7		*Of which: other forms (€000)*	—	***143***	***186***	***243***
9	Variable remuneration	Number of Identified Staff	—	**2**	**15**	**37**
10		Total variable remuneration (€000)	—	**269**	**448**	**242**
11		*Of which: cash-based (€000)*	—	***105***	***357***	***242***
12		*Of which: deferred (€000)*	—	***47***	***26***	—
EU-13a		*Of which: shares or equivalent ownership interests (€000)*	—	***70***	***39***	—
EU-14a		*Of which: deferred (€000)*	—	***47***	***26***	—
17	**Total remuneration for the year ended 31 December 2021 (€000)**		**317**	**1,007**	**2,280**	**2,635**

The bank continued its strategy to develop and promote local talent whilst at the same time enhancing diversity and inclusion across its workforce. The bank has a number of international assignees, including the Chief Executive Officer, who are employed on a time specific contract with the aim to enhance diversity of thought across the bank. Employees on international assignment do not receive the collective agreement financial and non-financial benefits.

The bank has continued to invest in its people to sharpen their skills and increase their capabilities. Specific programmes on Future Skills and a number of Leadership Programs have been launched in HSBC during 2021 in line with the requirements of the banking sector and the landscape in which it operates.

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 the creation and continuation of the necessary culture to mitigate Financial Crime. To this effect, the bank has continued to develop the skills of its employees with extensive training and development. During 2021, the bank launched three major programs: Together against Financial Crime Wave 4; LEAP (Leadership Excellence & Achieve Program) and the Sustainability Academy through the HSBC University. These Programs will ensure continued professional development of our employees whilst at the same time safeguarding the wellbeing of our customers and key stakeholders.

Deferred remuneration is typically granted through a Restricted Share Awards scheme, whereby Identified Staff 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.

Deferred remuneration (REM3)

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	*Of which due to vest in the financial year*	*Of which vesting in subsequent financial years*	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		€000	*€000*	*€000*	€000	€000	€000	€000	€000
7	MB Management function								
8	Cash-based	136	*49*	*87*	–	–	–	50	–
9	Shares or equivalent ownership interests	111	*24*	*87*	–	–	13	24	24
13	Other senior management								
14	Cash-based	10	*2*	*8*	–	–	–	2	–
15	Shares or equivalent ownership interests	33	*12*	*21*	–	–	3	12	2
25	**Total amount as at 31 December 2021**	290	*87*	*203*	–	–	16	88	26

Information on remuneration of staff whose professional activities have a material impact on the bank's risk profile (Identified Staff) (REM5)

		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total as at 31 December 2021
1	Total number of Identified Staff	6	2	8	3	6	9	17	12	5	60
2	*Of which: members of the MB (€000)*	*6*	*2*	*8*	–	–	–	–	–	–	*8*
3	*Of which: other senior management (€000)*	–	–	–	*1*	*2*	*1*	*6*	*3*	*2*	*15*
4	*Of which: other Identified Staff (€000)*	–	–	–	*2*	*4*	*8*	*11*	*9*	*3*	*37*
5	Total remuneration of Identified Staff (€000)	317	1,007	1,324	236	850	544	1,641	998	646	6,239
6	*Of which: variable remuneration (€000)*	–	*269*	*269*	*47*	*148*	*52*	*199*	*131*	*113*	*959*
7	*Of which: fixed remuneration (€000)*	*317*	*738*	*1,055*	*189*	*702*	*492*	*1,442*	*867*	*533*	*5,280*

Sign-on and severance payments

In line with Annex XXXIII of the EBA Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013, the bank is required to disclose information in respect of special payments made to Identified Staff.

During 2021 and 2020, no severance payments or sign-on payments were made and, in this respect, the REM2 table is not being disclosed in this Remuneration Report.

Payments of €1 million and above

In line with Annex XXXIII of the EBA Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013, the bank is required to disclose information in respect of remuneration payments in excess of €1 million.

During 2021 and 2020, no payments of €1 million and over were made and, in this respect, the REM4 table is not being disclosed in the Remuneration Report.

Payments to past Directors

During 2021 and 2020, no payments were made to past Directors.

Financial statements

Income statements

for the year ended 31 December

	Notes	Group 2021 €000	Group 2020 €000	Bank 2021 €000	Bank 2020 €000
Interest and similar income					
– on loans and advances to banks and customers and other assets	7	**103,593**	109,055	**103,593**	109,055
– on debt and other fixed income instruments	7	**2,117**	4,543	**2,117**	4,543
Interest expense	8	**(7,952)**	(7,696)	**(7,952)**	(7,696)
Net interest income		**97,758**	105,902	**97,758**	105,902
Fee income		**25,940**	22,832	**22,380**	19,588
Fee expense		**(1,831)**	(1,872)	**(1,234)**	(1,390)
Net fee income	9	**24,109**	20,960	**21,146**	18,198
Net trading income	10	**5,534**	8,515	**5,534**	8,515
Net income/(expense) from financial instruments of insurance operations measured at fair value through profit or loss		**27,225**	(2,042)	**—**	—
Dividend income	11	**—**	33	**1,462**	2,033
Net insurance premium income	12	**50,866**	51,380	**—**	—
Movement in present value of in-force long-term insurance business		**(6,973)**	(10,319)	**—**	—
Other operating income	13	**1,406**	(69)	**1,402**	515
Total operating income		**199,925**	174,360	**127,302**	135,163
Net insurance claims, benefits paid and movement in liabilities to policyholders	14	**(68,632)**	(40,937)	**—**	—
Net operating income before change in expected credit losses and provisions		**131,293**	133,423	**127,302**	135,163
Change in expected credit losses and other credit impairment charges	15	**995**	(25,589)	**995**	(25,589)
Net operating income		**132,288**	107,834	**128,297**	109,574
Employee compensation and benefits	16	**(42,326)**	(43,805)	**(39,843)**	(41,068)
General and administrative expenses	17	**(55,529)**	(46,984)	**(51,157)**	(41,709)
Depreciation of property, plant and equipment and right-of-use assets	31,33	**(3,675)**	(3,851)	**(3,675)**	(3,851)
Amortisation of intangible assets	32	**(3,876)**	(2,751)	**(3,801)**	(2,652)
Total operating expenses		**(105,406)**	(97,391)	**(98,476)**	(89,280)
Profit before tax	17	**26,882**	10,443	**29,821**	20,294
Tax expense	18	**(9,127)**	(2,871)	**(10,158)**	(6,173)
Profit for the year		**17,755**	7,572	**19,663**	14,121
Earnings per share	19	**4.9c**	2.1c		

The notes on pages 54 to 143 are an integral part of these financial statements.

Statements of comprehensive income

for the year ended 31 December

	Notes	Group 2021 €000	Group 2020 €000	Bank 2021 €000	Bank 2020 €000
Profit for the year		**17,755**	7,572	**19,663**	14,121
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:		**(6,095)**	753	**(6,095)**	753
– fair value (losses)/gains	*46*	**(9,377)**	1,159	**(9,377)**	1,159
– income taxes	*46*	**3,282**	(406)	**3,282**	(406)
Items that will not be reclassified subsequently to profit or loss:					
Properties:		**2,150**	304	**2,150**	304
– surplus arising on revaluation	*46*	**2,389**	338	**2,389**	338
– income taxes	*46*	**(239)**	(34)	**(239)**	(34)
Defined benefit obligation:		**292**	(446)	**292**	(446)
– remeasurement of defined benefit obligation	*41*	**450**	(686)	**450**	(686)
– income taxes		**(158)**	240	**(158)**	240
Equity instruments designated at fair value through other comprehensive income:		**1**	2	**1**	2
– fair value gains	*46*	**2**	3	**2**	3
– income taxes	*46*	**(1)**	(1)	**(1)**	(1)
Other comprehensive income for the year, net of tax		**(3,652)**	613	**(3,652)**	613
Total comprehensive income for the year		**14,103**	8,185	**16,011**	14,734

The notes on pages 54 to 143 are an integral part of these financial statements.

Statements of financial position

for the year ended 31 December

	Notes	Group 2021 €000	Group 2020 €000	Bank 2021 €000	Bank 2020 €000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	20	**1,496,407**	996,679	**1,496,407**	996,679
Items in the course of collection from other banks		**4,453**	4,959	**4,453**	4,959
Financial assets mandatorily measured at fair value through profit or loss	21	**767,808**	733,670	**—**	—
Held for trading derivatives	22	**4,640**	6,574	**4,640**	6,574
Loans and advances to banks	23	**619,273**	589,259	**613,062**	583,439
Loans and advances to customers	24	**3,196,725**	3,264,664	**3,196,725**	3,264,664
Financial investments	25	**845,735**	877,485	**845,733**	877,483
Prepayments and accrued income	26	**20,558**	24,148	**17,591**	21,236
Current tax assets		**3,669**	1,813	**1,353**	505
Reinsurance assets	27	**77,972**	80,083	**—**	—
Other non-current assets held for sale	28	**6,673**	8,919	**6,673**	8,919
Investments in subsidiaries	29	**—**	—	**30,859**	30,859
Investment property	30	**1,600**	1,600	**—**	—
Property, plant and equipment	31	**41,923**	44,206	**41,921**	44,206
Intangible assets	32	**50,168**	54,342	**16,022**	13,152
Right-of-use assets	33	**2,569**	4,200	**2,569**	4,200
Deferred tax assets	34	**29,119**	27,130	**29,119**	27,130
Other assets	35	**5,513**	10,728	**4,848**	9,600
Total assets		**7,174,805**	6,730,459	**6,311,975**	5,893,605
Liabilities					
Deposits by banks	36	**1,397**	3,754	**1,397**	3,754
Customer accounts	37	**5,621,195**	5,272,961	**5,657,681**	5,313,754
Items in the course of transmission to other banks		**21,573**	21,372	**21,573**	21,372
Held for trading derivatives	22	**4,592**	6,551	**4,592**	6,551
Accruals and deferred income	38	**21,976**	14,843	**17,634**	11,202
Current tax liabilities		**499**	88	**—**	88
Liabilities under investment contracts	39	**185,137**	170,865	**—**	—
Liabilities under insurance contracts	40	**658,197**	648,028	**—**	—
Provisions for liabilities and other charges	41	**21,252**	21,031	**20,122**	19,341
Deferred tax liabilities	34	**15,005**	17,562	**3,722**	4,036
Borrowings from group undertaking	42	**60,000**	—	**60,000**	—
Subordinated liabilities	43	**62,000**	62,000	**62,000**	62,000
Other liabilities	44	**12,245**	12,990	**8,395**	9,879
Total liabilities		**6,685,068**	6,252,045	**5,857,116**	5,451,977
Equity					
Called up share capital	45	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	46	**24,330**	32,718	**24,330**	32,718
Retained earnings	46	**357,315**	337,604	**322,437**	300,818
Total equity		**489,737**	478,414	**454,859**	441,628
Total liabilities and equity		**7,174,805**	6,730,459	**6,311,975**	5,893,605
Memorandum items					
Contingent liabilities	47	**143,064**	152,296	**143,066**	152,298
Commitments	48	**967,739**	1,071,319	**967,739**	1,071,319

The notes on pages 54 to 143 are an integral part of these financial statements.

The financial statements on pages 48 to 143 were approved and authorised for issue by the Board of Directors on 22 February 2022. The financial statements were signed on behalf of the bank's Board of Directors by John Bonello (Chairman) and Simon Vaughan Johnson (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2021.

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 2021		**108,092**	**32,718**	**337,604**	**478,414**
Profit for the year		**—**	**—**	**17,755**	**17,755**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	*46*	**—**	**(6,094)**	**—**	**(6,094)**
Properties:					
– surplus arising on revaluation, net of tax	*46*	**—**	**2,150**	**—**	**2,150**
– transfer to retained earnings, net of tax	*46*	**—**	**(4,444)**	**4,444**	**—**
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		**—**	**—**	**292**	**292**
Total other comprehensive income		**—**	**(8,388)**	**4,736**	**(3,652)**
Total comprehensive income for the year		**—**	**(8,388)**	**22,491**	**14,103**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**—**	**—**	**(63)**	**(63)**
– dividends	*50*	**—**	**—**	**(2,717)**	**(2,717)**
Total contributions by and distributions to owners		**—**	**—**	**(2,780)**	**(2,780)**
At 31 December 2021		**108,092**	**24,330**	**357,315**	**489,737**
At 1 January 2020		108,092	32,202	329,672	469,966
Profit for the year		—	—	7,572	7,572
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	*46*	—	755	—	755
Properties:					
– surplus arising on revaluation, net of tax	*46*	—	304	—	304
– transfer to retained earnings, net of tax	*46*	—	(543)	543	—
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		—	—	(446)	(446)
Total other comprehensive income		—	516	97	613
Total comprehensive income for the year		—	516	7,669	8,185
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		—	—	263	263
Total contributions by and distributions to owners		—	—	263	263
At 31 December 2020		108,092	32,718	337,604	478,414

The notes on pages 54 to 143 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 2021		**108,092**	**32,718**	**300,818**	**441,628**
Profit for the year		**—**	**—**	**19,663**	**19,663**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	*46*	**—**	**(6,094)**	**—**	**(6,094)**
Properties:					
– surplus arising on revaluation, net of tax	*46*	**—**	**2,150**	**—**	**2,150**
– transfer to retained earnings, net of tax	*46*	**—**	**(4,444)**	**4,444**	**—**
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		**—**	**—**	**292**	**292**
Total other comprehensive income		**—**	**(8,388)**	**4,736**	**(3,652)**
Total comprehensive income for the year		**—**	**(8,388)**	**24,399**	**16,011**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**—**	**—**	**(63)**	**(63)**
– dividends	*50*	**—**	**—**	**(2,717)**	**(2,717)**
Total contributions by and distributions to owners		**—**	**—**	**(2,780)**	**(2,780)**
At 31 December 2021		**108,092**	**24,330**	**322,437**	**454,859**
At 1 January 2020		108,092	32,202	286,341	426,635
Profit for the year		—	—	14,121	14,121
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	*46*	—	755	—	755
Properties:					
– surplus arising on revaluation, net of tax	*46*	—	304	—	304
– transfer to retained earnings, net of tax	*46*	—	(543)	543	—
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		—	—	(446)	(446)
Total other comprehensive income		—	516	97	613
Total comprehensive income for the year		—	516	14,218	14,734
Transactions with owners, recognised directly in equity					
Contributions by and distribution to owners:					
– share-based payment arrangements, net of tax		—	—	259	259
Total contributions by and distributions to owners		—	—	259	259
At 31 December 2020		108,092	32,718	300,818	441,628

The notes on pages 54 to 143 are an integral part of these financial statements.

Statements of cash flows

for the year ended 31 December

		Group		Bank	
		2021	2020	**2021**	2020
	Notes	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Interest, fees, loan recoveries and premium receipts		**213,257**	210,252	**135,492**	133,959
Interest, fees and claims payments		**(84,691)**	(76,608)	**(8,756)**	(9,386)
Payments to employees and suppliers		**(87,080)**	(94,446)	**(78,713)**	(86,136)
Cash flows from operating activities before changes in operating assets/liabilities		**41,486**	39,198	**48,023**	38,437
(Increase)/decrease in operating assets:					
– financial assets mandatorily measured at fair value through profit or loss		**5,072**	(3,146)	**—**	—
– reserve deposit with Central Bank of Malta		**(5,192)**	(2,080)	**(5,192)**	(2,080)
– loans and advances to customers and banks		**335,070**	23,841	**335,070**	23,841
– Treasury Bills		**41,109**	(160,019)	**41,109**	(160,019)
– other receivables		**11,439**	2,848	**11,439**	3,085
(Decrease)/increase in operating liabilities:					
– customer accounts and deposits by banks		**333,185**	315,160	**328,165**	307,031
– other payables		**(4,372)**	(42,033)	**(4,372)**	(42,033)
Net cash from operating activities before tax		**757,797**	173,769	**754,242**	168,262
– tax paid		**(12,194)**	(15,289)	**(9,961)**	(14,029)
Net cash from operating activities		**745,603**	158,480	**744,281**	154,233
Cash flows from investing activities					
Dividends received		**—**	33	**950**	1,333
Interest received from financial investments		**11,897**	14,746	**11,897**	14,746
Purchase of financial investments		**(221,697)**	(214,787)	**(221,697)**	(214,787)
Proceeds from sale and maturity of financial investments		**249,667**	263,519	**249,667**	263,519
Purchase of property, plant and equipment, investment property and intangible assets		**(8,508)**	(7,677)	**(8,502)**	(7,393)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		**56**	7,903	**50**	7,903
Net cash from investing activities		**31,415**	63,737	**32,365**	65,321
Cash flows from financing activities					
Dividends paid		**(2,717)**	—	**(2,717)**	—
Proceeds from borrowings from group undertaking		**60,000**	—	**60,000**	—
Net cash from financing activities		**57,283**	—	**57,283**	—
Net increase in cash and cash equivalents		**834,301**	222,217	**833,929**	219,554
Cash and cash equivalents at beginning of year		**782,704**	554,648	**776,884**	551,493
Effect of exchange rate changes on cash and cash equivalents		**(17,334)**	5,839	**(17,296)**	5,837
Cash and cash equivalents at end of year	*51*	**1,599,671**	782,704	**1,593,517**	776,884

The notes on pages 54 to 143 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 2021 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 2021, there were no unendorsed standards effective for the year ended 31 December 2021 affecting these consolidated and separate financial statements, and local group'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 2021, the local group and 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. These changes did not have a significant impact on the local group's accounting policies and on the financial performance and financial position.

The most significant change emanating from the newly adopted interpretations and amendments to standards during 2021 relates to the amendments in respect of the interest rate benchmark reform. The local group's and bank's assessment of the effect of the interest rate benchmark reform is disclosed hereunder.

Interest Rate Benchmark Reform

The IASB published 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' in August 2020, which became effective from 1 January 2021 and was also endorsed for use by the EU during 2021. These amendments represent the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows as a result of the reform.

As a result of the limited exposure to IBOR related financial instruments, these amendments had an insignificant effect on the local group's financial statements.

Financial instruments carried using amortised cost measurement

'Phase 2' of the amendments requires that, for financial instruments carried using amortised cost measurement (that is, financial instruments measured at amortised cost and debt instruments measured at fair value through other comprehensive income), changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting the effective interest rate. No immediate gain or loss is recognised.

These expedients are only applicable to changes that are required by the interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

As a result, under these amendments, changes made to a financial instrument that are economically equivalent and required by the interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark.

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by the interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or derecognition, with the resulting modification gain/loss recognised immediately in profit or loss where the instrument is not derecognised).

The bank's financial instruments carried using amortised cost measurement that are deemed to be impacted by the interest rate benchmark reform solely consist of the following:

- 2 lending exposures classified within 'loans and advances to customers' and amounting to €1.2 million as at 31 December 2021, which are measured at amortised cost and are linked to GBP LIBOR; and

- 4 positions classified within 'financial investments' and amounting to €36 million as at 31 December 2021, which are measured at fair value through other comprehensive income and are linked to US LIBOR. The latter benchmark rate is expected to be demised on 30 June 2023, which is beyond the contractual maturity of these positions, all of which are expected to mature during the financial year ending 31 December 2022.

In the case of both exceptions mentioned above, the amendments have an insignificant impact on the financial statements.

Exposures classified within the remaining principal portfolios of financial instruments measured using amortised cost measurement, namely 'Balances with Central Bank of Malta', 'Treasury Bills', 'Loans and advances to banks', 'Loans and advances to customers', 'Financial Investments' and 'Subordinated Liabilities' are linked to EURIBOR. As at 31 December 2021, there is no current indication that this benchmark rate will be demised in the near future and, in this respect, these are not deemed to be impacted by the interest rate benchmark reform.

Financial instruments measured at fair value through profit or loss

The local group's 'held for trading derivatives' are not designated as hedging instruments in accordance with IAS 39 / IFRS 9. In addition, 'held for trading derivatives' comprise interest rate swaps which are denominated in euro and are linked to EURIBOR.

In this respect, since there is no current indication that this benchmark rate will be demised in the near future, these are not deemed to be impacted by the interest rate benchmark reform.

Lease liabilities

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by the interest rate benchmark reform. If lease modifications are made in addition to those required by the interest rate benchmark reform, the normal requirements of IFRS 16 are applied to the entire lease modification, including those changes required by the interest rate benchmark reform.

The local group's lease liabilities are not linked to a benchmark rate and, in this respect, are not deemed to be impacted by the interest rate benchmark reform.

Standards adopted during the year ended 31 December 2021

No new standards were adopted during the year.

(d) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022, which have been endorsed for use by the EU. The IASB has also published a number of minor amendments to IFRSs that are effective from 1 January 2023, which have not yet been endorsed by 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.

New IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The standard has been endorsed for use in the EU. The local group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are being embedded in the local group. Additionally, the impact on the forecast future returns of the insurance business is dependent on the growth, duration and composition of the local group's insurance contract portfolio. Therefore, the likely financial impact of its implementation continues to be assessed. However, the impact compared with the local group's current accounting policy for insurance contracts, which is set out in policy 3(m) below, is expected to be as follows:

- Under IFRS 17, there will be no present value of in-force business ('PVIF') asset recognised. Instead the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM'), and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under IFRS 17. The removal of the PVIF asset and the recognition of the CSM, which is a liability, will reduce equity. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect IFRS 17 measurement requirements and any consequential amendments to financial assets within the scope of IFRS 9.
- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Changes in market conditions for certain products measured under the general measurement approach are immediately recognised in profit or loss, while changes in market conditions for other products measured under the variable fee approach are included in the measurement of CSM.
- In accordance with IFRS 17, directly attributable costs will be incorporated in the CSM and recognised in the results of insurance services as a reduction in reported revenue, as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable will remain in operating expenses. This will result in a reduction in reported operating expenses compared with the current accounting policy.
- An update on the likely financial impacts on the local group's insurance business will be provided at or around the announcement of the local group's interim results, when this impact is expected to be reasonably estimable.

(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 2021 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 32.

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 has 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, capital requirements and capital resources. These considerations include stressed scenarios that reflect the persistent uncertainty that the global Covid-19 pandemic has had on the local group's and bank's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

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 measured at fair value through profit or loss, transaction costs that are directly attributable to the financial asset. 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).

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 from the sale of 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 business model of the local group's portfolios is determined by key management personnel and reflects the strategic purpose and intention for the portfolios and how the performance of the portfolios 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 contractual cash flows 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;
- changes to 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 FVOCI. These comprise primarily debt securities and other fixed income securities classified within 'Financial Investments' and Treasury Bills classified within 'Balances with Central Bank of Malta, Treasury Bills and cash'.

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 the sale 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 mandatorily measured at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. 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 payments of 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 FVOCI. Consequently, all investments attributable to insurance operations are mandatorily measured at FVTPL.

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 irrevocably designated 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 FVTPL. 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 or 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

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 ('SICR') are 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, are 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 be assessed for significant increase since initial recognition at each balance sheet date. If there is a SICR, 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 SICR, 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 SICR 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 SICR 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, SICR 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, SICR 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, SICR 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 (stage 2) (>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 SICR has occurred is based on meeting the following three criteria:

- the credit risk 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 SICR 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 classified 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 cash flow 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 cash flow 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 90 days or more;
- 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 a CRR of 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 the contractual payment terms are modified 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 unless there are no other indicators of impairment. 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 of 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 in 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 at portfolio segment level.

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. Proxy through-the-cycle (‘TTC’) PDs are derived from regulatory PDs determined at HSBC Group level. These proxy TTC PDs are then converted to point-in-time (‘PiT’) PDs on the basis of the PiT correction applied in respect of portfolios within the HSBC Group having the most similar characteristics to the local group’s wholesale portfolio, 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 mortgage 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 exposures 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 by reference to the local group's own historical experience – 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 five 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 local 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, as was the case during the financial years ended 31 December 2020 and 31 December 2021, where an additional downside scenario was modelled and used in the ECL calculation in response to the unprecedented macroeconomical impact and heightened level of uncertainty brought about by the outbreak of Covid-19.

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 financial resource 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 long-run trend expectations. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and property prices.

As explained above, a fourth scenario was added to capture the possibility of a more severe scenario than the Downside scenario occurring, by reference to scenarios developed by an external vendor. As a result, the assigned probability weights were recalibrated amongst the four scenarios based on expert judgement as explained in more detail in Note 4(b)(iii) – Forward-looking information incorporated in the ECL model.

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 ECL 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/(expense) from financial instruments of insurance operations measured at fair value through profit or 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, borrowings from group undertaking 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 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/(expense) from financial instruments of insurance operations measured at fair value through profit or 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 income'.

vi Future profit participation on insurance contracts with DPF

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation, or past distribution policy.

vii Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. The local group therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability. In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

(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 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 or loss

Net income from financial instruments of insurance operations measured at fair value through profit or 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 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 plc 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 on 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 the local group's 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.

The financial years ended 31 December 2021 and 2020 have been characterised by unprecedented economic conditions as a result of Covid-19, which have continued to impact a significant number of the local group's customers' business models, income levels or cash flow generation. Whereas economic growth has been registered during 2021 subsequent to the significant 2020 adverse impacts, economic uncertainty still prevails taking cognisance of the forecast conditions as at 31 December 2021.

The local group has continued to support its customers and to apply adapted credit risk operational processes accordingly. During the years ended 31 December 2021 and 2020, the bank granted moratoria on capital and/or interest payments and originated new loans to provide relief to customers experiencing liquidity pressures as a result of the prevailing macroeconomic scenario.

From a risk perspective, the pandemic has continued to affect changes in the behaviour of retail and wholesale customers. This has impacted the performance of the bank's expected credit loss models, requiring enhanced monitoring of model outputs and use of alternative mechanisms or controls.

Subsequent to the outbreak of Covid-19, the bank had adapted its credit risk management processes for the purposes of identifying deterioration in credit risk within its portfolios as early as possible and estimating expected credit loss allowances using the best possible judgement. In this respect, the bank increased the frequency and depth of monitoring activities on its loan portfolios. In relation to those

customers that requested moratoria, the bank carries out periodic assessments to determine whether the current Covid-19 induced shock may transform into long-term financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to stage 2 or stage 3 to reflect the change in the level of credit risk as appropriate.

Stress tests and other sectorial reviews are periodically performed to identify customers or groups of customers who are experiencing, or are likely to experience, financial difficulty as a result of Covid-19. These sectorial reviews continued to be monitored on a regular basis during 2021 in order to assess ongoing developments in respect of Covid-19, such as the emergence of new waves of infections or virus strains, the status and efficacy of vaccination programmes, together with the unwinding of government support schemes and regulatory relief measures.

With respect to wholesale exposures, during 2021, the bank continued to assess and individually rate on an ongoing basis those borrowers deemed mostly impacted by the pandemic through individual, ad-hoc credit assessments, on the basis of recently obtained management information, including forecasts. Exposures deemed mostly impacted and in respect of which a SICR has been observed, are assigned a 'Watch or Worry' status, requiring closer and more frequent monitoring on a monthly or quarterly basis (depending on the extent of credit risk deterioration).

During 2021, more information became available in respect of the impact of Covid-19 on specific borrowers and industry sectors, enabling management to assess in an enhanced manner borrower-specific credit risk levels and identify SICR or unlikeliness to pay ('UTP') events. The bank continued to monitor closely wholesale exposures previously assigned a 'Watch or Worry' status to update credit risk assessments by reference to actual financial performance and, where available, financial forecasts. Moreover, additional borrowers were attributed 'Watch or Worry' status during 2021 as financial difficulties became more evident by reference to updated financial information.

In relation to retail exposures, the bank resorts more to portfolio measures or reviews in respect of groups of exposures exhibiting shared risk characteristics.

Where appropriate, the local group also enhanced its credit risk mitigation techniques in order to manage the heightened level of credit risk by requesting additional collateral in respect of specific exposures.

The unprecedented nature of the pandemic induced an elevated level of uncertainty in respect of economic outlook. Whilst economic consensus forecasts have stabilised in recent months and monthly modifications to forecasts have become narrower, the extent to which these forecasts accurately reflect the effects of new virus strains, the distribution and efficacy of vaccines (and vaccine boosters) and eventual business recovery remains uncertain.

The level of local macroeconomic uncertainty increased subsequent to the grey-listing of Malta by the Financial Action Task Force ('FATF') in June 2021. The estimated economic impact of grey-listing remains uncertain since this is highly dependent on the speed at which Malta exits grey-listing, the effectiveness of national efforts to address the findings, and the response of foreign investors.

These factors necessitate more regular monitoring and rigorous evaluation of forecast economic conditions, together with heightened expert judgement, in order to best determine the range of possible economic outcomes used for the purposes of estimating ECL. Further information in respect of macroeconomic forecasts reflected within the ECL calculations is provided in Note 4(b)(iii) within the section entitled 'Forward-looking information incorporated in the ECL model'.

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.

	2021	2020
	€000	€000
Balances with Central Bank of Malta and Treasury Bills	**1,469,626**	967,789
Items in course of collection from other banks	**4,453**	4,959
Loans and advances to banks	**613,062**	583,439
Loans and advances to customers	**3,196,725**	3,264,664
Debt instruments measured at fair value through other comprehensive income	**845,700**	877,452
Accrued income and other assets	**17,655**	21,662
Off-balance sheet:		
– financial guarantee and similar contracts	**140,359**	150,022
– loan and other credit related commitments	**967,739**	1,071,319
At 31 December	**7,255,319**	6,941,306

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 either wholesale or personal lending.

Wholesale lending includes both small business owners served through Personal Banking as well as the financing of corporate and non-bank 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-bank financial institutions are mainly financial corporations other than banks and entities within groups of companies that are mainly engaged in financial and insurance activities. Corporate and commercial entities are wholesale entities that have activities other than finance 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 ECL, as well as the fair value of debt instruments measured at FVOCI and the associated allowance for ECL.

	At 31 December 2021		At 31 December 2020	
	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	3,254,757	(58,032)	3,324,573	(59,909)
– personal	2,290,194	(24,470)	2,294,363	(23,386)
– corporate and commercial	839,153	(29,835)	835,494	(32,153)
– non-bank financial institutions	125,410	(3,727)	194,716	(4,370)
Loans and advances to banks at amortised cost	613,064	(2)	583,447	(8)
Other financial assets measured at amortised cost	1,273,258	(9,696)	747,951	(9,843)
– balances at central banks	1,241,462	(8)	711,497	(10)
– items in the course of collection from other banks	4,453	—	4,959	—
– accrued income and other assets	27,343	(9,688)	31,495	(9,833)
Total gross carrying amount on balance sheet	5,141,079	(67,730)	4,655,971	(69,760)
Loan and other credit-related commitments	967,739	(1,173)	1,071,319	(1,693)
– personal	406,384	(15)	459,898	(31)
– corporate and commercial (including non-bank financial institutions)	552,613	(1,158)	591,421	(1,662)
– banks	8,742	—	20,000	—
Financial guarantee and similar contracts	140,359	(597)	150,022	(727)
– personal	5,712	(31)	5,579	(31)
– corporate and commercial (including non-bank financial institutions)	134,647	(566)	144,443	(696)
Total nominal amount off balance sheet	1,108,098	(1,770)	1,221,341	(2,420)
Total	6,249,177	(69,500)	5,877,312	(72,180)

	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	845,700	(69)	877,452	(340)
Treasury Bills measured at fair value through other comprehensive income	228,172	(7)	256,302	(30)
Total	1,073,872	(76)	1,133,754	(370)

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):

	2021	2020
	€000	€000
Held for trading derivatives	4,640	6,574

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 2021 and 2020, with the exception of 62% (2020: 49%) 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 over-the-counter ('OTC') derivatives.

Derivative assets were €4,640,000 at 31 December 2021 (2020: €6,574,000), with €2,372,000 (2020: €597,000) transacted with HSBC Group and €2,268,000 (2020: €5,977,000) transacted with other commercial counterparties.

Loans and advances to banks and Items in course of collection from other banks

Loans and advances to banks are mostly held with HSBC Group entities, whereas Items in course of collection from other banks represent amounts receivable from other local banks settled on a daily basis.

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 to customers 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 2021				
Personal lending				
– first lien residential mortgages	**2,087,153**	**64.1**	**75,272**	**3.6**
– other personal lending	**203,041**	**6.2**	**13,962**	**6.9**
Wholesale lending				
– commercial real estate and other property related	**221,084**	**6.8**	**43,000**	**19.4**
– state-owned entities	**286,875**	**8.8**	**—**	**—**
– other commercial	**456,604**	**14.1**	**36,177**	**7.9**
Total	**3,254,757**	**100**	**168,411**	**5.2**
At 31 December 2020				
Personal lending				
– first lien residential mortgages	2,069,901	62.3	69,707	3.4
– other personal lending	224,462	6.8	13,907	6.2
Wholesale lending				
– commercial real estate and other property related	226,943	6.8	27,799	12.2
– state-owned entities	270,077	8.1	—	—
– other commercial	533,190	16.0	19,583	3.7
Total	3,324,573	100	130,996	3.9

The amount of gross loans and advances to customers of the bank stood at €3,254,757,000 at 31 December 2021 (2020: €3,324,573,000). As at 31 December 2021, there were no loans and advances payable to the bank by any of its subsidiaries (2020: Nil).

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 table on 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.

Guarantees from the Government of Malta to cover loan originations in terms of the Malta Development Bank ('MDB') Covid-19 Guarantee Scheme ('CGS') are not included with collateral in the table on the following page.

	Gross on-balance sheet exposure	Collateral: Residential property	Collateral: Commercial property	Collateral: Securities/ cash	Collateral: Other	Net maximum exposure
	€000	€000	€000	€000	€000	€000
As at 31 December 2021						
Electricity, gas, water supply and waste management	**108,674**	**131**	**1,406**	**1,735**	**51,100**	**54,302**
Accommodation and food service	**92,554**	**1,577**	**35,096**	**108**	**10**	**55,763**
Construction, real estate activities	**134,828**	**8,448**	**86,651**	**1,744**	**120**	**37,865**
Wholesale and retail trade and repairs	**211,075**	**4,382**	**38,225**	**4,165**	**77,544**	**86,759**
Services	**373,509**	**3,262**	**91,601**	**10,105**	**157,230**	**111,311**
Manufacturing, agriculture and fishing	**54,748**	**5,214**	**9,187**	**501**	**733**	**39,113**
Households and individuals	**2,279,369**	**2,130,321**	**476**	**12,053**	**5,260**	**131,259**
	3,254,757	**2,153,335**	**262,642**	**30,411**	**291,997**	**516,372**
As at 31 December 2020						
Electricity, gas, water supply and waste management	117,200	233	1,765	1,735	53,150	60,317
Accommodation and food service	86,907	2,298	42,870	115	15	41,609
Construction, real estate activities	150,533	13,885	73,835	2,250	121	60,442
Wholesale and retail trade and repairs	131,004	6,527	42,653	4,091	802	76,931
Services	514,219	9,078	132,564	13,903	230,038	128,636
Manufacturing, agriculture and fishing	50,536	2,892	19,582	516	347	27,199
Households and individuals	2,274,174	2,077,393	667	13,540	6,009	176,565
	3,324,573	2,112,306	313,936	36,150	290,482	571,699

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 89 days past due.

'Credit impaired' exposures have been assessed as impaired, where the borrower is either 90 or more 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 30 days delinquency or more 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 or more, forborne, under legal action or connected to other facilities with credit impaired status**	**Past due by 90 days or more, forborne, under legal action or connected to other facilities with credit impaired status**

Distribution of financial instruments by credit quality

	As at 31 December 2021							
	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:	1,044,946	1,285,585	547,430	208,385	168,411	3,254,757	(58,032)	3,196,725
– personal	762,593	1,282,772	115,147	40,448	89,234	2,290,194	(24,470)	2,265,724
– corporate and commercial	282,339	374	360,458	121,277	74,705	839,153	(29,835)	809,318
– non-bank financial institutions	14	2,439	71,825	46,660	4,472	125,410	(3,727)	121,683
Loans and advances to banks held at amortised cost	613,064	—	—	—	—	613,064	(2)	613,062
Other financial assets held at amortised cost:								
Balances at central banks	1,241,462	—	—	—	—	1,241,462	(8)	1,241,454
Items in the course of collection from other banks	4,453	—	—	—	—	4,453	—	4,453
Other assets	6,160	2,438	2,766	1,148	14,831	27,343	(9,688)	17,655
– endorsements and acceptances	—	—	842	—	—	842	—	842
– accrued income	6,160	2,438	1,924	1,148	14,831	26,501	(9,688)	16,813
Total gross carrying amount on balance sheet	2,910,085	1,288,023	550,196	209,533	183,242	5,141,079	(67,730)	5,073,349
Percentage of total credit quality	56.6%	25.0%	10.7%	4.1%	3.6%	100%		
Loan and other credit-related commitments	486,619	109,327	302,620	59,702	9,471	967,739	(1,173)	966,566
Financial guarantees and similar contracts	19,731	2,286	101,612	14,996	1,734	140,359	(597)	139,762
Total nominal amount off balance sheet	506,350	111,613	404,232	74,698	11,205	1,108,098	(1,770)	1,106,328
At 31 December 2021	3,416,435	1,399,636	954,428	284,231	194,447	6,249,177	(69,500)	6,179,677

	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	845,700	—	—	—	—	845,700	(69)
Treasury Bills measured at fair value through other comprehensive income	228,172	—	—	—	—	228,172	(7)
At 31 December 2021	1,073,872	—	—	—	—	1,073,872	(76)

Distribution of financial instruments by credit quality (continued)

	As at 31 December 2020							
	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:	951,506	1,289,538	727,317	225,216	130,996	3,324,573	(59,909)	3,264,664
– personal	667,702	1,286,198	209,222	47,627	83,614	2,294,363	(23,386)	2,270,977
– corporate and commercial	283,804	120	351,587	153,060	46,923	835,494	(32,153)	803,341
– non-bank financial institutions	—	3,220	166,508	24,529	459	194,716	(4,370)	190,346
Loans and advances to banks held at amortised cost	583,447	—	—	—	—	583,447	(8)	583,439
Other financial assets held at amortised cost:								
Balances at central banks	711,497	—	—	—	—	711,497	(10)	711,487
Items in the course of collection from other banks	4,959	—	—	—	—	4,959	—	4,959
Other assets	7,607	2,800	3,336	3,147	14,605	31,495	(9,833)	21,662
– endorsements and acceptances	—	—	851	270	—	1,121	(7)	1,114
– accrued income	7,607	2,800	2,485	2,877	14,605	30,374	(9,826)	20,548
Total gross carrying amount on balance sheet	2,259,016	1,292,338	730,653	228,363	145,601	4,655,971	(69,760)	4,586,211
Percentage of total credit quality	48.4%	27.8%	15.7%	4.9%	3.2%	100%		
Loan and other credit-related commitments	494,823	142,784	377,579	54,499	1,634	1,071,319	(1,693)	1,069,626
Financial guarantees and similar contracts	15,635	7,302	111,239	14,604	1,242	150,022	(727)	149,295
Total nominal amount off balance sheet	510,458	150,086	488,818	69,103	2,876	1,221,341	(2,420)	1,218,921
At 31 December 2020	2,769,474	1,442,424	1,219,471	297,466	148,477	5,877,312	(72,180)	5,805,132

	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	877,452	—	—	—	—	877,452	(340)
Treasury Bills measured at fair value through other comprehensive income	256,302	—	—	—	—	256,302	(30)
At 31 December 2020	1,133,754	—	—	—	—	1,133,754	(370)

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 by 90 days or more;
- 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 90 days past due or more 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.

As referred to previously, the Covid-19 pandemic and the consequential economic conditions have exacerbated the level of uncertainty, particularly with respect to the identification of customers that would have experienced a SICR or that exhibit unlikeliness to pay ('UTP') characteristics.

This is also attributable to limitations in credit information available on customers, particularly where these customers were granted a general payment moratorium, as well as the potential delay in default emergence as a result of the application of other government support schemes which might veil longer term financial difficulties.

In respect of retail portfolios, the timely identification of SICR or UTP events is usually linked to credit deterioration indicators such as delinquency status. The granting of general payment moratoria to support borrowers' short-term liquidity needs might conceal the potential impact that the pandemic may have on borrowers' financial conditions.

The bank utilises segmentation techniques for the purposes of identifying indicators of SICR within both wholesale and retail portfolios. As disclosed in further detail in Note 4(b)(iii) within the section entitled 'Renegotiated loans and advances to customers and forbearance', the bank performs periodic assessments to determine whether the current short-term economic shock as a result of the pandemic may transform into long-term borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to stage 2 or stage 3 to reflect the level of change in credit risk as appropriate.

In respect of its retail mortgage portfolio, the bank utilises a mechanism designed to estimate the impact of the delayed emergence of defaults resulting from the extension of public moratoria by reference to factors such as employment status of the borrower, the sector within which the borrower is employed, as well as reductions in the base salaries of borrowers. This mechanism was enhanced during the financial year ended 31 December 2021 to capture the impact of the delayed emergence of defaults resulting from the government support measures which were applicable during the year under review. Further information in respect of macroeconomic forecasts reflected within the ECL calculations is provided in Note 4(b)(iii) within the section entitled 'Renegotiated loans and advances to customers and forbearance'.

In respect of individually significant loans within the wholesale portfolio, the bank assesses and individually rates those borrowers that requested payment deferrals/moratoria as well as those individually significant borrowers within wholesale sub-portfolios or groups of exposures with shared credit risk characteristics, which are deemed mostly impacted by the pandemic. These exposures are assessed periodically for SICR and UTP events through individual credit risk assessments, on the basis of recently obtained management information, including forecasts. Exposures in respect of which SICR has been observed are attributed higher ECL, and are assigned a 'Watch or Worry' status, requiring closer and more frequent monitoring on a monthly or quarterly basis (depending on the extent of credit risk deterioration) to facilitate timely identification of further deterioration in financial condition.

During 2021, more information became available in respect of the impact of Covid-19 on specific borrowers and industry sectors, both in terms of actual financial performance and revised forecasts reflecting more accurate impacts of the pandemic when compared to prior year estimates. Credit risk assessments in respect of individually significant loans within the wholesale portfolio were updated during the financial year ended 31 December 2021 based on updated financial information, enabling management to better identify SICR or UTP events and resulting in further migrations from stage 1 or 2 to stage 3, as per information presented in Note 4(b)(iii) within the section entitled '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'.

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	2,830,787	255,559	168,411	3,254,757	(14,740)	(15,615)	(27,677)	(58,032)	0.5	6.1	16.4	1.8
– personal	2,151,181	49,779	89,234	2,290,194	(11,933)	(4,386)	(8,151)	(24,470)	0.6	8.8	9.1	1.1
– corporate and commercial	641,574	122,874	74,705	839,153	(2,466)	(8,129)	(19,240)	(29,835)	0.4	6.6	25.8	3.6
– non-bank financial institutions	38,032	82,906	4,472	125,410	(341)	(3,100)	(286)	(3,727)	0.9	3.7	6.4	3.0
Loans and advances to banks at amortised cost	613,064	—	—	613,064	(2)	—	—	(2)	—	—	—	—
Other financial assets measured at amortised cost	1,257,175	1,252	14,831	1,273,258	(8)	—	(9,688)	(9,696)	—	—	65.3	0.8
Loan and other credit-related commitments	876,295	81,973	9,471	967,739	(455)	(374)	(344)	(1,173)	0.1	0.5	3.6	0.1
– personal	397,997	8,268	119	406,384	(15)	—	—	(15)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	469,556	73,705	9,352	552,613	(440)	(374)	(344)	(1,158)	0.1	0.5	3.7	0.2
– banks	8,742	—	—	8,742	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	111,606	27,019	1,734	140,359	(187)	(119)	(291)	(597)	0.2	0.4	16.8	0.4
– personal	5,702	10	—	5,712	(31)	—	—	(31)	0.5	—	—	0.5
– corporate and commercial (including non-bank financial institutions)	105,904	27,009	1,734	134,647	(156)	(119)	(291)	(566)	0.1	0.4	16.8	0.4
At 31 December 2021	5,688,927	365,803	194,447	6,249,177	(15,392)	(16,108)	(38,000)	(69,500)	0.3	4.4	19.5	1.1

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 (including up to date exposures) from those that are classified as stage 2 due to ageing and are 30 DPD or more (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 2021

	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:	**255,559**	***246,339***	***9,220***	**(15,615)**	***(14,837)***	***(778)***	**6.1**	***6.0***	***8.4***
– personal	**49,779**	***41,169***	***8,610***	**(4,386)**	***(3,614)***	***(772)***	**8.8**	***8.8***	***9.0***
– corporate and commercial	**122,874**	***122,264***	***610***	**(8,129)**	***(8,123)***	***(6)***	**6.6**	***6.6***	***1.0***
– non-bank financial institutions	**82,906**	***82,906***	***—***	**(3,100)**	***(3,100)***	***—***	**3.7**	***3.7***	***—***
Other financial assets measured at amortised cost	**1,252**	***1,099***	***153***	**—**	***—***	***—***	**—**	***—***	***—***

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	2,863,490	330,087	130,996	3,324,573	(13,600)	(19,136)	(27,173)	(59,909)	0.5	5.8	20.7	1.8
– personal	2,155,675	55,074	83,614	2,294,363	(9,617)	(5,421)	(8,348)	(23,386)	0.4	9.8	10.0	1.0
– corporate and commercial	624,100	164,471	46,923	835,494	(3,121)	(10,289)	(18,743)	(32,153)	0.5	6.3	39.9	3.8
– non-bank financial institutions	83,715	110,542	459	194,716	(862)	(3,426)	(82)	(4,370)	1.0	3.1	17.9	2.2
Loans and advances to banks at amortised cost	583,447	—	—	583,447	(8)	—	—	(8)	—	—	—	—
Other financial assets measured at amortised cost	729,548	3,798	14,605	747,951	(11)	(6)	(9,826)	(9,843)	—	0.2	67.3	1.3
Loan and other credit-related commitments	944,705	124,980	1,634	1,071,319	(458)	(991)	(244)	(1,693)	—	0.8	14.9	0.2
– personal	449,176	10,608	114	459,898	(31)	—	—	(31)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	475,529	114,372	1,520	591,421	(427)	(991)	(244)	(1,662)	0.1	0.9	16.1	0.3
– banks	20,000	—	—	20,000	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	116,236	32,544	1,242	150,022	(235)	(194)	(298)	(727)	0.2	0.6	24.0	0.5
– personal	5,547	32	—	5,579	—	(31)	—	(31)	—	96.9	—	0.6
– corporate and commercial (including non-bank financial institutions)	110,689	32,512	1,242	144,443	(235)	(163)	(298)	(696)	0.2	0.5	24.0	0.5
At 31 December 2020	5,237,426	491,409	148,477	5,877,312	(14,312)	(20,327)	(37,541)	(72,180)	0.3	4.1	25.3	1.2

Stage 2 days past due analysis at 31 December 2020

	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:	330,087	*323,474*	*6,613*	(19,136)	*(18,468)*	*(668)*	5.8	*5.7*	*10.1*
– personal	55,074	*48,517*	*6,557*	(5,421)	*(4,754)*	*(667)*	9.8	*9.8*	*10.2*
– corporate and commercial	164,471	*164,415*	*56*	(10,289)	*(10,288)*	*(1)*	6.3	*6.3*	*1.8*
– non-bank financial institutions	110,542	*110,542*	*—*	(3,426)	*(3,426)*	*—*	3.1	*3.1*	*—*
Other financial assets measured at amortised cost	3,798	*3,746*	*52*	(6)	*(6)*	*—*	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, the credit quality assessment is not necessarily fully aligned to 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	**1,044,946**	**1,285,585**	**547,430**	**208,385**	**168,411**	**3,254,757**	**(58,032)**	**3,196,725**
– stage 1	**1,039,912**	**1,280,424**	**481,569**	**28,882**	**—**	**2,830,787**	**(14,740)**	**2,816,047**
– stage 2	**5,034**	**5,161**	**65,861**	**179,503**	**—**	**255,559**	**(15,615)**	**239,944**
– stage 3	**—**	**—**	**—**	**—**	**168,411**	**168,411**	**(27,677)**	**140,734**
Loans and advances to banks at amortised cost	**613,064**	**—**	**—**	**—**	**—**	**613,064**	**(2)**	**613,062**
– stage 1	**613,064**	**—**	**—**	**—**	**—**	**613,064**	**(2)**	**613,062**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**1,252,075**	**2,438**	**2,766**	**1,148**	**14,831**	**1,273,258**	**(9,696)**	**1,263,562**
– stage 1	**1,252,067**	**2,411**	**2,514**	**183**	**—**	**1,257,175**	**(8)**	**1,257,167**
– stage 2	**8**	**27**	**252**	**965**	**—**	**1,252**	**—**	**1,252**
– stage 3	**—**	**—**	**—**	**—**	**14,831**	**14,831**	**(9,688)**	**5,143**
Loan and other credit-related commitments	**486,619**	**109,327**	**302,620**	**59,702**	**9,471**	**967,739**	**(1,173)**	**966,566**
– stage 1	**486,513**	**106,262**	**273,236**	**10,284**	**—**	**876,295**	**(455)**	**875,840**
– stage 2	**106**	**3,065**	**29,384**	**49,418**	**—**	**81,973**	**(374)**	**81,599**
– stage 3	**—**	**—**	**—**	**—**	**9,471**	**9,471**	**(344)**	**9,127**
Financial guarantees and similar contracts	**19,731**	**2,286**	**101,612**	**14,996**	**1,734**	**140,359**	**(597)**	**139,762**
– stage 1	**18,230**	**2,286**	**87,146**	**3,944**	**—**	**111,606**	**(187)**	**111,419**
– stage 2	**1,501**	**—**	**14,466**	**11,052**	**—**	**27,019**	**(119)**	**26,900**
– stage 3	**—**	**—**	**—**	**—**	**1,734**	**1,734**	**(291)**	**1,443**
At 31 December 2021	**3,416,435**	**1,399,636**	**954,428**	**284,231**	**194,447**	**6,249,177**	**(69,500)**	**6,179,677**

	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	**845,700**	**—**	**—**	**—**	**—**	**845,700**	**(69)**
– stage 1	**845,700**	**—**	**—**	**—**	**—**	**845,700**	**(69)**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Treasury Bills measured at fair value through other comprehensive income	**228,172**	**—**	**—**	**—**	**—**	**228,172**	**(7)**
– stage 1	**228,172**	**—**	**—**	**—**	**—**	**228,172**	**(7)**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2021	**1,073,872**	**—**	**—**	**—**	**—**	**1,073,872**	**(76)**

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	951,506	1,289,538	727,317	225,216	130,996	3,324,573	(59,909)	3,264,664
– stage 1	951,034	1,288,755	616,082	7,619	—	2,863,490	(13,600)	2,849,890
– stage 2	472	783	111,235	217,597	—	330,087	(19,136)	310,951
– stage 3	—	—	—	—	130,996	130,996	(27,173)	103,823
Loans and advances to banks at amortised cost	583,447	—	—	—	—	583,447	(8)	583,439
– stage 1	583,447	—	—	—	—	583,447	(8)	583,439
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	724,063	2,800	3,336	3,147	14,605	747,951	(9,843)	738,108
– stage 1	724,062	2,799	2,609	78	—	729,548	(11)	729,537
– stage 2	1	1	727	3,069	—	3,798	(6)	3,792
– stage 3	—	—	—	—	14,605	14,605	(9,826)	4,779
Loan and other credit-related commitments	494,823	142,784	377,579	54,499	1,634	1,071,319	(1,693)	1,069,626
– stage 1	494,660	140,909	305,637	3,499	—	944,705	(458)	944,247
– stage 2	163	1,875	71,942	51,000	—	124,980	(991)	123,989
– stage 3	—	—	—	—	1,634	1,634	(244)	1,390
Financial guarantees and similar contracts	15,635	7,302	111,239	14,604	1,242	150,022	(727)	149,295
– stage 1	15,635	6,786	93,687	128	—	116,236	(235)	116,001
– stage 2	—	516	17,552	14,476	—	32,544	(194)	32,350
– stage 3	—	—	—	—	1,242	1,242	(298)	944
At 31 December 2020	2,769,474	1,442,424	1,219,471	297,466	148,477	5,877,312	(72,180)	5,805,132

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	877,452	–	–	–	–	877,452	(340)
– stage 1	877,452	–	–	–	–	877,452	(340)
– stage 2	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–
Treasury Bills measured at fair value through other comprehensive income	256,302	–	–	–	–	256,302	(30)
– stage 1	256,302	–	–	–	–	256,302	(30)
– stage 2	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–
At 31 December 2020	1,133,754	–	–	–	–	1,133,754	(370)

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 the portion of loan and other credit-related commitments relating solely to loans and advances to customers excluding loans and other credit related commitments to banks.

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, including the underlying CRR movements of the financial instruments transferring stage. Movements in ECL arising as a result of changes to the underlying PDs and LGDs, including as a result of changes in macroeconomic scenarios, are captured 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.

The ECL charge reflected during the financial year ended 31 December 2020 amounting to €24.9 million was driven by the impact of the outbreak of the Covid-19 pandemic on economic conditions. The increase in credit loss allowances reflected the general downturn in economic conditions, as well as a significant deterioration in the forward economic outlook as a result of the pandemic.

A decrease in credit loss allowances resulted in an ECL release amounting to €2.7 million during the financial year ended 31 December 2021. This was primarily attributable to significant repayments effected during 2021 leading to reductions in credit loss allowances amounting to €4.5 million, particularly in respect of stage 2 and stage 3 exposures, and to amounts written off in respect of stage 3 exposures giving rise to an ECL release amounting to €4.3 million. These reductions were partly offset by migrations of exposures from stage 1 to stage 2 or 3 as well as changes in risk parameters in respect of modelled ECL, resulting in increases in credit loss allowances during 2021 amounting to €1.9 million and €4.2 million, respectively. The latter primarily reflects the application of management overlays on the basis of expert credit risk judgement, designed to capture the sustained level of uncertainty driven by the general slowdown in economic activity. These overlays estimate the ECL impact of delayed default emergence due to government support schemes, uncertainties in respect of potential additional waves of Covid-19 infections or new virus strains, as well as the potential economic impact of Malta's grey-listing by the FATF during 2021.

The significant increases in forward-looking risk parameters (PDs and LGDs) experienced during the financial year ended 31 December 2020, reflecting more pessimistic macroeconomic scenarios forecasted in the modelling of credit loss allowances, remain applicable as at 31 December 2021, due to the prevailing level of continued economic uncertainty. This is described in more detail in Note 4(b)(iii) – Forward-looking information incorporated in the ECL model.

	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 2021	**3,912,437**	**(14,294)**	**491,409**	**(20,327)**	**148,477**	**(37,541)**	**4,552,323**	**(72,162)**
Transfers of financial instruments	(36,284)	(2,998)	(35,553)	7,215	71,837	(4,217)	—	—
– transfers from stage 1 to stage 2	(83,796)	590	83,796	(590)	—	—	—	—
– transfers from stage 2 to stage 1	66,557	(3,480)	(66,557)	3,480	—	—	—	—
– transfers from stage 3	1,546	(189)	3,932	(555)	(5,478)	744	—	—
– transfers to stage 3	(20,591)	81	(56,724)	4,880	77,315	(4,961)	—	—
Net remeasurement of ECL arising from stage transfers	—	3,395	—	(1,904)	—	(3,405)	—	(1,914)
Changes in risk parameters	—	(1,317)	—	(2,902)	—	29	—	(4,190)
Net new and further lending/repayments	(58,640)	(168)	(90,053)	1,810	(21,559)	2,826	(170,252)	4,468
Assets written off	—	—	—	—	(4,308)	4,308	(4,308)	4,308
As at 31 December 2021	**3,817,513**	**(15,382)**	**365,803**	**(16,108)**	**194,447**	**(38,000)**	**4,377,763**	**(69,490)**
ECL release for the year								2,672
Recoveries								1,114
Other								1,215
Change in expected credit losses for the year								**5,001**
Assets written off								(4,308)
Change in expected credit losses and other credit impairment charges								**693**

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 2021 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

	At 31 December 2021		12 months ended 31 December 2021
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	**4,377,763**	**(69,490)**	**693**
Balances at central banks	1,241,462	(8)	2
Loans and advances to banks measured at amortised cost	613,064	(2)	6
Items in course of collection	4,453	—	—
Accrued interest on debt instruments and other accrued income	3,693	—	—
Loan and other credit related commitments - banks	8,742	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	**6,249,177**	**(69,500)**	**701**
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,073,872	(76)	294
Total allowance for ECL/total income statement ECL release for the year	**N/A**	**(69,576)**	**995**

	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 2020	4,270,104	(8,575)	109,916	(6,297)	136,508	(32,403)	4,516,528	(47,275)
Transfers of financial instruments:	(368,156)	521	336,436	(992)	31,720	471	—	—
– transfers from stage 1 to stage 2	(367,637)	2,098	367,637	(2,098)	—	—	—	—
– transfers from stage 2 to stage 1	25,431	(1,116)	(25,431)	1,116	—	—	—	—
– transfers from stage 3	4,368	(492)	4,725	(602)	(9,093)	1,094	—	—
– transfers to stage 3	(30,318)	31	(10,495)	592	40,813	(623)	—	—
Net remeasurement of ECL arising from stage transfers	—	1,380	—	(11,820)	—	(4,216)	—	(14,656)
Changes in risk parameters	—	(8,477)	—	(2,833)	—	(5,191)	—	(16,501)
Net new and further lending/repayments	10,489	857	45,057	1,615	(17,728)	1,775	37,818	4,247
Assets written off	—	—	—	—	(2,023)	2,023	(2,023)	2,023
As at 31 December 2020	3,912,437	(14,294)	491,409	(20,327)	148,477	(37,541)	4,552,323	(72,162)
ECL charge for the year								(24,887)
Recoveries								755
Other								902
Change in expected credit losses for the year								(23,230)
Assets written off								(2,023)
Change in expected credit losses and other credit impairment charges								(25,253)

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 2020 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

The reduction in allowances for ECL in relation to 'Net new and further lending/repayments' corresponds to a net increase in gross carrying/ nominal amounts. This is driven by net increases in loan and other credit-related commitments, which attract lower ECL than on-balance sheet exposures.

	At 31 December 2020		12 months ended 31 December 2020
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,552,323	(72,162)	(25,253)
Balances at central banks	711,497	(10)	9
Loans and advances to banks measured at amortised cost	583,447	(8)	(7)
Items in course of collection	4,959	—	—
Accrued interest on debt instruments and other accrued income	5,086	—	—
Loan and other credit related commitments - banks	20,000	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	5,877,312	(72,180)	(25,251)
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,133.754	(370)	(338)
Total allowance for ECL/total income statement ECL charge for the year	N/A	(72,550)	(25,589)

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, Wealth and Personal Banking ('WPB') and Commercial Banking ('CMB').

WPB offers a broad range of products to meet the needs of individual customers. WPB 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 2021 and 31 December 2020.

Segmental information in relation to impairment allowances on loans and advances to customers

Loans and advances to customers	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**
WPB	**11,940**	**4,388**	**8,148**	**24,476**
CMB	**2,800**	**11,227**	**19,529**	**33,556**
At 31 December 2021	**14,740**	**15,615**	**27,677**	**58,032**
Loan and other credit-related commitments and financial guarantee and similar contracts				
WPB	**46**	**–**	**–**	**46**
CMB	**596**	**493**	**635**	**1,724**
At 31 December 2021	**642**	**493**	**635**	**1,770**
Loans and advances to customers				
WPB	9,631	5,417	8,329	23,377
CMB	3,969	13,719	18,844	36,532
At 31 December 2020	13,600	19,136	27,173	59,909
Loan and other credit-related commitments and financial guarantee and similar contracts				
WPB	31	31	–	62
CMB	662	1,154	542	2,358
At 31 December 2020	693	1,185	542	2,420

The measurement of allowances for ECL and the ECL release/charge for 2021 and 2020 are analysed in detail in the tables presented in the previous section. In addition, these movements are further analysed by business segment in the tables presented 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. Therefore the terms 'forborne' and 'renegotiated' loans are used interchangeably.

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.

In relation to wholesale lending, the bank categorises a forborne exposure as performing if no unlikely-to-pay indicators are evident. Renegotiated loans are classified as non-credit impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet contractual payment terms but contractual cash flows are expected to be collected in full following the renegotiation.

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

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is disclosed as renegotiated.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument 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.

During the financial year ended 31 December 2020, a number of government support schemes and regulatory relief measures were announced in response to the outbreak of the Covid-19 pandemic, one of which being the granting of moratoria on capital and/or interest payments to provide relief to individual and corporate customers during the ensuing macroeconomic recession triggered by the pandemic. In this regard, the Central Bank of Malta issued Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') in order to provide guidance on the treatment of such instances, in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines')[1]. These are referred to as general payment moratoria.

In line with the EBA Guidelines and Directive No. 18, exposures meeting established criteria and eligible for the granting of a general payment moratorium are not classified as forborne/renegotiated, unless the borrower was already experiencing financial difficulties prior to the pandemic. Nevertheless, the bank performed an assessment in respect of such exposures in order to determine whether the short-term shock may transform into long-term financial difficulties, thereby potentially requiring a downgrade to stage 2 or stage 3 to reflect the level of credit risk as appropriate. This assessment was performed on a periodic basis at borrower level in respect of wholesale exposures, whereas the assessment in respect of retail exposures was performed by reference to shared credit quality characteristics (e.g. employment status and sector within which the customer is employed).

In accordance with the requirements of Directive No. 18, applications for new general payment moratoria or for extensions of existing general payment moratoria were accepted until 31 March 2021, with the total duration of the moratorium, inclusive of extensions, being limited to nine months. In this respect, applications for new general payment moratoria or for extensions of general payment moratoria received after 31 March 2021, or extending beyond the maximum duration prescribed by Directive No. 18, are considered to be forbearance measures. In addition, the granting of moratoria which do not meet the conditions of a general payment moratorium are also considered to be forbearance measures.

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. Unless the conditions for classification as a performing forborne exposure are met, 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. Exposures eligible for a general payment moratorium are not considered to be renegotiated loans and are therefore not included in the table below.

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

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
Gross carrying amount				
Personal				
– first lien residential mortgages	**—**	**16,260**	**40,190**	**56,450**
– other personal lending	**—**	**1,544**	**6,911**	**8,455**
Wholesale				
– corporate and commercial	**79**	**24,823**	**63,472**	**88,374**
– non-bank financial institutions	**—**	**26,155**	**4,459**	**30,614**
At 31 December 2021	**79**	**68,782**	**115,032**	**183,893**
Allowance for ECL				
Personal				
– first lien residential mortgages	**—**	**(1,188)**	**(3,913)**	**(5,101)**
– other personal lending	**—**	**(28)**	**(766)**	**(794)**
Wholesale				
– corporate and commercial	**(1)**	**(4,107)**	**(15,583)**	**(19,691)**
– non-bank financial institutions	**—**	**(1,194)**	**(279)**	**(1,473)**
At 31 December 2021	**(1)**	**(6,517)**	**(20,541)**	**(27,059)**
Gross carrying amount				
Personal				
– first lien residential mortgages	—	15,482	34,880	50,362
– other personal lending	—	1,580	5,922	7,502
Wholesale				
– corporate and commercial	86	5,657	39,741	45,484
– non-bank financial institutions	—	—	451	451
At 31 December 2020	86	22,719	80,994	103,799
Allowance for ECL				
Personal				
– first lien residential mortgages	—	(1,385)	(3,652)	(5,037)
– other personal lending	—	(46)	(716)	(762)
Wholesale				
– corporate and commercial	(2)	(1,453)	(16,054)	(17,509)
– non-bank financial institutions	—	—	(80)	(80)
At 31 December 2020	(2)	(2,884)	(20,502)	(23,388)

1 *EBA Guideline (EBA/GL/2020/02) published on 2 April 2020, as amended by EBA/GL/2020/08 published on 25 June 2020, and EBA/GL/2020/15 published on 2 December 2020.*

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

	2021	2020
	€000	€000
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers	**5.6%**	3.1%
Interest income recognised in respect of forborne/renegotiated assets	**7,173**	4,709
Movement in forbearance activity during the year:		
At 1 January	**103,799**	87,347
Loans renegotiated without derecognition	**96,491**	30,007
Repayments	**(13,097)**	(12,916)
Amounts written off	**(3,300)**	(639)
At 31 December	**183,893**	103,799

In addition to renegotiated loans as disclosed in the tables above, during 2020 the bank granted moratoria to 1,821 obligors in respect of gross exposures amounting to €430,158,000, which moratoria met the criteria for a general payment moratorium as established within Directive No. 18 and the EBA Guidelines.

As at 31 December 2020, outstanding gross loans and advances subject to general payment moratoria amounted to €163,536,000 of which €99,964,000 were classified in stage 2 and €5,110,000 were classified in stage 3. The allowance for ECL in respect of stage 1 loans subject to general payment moratoria amounted to €457,000, while the ECL in respect of stage 2 and stage 3 loans subject to general payment moratoria amounted to €4,541,000 and €175,000 respectively.

During the financial year ended 31 December 2021, extensions to general payment moratoria in respect of loans subject to general payment moratoria as at 31 December 2020 were granted to 52 obligors in respect of gross exposures amounting to €11,190,000, which extensions met the criteria established within Directive No. 18 and the EBA Guidelines.

During 2021, the bank also granted new moratoria to 9 obligors in respect of gross exposures amounting to €4,539,000, which moratoria met the criteria for a general payment moratorium as established within Directive No. 18 and the EBA Guidelines.

Extensions to existing moratoria and new moratoria granted during the financial year ended 31 December 2021, which do not meet the criteria established within Directive No. 18 and the EBA Guidelines, are classified as renegotiated loans and are therefore included in the tables above.

As at 31 December 2021, no outstanding gross loans and advances were subject to general payment moratoria.

Out of the outstanding gross loans and advances subject to general payment moratoria as at 31 December 2020, €43,575,000 related to retail mortgage customers. In order to earmark obligors experiencing a significant increase in credit risk and estimate the impact of delayed emergence of defaults in view of these moratoria, and accordingly estimate the ECL referred to above, the bank designed a post-model estimation methodology, using a segmentation technique which amongst other factors takes into consideration employment status and employment sector of the obligor.

Following the expiration of all general payment moratoria during 2021, this post-model estimation methodology was enhanced to estimate the impact of delayed emergence of default in view of the government support measures which were still in force during the year ended 31 December 2021. In this respect, the bank adjusted the methodology to capture the delayed emergence of default in relation to retail mortgage customers to whom a general payment moratorium was granted since the outbreak of the Covid-19 pandemic. The default risk following the eventual uplift of government support measures is deemed to be higher in respect of such customers and, accordingly, the potential impact on ECL as a result of the above was estimated.

In respect of wholesale exposures, the bank assessed and individually rated each borrower requesting a general payment moratorium on the basis of recently obtained management information, including forecasts.

During 2020, the bank had also confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee. In this respect, as at 31 December 2021, newly originated gross loans subject to the Malta Development Bank Covid-19 Guarantee Scheme amounted to €37,760,000 (2020: €14,284,000), of which a maximum amount of €33,984,000 (2020: €12,676,000) is considered guaranteed. As at 31 December 2021, gross loans originated under this scheme classified as stage 1 and stage 2 amounted to €25,024,000 (2020: €5,734,000) and €9,530,000 (2020: €8,550,000) respectively. As at 31 December 2021, loans originated under this scheme classified in stage 3 amounted to €3,206,000 (2020: Nil).

The allowance for ECL in respect of the corresponding loans classified as stage 1, stage 2 and stage 3 amounted to €343,000 (2020: €61,000), €354,000 (2020: €360,000) and €127,000 (2020: Nil) respectively.

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, 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 2021 and 2020 to the closing carrying/nominal amounts as at 31 December 2021 and 2020 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	641,574	122,874	74,705	839,153	(2,466)	(8,129)	(19,240)	(29,835)
– agriculture, forestry and fishing	203	304	99	606	(3)	(2)	(8)	(13)
– manufacture	35,012	9,638	8,051	52,701	(293)	(278)	(2,696)	(3,267)
– electricity, gas, steam and air-conditioning supply	75,396	—	—	75,396	(184)	—	—	(184)
– water supply, sewerage, waste management and remediation	33,269	—	—	33,269	(7)	—	—	(7)
– construction	17,714	1,325	3,305	22,344	(114)	(7)	(739)	(860)
– wholesale and retail trade, repair of motor vehicles and motorcycles	162,146	33,814	14,068	210,028	(466)	(1,211)	(3,369)	(5,046)
– transportation and storage	7,026	6,911	16	13,953	(42)	(127)	(16)	(185)
– accommodation and food	17,793	48,975	25,758	92,526	(247)	(4,056)	(6,040)	(10,343)
– information and communication	28,558	3,521	1	32,080	(248)	(1,449)	(1)	(1,698)
– real estate	85,930	6,346	13,937	106,213	(641)	(464)	(1,930)	(3,035)
– professional, scientific and technical activities	4,770	1,111	20	5,901	(17)	(8)	(20)	(45)
– administrative and support services	1,881	1,914	454	4,249	(22)	(295)	(34)	(351)
– education	385	—	3,549	3,934	(4)	—	(550)	(554)
– health and care	11,077	8,795	5,056	24,928	(116)	(230)	(3,705)	(4,051)
– arts, entertainment and recreation	173	19	105	297	(1)	—	(19)	(20)
– other services	3,156	201	286	3,643	(30)	(2)	(113)	(145)
– public administration and defence, compulsory social security	157,085	—	—	157,085	(31)	—	—	(31)
Non-bank financial institutions	38,032	82,906	4,472	125,410	(341)	(3,100)	(286)	(3,727)
At 31 December 2021	**679,606**	**205,780**	**79,177**	**964,563**	**(2,807)**	**(11,229)**	**(19,526)**	**(33,562)**
Other financial assets measured at amortised cost								
– endorsements and acceptances	842	—	—	842	—	—	—	—
– accrued income	2,282	883	10,221	13,386	—	—	(7,682)	(7,682)
At 31 December 2021	**3,124**	**883**	**10,221**	**14,228**	**—**	**—**	**(7,682)**	**(7,682)**
Corporate and commercial	624,100	164,471	46,923	835,494	(3,121)	(10,289)	(18,743)	(32,153)
– agriculture, forestry and fishing	126	430	367	923	—	(10)	(81)	(91)
– manufacture	33,466	8,524	5,886	47,876	(335)	(361)	(2,471)	(3,167)
– electricity, gas, steam and air-conditioning supply	82,212	21	—	82,233	(276)	—	—	(276)
– water supply, sewerage, waste management and remediation	34,875	21	—	34,896	(16)	—	—	(16)
– construction	9,370	3,970	1,546	14,886	(80)	(86)	(765)	(931)
– wholesale and retail trade, repair of motor vehicles and motorcycles	79,753	42,752	6,926	129,431	(630)	(1,204)	(2,680)	(4,514)
– transportation and storage	8,095	7,711	147	15,953	(66)	(204)	(53)	(323)
– accommodation and food	5,201	76,321	4,535	86,057	(88)	(5,101)	(2,785)	(7,974)
– information and communication	30,897	4,078	3	34,978	(325)	(1,220)	(3)	(1,548)
– real estate	90,726	13,264	21,281	125,271	(1,087)	(1,219)	(5,930)	(8,236)
– professional, scientific and technical activities	82,787	122	8	82,917	(68)	(8)	(8)	(84)
– administrative and support services	2,827	2,051	453	5,331	(8)	(182)	(8)	(198)
– education	171	3,309	—	3,480	(3)	(579)	—	(582)
– health and care	5,517	345	5,043	10,905	(57)	(4)	(3,756)	(3,817)
– arts, entertainment and recreation	342	1,054	25	1,421	(1)	(36)	(25)	(62)
– other services	2,534	498	703	3,735	(29)	(75)	(178)	(282)
– public administration and defence, compulsory social security	155,201	—	—	155,201	(52)	—	—	(52)
Non-bank financial institutions	83,715	110,542	459	194,716	(862)	(3,426)	(82)	(4,370)
At 31 December 2020	707,815	275,013	47,382	1,030,210	(3,983)	(13,715)	(18,825)	(36,523)
Other financial assets measured at amortised cost								
– endorsements and acceptances	512	609	—	1,121	(1)	(6)	—	(7)
– accrued income	2,354	2,815	9,541	14,710	—	—	(7,381)	(7,381)
At 31 December 2020	2,866	3,424	9,541	15,831	(1)	(6)	(7,381)	(7,388)

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	546,574	74,044	11,086	631,704	(542)	(453)	(635)	(1,630)
Non-bank financial institutions	28,886	26,670	—	55,556	(54)	(40)	—	(94)
At 31 December 2021	**575,460**	**100,714**	**11,086**	**687,260**	**(596)**	**(493)**	**(635)**	**(1,724)**
Corporate and commercial	546,887	116,877	2,762	666,526	(516)	(1,092)	(542)	(2,150)
Non-bank financial institutions	39,331	30,007	—	69,338	(146)	(62)	—	(208)
At 31 December 2020	586,218	146,884	2,762	735,864	(662)	(1,154)	(542)	(2,358)

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 1 January 2021	1,296,899	(4,646)	425,321	(14,875)	59,685	(26,748)	1,781,905	(46,269)
Transfers of financial instruments	(13,692)	(1,455)	(36,361)	5,668	50,053	(4,213)	—	—
– transfers from stage 1 to stage 2	(62,843)	515	62,843	(515)	—	—	—	—
– transfers from stage 2 to stage 1	50,173	(1,978)	(50,173)	1,978	—	—	—	—
– transfers from stage 3	37	—	12	(12)	(49)	12	—	—
– transfers to stage 3	(1,059)	8	(49,043)	4,217	50,102	(4,225)	—	—
Net remeasurement of ECL arising from stage transfers	—	1,785	—	(539)	—	(1,484)	—	(238)
Changes in risk parameters	—	1,154	—	(3,187)	—	(2)	—	(2,035)
Net new and further lending/ repayments	(25,017)	(241)	(81,583)	1,211	(5,734)	1,084	(112,334)	2,054
Assets written off					(3,520)	3,520	(3,520)	3,520
As at 31 December 2021	1,258,190	(3,403)	307,377	(11,722)	100,484	(27,843)	1,666,051	(42,968)
ECL release for the year								3,301
Recoveries								409
Other								1,322
Change in expected credit losses for the year								5,032
Assets written off								(3,520)
Change in expected credit losses and other credit impairment charges								1,512

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 2021 and included in 'Other' in the above reconciliation.

	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 2020	1,565,578	(6,887)	56,362	(2,601)	69,414	(24,039)	1,691,354	(33,527)
Transfers of financial instruments :	(319,437)	1,859	317,174	(1,783)	2,263	(76)	—	—
– transfers from stage 1 to stage 2	(328,157)	2,048	328,157	(2,048)	—	—	—	—
– transfers from stage 2 to stage 1	9,308	(199)	(9,308)	199	—	—	—	—
– transfers from stage 3	—	—	27	(17)	(27)	17	—	—
– transfers to stage 3	(588)	10	(1,702)	83	2,290	(93)	—	—
Net remeasurement of ECL arising from stage transfers	—	92	—	(9,198)	—	(244)	—	(9,350)
Changes in risk parameters	—	(610)	—	(928)	—	(4,569)	—	(6,107)
Net new and further lending/ repayments	50,758	900	51,785	(365)	(11,278)	1,466	91,265	2,001
Assets written off	—	—	—	—	(714)	714	(714)	714
As at 31 December 2020	1,296,899	(4,646)	425,321	(14,875)	59,685	(26,748)	1,781,905	(46,269)
ECL charge for the year								(12,742)
Recoveries								250
Other								939
Change in expected credit losses for the year								(11,553)
Assets written off								(714)
Change in expected credit losses and other credit impairment charges								(12,267)

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 2020 and included in 'Other' in the above reconciliation.

The reduction in allowances for ECL in relation to 'Net new and further lending/repayments' corresponds to a net increase in gross carrying/nominal amounts. This is driven by net increases in loan and other credit-related commitments, which attract lower ECL than on-balance sheet exposures.

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	**194,435**	**13,217**	**358,989**	**53,977**	**11,086**	**631,704**	**(1,630)**	**630,074**
Non-bank financial institutions	**—**	**2,900**	**33,010**	**19,646**	**—**	**55,556**	**(94)**	**55,462**
At 31 December 2021	**194,435**	**16,117**	**391,999**	**73,623**	**11,086**	**687,260**	**(1,724)**	**685,536**
Corporate and commercial	186,103	10,136	410,127	57,398	2,762	666,526	(2,151)	664,375
Non-bank financial institutions	—	2,630	56,906	9,802	—	69,338	(207)	69,131
At 31 December 2020	186,103	12,766	467,033	67,200	2,762	735,864	(2,358)	733,506

All corporate customers are rated using a 10-grade scale, with each CRR band being calibrated by reference to the Global Master Scale developed by the HSBC Group on the basis of long run default rates for each grade. 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 31 December 2021 and 31 December 2020, 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	**641,574**	**122,874**	**74,705**	**839,153**	**(2,466)**	**(8,129)**	**(19,240)**	**(29,835)**	**3.6**
CRR1	**223,653**	**—**	**—**	**223,653**	**(29)**	**—**	**—**	**(29)**	**—**
CRR2	**58,686**	**—**	**—**	**58,686**	**(12)**	**—**	**—**	**(12)**	**—**
CRR3	**374**	**—**	**—**	**374**	**(2)**	**—**	**—**	**(2)**	**0.5**
CRR4	**134,286**	**—**	**—**	**134,286**	**(435)**	**—**	**—**	**(435)**	**0.3**
CRR5	**201,950**	**24,222**	**—**	**226,172**	**(1,653)**	**(577)**	**—**	**(2,230)**	**1.0**
CRR6	**21,036**	**58,925**	**—**	**79,961**	**(285)**	**(2,580)**	**—**	**(2,865)**	**3.6**
CRR7	**1,589**	**33,958**	**—**	**35,547**	**(50)**	**(3,160)**	**—**	**(3,210)**	**9.0**
CRR8	**—**	**5,769**	**—**	**5,769**	**—**	**(1,812)**	**—**	**(1,812)**	**31.4**
CRR9/10	**—**	**—**	**74,705**	**74,705**	**—**	**—**	**(19,240)**	**(19,240)**	**25.8**
Non-bank financial institutions	**38,032**	**82,906**	**4,472**	**125,410**	**(341)**	**(3,100)**	**(286)**	**(3,727)**	**3.0**
CRR1	**14**	**—**	**—**	**14**	**—**	**—**	**—**	**—**	**—**
CRR2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR3	**2,439**	**—**	**—**	**2,439**	**(4)**	**—**	**—**	**(4)**	**0.2**
CRR4	**1,053**	**—**	**—**	**1,053**	**(4)**	**—**	**—**	**(4)**	**0.4**
CRR5	**34,519**	**36,253**	**—**	**70,772**	**(333)**	**(778)**	**—**	**(1,111)**	**1.6**
CRR6	**7**	**39,472**	**—**	**39,479**	**—**	**(2,270)**	**—**	**(2,270)**	**5.7**
CRR7	**—**	**7,181**	**—**	**7,181**	**—**	**(52)**	**—**	**(52)**	**0.7**
CRR8	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR9/10	**—**	**—**	**4,472**	**4,472**	**—**	**—**	**(286)**	**(286)**	**6.4**
At 31 December 2021	**679,606**	**205,780**	**79,177**	**964,563**	**(2,807)**	**(11,229)**	**(19,526)**	**(33,562)**	**3.5**
Corporate and Commercial	624,100	164,471	46,923	835,494	(3,121)	(10,289)	(18,743)	(32,153)	3.8
CRR1	228,289	—	—	228,289	(15)	—	—	(15)	—
CRR2	55,515	—	—	55,515	(26)	—	—	(26)	—
CRR3	120	—	—	120	(1)	—	—	(1)	0.8
CRR4	157,550	4,937	—	162,487	(801)	(74)	—	(875)	0.5
CRR5	175,008	14,092	—	189,100	(2,122)	(390)	—	(2,512)	1.3
CRR6	7,618	100,682	—	108,300	(156)	(4,899)	—	(5,055)	4.7
CRR7	—	30,869	—	30,869	—	(2,556)	—	(2,556)	8.3
CRR8	—	13,891	—	13,891	—	(2,370)	—	(2,370)	17.1
CRR9/10	—	—	46,923	46,923	—	—	(18,743)	(18,743)	39.9
Non-bank financial institutions	83,715	110,542	459	194,716	(862)	(3,426)	(82)	(4,370)	2.2
CRR1	—	—	—	—	—	—	—	—	—
CRR2	—	—	—	—	—	—	—	—	—
CRR3	3,220	—	—	3,220	(6)	—	—	(6)	0.2
CRR4	32,311	38,061	—	70,372	(149)	(656)	—	(805)	1.1
CRR5	48,184	47,952	—	96,136	(707)	(1,675)	—	(2,382)	2.5
CRR6	—	20,485	—	20,485	—	(270)	—	(270)	1.3
CRR7	—	4,044	—	4,044	—	(825)	—	(825)	20.4
CRR8	—	—	—	—	—	—	—	—	—
CRR9/10	—	—	459	459	—	—	(82)	(82)	17.9
At 31 December 2020	707,815	275,013	47,382	1,030,210	(3,983)	(13,715)	(18,825)	(36,523)	3.5

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 2021 and 2020 to the closing carrying/nominal amounts as at 31 December 2021 and 2020 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	**1,974,558**	**37,323**	**75,272**	**2,087,153**	**(10,896)**	**(2,835)**	**(6,799)**	**(20,530)**
Other personal lending	**176,623**	**12,456**	**13,962**	**203,041**	**(1,037)**	**(1,551)**	**(1,352)**	**(3,940)**
– second lien residential mortgages	**92,943**	**4,318**	**12,230**	**109,491**	**(412)**	**(168)**	**(220)**	**(800)**
– credit cards	**27,666**	**985**	**94**	**28,745**	**(178)**	**(360)**	**(57)**	**(595)**
– other	**56,014**	**7,153**	**1,638**	**64,805**	**(447)**	**(1,023)**	**(1,075)**	**(2,545)**
At 31 December 2021	**2,151,181**	**49,779**	**89,234**	**2,290,194**	**(11,933)**	**(4,386)**	**(8,151)**	**(24,470)**
Other financial assets measured at amortised cost								
– accrued income	**4,443**	**369**	**4,610**	**9,422**	**—**	**—**	**(2,006)**	**(2,006)**
At 31 December 2021	**4,443**	**369**	**4,610**	**9,422**	**—**	**—**	**(2,006)**	**(2,006)**
By portfolio								
First lien residential mortgages	1,960,035	40,159	69,707	2,069,901	(8,861)	(3,753)	(6,905)	(19,519)
Other personal lending	195,640	14,915	13,907	224,462	(756)	(1,668)	(1,443)	(3,867)
– second lien residential mortgages	106,289	4,874	11,949	123,112	(323)	(247)	(255)	(825)
– credit cards	28,148	1,475	199	29,822	(288)	(541)	(126)	(955)
– other	61,203	8,566	1,759	71,528	(145)	(880)	(1,062)	(2,087)
At 31 December 2020	2,155,675	55,074	83,614	2,294,363	(9,617)	(5,421)	(8,348)	(23,386)
Other financial assets measured at amortised cost								
– accrued income	5,140	374	5,064	10,578	—	—	(2,445)	(2,445)
At 31 December 2020	5,140	374	5,064	10,578	—	—	(2,445)	(2,445)

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	**403,699**	**8,278**	**119**	**412,096**	**(46)**	**—**	**—**	**(46)**
At 31 December 2021	**403,699**	**8,278**	**119**	**412,096**	**(46)**	**—**	**—**	**(46)**
Personal	454,723	10,640	114	465,477	(31)	(31)	—	(62)
At 31 December 2020	454,723	10,640	114	465,477	(31)	(31)	—	(62)

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 2021	**2,615,538**	**(9,648)**	**66,088**	**(5,452)**	**88,792**	**(10,793)**	**2,770,418**	**(25,893)**
Transfers of financial instruments	**(22,592)**	**(1,543)**	**808**	**1,547**	**21,784**	**(4)**	**–**	**–**
– transfers from stage 1 to stage 2	**(20,953)**	**75**	**20,953**	**(75)**	**–**	**–**	**–**	**–**
– transfers from stage 2 to stage 1	**16,384**	**(1,502)**	**(16,384)**	**1,502**	**–**	**–**	**–**	**–**
– transfers from stage 3	**1,509**	**(189)**	**3,920**	**(543)**	**(5,429)**	**732**	**–**	**–**
– transfers to stage 3	**(19,532)**	**73**	**(7,681)**	**663**	**27,213**	**(736)**	**–**	**–**
Net remeasurement of ECL arising from stage transfers	**–**	**1,610**	**–**	**(1,365)**	**–**	**(1,921)**	**–**	**(1,676)**
Changes in risk parameters	**–**	**(2,471)**	**–**	**285**	**–**	**31**	**–**	**(2,155)**
Net new and further lending/ repayments	**(33,623)**	**73**	**(8,470)**	**599**	**(15,825)**	**1,742**	**(57,918)**	**2,414**
Assets written off	**–**	**–**	**–**	**–**	**(788)**	**788**	**(788)**	**788**
As at 31 December 2021	**2,559,323**	**(11,979)**	**58,426**	**(4,386)**	**93,963**	**(10,157)**	**2,711,712**	**(26,522)**
ECL charge for the year								**(629)**
Recoveries								**705**
Other								**(107)**
Change in expected credit losses for the year								**(31)**
Assets written off								**(788)**
Change in expected credit losses and other credit impairment charges								**(819)**

	Stage 1 Gross carrying/ nominal amount	Stage 1 Allowance for ECL	Stage 2 Gross carrying/ nominal amount	Stage 2 Allowance for ECL	Stage 3 Gross carrying/ nominal amount	Stage 3 Allowance for ECL	Total Gross carrying/ nominal amount	Total Allowance for ECL
As at 1 January 2020	2,704,526	(1,688)	53,554	(3,696)	67,094	(8,364)	2,825,174	(13,748)
Transfers of financial instruments :	(48,719)	(1,338)	19,262	791	29,457	547	–	–
– transfers from stage 1 to stage 2	(39,480)	50	39,480	(50)	–	–	–	–
– transfers from stage 2 to stage 1	16,123	(917)	(16,123)	917	–	–	–	–
– transfers from stage 3	4,368	(492)	4,698	(585)	(9,066)	1,077	–	–
– transfers to stage 3	(29,730)	21	(8,793)	509	38,523	(530)	–	–
Net remeasurement of ECL arising from stage transfers	–	1,288	–	(2,622)	–	(3,972)	–	(5,306)
Changes in risk parameters	–	(7,867)	–	(1,905)	–	(622)	–	(10,394)
Net new and further lending/ repayments	(40,269)	(43)	(6,728)	1,980	(6,450)	309	(53,447)	2,246
Assets written off	–	–	–	–	(1,309)	1,309	(1,309)	1,309
As at 31 December 2020	2,615,538	(9,648)	66,088	(5,452)	88,792	(10,793)	2,770,418	(25,893)
ECL charge for the year								(12,145)
Recoveries								505
Other								(37)
Change in expected credit losses for the year								(11,677)
Assets written off								(1,309)
Change in expected credit losses and other credit impairment charges								(12,986)

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	**1,974,558**	**37,323**	**75,272**	**2,087,153**	**(10,896)**	**(2,835)**	**(6,799)**	**(20,530)**	**1.0**
Not past due	**1,971,017**	**21,394**	**38,226**	**2,030,637**	**(10,878)**	**(1,637)**	**(3,967)**	**(16,482)**	**0.8**
Past due by:									
less than 30 days	**3,541**	**8,046**	**6,923**	**18,510**	**(18)**	**(553)**	**(781)**	**(1,352)**	**7.3**
30 to 59 days	**—**	**5,968**	**4,960**	**10,928**	**—**	**(350)**	**(540)**	**(890)**	**8.1**
60 to 89 days	**—**	**1,915**	**2,007**	**3,922**	**—**	**(295)**	**(170)**	**(465)**	**11.9**
90 days and more	**—**	**—**	**23,156**	**23,156**	**—**	**—**	**(1,341)**	**(1,341)**	**5.8**
Other personal lending	**176,623**	**12,456**	**13,962**	**203,041**	**(1,037)**	**(1,551)**	**(1,352)**	**(3,940)**	**1.9**
Not past due	**175,690**	**9,816**	**4,731**	**190,237**	**(1,032)**	**(1,227)**	**(516)**	**(2,775)**	**1.5**
Past due by:									
less than 30 days	**933**	**1,743**	**1,742**	**4,418**	**(5)**	**(177)**	**(138)**	**(320)**	**7.2**
30 to 59 days	**—**	**650**	**914**	**1,564**	**—**	**(80)**	**(66)**	**(146)**	**9.3**
60 to 89 days	**—**	**247**	**328**	**575**	**—**	**(67)**	**(22)**	**(89)**	**15.5**
90 days and more	**—**	**—**	**6,247**	**6,247**	**—**	**—**	**(610)**	**(610)**	**9.8**
At 31 December 2021	**2,151,181**	**49,779**	**89,234**	**2,290,194**	**(11,933)**	**(4,386)**	**(8,151)**	**(24,470)**	**1.1**
First lien residential mortgages	1,960,035	40,159	69,707	2,069,901	(8,861)	(3,753)	(6,905)	(19,519)	0.9
Not past due	1,954,135	30,120	29,505	2,013,760	(8,841)	(2,938)	(3,258)	(15,037)	0.7
Past due by:									
less than 30 days	5,900	4,752	5,935	16,587	(20)	(366)	(354)	(740)	4.5
30 to 59 days	—	4,202	3,135	7,337	—	(385)	(170)	(555)	7.6
60 to 89 days	—	1,085	1,168	2,253	—	(64)	(106)	(170)	7.5
90 days and more	—	—	29,964	29,964	—	—	(3,017)	(3,017)	10.1
Other personal lending	195,640	14,915	13,907	224,462	(756)	(1,668)	(1,443)	(3,867)	1.7
Not past due	194,170	11,932	4,522	210,624	(752)	(1,294)	(556)	(2,602)	1.2
Past due by:									
less than 30 days	1,470	1,713	910	4,093	(4)	(155)	(78)	(237)	5.8
30 to 59 days	—	878	653	1,531	—	(129)	(23)	(152)	9.9
60 to 89 days	—	392	528	920	—	(90)	(26)	(116)	12.6
90 days and more	—	—	7,294	7,294	—	—	(760)	(760)	10.4
At 31 December 2020	2,155,675	55,074	83,614	2,294,363	(9,617)	(5,421)	(8,348)	(23,386)	1.0

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 the 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 but excludes any collateral held in the form of guarantees. 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 loan-to-value ('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 Business 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 tables in following pages consists of fixed first charges on real estate. The values in the tables 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	**171,258**	**(966)**	**0.6**
Fully collateralised	**472,699**	**(1,482)**	**0.3**
– less than or equal to 50%	**156,130**	**(1,177)**	**0.8**
– 51% to 75%	**15,996**	**(177)**	**1.1**
– 76% to 90%	**10,009**	**(62)**	**0.6**
– 91% to 100%	**290,564**	**(66)**	**–**
Partially collateralised			
– greater than 100% LTV	**35,649**	**(359)**	**1.0**
– *of which: Collateral value*	***9,080***		
Total	**679,606**	**(2,807)**	**0.4**
Stage 2			
Not collateralised	**83,195**	**(4,531)**	**5.4**
Fully collateralised	**119,473**	**(6,643)**	**5.6**
– less than or equal to 50%	**112,255**	**(6,447)**	**5.7**
– 51% to 75%	**2,073**	**(77)**	**3.7**
– 76% to 90%	**58**	**–**	**–**
– 91% to 100%	**5,087**	**(119)**	**2.3**
Partially collateralised			
– greater than 100% LTV	**3,112**	**(55)**	**1.8**
– *of which: Collateral value*	***434***		
Total	**205,780**	**(11,229)**	**5.5**
Stage 3			
Not collateralised	**43,677**	**(9,632)**	**22.1**
Fully collateralised	**24,838**	**(5,107)**	**20.6**
– less than or equal to 50%	**18,544**	**(4,780)**	**25.8**
– 51% to 75%	**5,571**	**(98)**	**1.8**
– 76% to 90%	**658**	**(171)**	**26.0**
– 91% to 100%	**65**	**(58)**	**89.2**
Partially collateralised			
– greater than 100% LTV	**10,662**	**(4,787)**	**44.9**
– *of which: Collateral value*	***3,276***		
Total	**79,177**	**(19,526)**	**24.7**
At 31 December 2021	**964,563**	**(33,562)**	**3.5**

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	233,098	(2,011)	0.9
Fully collateralised	458,016	(1,809)	0.4
– less than or equal to 50%	126,454	(1,432)	1.1
– 51% to 75%	10,234	(88)	0.9
– 76% to 90%	25,997	(163)	0.6
– 91% to 100%	295,331	(126)	—
Partially collateralised			
– greater than 100% LTV	16,701	(163)	1.0
– *of which: Collateral value*	*6,064*		
Total	707,815	(3,983)	0.6
Stage 2			
Not collateralised	78,680	(4,565)	5.8
Fully collateralised	192,547	(9,028)	4.7
– less than or equal to 50%	160,991	(7,031)	4.4
– 51% to 75%	23,696	(1,691)	7.1
– 76% to 90%	1,337	(102)	7.6
– 91% to 100%	6,523	(204)	3.1
Partially collateralised			
– greater than 100% LTV	3,786	(122)	3.2
– *of which: Collateral value*	*1,236*		
Total	275,013	(13,715)	5.0
Stage 3			
Not collateralised	10,916	(5,680)	52.0
Fully collateralised	30,782	(9,260)	30.1
– less than or equal to 50%	21,854	(3,698)	16.9
– 51% to 75%	8,252	(5,333)	64.6
– 76% to 90%	628	(192)	30.6
– 91% to 100%	48	(37)	77.1
Partially collateralised			
– greater than 100% LTV	5,684	(3,885)	68.3
– *of which: Collateral value*	*2,719*		
Total	47,382	(18,825)	39.7
At 31 December 2020	1,030,210	(36,523)	3.5

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	**254,453**	**(5,497)**	**2.2**
Fully collateralised	**592,172**	**(8,125)**	**1.4**
– less than or equal to 50%	**268,385**	**(7,624)**	**2.8**
– 51% to 75%	**18,069**	**(254)**	**1.4**
– 76% to 90%	**10,067**	**(62)**	**0.6**
– 91% to 100%	**295,651**	**(185)**	**0.1**
Partially collateralised			
– greater than 100% LTV	**38,761**	**(414)**	**1.1**
– *of which: Collateral value*	***9,514***		
Total	**885,386**	**(14,036)**	**1.6**
CRR 9 to 10			
Not collateralised	**43,677**	**(9,632)**	**22.1**
Fully collateralised	**24,838**	**(5,107)**	**20.6**
– less than or equal to 50%	**18,544**	**(4,780)**	**25.8**
– 51% to 75%	**5,571**	**(98)**	**1.8**
– 76% to 90%	**658**	**(171)**	**26.0**
– 91% to 100%	**65**	**(58)**	**89.2**
Partially collateralised			
– greater than 100% LTV	**10,662**	**(4,787)**	**44.9**
– *of which: Collateral value*	***3,276***		
Total	**79,177**	**(19,526)**	**24.7**
At 31 December 2021	**964,563**	**(33,562)**	**3.5**

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	311,778	(6,576)	2.1
Fully collateralised	650,563	(10,837)	1.7
– less than or equal to 50%	287,445	(8,463)	2.9
– 51% to 75%	33,930	(1,779)	5.2
– 76% to 90%	27,334	(265)	1.0
– 91% to 100%	301,854	(330)	0.1
Partially collateralised			
– greater than 100% LTV	20,487	(285)	1.4
– *of which: Collateral value*	*7,300*		
Total	982,828	(17,698)	1.8
CRR 9 to 10			
Not collateralised	10,916	(5,680)	52.0
Fully collateralised	30,782	(9,260)	30.1
– less than or equal to 50%	21,854	(3,698)	16.9
– 51% to 75%	8,252	(5,333)	64.6
– 76% to 90%	628	(192)	30.6
– 91% to 100%	48	(37)	77.1
Partially collateralised			
– greater than 100% LTV	5,684	(3,885)	68.3
– *of which: Collateral value*	*2,719*		
Total	47,382	(18,825)	39.7
At 31 December 2020	1,030,210	(36,523)	3.5

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 car loans.

The collateral measured in the following tables 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	**77,847**	**(571)**	**0.7**
Fully collateralised	**2,069,865**	**(11,335)**	**0.5**
– less than or equal to 50%	**867,098**	**(4,257)**	**0.5**
– 51% to 75%	**860,947**	**(4,926)**	**0.6**
– 76% to 90%	**339,720**	**(2,051)**	**0.6**
– 91% to 100%	**2,100**	**(101)**	**4.8**
Partially collateralised :			
– greater than 100% LTV	**3,469**	**(27)**	**0.8**
– *of which: Collateral value*	***1,192***		
Total	**2,151,181**	**(11,933)**	**0.6**
Stage 2			
Not collateralised	**6,696**	**(1,203)**	**18.0**
Fully collateralised	**42,705**	**(3,139)**	**7.4**
– less than or equal to 50%	**27,378**	**(779)**	**2.9**
– 51% to 75%	**13,484**	**(2,013)**	**14.9**
– 76% to 90%	**1,443**	**(296)**	**20.5**
– 91% to 100%	**400**	**(51)**	**12.8**
Partially collateralised:			
– greater than 100% LTV	**378**	**(44)**	**11.6**
– *of which: Collateral value*	***104***		
Total	**49,779**	**(4,386)**	**8.8**
Stage 3			
Not collateralised	**1,570**	**(1,025)**	**65.3**
Fully collateralised	**87,635**	**(7,105)**	**8.1**
– less than or equal to 50%	**57,437**	**(1,515)**	**2.6**
– 51% to 75%	**24,397**	**(3,842)**	**15.7**
– 76% to 90%	**5,068**	**(1,386)**	**27.3**
– 91% to 100%	**733**	**(362)**	**49.4**
Partially collateralised:			
– greater than 100% LTV	**29**	**(21)**	**72.4**
– *of which: Collateral value*	***20***		
Total	**89,234**	**(8,151)**	**9.1**
At 31 December 2021	**2,290,194**	**(24,470)**	**1.1**
Stage 1			
Not collateralised	85,140	(420)	0.5
Fully collateralised	2,067,256	(9,191)	0.4
– less than or equal to 50%	736,056	(2,687)	0.4
– 51% to 75%	779,938	(3,657)	0.5
– 76% to 90%	548,111	(2,831)	0.5
– 91% to 100%	3,151	(16)	0.5
Partially collateralised :			
– greater than 100% LTV	3,279	(6)	0.2
– *of which: Collateral value*	*1,091*		
Total	2,155,675	(9,617)	0.4
Stage 2			
Not collateralised	8,042	(1,257)	15.6
Fully collateralised	46,500	(4,117)	8.9
– less than or equal to 50%	29,787	(747)	2.5
– 51% to 75%	10,556	(1,798)	17.0
– 76% to 90%	5,454	(1,441)	26.4
– 91% to 100%	703	(131)	18.6
Partially collateralised:			
– greater than 100% LTV	532	(47)	8.8
– *of which: Collateral value*	*162*		
Total	55,074	(5,421)	9.8
Stage 3			
Not collateralised	1,661	(1,011)	60.9
Fully collateralised	81,931	(7,321)	8.9
– less than or equal to 50%	45,419	(924)	2.0
– 51% to 75%	23,018	(3,121)	13.6
– 76% to 90%	12,404	(3,080)	24.8
– 91% to 100%	1,090	(196)	18.0
Partially collateralised:			
– greater than 100% LTV	22	(16)	72.7
– *of which: Collateral value*	*14*		
Total	83,614	(8,348)	10.0
At 31 December 2020	2,294,363	(23,386)	1.0

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	**84,543**	**(2,045)**	**2.4**
Fully collateralised	**2,155,389**	**(18,796)**	**0.9**
– less than or equal to 50%	**921,528**	**(5,840)**	**0.6**
– 51% to 75%	**886,852**	**(9,313)**	**1.1**
– 76% to 90%	**344,331**	**(3,273)**	**1.0**
– 91% to 100%	**2,678**	**(370)**	**13.8**
Partially collateralised			
– greater than 100% LTV	**3,870**	**(88)**	**2.3**
– *of which: Collateral value*	***1,314***		
Total	**2,243,802**	**(20,929)**	**0.9**
30 days to 89 days past due			
Not collateralised	**696**	**(213)**	**30.6**
Fully collateralised	**16,293**	**(1,377)**	**8.5**
– less than or equal to 50%	**10,077**	**(235)**	**2.3**
– 51% to 75%	**4,824**	**(796)**	**16.5**
– 76% to 90%	**1,155**	**(272)**	**23.6**
– 91% to 100%	**237**	**(74)**	**31.2**
Partially collateralised			
– greater than 100% LTV	**—**	**—**	**—**
– *of which: Collateral Value*	**—**		
Total	**16,989**	**(1,590)**	**9.4**
90 days past due or more			
Not collateralised	**874**	**(541)**	**61.9**
Fully collateralised	**28,523**	**(1,406)**	**4.9**
– less than or equal to 50%	**20,308**	**(476)**	**2.3**
– 51% to 75%	**7,152**	**(672)**	**9.4**
– 76% to 90%	**745**	**(188)**	**25.2**
– 91% to 100%	**318**	**(70)**	**22.0**
Partially collateralised			
– greater than 100% LTV	**6**	**(4)**	**66.7**
– *of which: Collateral value*	***2***		
Total	**29,403**	**(1,951)**	**6.6**
At 31 December 2021	**2,290,194**	**(24,470)**	**1.1**
Less than 30 days past due			
Not collateralised	92,930	(1,864)	2.0
Fully collateralised	2,148,342	(16,693)	0.8
– less than or equal to 50%	784,727	(3,952)	0.5
– 51% to 75%	800,636	(7,082)	0.9
– 76% to 90%	558,998	(5,476)	1.0
– 91% to 100%	3,981	(183)	4.6
Partially collateralised :			
– greater than 100% LTV	3,792	(59)	1.6
– *of which: Collateral value*	*1,251*		
Total	2,245,064	(18,616)	0.8
30 days to 89 days past due			
Not collateralised	884	(235)	26.6
Fully collateralised	11,126	(756)	6.8
– less than or equal to 50%	7,743	(135)	1.7
– 51% to 75%	2,260	(314)	13.9
– 76% to 90%	970	(257)	26.5
– 91% to 100%	153	(50)	32.7
Partially collateralised			
– greater than 100% LTV	31	(2)	6.5
– *of which: Collateral value*	*9*		
Total	12,041	(993)	8.2
90 days past due or more			
Not collateralised	1,029	(589)	57.2
Fully collateralised	36,219	(3,180)	8.8
– less than or equal to 50%	18,792	(271)	1.4
– 51% to 75%	10,616	(1,180)	11.1
– 76% to 90%	6,001	(1,619)	27.0
– 91% to 100%	810	(110)	13.6
Partially collateralised			
– greater than 100% LTV	10	(8)	80.0
– *of which: Collateral value*	*7*		
Total	37,258	(3,777)	10.1
At 31 December 2020	2,294,363	(23,386)	1.0

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 2021 and 2020.

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.

The Covid-19 outbreak dominated the political and economic landscape through the financial years ended 31 December 2020. The twin shocks of a public health emergency and the resultant economic fallout have been felt around the world during 2020. The sharp contraction in economic activity experienced in both global and local economies has had varying effects on different industry sectors, with borrowers operating or employed within such industry sectors experiencing financial difficulties. Measures designed to soften the extent of the damage to economic activity and the labour market were implemented by the Maltese government, as well as European and local regulatory authorities. Such measures included income support to households, funding support to businesses (including through government guaranteed schemes), as well as the granting of general public moratoria on capital and/or interest repayments in response to the outbreak of the pandemic.

The current financial year was characterised by strong economic growth after a complicated winter, as the global and local economies bounced back, particularly in spring and summer, resulting in abnormally high growth rates principally due to a spending spree unfolding as facilitated by successful vaccination campaigns. The strong growth rates during 2021 reflect the dynamics throughout the year, but also the low base value in 2020 due to the economic downturn. This growth is set to significantly slow down as the pandemic situation worsens throughout winter, alongside ongoing supply-chain issues. The autumn wave of infections towards the end of the year was stronger than expected, resulting in stricter government measures. The base assumption is that these measures remain focused on the unvaccinated, as current vaccines are expected to provide a degree of efficacy against the Omicron variant, thus avoiding the need for prolonged, full-scale lockdowns in the euro zone. The rise in infections is being tackled by governments using measures that aim to boost vaccination rates and some level of imposed social distancing rolled out across countries, which will affect economic activity. However, it is forecasted that the effect of the pandemic on aggregate activity will be more contained than in previous outbreaks. The unwinding of government support schemes and regulatory relief measures introduced as a response to the outbreak of Covid-19 also commenced during the current financial year, taking cognisance of the economic developments.

Uncertainty remains with respect to the potential economic impacts of epidemiological assumptions in relation to the pandemic as different regions emerge from the pandemic at different speeds, the progress registered from continued roll-outs of vaccination programmes, the efficacy of such vaccines/boosters upon the emergence of new virus strains, further restrictions imposed at national level by various governments as events unfold, and the unwinding of government support schemes and regulatory relief measures.

The main downside and upside risks to the baseline are still centred on developments surrounding the coronavirus pandemic. Although the baseline outlook foresees the economy weathering the winter outbreak, the pandemic might linger or consumer behaviour may remain cautious, preventing economic activity from fully rebounding to normal levels.

The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have also impacted the performance of ECL models, since the severity of projections of macroeconomic variables being forecasted in response to the pandemic are outside the historical observations on which the ECL models have been built and calibrated. In this regard, a significant judgement within the bank's estimation of ECL impairment allowances as at 31 December 2020 and 2021 relates to the determination of forward-looking scenarios reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

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').

In accordance with the HSBC Group's standard framework for incorporating forward-looking information into the ECL model, 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 generally in normal circumstances consistent with a probability of 10%, while the Central scenario is typically assigned the remaining 80%, according to the decision of the bank's senior management. This weighting scheme is deemed appropriate in normal circumstances 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 a panel of 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 generally 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.

In response to the outbreak of the Covid-19 pandemic, HSBC performed an assessment in order to determine whether the use of the standard framework as described above remains appropriate in light of the extraordinary economic conditions being experienced on a global scale as well as the significant increase in the inherent level of uncertainty which currently exists around future economic conditions.

In this respect, in addition to the estimated impact of the pandemic incorporated in the three scenarios contemplated by the standard framework, the impact was also incorporated in estimated credit loss allowances through the incorporation of a fourth scenario, namely the Additional Downside scenario, which was designed to capture the potential occurrence of a more severe tail-end macroeconomic scenario by reference to scenarios used for stress testing purposes.

The Additional Downside scenario was calibrated by reference to a scenario featuring a severe and prolonged economic contraction developed by an external vendor. In this respect, the Additional Downside scenario represents the 4th percentile of the entire distribution of forecast outcomes as estimated by the external vendor. In order to align the distribution of forecast outcomes used by the external vendor to the distribution utilised by the bank, the shocks applied to the external vendor's baseline scenario to generate the 4th percentile scenario are then translated to equivalent shocks applied to the bank's Central scenario under the consensus forecasts.

As a result, the four scenarios used in the bank's ECL model consider differing severity and duration assumptions relating to the global pandemic, including assumptions in respect of the speed at which emergence from the pandemic occurs and economic activity returns to pre-Covid-19 levels. These assumptions included probability-weighted shocks to annual GDP and consequential impacts on unemployment and other economic variables, with differing economic recovery assumptions. The probability weights assigned to each of the four scenarios have been recalibrated accordingly, as shown in the following tables, such that the Central scenario is assigned a probability weight of 60%, with the Downside and Additional Downside scenarios assigned a combined probability weight of 30%.

As highlighted previously, the impact of the pandemic on the duration and severity of the economic impacts remains uncertain, especially in light of potential subsequent waves of infection or new virus strains, the effectiveness of vaccinations in slowing and eventually reversing the spread of new virus strains, as well as the unwinding of government support schemes and local political decisions.

Based on the above, the estimation of credit loss allowances as at 31 December 2020 and 2021 required an elevated level of subjectivity and expert judgement. Despite the recovery in economic conditions during 2021, principally driven by the effective implementation of vaccination programmes addressing the mutation of Covid-19 variants, ECL estimates remain subject to a high degree of uncertainty. In this respect, judgements applied by management in estimating ECL continue to reflect a degree of caution, both in the selection of economic scenarios and in terms of the calibration of scenario weightings.

In addition, given that the unprecedented economic conditions being experienced as a result of the Covid-19 pandemic fall outside historical experience, post-model adjustments are also applied by management to assess the reasonableness of, and to enhance, modelled ECL by reference to expert judgement. In this respect, a significant portion of the increase in ECL allowances determined as at 31 December 2020, reflecting elevated forward-looking PDs and LGDs to capture the extent of economic uncertainty experienced in the aftermath of the outbreak of the pandemic, has been retained as an overlay within the estimation of ECL allowances on the bank's lending exposures as at 31 December 2021.

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 ECL 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 individually significant stage 3 loans.

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

As part of the periodic scenario review performed at regional level, the calibration of probability weights is also reviewed, on the basis of expert judgement, to ensure that these are appropriate compared to ongoing economic developments. As can be observed from the tables below, the assigned probability weights at 31 December 2021 are more conservative compared to the assigned probability weights at 31 December 2020. Although the combined probability assigned to the Downside and Additional Downside scenarios remained constant, more weight is being assigned to the Additional Downside scenario at 31 December 2021, reflecting a higher degree of caution in view of the waves of infection observed towards the end of the year.

Consensus scenarios (average 2022-2026)

	Wholesale lending			
	Central scenario	**Upside scenario**	**Downside scenario**	**Additional downside scenario**
Real GDP Growth rate (%)	**2.5**	**3.9**	**1.4**	**1.7**
Consumer price index (%)	**2.3**	**2.7**	**1.9**	**0.4**
Unemployment (%)	**4.3**	**3.8**	**4.8**	**6.7**
Short-term interest rate (%)	**1.2**	**1.2**	**0.2**	**0.6**
House price index (%)	**3.5**	**4.7**	**1.1**	**(3.8)**
Probability (%)	**60.0**	**10.0**	**15.0**	**15.0**

Consensus scenarios (average 2021-2025)

	Wholesale lending			
	Central scenario	Upside scenario	Downside scenario	Additional downside scenario
Real GDP Growth rate (%)	2.8	4.0	1.7	1.9
Consumer price index (%)	1.8	2.2	1.3	0.0
Unemployment (%)	5.6	4.9	6.4	8.5
Short-term interest rate (%)	0.2	0.2	0.1	0.3
House price index (%)	1.9	3.6	(0.7)	(2.3)
Probability (%)	60.0	10.0	20.0	10.0

The tables above show a marginal worsening of the forecasted macroeconomic variables under each of the scenarios when compared to those prevailing as at 31 December 2020, other than in respect of the unemployment rate, where a more substantial improvement is being forecasted compared to those as at 31 December 2020.

The five year average real GDP growth rate is marginally lower than that forecasted as at 31 December 2020. This is attributable to the relative decrease in the real GDP growth rate for the first year of the forecast five year period as at 31 December 2021 compared to the previous year end due to the pronounced economic recovery experienced during 2021 relative to the significant drop in real GDP as a result of the outbreak of the Covid-19 pandemic during 2020.

As disclosed in the table below, under the Central scenario GDP is expected to grow by 5.0% in the first year of projections as at 31 December 2021, relative to an expected increase in real GDP of 5.6% in the first year of projections as at 31 December 2020.

In addition, the actual economic recovery during 2021 was more pronounced than originally expected, principally due to the effective roll-out of vaccination programmes. As reflected in the table below, an actual real GDP growth rate of 7.7% was registered during 2021, compared to an expected increase in real GDP growth rate of 5.6% under the Central scenario as at 31 December 2020.

In this context, under the Central scenario, the real GDP is assumed to attain pre-Covid-19 levels in 2022, compared to the prior year expectation of such economic recovery by 2023. Under the Additional Downside scenario, the real GDP is assumed to attain pre-Covid-19 levels in 2024, compared to the prior year expectation of such economic recovery beyond 2025.

This resulted in an improvement in outlook in respect of the unemployment rate, with a five year average unemployment rate of 4.3% being forecasted as at 31 December 2021, compared to a five year average unemployment rate of 5.6% forecasted as at 31 December 2020.

The real GDP growth rates assumed under each scenario are disclosed in the table below.

Real GDP Growth rates

	Wholesale lending			
	Parameters as at 31 December 2021			
	Central scenario	**Upside scenario**	**Downside scenario**	**Additional downside scenario**
2021: Annual average growth rate (%)	**7.7**	**7.7**	**7.7**	**7.7**
2022: Annual average growth rate (%)	**5.0**	**7.1**	**3.2**	**(0.9)**
2023: Annual average growth rate (%)	**2.1**	**5.1**	**(0.3)**	**1.6**
2024: Annual average growth rate (%)	**1.9**	**3.7**	**0.5**	**3.0**
Five year average growth (%)	**2.5**	**3.9**	**1.4**	**1.7**
	Parameters as at 31 December 2020			
2020: Annual average growth rate (%)	(11.0)	(11.0)	(11.0)	(11.0)
2021: Annual average growth rate (%)	5.6	9.4	2.4	(0.8)
2022: Annual average growth rate (%)	2.3	4.6	0.0	3.3
2023: Annual average growth rate (%)	2.3	2.3	2.3	2.4
Five year average growth (%)	2.8	4.0	1.7	1.9

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. During the financial year ended 31 December 2020, the annual monitoring assessment performed by the local group in respect of correlations between observed default rates and key macroeconomic variables resulted in a change in the key macroeconomic variable from real GDP growth rates to unemployment rates in all retail portfolios other than for credit cards. No other changes were effected during the financial year ended 31 December 2021.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central, Upside, Downside and Additional Downside scenarios. The calibration of probability weights for the retail portfolios was also reviewed and aligned to the probability weights assigned in respect of the wholesale portfolio. In this respect, the combined probability assigned to the Downside and Additional Downside scenarios at 31 December 2021 remained consistent compared to 31 December 2020, with more weight being assigned to the Additional Downside scenario at 31 December 2021, reflecting a higher degree of caution in view of the waves of infection observed towards the end of the year.

Consensus scenarios (average 2022-2026)

	Retail lending			
	Central scenario	**Upside scenario**	**Downside scenario**	**Additional downside scenario**
Real GDP Growth rate (%)	**3.3**	**4.0**	**2.5**	**2.2**
House price index (%)	**5.5**	**6.3**	**4.6**	**3.5**
Unemployment (%)	**3.9**	**3.1**	**4.7**	**6.9**
Probability (%)	**60.0**	**10.0**	**15.0**	**15.0**

Consensus scenarios (average 2021-2025)

	Retail lending			
	Central scenario	Upside scenario	Downside scenario	Additional downside scenario
Real GDP Growth rate (%)	4.3	5.1	3.3	3.2
House price index (%)	4.8	7.0	2.6	(2.8)
Unemployment (%)	4.3	3.7	5.1	7.1
Probability (%)	60.0	10.0	20.0	10.0

As can be observed in the tables below, the average unemployment rates forecasted under the Downside and Additional Downside scenarios, to which a combined probability weight of 30% is assigned, reflect a significant increase in the national unemployment rate during the first three years included in the forecast five year period, as compared to the other scenarios. The elevated unemployment rates assumed in these scenarios have been developed to capture different assumptions in respect of the economic recovery in response to the outbreak of the Covid-19 pandemic. In this respect, the recovery period for economic activity to return to pre-Covid-19 levels is expected to take longer under these scenarios.

The 2021 base annual average unemployment rate of 4.0% reflects the increase in unemployment experienced as a result of the outbreak of the Covid-19 pandemic relative to an unemployment rate of 3.4% during 2019. Under the Central scenario, which is assigned a probability weight of 60% for the purpose of the ECL calculation, the annual average unemployment rate during 2022 is expected to remain in line with the closing unemployment rate experienced during 2021.

As disclosed in the table below, under the Central scenario the unemployment rate is expected to stand at 4.0% in the first year of projections as at 31 December 2021, relative to an expected unemployment rate of 4.7% in the first year of projections as at 31 December 2020.

In this respect, as show in the table below, an unemployment rate of 4.0% was registered during 2021, compared to an expected unemployment rate of 4.7% under the Central scenario as at 31 December 2020. This is principally driven by the ongoing implementation of government support schemes, which has maintained local unemployment rates at relatively subdued levels.

The economic activity under the Central scenario is expected to return to pre-Covid-19 levels by 2022, which is consistent with the prior year expectation in respect of such economic recovery. Under the Additional Downside scenario, the real GDP is assumed to reach pre-Covid-19 levels in 2024, compared to the prior year expectation of such economic recovery by 2023.

Unemployment rates

	Retail lending			
	Parameters as at 31 December 2021			
	Central scenario	**Upside scenario**	**Downside scenario**	**Additional downside scenario**
2021: Annual average rate (%)	**4.0**	**4.0**	**4.0**	**4.0**
2022: Annual average rate (%)	**4.0**	**2.7**	**5.5**	**6.5**
2023: Annual average rate (%)	**3.8**	**2.4**	**5.6**	**8.0**
2024: Annual average rate (%)	**3.9**	**3.0**	**4.7**	**8.1**
Five year average rate (%)	**3.9**	**3.1**	**4.7**	**6.9**
	Parameters as at 31 December 2020			
2020: Annual average rate (%)	4.8	4.8	4.8	4.8
2021: Annual average rate (%)	4.7	2.9	6.5	7.3
2022: Annual average rate (%)	4.3	3.6	6.1	8.9
2023: Annual average rate (%)	4.1	4.1	4.1	7.4
Five year average rate (%)	4.3	3.7	5.1	7.1

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 to the forward-looking economic conditions as part of the ECL governance process.

As at 31 December 2021 and 2020, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described above for the wholesale and retail portfolios, applying a 100% weighting to each scenario in turn.

In this respect, if the ECL outcome was estimated solely on the basis of the Central scenario, the credit loss allowances in respect of the wholesale and retail portfolios would decrease by €1.7m (2020: €1.4m) and €1m (2020: €0.7m) respectively, compared to the weighted average credit loss allowances estimated at year end. If the ECL outcome was estimated solely on the basis of the Downside scenario, the credit loss allowances in respect of the wholesale and retail portfolios would increase by €0.7m (2020: €2.8m) and €0.7m (2020: €3.4m) respectively, compared to the weighted average credit loss allowances estimated at year end. Similarly, if the ECL outcome was estimated solely on the basis of the Additional Downside scenario, the credit loss allowances in respect of the wholesale and retail portfolios would increase by €12m (2020: €9.5m) and €9.5m (2020: €10.5m) respectively, compared to the weighted average credit loss allowances estimated at year end.

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	–	**213,878**	**213,878**
AA- to AA+	–	**111,294**	**111,294**
A-	**228,172**	**520,528**	**748,700**
As at 31 December 2021	**228,172**	**845,700**	**1,073,872**
AAA	–	292,217	292,217
AA- to AA+	–	159,129	159,129
A-	256,302	426,106	682,408
As at 31 December 2020	256,302	877,452	1,133,754

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 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 pre-agreed termination events occur. In this respect, gross derivative assets amounting to €2,372,000 (2020: €597,000) 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 €2,268,000 (2020: €5,947,000) 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 as well as wholesale funding, whereas the local group's liquidity position comprises 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') 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 Dec 2021 %	31 Dec 2020 %
Actual LCR	**379**	232
Regulatory Minimum	**100**	100

During the financial years ended 31 December 2021 and 2020, the LCR was in excess of both the regulatory minimum and the risk appetite thresholds 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.

For 2020, the bank calculated the NSFR in line with Basel Committee on Banking Supervision publication 295. This calculation requires various interpretations of the text, and therefore the bank's NSFR may not be directly comparable with the ratios of other institutions.

During 2021, the bank updated its methodology for the calculation of the NSFR to conform with the provisions of the amendments to Regulation (EU) No.575/2013, known as the Capital Requirements Regulation ('CRR II'), which became effective as from 28 June 2021.

NSFR year end levels for the bank

	31 Dec 2021 %	31 Dec 2020 %
Actual NSFR	**199**	166
Regulatory Minimum	**100**	100

During the financial years ended 31 December 2021 and 2020, the NSFR was in excess of both the regulatory minimum and the risk appetite thresholds set by the bank.

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 2021 and 2020, 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) Ltd) 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) Ltd) by remaining contractual maturities

	Group						
	At 31 December 2021						
	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	**26,781**	**—**	**—**	**—**	**—**	**—**	**26,781**
Balances with Central Bank of Malta and Treasury Bills	**1,350,729**	**56,076**	**6,013**	**—**	**—**	**56,808**	**1,469,626**
Items in the course of collection from other banks	**4,453**	**—**	**—**	**—**	**—**	**—**	**4,453**
Held for trading derivatives	**1,205**	**777**	**1,128**	**1,525**	**5**	**—**	**4,640**
Loans and advances to banks	**385,200**	**141,908**	**35,954**	**50,000**	**—**	**—**	**613,062**
Loans and advances to customers	**194,794**	**16,850**	**13,345**	**408,577**	**2,563,159**	**—**	**3,196,725**
Financial investments	**60,615**	**37,973**	**129,039**	**512,496**	**105,577**	**35**	**845,735**
Other assets	**21,475**	**100**	**—**	**—**	**—**	**—**	**21,575**
Total assets	**2,045,252**	**253,684**	**185,479**	**972,598**	**2,668,741**	**56,843**	**6,182,597**
Liabilities							
Deposits by banks	**1,397**	**—**	**—**	**—**	**—**	**—**	**1,397**
Customer accounts	**5,152,851**	**140,737**	**248,715**	**78,892**	**—**	**—**	**5,621,195**
Items in course of transmission to other banks	**21,573**	**—**	**—**	**—**	**—**	**—**	**21,573**
Held for trading derivatives	**1,144**	**739**	**1,105**	**1,525**	**79**	**—**	**4,592**
Borrowings from group undertaking	**—**	**—**	**—**	**—**	**60,000**	**—**	**60,000**
Subordinated liabilities	**—**	**—**	**—**	**—**	**62,000**	**—**	**62,000**
Other liabilities	**4,055**	**923**	**546**	**756**	**838**	**—**	**7,118**
Total liabilities	**5,181,020**	**142,399**	**250,366**	**81,173**	**122,917**	**—**	**5,777,875**
Liquidity gap	**(3,135,768)**	**111,285**	**(64,887)**	**891,425**	**2,545,824**		
Cumulative liquidity gap	**(3,135,768)**	**(3,024,483)**	**(3,089,370)**	**(2,197,945)**	**347,879**		
	At 31 December 2020						
Assets							
Cash	28,890	—	—	—	—	—	28,890
Balances with Central Bank of Malta and Treasury Bills	773,935	126,189	16,049	—	—	51,616	967,789
Items in the course of collection from other banks	4,959	—	—	—	—	—	4,959
Held for trading derivatives	914	1,058	1,354	1,457	1,791	—	6,574
Loans and advances to banks	137,869	30,000	150,000	265,570	—	—	583,439
Loans and advances to customers	231,895	9,864	133,224	329,078	2,560,603	—	3,264,664
Financial investments	47,508	35,690	120,313	613,901	60,040	33	877,485
Other assets	29,508	270	—	—	—	—	29,778
Total assets	1,255,478	203,071	420,940	1,210,006	2,622,434	51,649	5,763,578
Liabilities							
Deposits by banks	3,754	—	—	—	—	—	3,754
Customer accounts	4,710,462	154,626	298,769	109,104	—	—	5,272,961
Items in course of transmission to other banks	21,372	—	—	—	—	—	21,372
Held for trading derivatives	894	1,036	1,311	1,410	1,900	—	6,551
Subordinated liabilities	—	—	—	—	62,000	—	62,000
Other liabilities	4,340	1,178	995	2,203	857	—	9,573
Total liabilities	4,740,822	156,840	301,075	112,717	64,757	—	5,376,211
Liquidity gap	(3,485,344)	46,231	119,865	1,097,289	2,557,677		
Cumulative liquidity gap	(3,485,344)	(3,439,113)	(3,319,248)	(2,221,959)	335,718		

Financial assets and liabilities by remaining contractual maturities

	Bank						
	At 31 December 2021						
	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	**26,781**	**–**	**–**	**–**	**–**	**–**	**26,781**
Balances with Central Bank of Malta and Treasury Bills	**1,350,729**	**56,076**	**6,013**	**–**	**–**	**56,808**	**1,469,626**
Items in the course of collection from other banks	**4,453**	**–**	**–**	**–**	**–**	**–**	**4,453**
Held for trading derivatives	**1,205**	**777**	**1,128**	**1,525**	**5**	**–**	**4,640**
Loans and advances to banks	**385,200**	**141,908**	**35,954**	**50,000**	**–**	**–**	**613,062**
Loans and advances to customers	**194,794**	**16,850**	**13,345**	**408,577**	**2,563,159**	**–**	**3,196,725**
Financial investments	**60,615**	**37,973**	**129,039**	**512,496**	**105,577**	**33**	**845,733**
Other assets	**21,067**	**100**	**–**	**–**	**–**	**–**	**21,167**
Total assets	**2,044,844**	**253,684**	**185,479**	**972,598**	**2,668,741**	**56,841**	**6,182,187**
Liabilities							
Deposits by banks	**1,397**	**–**	**–**	**–**	**–**	**–**	**1,397**
Customer accounts	**5,189,337**	**140,737**	**248,715**	**78,892**	**–**	**–**	**5,657,681**
Items in course of transmission to other banks	**21,573**	**–**	**–**	**–**	**–**	**–**	**21,573**
Held for trading derivatives	**1,144**	**739**	**1,105**	**1,525**	**79**	**–**	**4,592**
Borrowings from group undertaking	**–**	**–**	**–**	**–**	**60,000**	**–**	**60,000**
Subordinated liabilities	**–**	**–**	**–**	**–**	**62,000**	**–**	**62,000**
Other liabilities	**4,055**	**923**	**546**	**756**	**838**	**–**	**7,118**
Total liabilities	**5,217,506**	**142,399**	**250,366**	**81,173**	**122,917**	**–**	**5,814,361**
Liquidity gap	**(3,172,662)**	**111,285**	**(64,887)**	**891,425**	**2,545,824**		
Cumulative liquidity gap	**(3,172,662)**	**(3,061,377)**	**(3,126,264)**	**(2,234,839)**	**310,985**		
	At 31 December 2020						
Assets							
Cash	28,890	–	–	–	–	–	28,890
Balances with Central Bank of Malta and Treasury Bills	773,935	126,189	16,049	–	–	51,616	967,789
Items in the course of collection from other banks	4,959	–	–	–	–	–	4,959
Held for trading derivatives	914	1,058	1,354	1,457	1,791	–	6,574
Loans and advances to banks	137,869	30,000	150,000	265,570	–	–	583,439
Loans and advances to customers	231,895	9,864	133,224	329,078	2,560,603	–	3,264,664
Financial investments	47,508	35,690	120,313	613,901	60,040	31	877,483
Other assets	29,342	270	–	–	–	–	29,612
Total assets	1,255,312	203,071	420,940	1,210,006	2,622,434	51,647	5,763,410
Liabilities							
Deposits by banks	3,754	–	–	–	–	–	3,754
Customer accounts	4,751,255	154,626	298,769	109,104	–	–	5,313,754
Items in course of transmission to other banks	21,372	–	–	–	–	–	21,372
Held for trading derivatives	894	1,036	1,311	1,410	1,900	–	6,551
Subordinated liabilities	–	–	–	–	62,000	–	62,000
Other liabilities	4,340	1,178	995	2,203	857	–	9,573
Total liabilities	4,781,615	156,840	301,075	112,717	64,757	–	5,417,004
Liquidity gap	(3,526,303)	46,231	119,865	1,097,289	2,557,677		
Cumulative liquidity gap	(3,526,303)	(3,480,072)	(3,360,207)	(2,262,918)	294,759		

Current accounts and savings deposits payable on demand or at short notice amounted to €4,911 million at 31 December 2021 (2020: €4,436 million), for the local group and €4,947 million at 31 December 2021 (2020: €4,476 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 behavioural 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 €160 million at 31 December 2021 (2020: €197 million), both for the local group and the bank. This amount is also 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) Ltd) 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 2021					
	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	**1,397**	**—**	**—**	**—**	**1,397**	**1,397**
Customer accounts	**5,153,143**	**391,319**	**79,621**	**—**	**5,624,083**	**5,621,195**
Borrowings from group undertaking	**85**	**254**	**1,356**	**61,695**	**63,390**	**60,000**
Subordinated liabilities	**228**	**684**	**3,651**	**63,825**	**68,388**	**62,000**
Other liabilities	**4,008**	**1,514**	**852**	**955**	**7,329**	**7,118**
	5,158,861	**393,771**	**85,480**	**126,475**	**5,764,587**	**5,751,710**
Commitments and Contingent Liabilities	**1,110,803**	**—**	**—**	**—**	**1,110,803**	**1,110,803**
	At 31 December 2020					
Financial liabilities						
Deposits by banks	3,754	—	—	—	3,754	3,754
Customer accounts	4,719,102	455,579	110,722	—	5,285,403	5,272,961
Subordinated liabilities	235	704	3,755	64,816	69,510	62,000
Other liabilities	4,430	2,537	3,065	1,302	11,334	9,573
	4,727,521	458,820	117,542	66,118	5,370,001	5,348,288
Commitments and Contingent Liabilities	1,223,615	—	—	—	1,223,615	1,223,615

	Bank					
	At 31 December 2021					
Financial liabilities						
Deposits by banks	**1,397**	**—**	**—**	**—**	**1,397**	**1,397**
Customer accounts	**5,189,630**	**391,319**	**79,621**	**—**	**5,660,570**	**5,657,681**
Borrowings from group undertaking	**85**	**254**	**1,356**	**61,695**	**63,390**	**60,000**
Subordinated liabilities	**228**	**684**	**3,651**	**63,825**	**68,388**	**62,000**
Other liabilities	**4,008**	**1,514**	**852**	**955**	**7,329**	**7,118**
	5,195,348	**393,771**	**85,480**	**126,475**	**5,801,074**	**5,788,196**
Commitments and Contingent Liabilities	**1,110,805**	**—**	**—**	**—**	**1,110,805**	**1,110,805**
	At 31 December 2020					
Financial liabilities						
Deposits by banks	3,754	—	—	—	3,754	3,754
Customer accounts	4,759,896	455,579	110,722	—	5,326,197	5,313,754
Subordinated liabilities	235	704	3,755	64,816	69,510	62,000
Other liabilities	4,430	2,537	3,065	1,302	11,334	9,573
	4,768,315	458,820	117,542	66,118	5,410,795	5,389,081
Commitments and Contingent Liabilities	1,223,617	—	—	—	1,223,617	1,223,617

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 ‘Statements 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				
	At 31 December 2021				
	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	**57,492**	**130,786**	**1,226**	**241**	**189,745**
Outflows	**(57,447)**	**(130,719)**	**(1,226)**	**(241)**	**(189,633)**
	45	**67**	**—**	**—**	**112**
	At 31 December 2020				
Inflows	30,688	73,486	3,112	83	107,369
Outflows	(30,646)	(73,398)	(3,094)	(83)	(107,221)
	42	88	18	—	148

(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	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Total assets at 31 December	**7,174,805**	6,730,459	**6,311,975**	5,893,605
Less:				
Debt securities pledged in terms of the Depositor Compensation Scheme	**20,021**	21,007	**20,021**	21,007
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,272**	1,053	**1,272**	1,053
Less:				
Other assets that cannot be pledged as collateral	**996,892**	978,920	**143,235**	150,792
Assets available to support funding and collateral needs at 31 December	**6,156,620**	5,729,479	**6,147,447**	5,720,753

Out of the €6,157,000,000 (2020: €5,729,000,000) assets available for the local group and €6,147,000,000 (2020: €5,721,000,000) for the bank, €3,924,000,000 (2020: €3,944,000,000) do not form part of the local group's and the bank's HQLA and are therefore not categorised as liquid assets. Debt securities pledged against the provision of credit lines by the Central Bank of Malta amounting to €81,967,000 (2020: €83,450,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

(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 plc and the global businesses. These limits are allocated across business segments and agreed with the HSBC 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

	2021	2020
	€000	€000
At 31 December	**974**	840
Average	**1,097**	836
Minimum	**848**	594
Maximum	**1,250**	1,048

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 HSBC 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 actively monitors 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 actively seeks 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. During 2021, these profiles and policies were reviewed by business heads and approved by ALCO.

Impact on future one year net income

	Group/Bank	
	Impact on profit for the year	Impact on profit for the year
	2021	2020
	€000	€000
+ 100 basis points	**20,629**	16,366
- 100 basis points	**(19,217)**	(13,769)

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) Ltd) 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.

	Group					
	At 31 December 2021					
	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**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Assets						
Balances with Central bank of Malta and Treasury Bills	**1,352,001**	**56,076**	**6,013**	**—**	**—**	**1,414,090**
Loans and advances to banks	**335,200**	**11,908**	**180,000**	**85,954**	**—**	**613,062**
Loans and advances to customers	**2,627,456**	**200,450**	**329,838**	**23,364**	**15,617**	**3,196,725**
Debt instruments measured at fair value through other comprehensive income	**77,666**	**37,973**	**116,032**	**508,452**	**105,577**	**845,700**
Total assets	**4,392,323**	**306,407**	**631,883**	**617,770**	**121,194**	**6,069,577**
Liabilities						
Deposits by banks	**1,397**	**—**	**—**	**—**	**—**	**1,397**
Customer accounts	**5,152,851**	**140,737**	**248,715**	**78,892**	**—**	**5,621,195**
Borrowings from group undertaking	**60,000**	**—**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**5,276,248**	**140,737**	**248,715**	**78,892**	**—**	**5,744,592**
Interest rate sensitivity gap	**(883,925)**	**165,670**	**383,168**	**538,878**	**121,194**	
Cumulative interest rate sensitivity gap	**(883,925)**	**(718,255)**	**(335,087)**	**203,791**	**324,985**	

	At 31 December 2020					
Assets						
Balances with Central bank of Malta and Treasury Bills	774,988	126,189	16,049	—	—	917,226
Loans and advances to banks	577,869	—	5,570	—	—	583,439
Loans and advances to customers	2,183,933	219,691	479,209	363,409	18,422	3,264,664
Debt instruments measured at fair value through other comprehensive income	185,324	635	108,076	523,377	60,040	877,452
Total assets	3,722,114	346,515	608,904	886,786	78,462	5,642,781
Liabilities						
Deposits by banks	3,754	—	—	—	—	3,754
Customer accounts	4,710,462	154,626	298,769	109,104	—	5,272,961
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	4,776,216	154,626	298,769	109,104	—	5,338,715
Interest rate sensitivity gap	(1,054,102)	191,889	310,135	777,682	78,462	
Cumulative interest rate sensitivity gap	(1,054,102)	(862,213)	(552,078)	225,604	304,066	

	Bank					
	At 31 December 2021					
Assets						
Balances with Central bank of Malta and Treasury Bills	**1,352,001**	**56,076**	**6,013**	**—**	**—**	**1,414,090**
Loans and advances to banks	**335,200**	**11,908**	**180,000**	**85,954**	**—**	**613,062**
Loans and advances to customers	**2,627,456**	**200,450**	**329,838**	**23,364**	**15,617**	**3,196,725**
Debt instruments measured at fair value through other comprehensive income	**77,666**	**37,973**	**116,032**	**508,452**	**105,577**	**845,700**
Total assets	**4,392,323**	**306,407**	**631,883**	**617,770**	**121,194**	**6,069,577**
Liabilities						
Deposits by banks	**1,397**	**—**	**—**	**—**	**—**	**1,397**
Customer accounts	**5,189,337**	**140,737**	**248,715**	**78,892**	**—**	**5,657,681**
Borrowings from group undertaking	**60,000**	**—**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**5,312,734**	**140,737**	**248,715**	**78,892**	**—**	**5,781,078**
Interest rate sensitivity gap	**(920,411)**	**165,670**	**383,168**	**538,878**	**121,194**	
Cumulative interest rate sensitivity gap	**(920,411)**	**(754,741)**	**(371,573)**	**167,305**	**288,499**	

	At 31 December 2020					
Assets						
Balances with Central bank of Malta and Treasury Bills	774,988	126,189	16,049	—	—	917,226
Loans and advances to banks	577,869	—	5,570	—	—	583,439
Loans and advances to customers	2,183,933	219,691	479,209	363,409	18,422	3,264,664
Debt instruments measured at fair value through other comprehensive income	185,324	635	108,076	523,377	60,040	877,452
Total assets	3,722,114	346,515	608,904	886,786	78,462	5,642,781
Liabilities						
Deposits by banks	3,754	—	—	—	—	3,754
Customer accounts	4,751,255	154,626	298,769	109,104	—	5,313,754
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	4,817,009	154,626	298,769	109,104	—	5,379,508
Interest rate sensitivity gap	(1,094,895)	191,889	310,135	777,682	78,462	
Cumulative interest rate sensitivity gap	(1,094,895)	(903,006)	(592,871)	184,811	263,273	

Balances with Central Bank of Malta included in above tables 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) Ltd) 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				
	2021				
	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	**1,453,967**	**319**	**40,875**	**1,246**	**1,496,407**
Items in the course of collection from other banks	**4,410**	**27**	**16**	**—**	**4,453**
Held for trading derivatives	**1,837**	**2,782**	**4**	**17**	**4,640**
Financial investments	**703,257**	**89,007**	**42,592**	**10,879**	**845,735**
Loans and advances to banks	**391,528**	**102,287**	**90,843**	**28,404**	**613,062**
Loans and advances to customers	**3,169,632**	**27,056**	**37**	**—**	**3,196,725**
Other assets	**20,382**	**984**	**109**	**100**	**21,575**
Total assets	**5,745,013**	**222,462**	**174,476**	**40,646**	**6,182,597**
Liabilities					
Deposits by banks	**898**	**—**	**—**	**499**	**1,397**
Customer accounts	**5,193,510**	**215,727**	**172,069**	**39,889**	**5,621,195**
Items in the course of transmission to other banks	**21,573**	**—**	**—**	**—**	**21,573**
Held for trading derivatives	**1,715**	**2,852**	**4**	**21**	**4,592**
Borrowings from group undertaking	**60,000**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**62,000**
Other liabilities	**5,982**	**569**	**556**	**11**	**7,118**
Total liabilities	**5,345,678**	**219,148**	**172,629**	**40,420**	**5,777,875**
Net open position	**399,335**	**3,314**	**1,847**	**226**	
	2020				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	971,148	24,756	528	247	996,679
Items in the course of collection from other banks	4,897	20	42	—	4,959
Held for trading derivatives	3,442	3,122	8	2	6,574
Financial investments	654,293	127,759	83,622	11,811	877,485
Loans and advances to banks	488,104	976	69,728	24,631	583,439
Loans and advances to customers	3,240,646	23,427	271	320	3,264,664
Other assets	27,914	1,705	44	115	29,778
Total assets	5,390,444	181,765	154,243	37,126	5,763,578
Liabilities					
Deposits by banks	980	2,774	—	—	3,754
Customer accounts	4,921,813	170,825	144,521	35,802	5,272,961
Items in the course of transmission to other banks	21,372	—	—	—	21,372
Held for trading derivatives	3,256	3,266	27	2	6,551
Subordinated liabilities	62,000	—	—	—	62,000
Other liabilities	8,263	867	437	6	9,573
Total liabilities	5,017,684	177,732	144,985	35,810	5,376,211
Net open position	372,760	4,033	9,258	1,316	

	Bank				
	2021				
	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	**1,453,967**	**319**	**40,875**	**1,246**	**1,496,407**
Items in the course of collection from other banks	**4,410**	**27**	**16**	**—**	**4,453**
Held for trading derivatives	**1,837**	**2,782**	**4**	**17**	**4,640**
Financial investments	**703,255**	**89,007**	**42,592**	**10,879**	**845,733**
Loans and advances to banks	**391,528**	**102,287**	**90,843**	**28,404**	**613,062**
Loans and advances to customers	**3,169,632**	**27,056**	**37**	**—**	**3,196,725**
Other assets	**19,974**	**984**	**109**	**100**	**21,167**
Total assets	**5,744,603**	**222,462**	**174,476**	**40,646**	**6,182,187**
Liabilities					
Deposits by banks	**898**	**—**	**—**	**499**	**1,397**
Customer accounts	**5,224,408**	**218,957**	**174,427**	**39,889**	**5,657,681**
Items in the course of transmission to other banks	**21,573**	**—**	**—**	**—**	**21,573**
Held for trading derivatives	**1,715**	**2,852**	**4**	**21**	**4,592**
Borrowings from group undertaking	**60,000**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**62,000**
Other liabilities	**5,982**	**569**	**556**	**11**	**7,118**
Total liabilities	**5,376,576**	**222,378**	**174,987**	**40,420**	**5,814,361**
Net open position	**368,027**	**84**	**(511)**	**226**	
	2020				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	971,148	24,756	528	247	996,679
Items in the course of collection from other banks	4,897	20	42	—	4,959
Held for trading derivatives	3,442	3,122	8	2	6,574
Financial investments measured at fair value through other comprehensive income	654,291	127,759	83,622	11,811	877,483
Loans and advances to banks	488,104	976	69,728	24,631	583,439
Loans and advances to customers	3,240,646	23,427	271	320	3,264,664
Other assets	27,748	1,705	44	115	29,612
Total assets	5,390,276	181,765	154,243	37,126	5,763,410
Liabilities					
Deposits by banks	980	2,774	—	—	3,754
Customer accounts	4,957,230	174,535	145,255	36,734	5,313,754
Items in the course of transmission to other banks	21,372	—	—	—	21,372
Held for trading derivatives	3,256	3,266	27	2	6,551
Subordinated liabilities	62,000	—	—	—	62,000
Other liabilities	8,263	867	437	6	9,573
Total liabilities	5,053,101	181,442	145,719	36,742	5,417,004
Net open position	337,175	323	8,524	384	

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 WPB. 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 could have an impact on the severity of benefit payments on a portfolio basis. In this respect, the impact of Covid-19 has not resulted in a significant increase in the trend of death or critical illness claims as the socio-economic profile of the insured portfolio held by the local group has not been significantly impacted by the pandemic.

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 underwritten risks 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. In this respect, it is of note that no significant increases in the trend of death or critical illness claims or lapse rates were experienced during the current year (beyond some volatility at the time Malta entered into lockdown). In addition, 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 reinsurance:

	2021	2020
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**270,591**	281,784
Term assurance and other long-term contracts	**122,648**	124,809
Total non-linked	**393,239**	406,593
Life insurance (linked)	**264,958**	241,435
Liabilities under insurance contracts	**658,197**	648,028

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; this can be driven by changes in the market value of assets or through changes to expectations on future yields impacting the value of liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk. This risk is heightened through the period of market volatility that has been brought about because of Covid-19.

For unit-linked insurance and investment contracts, the insurance subsidiary company 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 company. The insurance subsidiary company is however exposed indirectly for unit-linked insurance and investment contracts as unit price changes will have an impact on the expected management charges the company is expecting to receive.

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. Up to 90% of the eligible investment return is attributed to the contract holders. Policyholders receive regular (revisionary) 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 of the insurance subsidiary 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, which could lead to a potential loss to the shareholders.

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 and to the life insurance portfolio. The net exposure amounts to €4,610,000 (2020: €3,534,000) and a sensitivity analysis is not deemed necessary on the basis of insignificance of the resultant exposure.

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	
	2021	2020
	€000	€000
+100 basis points shift in yield curves	**3,582**	3,451
-100 basis points shift in yield curves	**(6,032)**	(19,409)
+10 per cent increase in equity prices	**789**	682
-10 per cent decrease in equity prices	**(789)**	(682)

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 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 €2,079,000 (2020: €1,956,000), are rated BBB and above. In line with IFRS 9 requirements, 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 2021 and 2020 cash deposits are held with reputable counterparties and are due on demand. Management consider the probability of default to be close 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	
	2021	2020	**2021**	2020	**2021**	2020
	€000	€000	**€000**	€000	**€000**	€000
AAA	**–**	–	**3,868**	4,061	**3,868**	4,061
AA+ to AA-	**–**	–	**23,803**	26,582	**23,803**	26,582
A+ to A-	**554**	–	**157,777**	162,531	**158,331**	162,531
BBB+ to BBB-	**1,554**	1,592	**61,629**	61,961	**63,183**	63,553
BB+ to B-	**1,353**	1,474	**–**	–	**1,353**	1,474
Unrated	**959**	743	**19,309**	16,136	**20,268**	16,879
Total	**4,420**	3,809	**266,386**	271,271	**270,806**	275,080

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 €3,109,000 (2020: €3,105,000) include accrued interest amounting to €2,456,000 (2020: €2,623,000) 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 contractual maturity of financial assets as at the reporting date.

Contractual maturities of financial assets

	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
At 31 December 2021						
Financial investments	**497,003**	**—**	**4,874**	**119,013**	**146,918**	**767,808**
Reinsurance assets	**77,972**	**—**	**—**	**—**	**—**	**77,972**
Cash	**6,211**	**—**	**—**	**—**	**—**	**6,211**
	581,186	**—**	**4,874**	**119,013**	**146,918**	**851,991**
At 31 December 2020						
Financial investments	458,590	—	8,690	115,281	151,109	733,670
Reinsurance assets	80,083	—	—	—	—	80,083
Cash	5,820	—	—	—	—	5,820
	544,493	—	8,690	115,281	151,109	819,573

The following table shows the cash flows expected to arise pertaining to insurance and investment liabilities as at the reporting date.

Cash flows of insurance and investment liabilities

	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
At 31 December 2021						
Liabilities to customers:						
– insurance contracts	**—**	**17,604**	**47,467**	**196,592**	**413,300**	**674,963**
– investment contracts	**121,858**	**587**	**1,162**	**13,442**	**43,329**	**180,378**
	121,858	**18,191**	**48,629**	**210,034**	**456,629**	**855,341**
At 31 December 2020						
Liabilities to customers:						
– insurance contracts	—	16,471	42,116	202,924	393,998	655,509
– investment contracts	111,261	532	1,489	11,073	37,345	161,700
	111,261	17,003	43,605	213,997	431,343	817,209

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 the local group 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; and
- 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 rates 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 2021			
	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	**–**	**228,172**	**–**	**228,172**
Held for trading derivatives	**–**	**4,640**	**–**	**4,640**
Financial assets mandatorily measured at fair value through profit or loss	**759,325**	**3,873**	**4,610**	**767,808**
Financial investments	**845,700**	**–**	**35**	**845,735**
	1,605,025	**236,685**	**4,645**	**1,846,355**
Liabilities				
Held for trading derivatives	**–**	**4,592**	**–**	**4,592**
Liabilities under investment contracts	**185,137**	**–**	**–**	**185,137**
	185,137	**4,592**	**–**	**189,729**
	At 31 December 2020			
Assets				
Treasury Bills	–	256,302	–	256,302
Held for trading derivatives	–	6,574	–	6,574
Financial assets mandatorily measured at fair value through profit or loss	724,621	3,675	5,374	733,670
Financial investments	877,452	–	33	877,485
	1,602,073	266,551	5,407	1,874,031
Liabilities				
Held for trading derivatives	–	6,551	–	6,551
Liabilities under investment contracts	170,865	–	–	170,865
	170,865	6,551	–	177,416

	Bank			
	At 31 December 2021			
Assets				
Treasury Bills	**–**	**228,172**	**–**	**228,172**
Held for trading derivatives	**–**	**4,640**	**–**	**4,640**
Financial investments	**845,700**	**–**	**33**	**845,733**
	845,700	**232,812**	**33**	**1,078,545**
Liabilities				
Held for trading derivatives	**–**	**4,592**	**–**	**4,592**
	–	**4,592**	**–**	**4,592**
	At 31 December 2020			
Assets				
Treasury Bills	–	256,302	–	256,302
Held for trading derivatives	–	6,574	–	6,574
Financial assets mandatorily measured at fair value through profit or loss	–	–	–	–
Financial investments	877,452	–	31	877,483
	877,452	262,876	31	1,140,359
Liabilities				
Held for trading derivatives	–	6,551	–	6,551
	–	6,551	–	6,551

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.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2021 and 2020. 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	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 January	**5,374**	11,379	**–**	4,507
Disposal/redemptions	**(529)**	(8,738)	**–**	(7,354)
Acquisitions	**96**	115	**–**	–
Exchange adjustments	**–**	58	**–**	58
Changes in fair value (recognised in profit or loss)	**(331)**	2,560	**–**	2,789
At 31 December	**4,610**	5,374	**–**	–

The financial assets mandatorily measured at fair value through profit or loss are principally attributable to insurance operations and those 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.

In view of the insignificance of the Level 3 assets in the context of the local group's total 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. The significant part of the fair value changes reflected in the table above is attributable to gains realised upon disposal.

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 were revalued on 31 December 2021 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 2021, 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 2021 and 2020, 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. Albeit, market activity has been impacted in a number of sectors, which has led to a heightened level of uncertainty within the local property market, the real impact of the pandemic and Malta's grey-listing by the Financial Action Task Force on property prices will not be fully known until market conditions stabilise.

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. All the recurring property fair value measurements at 31 December 2021 and 2020 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

As at 31 December 2021, the investment property held by the local group comprised a commercial property owned by a subsidiary which is currently held for rental yield and capital appreciation. The investment property held by the bank, which comprised commercial property that was leased out as offices to third parties including the local group's intermediate parent (Note 53), was sold during the financial year ended 31 December 2020 as explained in Note 30 'Investment Property'. The fair value measurement in respect of the local group's investment property uses significant unobservable inputs and is 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 2021 and 2020.

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 fair value hierarchy for both investment property and owner occupied property is reflected in the tables in Notes 30 and 31 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.

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 5.20% – 6.50% (2020: 5.00% – 6.75%), which is effectively the discount rate adjusted for anticipated growth, and the expected annual rental value ('ERV') taking into account the rental rate per square metre for comparable properties located in proximity to the local group's property with adjustments for differences in the size, age, exact location and condition of the property. Effectively, the capitalisation rate indicates the return the investor expects to receive through annual rental value.

	At 31 December 2021			
	Fair value	**Valuation technique**	**Significant unobservable input**	**Range of unobservable inputs (weighted average)**
Description by class based on highest and best use	**€000**			**€ per square metre**
Current use as commercial branches, bank offices and other related premises	**34,422**	**Capitalised rental approach**	**Rental rate per square metre**	**40 – 220 (129)**
Currently held for rental yield and capital appreciation purposes	**1,600**	**Capitalised rental approach**	**Rental rate per square metre**	**(300)**
	At 31 December 2020			
Current use as commercial branches, bank offices and other related premises	36,206	Capitalised rental approach	Rental rate per square metre	40 – 220 (125)
Currently held for rental yield and capital appreciation purposes	1,600	Capitalised rental approach	Rental rate per square metre	(300)

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	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta and cash	**1,268,235**	740,377	**1,268,235**	740,377
Items in course of collection from other banks	**4,453**	4,959	**4,453**	4,959
Loans and advance to banks	**619,273**	589,259	**613,062**	583,439
Loans and advance to customers	**3,196,725**	3,264,664	**3,196,725**	3,264,664
Accrued interest	**17,772**	21,965	**15,281**	19,282
Other assets	**6,479**	10,551	**5,886**	10,330
	5,112,937	4,631,775	**5,103,642**	4,623,051
Liabilities				
Deposits by banks	**1,397**	3,754	**1,397**	3,754
Customer accounts	**5,621,195**	5,272,961	**5,657,681**	5,313,754
Items in the course of transmission to other banks	**21,573**	21,372	**21,573**	21,372
Borrowings from group undertaking	**60,000**	—	**60,000**	—
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**1,431**	2,137	**1,215**	1,933
Other liabilities	**9,751**	10,751	**5,903**	7,640
	5,777,347	5,372,975	**5,809,769**	5,410,453

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, borrowings from group undertaking and subordinated liabilities is deemed to approximate the carrying amount due to the fact that they are short-term in nature and/or reprice frequently.

6 Capital Risk Management

The local group's approach to capital management is driven by strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. The local group aims to maintain a strong capital base to support the risks inherent in its business, investing in accordance with its strategy and meeting both consolidated as well as local regulatory capital requirements at all times.

The 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 Capital Requirement Regulation ('CRR').

For regulatory purposes, the local group's capital base is divided into two main categories, Common Equity Tier 1 ('CET1') capital and Tier 2 capital, as defined in Part Two of the CRR. CET1 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.

	2021 €000	2020 €000
Common Equity Tier 1 capital		
Called up share capital	**108,092**	108,092
Retained earnings	**357,315**	337,604
Revaluation reserve	**24,330**	32,718
Adjustments		
– depositor compensation scheme	**(20,193)**	(20,781)
– intangible assets	**(5,062)**	(4,966)
– expected final dividend	**(8,010)**	(2,717)
– retained earnings – HSBC Life Assurance (Malta) Ltd	**(34,804)**	(36,691)
– prudential valuation adjustment	**(1,083)**	(1,147)
– IFRS 9 transitional adjustments	**14,831**	18,682
– single resolution fund	**(1,272)**	(1,053)
– non-performing loans	**(21,720)**	(14,315)
Total Tier 1 capital	**412,424**	415,426
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
Total Tier 2 capital	**62,000**	62,000
Total own funds	**474,424**	477,426

The deduction of €21,720,000 (2020: 14,315,000) for non-performing loans is in accordance with Regulation 2019/630 as regards minimum loss coverage for non-performing exposures.

During the financial years ended 31 December 2021 and 31 December 2020, the bank has met all external capital requirements at all times, notwithstanding the impact of the pandemic.

HSBC Life Assurance (Malta) Ltd, one of the bank's subsidiaries regulated by the Malta Financial Services Authority, is also required to maintain a capital ratio above the prescribed minimum level at all times. During the financial years ended 31 December 2021 and 31 December 2020, the subsidiary has complied with all such externally imposed regulatory capital requirements.

7 Interest and similar income

	Group/Bank	
	2021	2020
	€000	€000
On balances with Central Bank of Malta	**89**	2
On loans and advances to banks	**558**	1,219
On loans and advances to customers	**102,946**	107,834
On loans and advances to banks and customers and other assets	**103,593**	109,055
Interest on debt and other fixed income instruments	**10,237**	13,676
Amortisation of net premiums on debt and other fixed income instruments	**(8,120)**	(9,133)
On debt and other fixed income instruments	**2,117**	4,543
	105,710	113,598

Interest income recognised on credit impaired loans and advances, which is entirely included in interest income on loans and advances to customers, amounted to €5,105,000 (2020: €4,350,000).

8 Interest expense

	Group/Bank	
	2021	2020
	€000	€000
On balances with Central Bank of Malta	**205**	279
On Treasury Bills	**1,019**	799
On loans and advances to banks	**2,795**	451
On deposits by banks	**58**	36
On customer accounts	**2,816**	4,961
On lease liabilities	**92**	149
On subordinated liabilities	**967**	1,021
	7,952	7,696

9 Net fee income

	Group		Bank	
	2021	2020	**2021**	2020
	€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	**17,391**	14,743	**17,391**	14,743
– trust and other fiduciary activities where the local group holds or invests in assets on behalf of its customers	**5,982**	5,247	**3,067**	2,723
– other	**2,567**	2,842	**1,922**	2,122
	25,940	22,832	**22,380**	19,588
Fee expense	**(1,831)**	(1,872)	**(1,234)**	(1,390)
	24,109	20,960	**21,146**	18,198

Net fee income amounting to €1,136,000 (2020: €861,000) is derived from the investment services activities of the local group.

10 Net trading income

	Group/Bank	
	2021	2020
	€000	€000
Net income from foreign exchange activities	**5,370**	5,569
Net income from held for trading financial instruments	**164**	157
Other	**—**	2,789
	5,534	8,515

11 Dividend income

Dividend income received by the bank in 2021 amounted to €1,462,000 (2020: €2,033,000) representing dividend received from a subsidiary company.

12 Net insurance premium income

	Group		
	Non-linked life insurance	**Linked life insurance**	**Total**
	€000	**€000**	**€000**
Gross insurance premium income	**28,318**	**28,286**	**56,604**
Reinsurers' share of gross premium income	**(5,738)**	**–**	**(5,738)**
Year ended 31 December 2021	**22,580**	**28,286**	**50,866**
Gross insurance premium income	29,715	27,085	56,800
Reinsurers' share of gross premium income	(5,420)	–	(5,420)
Year ended 31 December 2020	24,295	27,085	51,380

13 Other operating income

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Operating income				
Rental income from investment property	**–**	482	**–**	482
Gains arising on disposal of re-possessed properties	**38**	357	**38**	357
Gains arising on disposal of owned properties classified as Non-current assets held for sale	**517**	54	**517**	54
Other income	**871**	645	**867**	630
	1,426	1,538	**1,422**	1,523
Loss arising on disposal of equipment	**(20)**	(840)	**(20)**	(840)
Loss arising on disposal of investment property	**–**	(168)	**–**	(168)
Fair value changes in respect of investment property	**–**	(599)	**–**	–
	1,406	(69)	**1,402**	515

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

	Group	
	2021	2020
	€000	€000
Claims, benefits and surrenders paid	**58,904**	55,252
Movement in liabilities	**10,167**	(10,444)
Gross claims, benefits paid and movement in liabilities	**69,071**	44,808
Reinsurers' share of claims, benefits and surrenders paid	**(2,566)**	(2,732)
Reinsurers' share of movement in liabilities	**2,127**	(1,139)
Reinsurers' share of claims, benefits paid and movement in liabilities	**(439)**	(3,871)
	68,632	40,937

15 Change in expected credit losses and other credit impairment charges

	Group/Bank	
	2021	2020
	€000	€000
Change in expected credit losses:		
– loans and advances to customers including accrued interest	**(3,230)**	22,877
– balances with Central Bank of Malta	**(2)**	(9)
– loans and advances to banks	**(6)**	7
– loan commitments and guarantees	**(650)**	1,103
– other financial assets	**(7)**	5
– debt instruments measured at fair value through other comprehensive income	**(294)**	338
Other credit impairment charges:		
– bad debts written off	**4,308**	2,023
– bad debts recovered	**(1,114)**	(755)
	(995)	25,589

16 Employee compensation and benefits

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Wages, salaries and allowances	**36,260**	39,512	**33,920**	36,933
Defined contribution social security costs	**2,170**	2,411	**2,033**	2,261
Termination benefits and long-term employee benefits	**3,663**	1,614	**3,663**	1,613
Share-based payments	**233**	268	**227**	261
	42,326	43,805	**39,843**	41,068
Average number of employees:				
– executive and senior managerial	**256**	279	**236**	260
– other managerial, supervisory and clerical	**709**	821	**669**	773
– others	**6**	6	**6**	6
	971	1,106	**911**	1,039

Termination benefits and long-term employee benefits

In 2019, 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. The provision amounted to €18,837,000 for the group and €18,459,000 for the bank, attributable to bank employees that opted for voluntary redundancy under the voluntary redundancy scheme. The amount reflected the estimated payments to the affected individual employees which were 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.

In 2020, an additional provision for restructuring costs amounting to €372,000, attributable to local group and bank, was recognised in respect of three Full Time Equivalent employees.

In 2021 the bank announced another strategic initiative to further improve its operational structure, benefiting from the Group's operating models, as the bank aims to drive efficiencies and enhance customer experience, and create a leaner working model that is externally-focused, performance-led, customer centred and fit for the future. This initiative relates primarily to the transformation and automation of certain areas within the bank and also a planned transfer of a number of employees and activities to a local service provider. To achieve this the bank issued two Voluntary Redundancy Schemes. Termination benefits for 2021 comprised a provision for restructuring costs amounting to €3,208,000 attributable to local group and bank employees that opted for voluntary redundancy under one of the voluntary redundancy schemes which closed by end of year. This amount reflects the estimated payments to the affected individual employees which were approximately 40 applicants, representing 33 Full Time Equivalent employees, for the local group and bank. The second voluntary redundancy scheme was still open as at 31 December 2021 and as a result no provision was recognised during 2021.

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 41). 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 2021 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 were no longer eligible for the benefits stipulated within the Collective Agreement. This resulted in a one-time release in 2021 of the provision to the income statement amounting to €431,000 (refer to Note 41). Current service costs attributable to these obligations, amounting to €787,000 (2020: €777,000), were recognised in the income statement.

The local group also contributes towards an employee pension plan with no commitment beyond the payment of fixed contributions. The contributions are recognised in the table above with 'Termination benefits and long-term employee benefits'.

Share-based payments

In order to align the interests of staff with those of shareholders, restricted share awards are awarded to local group senior management under discretionary incentive plans and, in addition, local group employees are 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.

In respect of the 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.

17 Profit before tax

Profit before tax of the local group is stated after charging auditors' fees (excluding VAT) amounting to €542,000 (2020: €477,000) in relation to the annual statutory audit of the financial statements, of which €389,000 (2020: €374,000) is attributable to the bank.

Other fees, exclusive of VAT, charged by the appointed independent auditors to a subsidiary, comprise other assurance services in respect of Solvency II requirements amounting to €60,000 (2020: €68,000). Other fees, exclusive of VAT, charged by the appointed

independent auditors to the bank comprise other assurance services in respect of Investor Services Rules, Directive No. 16 issued by the Central Bank of Malta in respect of the Regulation on Borrower-Based Measures, and the Calculation of Contributions to the Single Resolution Fund, amounting to €30,000 (2020: €10,000).

General and administration expenses are analysed as follows:

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Premises and equipment costs	**4,964**	4,423	**4,948**	4,411
IT support and telecommunication costs	**10,435**	9,257	**9,692**	8,707
Insurance, security and maintenance costs	**2,243**	2,133	**2,243**	2,133
Investment management and administrator fees	**825**	811	**—**	—
Actuarial services	**1,028**	823	**—**	—
Service contracted out costs	**11,317**	7,953	**10,445**	7,210
Regulatory fees	**6,637**	5,398	**6,521**	5,271
Professional fees	**2,090**	1,532	**1,721**	1,141
Other administrative expenses	**15,990**	14,654	**15,587**	12,836
	55,529	46,984	**51,157**	41,709

Other administrative expenses mainly comprise of expense items which are incurred in the course of the operations of the local group and bank.

18 Tax expense

The local group's and the bank's tax expense recognised in profit or loss is analysed below:

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Current tax:	**10,755**	12,798	**9,543**	12,079
– for this year	**11,317**	12,813	**10,105**	12,094
– adjustments in respect of prior years	**(562)**	(15)	**(562)**	(15)
Deferred tax:	**(1,628)**	(9,927)	**615**	(5,906)
– origination and reversal of temporary differences	**(2,184)**	(9,937)	**59**	(5,916)
– adjustments in respect of prior years	**556**	10	**556**	10
	9,127	2,871	**10,158**	6,173

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	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Profit before tax	**26,882**	10,443	**29,821**	20,294
Tax at the applicable rate of 35%	**9,409**	3,655	**10,437**	7,103
Tax effect of:				
– non-taxable income	**(8)**	(924)	**—**	(911)
– income taxed at different rates	**(405)**	(162)	**(405)**	(162)
– non-deductible expenses	**37**	25	**37**	25
– disallowed expense arising from depreciation of property, plant and equipment	**159**	185	**159**	185
– further allowances on rental income	**(1)**	(35)	**(1)**	(35)
– fair value changes in respect of investment property	**—**	162	**—**	—
– current tax adjustments in respect of prior years	**(562)**	(15)	**(562)**	(15)
– deferred tax not previously recognised	**556**	10	**556**	10
– tax credit on pension contribution	**(109)**	(109)	**(109)**	(109)
– loss on disposal of property, plant and equipment	**36**	67	**36**	67
– others	**15**	12	**10**	15
Tax expense	**9,127**	2,871	**10,158**	6,173

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/Bank					
	2021			2020		
	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	**(9,375)**	**3,281**	**(6,094)**	1,162	(407)	755
Fair valuation of properties:						
– net changes in fair value	**2,389**	**(239)**	**2,150**	338	(34)	304
Remeasurement of defined benefit obligation:						
– net remeasurement	**450**	**(158)**	**292**	(686)	240	(446)
	(6,536)	**2,884**	**(3,652)**	814	(201)	613

19 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 €17,755,000 (2020: €7,572,000), while the weighted average number of ordinary shares in issue was 360,306,099 (2020: 360,306,099). The basic earnings per share of the local group amounted to 4.9c (2020: 2.1c). 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.

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

	Group/Bank	
	2021	2020
	€000	€000
Balances with Central Bank of Malta	**1,241,454**	711,487
Malta Government Treasury Bills		
– classified at fair value through other comprehensive income	**228,172**	256,302
Cash	**26,781**	28,890
	1,496,407	996,679

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 €55,536,000 (2020: €50,564,000).

Balances with Central Bank of Malta include an amount of €1,272,000 (2020: €1,053,000) 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 and Malta Government Treasury Bills in the table above are shown net of credit loss allowances which amounted to €8,000 (2020: €10,000) and €7,000 (2020: €30,000) respectively.

21 Financial assets mandatorily measured at fair value through profit or loss

	Group	
	2021	2020
	€000	€000
Debt securities and other fixed income instruments	**270,806**	275,080
Equity and other non-fixed income instruments	**497,002**	458,590
	767,808	733,670

Debt securities and other fixed income instruments

	Group	
	2021	2020
	€000	€000
Issued by public bodies:		
– local government	**92,699**	99,596
– foreign governments	**52,860**	49,061
Issued by other bodies:		
– local banks	**7,072**	7,319
– foreign banks	**24,586**	25,869
– other local issuers	**10,152**	8,904
– other foreign issuers	**83,437**	84,331
	270,806	275,080
Listing status:		
– listed on the Malta Stock Exchange	**109,923**	115,769
– listed on other recognised exchanges	**158,056**	159,261
– unlisted	**2,827**	50
	270,806	275,080
At 1 January	**275,080**	267,211
Acquisitions	**34,969**	52,632
Disposals/redemptions	**(30,739)**	(43,952)
Changes in fair value	**(8,504)**	(811)
At 31 December	**270,806**	275,080

Equity and other non-fixed income instruments

	Group	
	2021	2020
	€000	€000
Issued by other bodies:		
– local banks	**1,331**	1,210
– foreign banks	**3,589**	6,674
– other local issuers	**26,077**	26,848
– other foreign issuers	**466,005**	423,858
	497,002	458,590
Listing status:		
– listed on the Malta Stock Exchange	**15,240**	15,487
– listed on other recognised exchanges	**46,667**	43,818
– local unlisted	**12,168**	12,570
– foreign unlisted	**422,927**	386,715
	497,002	458,590
At 1 January	**458,590**	486,809
Acquisitions	**31,003**	71,723
Disposals	**(40,320)**	(77,355)
Changes in fair value	**47,729**	(22,587)
At 31 December	**497,002**	458,590

22 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	
	2021	2020
	€000	€000
Derivative assets		
Held for trading	**4,640**	6,574
Derivative liabilities		
Held for trading	**4,592**	6,551

Derivatives held for trading

	Group/Bank			
	2021			
	Notional	**Fair Value Assets**	**Notional**	**Fair Value Liabilities**
	€000	**€000**	**€000**	**€000**
Foreign exchange derivatives				
Currency forwards	**101,965**	**2,960**	**86,045**	**2,852**
Interest rate derivatives				
Interest rate swaps	**86,840**	**1,680**	**86,840**	**1,740**
Total derivatives		**4,640**		**4,592**
	2020			
Foreign exchange derivatives				
Currency forwards	51,213	3,368	51,079	3,278
Interest rate derivatives				
Interest rate swaps	80,824	3,206	80,824	3,273
Total derivatives		6,574		6,551

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.

23 Loans and advances to banks

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Repayable on call and at short notice	**288,682**	96,837	**282,471**	91,017
Term loans and advances	**330,591**	492,422	**330,591**	492,422
	619,273	589,259	**613,062**	583,439

Loans and advances to banks in the table above are shown net of credit loss allowances which amounted to €2,000 (2020: €8,000).

24 Loans and advances to customers

	Group/Bank	
	2021	2020
	€000	€000
Repayable on call and at short notice	**160,166**	196,639
Term loans and advances	**3,094,591**	3,127,934
Gross loans and advances to customers	**3,254,757**	3,324,573
Allowance for ECL	**(58,032)**	(59,909)
Net loans and advances to customers	**3,196,725**	3,264,664
Allowance for ECL		
– allowances booked under stage 1	**14,740**	13,600
– allowances booked under stage 2	**15,615**	19,136
– allowances booked under stage 3	**27,677**	27,173
	58,032	59,909

25 Financial investments

	Group		Bank	
	2021	2020	**2021**	2020
Measured at fair value through Other Comprehensive Income:	**€000**	€000	**€000**	€000
Debt instruments and other fixed income instruments	**845,700**	877,452	**845,700**	877,452
Equity and other non-fixed income instruments	**35**	33	**33**	31
	845,735	877,485	**845,733**	877,483

Debt instruments and other fixed income instruments

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Issued by public bodies:				
– local government	**520,528**	426,106	**520,528**	426,106
– foreign governments	**203,734**	204,068	**203,734**	204,068
Issued by other bodies:				
– other foreign issuers	**121,438**	247,278	**121,438**	247,278
	845,700	877,452	**845,700**	877,452
Listing status:				
– listed on the Malta Stock Exchange	**520,528**	426,106	**520,528**	426,106
– listed on other recognised exchanges	**325,172**	451,346	**325,172**	451,346
	845,700	877,452	**845,700**	877,452
At 1 January	**877,452**	943,573	**877,452**	943,573
Exchange adjustments	**13,409**	(16,360)	**13,409**	(16,360)
Amortisation of premium/discount	**(8,120)**	(9,133)	**(8,120)**	(9,133)
Acquisitions	**221,697**	214,787	**221,697**	214,787
Disposals/redemptions	**(249,667)**	(256,223)	**(249,667)**	(256,223)
Changes in fair value	**(9,071)**	808	**(9,071)**	808
At 31 December	**845,700**	877,452	**845,700**	877,452

Debt instruments with a carrying amount of €81,967,000 (2020: €83,450,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2021 and 2020, no balances were outstanding against these credit lines. In addition debt securities with a carrying amount of €20,021,000 (2020: €21,007,000) 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	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks:				
– local issuers	**7**	6	**5**	4
– foreign issuers	**28**	27	**28**	27
	35	33	**33**	31
Listing status:				
– unlisted	**35**	33	**33**	31
	35	33	**33**	31

26 Prepayments and accrued income

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Gross accrued interest	**27,460**	31,791	**24,969**	29,108
Allowance for ECL	**(9,688)**	(9,826)	**(9,688)**	(9,826)
Net accrued interest	**17,772**	21,965	**15,281**	19,282
Other accrued income	**2,001**	1,487	**1,532**	1,266
Prepayments	**785**	696	**778**	688
	20,558	24,148	**17,591**	21,236

27 Reinsurance assets

	Group	
	2021	2020
	€000	€000
Life insurance assets (non-linked)		
Long-term insurance contracts	**77,175**	78,840
Claims outstanding	**2,090**	2,553
Other payables	**(1,293)**	(1,310)
	77,972	80,083

28 Other non-current assets held for sale

	Group/Bank	
	2021	2020
	€000	€000
Assets acquired in satisfaction of debt	**3,876**	4,769
Assets held for sale attributable to closed branches	**2,797**	4,150
	6,673	8,919

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.

The assets acquired in satisfaction of debt of €3,876,000 (2020: €4,769,000) as at 31 December 2021 are net of an impairment provision of €200,000 (2020: Nil) in relation to a subsequent write down to fair value attributable to one of the properties held for sale.

During 2021 and 2020, a number of branches were closed in accordance with the bank's strategic plan to modernise its operations and enhance its branch network infrastructure, and to reflect the continued increase of trends in customer use of and demand for digital banking services accelerated by the Covid-19 pandemic.

During the current financial year land and buildings and other equipment with a carrying amount of €4,018,000 (2020: €2,127,000) attributable to specific closed branches were reclassified from Property, plant and equipment (refer to Note 31).

During the financial year ended 31 December 2021, 5 branches (2020: 3 branches) with a carrying amount of €5,372,000 (2020: €1,207,000) were disposed of. Gains on disposal amounting to €517,000 (2020: €54,000) were recognised in respect of these branches within profit or loss.

The carrying amount as at 31 December 2021 of the remaining assets, will be recovered through a sale transaction rather than through continuing use.

29 Investments in subsidiaries

	Bank			
	Nature of business	Equity interest	**2021**	2020
		%	**€000**	€000
HSBC Life Assurance (Malta) Ltd	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.

30 Investment property

	Fair value 2021 €000	Cost 2021 €000	Fair value 2020 €000	Cost 2020 €000
Group				
Freehold land and buildings				
As at 1 January	**1,600**	**1,121**	9,788	8,537
Additions	**—**	**—**	6	6
Disposals	**—**	**—**	(7,595)	(6,823)
Fair value adjustments	**—**	**—**	(599)	(599)
At 31 December	**1,600**	**1,121**	1,600	1,121
Bank				
Freehold land and buildings				
As at 1 January	**—**	**—**	7,589	6,817
Additions	**—**	**—**	6	6
Disposals	**—**	**—**	(7,595)	(6,823)
At 31 December	**—**	**—**	—	—

The bank's investment property, which was a non core property asset and not part of the bank's normal business, was disposed of during the financial year ended 31 December 2020 as announced on 17 January 2020. During the year ended 31 December 2020 rental income relating to this investment property of €482,000 was recognised in profit or loss, for the local group and the bank. Additionally, a loss amounting to €168,000 was realised upon disposal (refer to Note 13).

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.

31 Property, plant and equipment

	Group			
	Land and buildings €000	**Computer equipment €000**	**Others €000**	**Total €000**
Cost/revaluation				
At 1 January 2021	**37,966**	**20,265**	**38,232**	**96,463**
Additions	**67**	**79**	**1,687**	**1,833**
Revaluation	**2,384**	**—**	**—**	**2,384**
Disposals/Write offs	**(20)**	**(2,251)**	**(1,663)**	**(3,934)**
Transfers (refer to Note 28)	**(4,105)**	**—**	**(395)**	**(4,500)**
At 31 December 2021	**36,292**	**18,093**	**37,861**	**92,246**
Accumulated depreciation and impairment losses				
At 1 January 2021	**1,760**	**18,361**	**32,136**	**52,257**
Depreciation charge for the year	**290**	**567**	**1,559**	**2,416**
Revaluation	**(5)**	**—**	**—**	**(5)**
Disposals/Write offs	**(20)**	**(2,251)**	**(1,592)**	**(3,863)**
Transfers (refer to Note 28)	**(155)**	**—**	**(327)**	**(482)**
At 31 December 2021	**1,870**	**16,677**	**31,776**	**50,323**
Carrying amount at 1 January 2021	**36,206**	**1,904**	**6,096**	**44,206**
Carrying amount at 31 December 2021	**34,422**	**1,416**	**6,085**	**41,923**
Cost/revaluation				
At 1 January 2020	39,765	21,171	46,695	107,631
Additions	73	443	1,256	1,772
Revaluation	320	—	—	320
Disposals/Write offs	—	(1,349)	(9,413)	(10,762)
Transfers (refer to Note 28)	(2,192)	—	(306)	(2,498)
At 31 December 2020	37,966	20,265	38,232	96,463
Accumulated depreciation and impairment losses				
At 1 January 2020	1,579	19,030	39,619	60,228
Depreciation charge for the year	320	674	1,629	2,623
Revaluation	(18)	—	—	(18)
Disposals/write offs	—	(1,343)	(8,585)	(9,928)
Transfers (refer to Note 28)	(121)	—	(250)	(371)
Reversal of impairment losses	—	—	(277)	(277)
At 31 December 2020	1,760	18,361	32,136	52,257
Carrying amount at 1 January 2020	38,186	2,141	7,076	47,403
Carrying amount at 31 December 2020	36,206	1,904	6,096	44,206

	Bank			
	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Cost/revaluation				
At 1 January 2021	**37,966**	**20,027**	**38,025**	**96,018**
Additions	**67**	**79**	**1,685**	**1,831**
Revaluation	**2,384**	**—**	**—**	**2,384**
Disposals/Write offs	**(20)**	**(2,251)**	**(1,663)**	**(3,934)**
Transfers (refer to Note 28)	**(4,105)**	**—**	**(395)**	**(4,500)**
At 31 December 2021	**36,292**	**17,855**	**37,652**	**91,799**
Accumulated depreciation and impairment losses				
At 1 January 2021	**1,760**	**18,123**	**31,929**	**51,812**
Depreciation charge for the year	**290**	**567**	**1,559**	**2,416**
Revaluation	**(5)**	**—**	**—**	**(5)**
Disposals/Write offs	**(20)**	**(2,251)**	**(1,592)**	**(3,863)**
Transfers (refer to Note 28)	**(155)**	**—**	**(327)**	**(482)**
At 31 December 2021	**1,870**	**16,439**	**31,569**	**49,878**
Carrying amount at 1 January 2021	**36,206**	**1,904**	**6,096**	**44,206**
Carrying amount at 31 December 2021	**34,422**	**1,416**	**6,083**	**41,921**
Cost/revaluation				
At 1 January 2020	39,765	20,933	46,488	107,186
Additions	73	443	1,256	1,772
Revaluation	320	—	—	320
Disposals/Write offs	—	(1,349)	(9,413)	(10,762)
Transfers (refer to Note 28)	(2,192)	—	(306)	(2,498)
At 31 December 2020	37,966	20,027	38,025	96,018
Accumulated depreciation and impairment losses				
At 1 January 2020	1,579	18,792	39,412	59,783
Depreciation charge for the year	320	674	1,629	2,623
Revaluation	(18)	—	—	(18)
Disposals/Write offs	—	(1,343)	(8,585)	(9,928)
Transfers (refer to Note 28)	(121)	—	(250)	(371)
Impairment losses	—	—	(277)	(277)
At 31 December 2020	1,760	18,123	31,929	51,812
Carrying amount at 1 January 2020	38,186	2,141	7,076	47,403
Carrying amount at 31 December 2020	36,206	1,904	6,096	44,206

As a result of the bank's strategic plan to modernise its operations, announced in 2019, the branch network infrastructure continues to be enhanced to reflect this change. As part of this plan, a number of branches have been closed. In this regard, during the current financial year, land and buildings and other equipment with a carrying amount of €4,018,000 (2020: €2,127,000) attributable to specific closed branches were reclassified to Other non-current assets held for sale, as their carrying amount has been recovered through a sale transaction, or are available for sale in their current condition and their sale is highly probable as at reporting date (refer to Note 28). Land and buildings and fixtures and fittings pertaining to specific closed branches with a carrying amount of €4,046,000 (2020: €5,532,000) 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 written off during the year ended 31 December 2020 and consequently the impairment charge recognised in 2019 amounting to €277,000 has been reversed in 2020.

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 basis, the carrying amounts would be:

	Group/Bank	
	2021	2020
	€000	€000
At 31 December		
Cost	**7,563**	11,621
Accumulated depreciation	**(1,875)**	(1,778)
Carrying amount	**5,688**	9,843

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.

32 Intangible assets

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Software	**16,561**	13,762	**16,022**	13,152
PVIF	**33,565**	40,538	**—**	—
Deferred acquisition costs	**42**	42	**—**	—
	50,168	54,342	**16,022**	13,152

Software

	Group		Bank	
	2021	2020	**2021**	2020
Cost	**€000**	€000	**€000**	€000
At 1 January	**45,819**	40,016	**43,612**	38,093
Additions	**6,675**	5,899	**6,671**	5,615
Disposals/Write offs	**(45)**	(96)	**(45)**	(96)
At 31 December	**52,449**	45,819	**50,238**	43,612
Accumulated amortisation				
At 1 January	**32,057**	29,398	**30,460**	27,900
Amortisation charge for the year	**3,876**	2,751	**3,801**	2,652
Disposals/Write offs	**(45)**	(92)	**(45)**	(92)
At 31 December	**35,888**	32,057	**34,216**	30,460
Carrying amount at 1 January	**13,762**	10,618	**13,152**	10,193
Carrying amount at 31 December	**16,561**	13,762	**16,022**	13,152

PVIF

	Group	
	2021	2020
	€000	€000
At 1 January	**40,538**	50,858
Addition from current year new business	**4,925**	4,140
Movement from in-force business	**(11,898)**	(14,460)
At 31 December	**33,565**	40,538

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:

	2021	2020
	%	%
Risk free rate	**EIOPA yield curve**	EIOPA yield curve
Risk adjusted discount rate	**EIOPA yield curve with no margin**	EIOPA yield curve with no 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	
		2021	2020
Assumptions	Movement	**€000**	€000
Risk free rate	+100 basis points	**4,226**	3,458
Risk free rate	-100 basis points	**(7,000)**	(7,375)
Expenses inflation	+10%	**(1,305)**	(1,536)
Expenses inflation	-10%	**1,424**	1,658
Lapse rate	+100 basis points	**4,983**	4,999
Lapse rate	-100 basis points	**(6,473)**	(6,710)

Deferred acquisition costs

	Group	
	2021	2020
	€000	€000
At 1 January	**42**	42
Amortisation	—	—
At 31 December	**42**	42

33 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.

A corresponding liability representing the future outflows in terms of the lease agreements is reported in Note 44 Other Liabilities.

	Group/Bank	
	2021	2020
Right-of-use assets	**€000**	€000
At 1 January	**4,200**	4,685
Additions	**1,010**	1,109
Terminations	**(71)**	(226)
Decreases	**(1,311)**	(140)
Depreciation	**(1,259)**	(1,228)
At 31 December	**2,569**	4,200
Lease liabilities at 31 December		
Current	**856**	1,033
Non-current	**1,594**	3,060
	2,450	4,093

	Group/Bank	
	2021	2020
	€000	€000
The income statement reflects the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**1,259**	1,228
Interest expense	**92**	149
Expense relating to short-term leases (included in administrative expenses)	**10**	17
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**276**	355

The total cash payments for leases, including short-term and low-value leases, in 2021 was €1,602,000 (2020: €1,738,000).

34 Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts determined after appropriate offsetting are shown in the statement of financial position:

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Deferred tax assets	**29,119**	27,130	**29,119**	27,130
Deferred tax liabilities	**(15,005)**	(17,562)	**(3,722)**	(4,036)
	14,114	9,568	**25,397**	23,094

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% (2020: 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 (2020: 8% or 10%).

The balance at 31 December represents temporary differences attributable to:

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Depreciation of property, plant and equipment	**(1,653)**	(684)	**(1,658)**	(711)
Expected credit loss allowances	**24,352**	25,392	**24,352**	25,392
Fair valuation of properties	**(3,850)**	(4,164)	**(3,722)**	(4,036)
Fair value gains on financial instruments	**(393)**	(3,674)	**(393)**	(3,674)
Value of in-force life insurance business	**(11,748)**	(14,188)	**—**	—
Provisions for liabilities and other charges	**6,819**	6,646	**6,423**	5,922
Other	**587**	240	**395**	201
	14,114	9,568	**25,397**	23,094

The movement in deferred tax assets and liabilities during the year is as follows:

	Group			
	At 1 Jan 2021	**Recognised in profit or loss**	**Recognised in OCI**	**At 31 Dec 2021**
	€000	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(684)**	**(969)**	**—**	**(1,653)**
Expected credit loss allowances	**25,392**	**(1,040)**	**—**	**24,352**
Fair valuation of properties	**(4,164)**	**553**	**(239)**	**(3,850)**
Fair value movements on financial instruments	**(3,674)**	**—**	**3,281**	**(393)**
Value of in-force life insurance business	**(14,188)**	**2,440**	**—**	**(11,748)**
Provisions for liabilities and other charges	**6,646**	**331**	**(158)**	**6,819**
Other	**240**	**313**	**34**	**587**
	9,568	**1,628**	**2,918**	**14,114**

	At 1 Jan 2020	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2020
	€000	€000	€000	€000
Depreciation of property, plant and equipment	(905)	221	—	(684)
Expected credit loss allowances	16,564	8,828	—	25,392
Fair valuation of properties	(5,075)	945	(34)	(4,164)
Fair value movements on financial instruments	(4,590)	1,323	(407)	(3,674)
Value of in-force life insurance business	(17,800)	3,612	—	(14,188)
Provisions for liabilities and other charges	11,184	(4,778)	240	6,646
Other	606	(224)	(142)	240
	(16)	9,927	(343)	9,568

	Bank			
	At 1 Jan 2021	**Recognised in profit or loss**	**Recognised in OCI**	**At 31 Dec 2021**
	€000	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(711)**	**(947)**	**—**	**(1,658)**
Expected credit loss allowances	**25,392**	**(1,040)**	**—**	**24,352**
Fair valuation of properties	**(4,036)**	**553**	**(239)**	**(3,722)**
Fair value movements on financial instruments	**(3,674)**	**—**	**3,281**	**(393)**
Provisions for liabilities and other charges	**5,922**	**659**	**(158)**	**6,423**
Other	**201**	**160**	**34**	**395**
	23,094	**(615)**	**2,918**	**25,397**

	At 1 Jan 2020	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2020
	€000	€000	€000	€000
Depreciation of property, plant and equipment	(918)	207	—	(711)
Expected credit loss allowances	16,564	8,828	—	25,392
Fair valuation of properties	(4,899)	897	(34)	(4,036)
Fair value movements on financial instruments	(4,591)	1,324	(407)	(3,674)
Provisions for liabilities and other charges	10,814	(5,132)	240	5,922
Other	558	(218)	(139)	201
	17,528	5,906	(340)	23,094

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.

35 Other assets

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Committed letters of credit	**842**	1,114	**842**	1,114
Other	**4,671**	9,614	**4,006**	8,486
	5,513	10,728	**4,848**	9,600

Committed letters of credit in the table above are shown net of credit loss allowances. As at 31 December 2021, there were no credit risk allowances related to committed letters of credit (2020: €7,000).

36 Deposits by banks

	Group/Bank	
	2021	2020
	€000	€000
Term deposits	**499**	2,774
Repayable on demand	**898**	980
	1,397	3,754

37 Customer accounts

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Term deposits	**710,487**	837,331	**710,487**	837,331
Repayable on demand	**4,910,708**	4,435,630	**4,947,194**	4,476,423
	5,621,195	5,272,961	**5,657,681**	5,313,754

38 Accruals and deferred income

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Accrued interest	**1,431**	2,137	**1,215**	1,933
Accrued expenses	**20,334**	12,405	**16,363**	9,148
Deferred income	**211**	301	**56**	121
	21,976	14,843	**17,634**	11,202

39 Liabilities under investment contracts

	Group	
	2021	2020
	€000	€000
At 1 January	**170,865**	183,706
Premiums received	**7,489**	6,738
Amounts paid on surrender and other terminations during the year	**(12,707)**	(8,447)
Changes in unit prices and other movements	**19,490**	(11,132)
At 31 December	**185,137**	170,865

40 Liabilities under insurance contracts

	Group	
	Gross	Gross
	2021	2020
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**391,627**	403,097
Outstanding claims	**1,612**	3,497
Total non-linked	**393,239**	406,594
Life insurance (linked)		
Provisions for policyholders	**264,186**	240,164
Outstanding claims	**772**	1,270
Total linked	**264,958**	241,434
Total liabilities under insurance contracts	**658,197**	648,028

	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 2021	**403,097**	**240,164**	**4,767**	**648,028**
Premiums received	**—**	**27,723**	**—**	**27,723**
Other movements for the year	**(11,470)**	**22,267**	**(2,383)**	**8,414**
Account balances paid on surrender and other terminations during the year	**—**	**(25,968)**	**—**	**(25,968)**
At 31 December 2021	**391,627**	**264,186**	**2,384**	**658,197**
At 1 January 2020	410,048	244,585	3,837	658,470
Premiums received	—	26,489	—	26,489
Other movements for the year	(6,951)	(7,142)	930	(13,163)
Account balances paid on surrender and other terminations during the year	—	(23,768)	—	(23,768)
At 31 December 2020	403,097	240,164	4,767	648,028

41 Provisions for liabilities and other charges

	Group				
	Restructuring costs	Legal proceedings and regulatory matters	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)					
At 31 December 2020	**566**	**1,303**	**14,186**	**2,556**	**18,611**
Additions	**3,208**	**60**	**787**	**1,917**	**5,972**
Amounts utilised	**(1,732)**	**(5)**	**(412)**	**(952)**	**(3,101)**
Unused amounts reversed	**—**	**(151)**	**(431)**	**(581)**	**(1,163)**
Exchange and other movements	**—**	**—**	**(837)**	**—**	**(837)**
At 31 December 2021	**2,042**	**1,207**	**13,293**	**2,940**	**19,482**
Contractual commitments					
At 31 December 2020					**2,420**
Change in expected credit loss provision					**(650)**
At 31 December 2021					**1,770**
Total Provisions					
At 31 December 2020					**21,031**
At 31 December 2021					**21,252**

	Bank				
Provisions (excluding contractual commitments)					
At 31 December 2020	**566**	**1,303**	**14,186**	**866**	**16,921**
Additions	**3,208**	**60**	**787**	**1,917**	**5,972**
Amounts utilised	**(1,732)**	**(5)**	**(412)**	**(952)**	**(3,101)**
Unused amounts reversed	**—**	**(151)**	**(431)**	**(21)**	**(603)**
Exchange and other movements	**—**	**—**	**(837)**	**—**	**(837)**
At 31 December 2021	**2,042**	**1,207**	**13,293**	**1,810**	**18,352**
Contractual commitments					
At 31 December 2020					**2,420**
Change in expected credit loss provision					**(650)**
At 31 December 2021					**1,770**
Total Provisions					
At 31 December 2020					**19,341**
At 31 December 2021					**20,122**

	Group				
	Restructuring costs	Legal proceedings and regulatory matters	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)					
At 31 December 2019	15,730	1,090	13,548	1,586	31,954
Additions	372	235	777	1,128	2,512
Amounts utilised	(15,536)	(8)	(912)	(142)	(16,598)
Unused amounts reversed	—	(14)	—	(16)	(30)
Exchange and other movements	—	—	773	—	773
At 31 December 2020	566	1,303	14,186	2,556	18,611
Contractual commitments					
At 31 December 2019					1,317
Change in expected credit loss provision					1,103
At 31 December 2020					2,420
Total Provisions					
At 31 December 2019					33,271
At 31 December 2020					21,031

	Bank				
	Restructuring costs	Legal proceedings and regulatory matters	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)					
At 31 December 2019	15,352	1,090	13,548	907	30,897
Additions	372	235	777	117	1,501
Amounts utilised	(15,158)	(8)	(912)	(142)	(16,220)
Unused amounts reversed	—	(14)	—	(16)	(30)
Exchange and other movements	—	—	773	—	773
At 31 December 2020	566	1,303	14,186	866	16,921
Contractual commitments					
At 31 December 2019					1,317
Change in expected credit loss provision					1,103
At 31 December 2020					2,420
Total Provisions					
At 31 December 2019					32,214
At 31 December 2020					19,341

(a) Restructuring costs

In line with the local group's strategic plan announced in 2019 which focused 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 during 2019 for the local group and €18,459,000 for the bank for restructuring costs emanating from applications by local group's employees under a voluntary redundancy scheme which closed by 31 December 2019 (refer to Note 16). In 2020 an additional provision for €372,000 for the local group and the bank was recognised in respect of further voluntary redundancies for three full time equivalent employees. The scheme was devised in view of the expected reduction in headcount as a result of the closure of a number of branches. This provision was required to enable the local group to implement these strategic actions and as this started being accomplished a number of roles in the bank were gradually reduced. The provision reflected the full amount of payments agreed with the individual employees affected. The major part of the provision was utilised during 2020, with the remaining balance utilised during 2021.

In 2021 the bank announced another strategic initiative to further improve its operational structure, benefiting from the Group's operating models, as the bank aims to drive efficiencies and enhance customer experience, and create a leaner working model that is externally-focused, performance-led, customer centred and fit for the future. To support this initiative, a provision for €3,208,000 for the local group and for the bank was recognised in respect of further voluntary redundancies for thirty-three full time equivalent employees. The scheme was introduced in view of the expected reduction in head count as a result of the transformation and automation of certain areas within the bank. As a result, a provision was raised which reflected the full amount of payments agreed with the individual employees affected, with a significant part of the provision utilised during current year.

The movement in provisions is reflected in Note 16 'Employee compensation and benefits' presented under termination benefits. The provision is expected to be fully utilised during the forthcoming financial year.

(b) Litigation provision

The litigation provision as at 31 December 2021 amounted to €1,207,000 for both local group and bank (2020: €1,303,000 for the local group and 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 2021, comprising a net decrease in provision of €96,000 for both local group and bank (2020: a net increase in provision of €213,000 for the local group and for the bank), 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) 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 2021 has been estimated at €13,293,000 (2020: €14,186,000) by independent actuaries using the projected unit credit method. In 2021, 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 recognised in profit or loss amounting to €431,000. Furthermore, net current service charges of €787,000 (2020: €777,000) reported under 'Additions' were recognised in income statement, whilst actuarial (gains)/losses attributable to changes in financial assumptions, demographic assumptions and experience adjustments of €450,000 (2020: €686,000), reported under 'Exchange and other movements', were recognised in Other comprehensive income, during the current financial year.

The present value of the defined benefit obligation at 31 December 2021 and 2020 has been estimated after taking into consideration the following assumptions:

i a rate of 0.82% (2020: 0.62%) 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 1.90% (2020: 1.00%) in line with the eurozone inflation curve;

iii a salary increase assumption of 1.00% plus cost of living allowance for 2022–2023 and 2.00% from 2024 onwards (2020: 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 62;

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.

(d) Other provision

Other provision as at 31 December 2021 amounted to €2,940,000 for the local group (2020: €2,556,000). This represents mainly the provisions for estimated future losses in respect of a closed investment product held by one of the subsidiary companies and provision for obligations in respect of medical insurance cost for employees who retired under previous voluntary schemes.

(e) Change in expected credit loss provision

The component of provisions for liabilities and other charges in respect of contractual commitments represents expected credit losses on other commitments to lend, guarantees, standby letters of credit, undrawn formal standby facilities, credit lines and other commitments to lend (refer to notes 47 and 48).

42 Borrowings from group undertaking

In December 2021 the bank has entered into a €60,000,000 loan agreement with HSBC Bank plc. The purpose of the loan is to enable the bank to meet the interim targets for minimum requirement for own funds and eligible liabilities ('MREL') as set by the Single Resolution Board.

The loan, which is unsecured and has been granted on normal commercial terms, is for a period of 10 years with maturity date of 16 December 2031, with an option of early repayment and subject to the terms and conditions of the Loan Agreement and applicable laws and regulations. It bears interest at a rate equal to three-month Euribor plus a margin of 117 basis points. As at 31 December 2021 the interest rate was 0.56%.

The loan is designated as, and will constitute, the lower ranking liabilities referred to in Article 29A (3A) of the Banking Act, Chapter 371 of the Laws of Malta.

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 to HSBC Bank plc and has a floating rate linked to three-month Euribor. As at 31 December 2021 the interest rate was 1.47% (2020: 1.51%).

44 Other liabilities

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Committed letters of credit	**842**	1,121	**842**	1,121
Lease liabilities (refer to note 33)	**2,450**	4,093	**2,450**	4,093
Other	**8,953**	7,776	**5,103**	4,665
	12,245	12,990	**8,395**	9,879

45 Called up share capital

	Group/Bank	
	2021	2020
	€000	€000
Authorised		
470,000,000 ordinary shares of 30 cents each	**141,000**	141,000
Issued and fully paid up		
360,306,099 ordinary shares of 30 cents 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
On land and buildings	
1 January 2020	**26,132**
– loss arising on revaluation	**338**
– deferred tax on revaluation loss	**(34)**
– transfer to retained earnings upon realisation through disposal	**(603)**
– deferred tax on transfer upon realisation through disposal	**60**
31 December 2020	**25,893**
– surplus arising on revaluation	**2,389**
– deferred tax on revaluation surplus	**(239)**
– transfer to retained earnings upon realisation through disposal	**(4,938)**
– deferred tax on transfer upon realisation through disposal	**494**
31 December 2021	**23,599**
On financial investments	
1 January 2020	**6,070**
– fair value adjustments	**1,162**
– deferred tax on fair value adjustments	**(407)**
31 December 2020	**6,825**
– fair value adjustments	**(9,375)**
– deferred tax on fair value adjustments	**3,281**
31 December 2021	**731**
Total revaluation reserve	
Total as at 31 December 2020	**32,718**
Total as at 31 December 2021	**24,330**

(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 €20,193,000 (2020: €20,781,000). As at 31 December 2021, debt securities with a carrying amount of €20,021,000 (2020: €21,007,000) had been pledged in terms of the Depositor Compensation Scheme (refer to Note 25).

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 2021, the General Banking Risk reserve amounts to €6,209,000 (2020: €6,209,000).

47 Contingent liabilities

	Group Contract amount		Bank Contract amount	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Guarantees	**123,127**	132,066	**123,129**	132,068
Standby letters of credit	**17,230**	17,954	**17,230**	17,954
Other contingent liabilities	**2,707**	2,276	**2,707**	2,276
	143,064	152,296	**143,066**	152,298

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 local 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 41.

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/Bank Contract amount	
	2021	2020
	€000	€000
Documentary credits	**16,862**	19,020
Undrawn formal standby facilities, credit lines and other commitments to lend	**950,877**	1,052,299
	967,739	1,071,319

The allowance for ECL on loan commitments is disclosed in Note 41.

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 2021 amounting to €62,000 (2020: €756,000) are mainly related to the acquisition of property, plant and equipment.

50 Dividends

	Group			
	2021	2020	**2021**	2020
	Cents per 30c share	Cents per 30c share	**€000**	€000
Gross of income tax				
– prior year's final dividend	**1.16**	–	**4,180**	–
– current year's interim dividend	**–**	–	**–**	–
	1.16	–	**4,180**	–
Net of income tax				
– prior year's final dividend	**0.75**	–	**2,717**	–
– current year's interim dividend	**–**	–	**–**	–
	0.75	–	**2,717**	–

On 27 July 2020, the European Central Bank ('ECB') issued a Recommendation on dividend distributions during the Covid-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35), which inter alia recommended that no dividends be paid out by credit institutions until 1 January 2021 and that no irrevocable commitment to pay out dividends be undertaken by credit institutions for the financial years 2019 and 2020.

During August 2020, the Board reviewed the position regarding the payment of the dividend in respect of the financial year ended 31 December 2019 and, in view of the ECB's recommendation, a decision to withdraw the recommendation made on 18 February 2020 to declare a final dividend in respect of the year ended 31 December 2019 was made. As at the same date, the Board also decided that no interim dividend in respect of the year ended 31 December 2020 would be declared.

On 15 December 2020, the ECB issued another Recommendation on dividend distributions during the Covid-19 pandemic and repealing Recommendation ECB/2020/35 (ECB/2020/62), which encourages prudence on the part of credit institutions when deciding on or paying out dividends. As a result, the ECB generally considered distributions exceeding the lower of 15% of accumulated profit for the financial years ended 31 December 2019 and 2020 and 20 basis points in terms of the Common Equity Tier 1 ratio to lack prudence. In this respect, during the current financial year, the bank paid a final net dividend of €2,717,000, which represents a pay-out ratio of 15% on the cumulative profits reported in respect of the financial years ended 31 December 2020 and 2019 for entities in scope of regulatory consolidation in terms of the provisions of the Capital Requirements Regulation, less any dividends paid in relation to the same financial years.

On 23 July 2021, the ECB issued another Recommendation repealing Recommendation ECB/2020/62 ((ECB/2021/31) with effect from 30 September 2021. In this respect, the bank is proposing a final net dividend of €8,010,000 in respect of the financial year ended 31 December 2021. The final dividend will be paid on 21 April 2022 to shareholders who are on the bank's register of shareholders at 14 March 2022 subject to approval by the Annual General Meeting scheduled for 13 April 2022.

	Group	
	2021	2020
	€000	€000
Proposed dividend		
Profit for the year	**17,755**	7,572
Proposed dividend	**8,010**	2,717
Less: interim dividend paid	**–**	–
Available for distribution	**8,010**	2,717
Proposed final dividend	**8,010**	2,717
Issued and fully paid up shares (Note 45)	**360,306,099**	360,306,099
	Cents per share	Cents per share
Proposed final dividend		
– gross of income tax per share	**3.42**	1.16
– net of income tax per share	**2.22**	0.75

No allocations were made during the current and previous year to the General Banking Risk Reserve since the reserve balance held is sufficient to cover the current level of non-performing loans (refer to Note 46).

51 Cash and cash equivalents

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**26,781**	28,890	**26,781**	28,890
Malta Government Treasury Bills of three months or less	**14,010**	—	**14,010**	—
Balances with Central Bank of Malta (excluding reserve deposit) of three months or less	**1,184,648**	659,880	**1,184,648**	659,880
Loans and advances to banks of three months or less	**391,352**	110,347	**385,198**	104,527
Items in course of collection from other banks	**4,453**	4,959	**4,453**	4,959
Items in course of transmission to other banks	**(21,573)**	(21,372)	**(21,573)**	(21,372)
Per Statements of Cash Flows	**1,599,671**	782,704	**1,593,517**	776,884
Adjustment to reflect balances with contractual maturity of more than three months	**486,644**	773,831	**490,437**	776,942
Per Statements of Financial Position	**2,086,315**	1,556,535	**2,083,954**	1,553,826
Analysed as follows:				
Cash and balances with Central Bank of Malta	**1,268,235**	740,377	**1,268,235**	740,377
Malta Government Treasury Bills	**228,172**	256,302	**228,172**	256,302
Loans and advances to banks	**619,273**	589,259	**613,062**	583,439
Items in course of collection from other banks	**4,453**	4,959	**4,453**	4,959
Items in course of transmission to other banks	**(21,573)**	(21,372)	**(21,573)**	(21,372)
Other liabilities	**(12,245)**	(12,990)	**(8,395)**	(9,879)
	2,086,315	1,556,535	**2,083,954**	1,553,826

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'.

- Wealth and Personal Banking ('WPB') 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.

During 2020, the following realignments were effected within the local group's internal reporting to the Board of Directors and senior management:

- RBWM ('Retail Banking and Wealth Management') is now referred to as Wealth and Personal Banking ('WPB') following Group's simplification of its organisational structure by merging GPB ('Global Private Banking') and RBWM; and
- Balance Sheet Management was reallocated from Corporate Centre to the global businesses.

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 ('CEO'), 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. '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.

Results are presented in the tables below on an adjusted basis as required by IFRSs. As required by IFRS 8, reconciliation of the reported results to adjusted results by global business, excluding significant items, are also 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. 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 profit before tax and balance sheet data

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. During the current financial year the bank incurred restructuring costs amounting to €3,208,000 attributable to

the local group and bank to implement the bank's latest strategic initiative, which demanded the issuance of a Voluntary Redundancy Scheme as outlined in Note 16. This provision was partly offset by a one-time release in the long-term employee benefits provision of €431,000 (refer to Note 41) to reflect the reduction in the number of eligible employees as a result of this transformation and automation programme. The net amount of €2,777,000 for the local group and bank was treated as a significant item in view of its non-recurring nature. Accordingly, the adjusted profit by global business reported below is higher than the reported profit. In 2020 there were no significant items requiring adjustment and the adjusted profit by global business was the same as that reported.

	Group			
	2021			
	Wealth and Personal Banking	Commercial Banking	Global Markets	Group Total
	€000	€000	€000	€000
Net interest income	**68,271**	**29,487**	**–**	**97,758**
– external	**68,466**	**29,292**	**–**	**97,758**
– internal	**(195)**	**195**	**–**	**–**
Net non-interest income	**17,767**	**13,134**	**2,634**	**33,535**
Net operating income before loan impairment charges	**86,038**	**42,621**	**2,634**	**131,293**
Change in expected credit losses and other credit impairment charges	**(598)**	**1,593**	**–**	**995**
Net operating income	**85,440**	**44,214**	**2,634**	**132,288**
Employee compensation and benefits	**(30,293)**	**(8,904)**	**(352)**	**(39,549)**
General and administrative expenses	**(41,034)**	**(14,221)**	**(274)**	**(55,529)**
Depreciation of property, plant and equipment and right-of-use assets	**(2,897)**	**(766)**	**(12)**	**(3,675)**
Amortisation of intangible assets	**(2,737)**	**(1,123)**	**(16)**	**(3,876)**
Total operating expenses	**(76,961)**	**(25,014)**	**(654)**	**(102,629)**
Adjusted profit before tax	**8,479**	**19,200**	**1,980**	**29,659**
Reported balance sheet data				
Loans and advances to customers (net)	**2,268,268**	**928,457**	**–**	**3,196,725**
Total external assets	**5,510,516**	**1,658,929**	**5,360**	**7,174,805**
Customer accounts	**4,380,261**	**1,240,934**	**–**	**5,621,195**
	2020			
Net interest income	74,745	31,157	–	105,902
– external	73,860	32,042	–	105,902
– internal	885	(885)	–	–
Net non-interest income	11,098	13,585	2,838	27,521
Net operating income before loan impairment charges	85,843	44,742	2,838	133,423
Change in expected credit losses and other credit impairment charges	(13,266)	(12,323)	–	(25,589)
Net operating income	72,577	32,419	2,838	107,834
Employee compensation and benefits	(33,089)	(10,348)	(368)	(43,805)
General and administrative expenses	(35,087)	(11,654)	(243)	(46,984)
Depreciation of property, plant and equipment and right-of-use assets	(2,725)	(1,109)	(17)	(3,851)
Amortisation of intangible assets	(1,974)	(765)	(12)	(2,751)
Total operating expenses	(72,875)	(23,876)	(640)	(97,391)
Adjusted/reported profit before tax	(298)	8,543	2,198	10,443
Reported balance sheet data				
Loans and advances to customers (net)	2,274,296	990,368	–	3,264,664
Total external assets	5,035,973	1,687,340	7,146	6,730,459
Customer accounts	4,215,101	1,057,860	–	5,272,961

Reconciliation of reported and adjusted profit by global business

During 2021, the performance results reported internally were adjusted for significant items.

A reconciliation of reported and adjusted profit by global business in respect of the financial year ended 31 December 2021 is shown in the table below.

	Group			
	2021			
	Wealth and Personal Banking	Commercial Banking	Global Markets	Group Total
	€000	€000	€000	€000
Adjusted profit before tax	**8,479**	**19,200**	**1,980**	**29,659**
Significant item:	**(2,375)**	**(372)**	**(30)**	**(2,777)**
– Restructuring provision	**(2,375)**	**(372)**	**(30)**	**(2,777)**
Reported profit before tax	**6,104**	**18,828**	**1,950**	**26,882**

During 2020 no significant items were reported.

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
	2021	**2021**	2020	2020
	€000	**€000**	€000	€000
Credit card balances	**7**	**7**	4	3
Commitments to lend	**700**	**579**	705	705

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	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Directors' emoluments (including Non-Executive Directors)				
Salaries and other emoluments	**1,905**	2,427	**1,264**	1,399
Benefits	**124**	230	**118**	164
Share-based payments	**14**	41	**14**	34
	2,043	2,698	**1,396**	1,597
Other key management personnel				
Salaries and other emoluments	**1,283**	1,885	**947**	2,191
Benefits	**121**	216	**118**	256
Share-based payments	**14**	6	**14**	13
	1,418	2,107	**1,079**	2,460

Directors' emoluments for the local group include the compensation of certain key management personnel of the bank amounting to €338,000 (2020: €361,000) that also serve as Directors of subsidiary companies, as well as the compensation of Non-Executive Directors of subsidiary companies amounting to €77,000 (2020: €79,000).

(c) Balances and transactions with other related parties

Balance and transactions with HSBC Bank plc

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Assets				
Held for trading derivatives	**2,372**	597	**2,372**	597
Loans and advances to banks	**477,829**	316,373	**475,357**	314,079
Prepayments and accrued income	**90**	70	**31**	14
Liabilities				
Held for trading derivatives	**2,268**	5,947	**2,268**	5,947
Deposits by banks	**1,379**	3,754	**1,379**	3,754
Borrowings from group undertaking	**60,000**	–	**60,000**	–
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accruals and deferred income	**1,507**	1,426	**432**	314
Income statement				
Interest income	**183**	517	**183**	517
Interest expense	**3,808**	1,477	**3,808**	1,477
Fee income	**255**	203	**56**	90
Fee expense	**100**	129	**46**	84
Net trading income	**3,388**	(3,162)	**3,388**	(3,162)
Other income	**126**	110	**126**	110
General and administrative expenses	**1,743**	1,733	**622**	543

Balances and transactions with other subsidiaries of HSBC Holdings plc

	Group		Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Assets				
Loans and advances to banks	**136,423**	268,273	**134,763**	266,702
Prepayments and accrued income	**125**	159	**13**	33
Other assets	**937**	936	**937**	936
Liabilities				
Customer accounts	**2,789**	2,521	**2,789**	2,521
Accruals and deferred income	**8,714**	3,733	**7,062**	2,596
Income statement				
Interest income	**375**	702	**375**	702
Fee income	**1,330**	1,211	**–**	–
Fee expense	**162**	154	**4**	2
Net trading income	**10**	5	**10**	5
Other income	**686**	919	**686**	919
General and administrative expenses	**25,603**	20,430	**23,983**	19,072

Balances and transactions with local group entities

	Bank	
	2021	2020
	€000	€000
Assets		
Prepayments and accrued income	**287**	277
Investment in subsidiaries	**30,859**	30,859
Liabilities		
Customer accounts	**36,486**	40,793
Income statement		
Fee income	**2,891**	2,920
Net trading income	**77**	67
Dividend income	**1,462**	2,000

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 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 2021, total assets held by the local group on behalf of customers amounted to €587,713,000 (2020: €590,901,000).

55 Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the local group. The local group has established and manages investment funds to provide customers with investment opportunities.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	• These vehicles are financed through the issue of units to investors.	• Investments in units issued by the fund
	• To generate fees from managing assets on behalf of third party investors.	• Management fees

As fund manager, the local group is entitled to receive a management and performance fee based on the assets under management. The total management fees earned during the year were €3,601,000 (2020: €3,585,000).

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.

	2021	2020
	€000	€000
Carrying amount of units in HSBC managed investment funds - classified as financial investments measured at fair value through profit or loss	**86,680**	85,569
Total assets of HSBC managed funds	**375,114**	389,353

The maximum exposure to loss is equivalent to the carrying amount of the assets held at the reporting date.

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.

Currently, 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 Report and Accounts may be obtained from its registered office or viewed on www.hsbc.com.

In accordance with the company announcement dated 10 December 2021, it is proposed that HSBC Continental Europe (HBCE) is designated as the immediate parent company. As a result, all of HSBC's relevant EU banking subsidiaries, including the Bank, will become owned by the HSBC Group through HBCE as the EU intermediate parent undertaking. The said proposed transaction should be completed during 2022. The proposed transaction will not involve any change in the day-to-day business of the Bank and its subsidiaries ('the HSBC Malta Group'). Ultimate control of the HSBC Malta Group will not change and will remain vested in HSBC Holdings plc.

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 a number of areas including in:

- defining what is considered to be a SICR;
- determining the lifetime and point of initial recognition of revolving facilities;
- calibrating PD, LGD and EAD models which support the ECL calculations, including making assumptions and estimates about how models react to relevant information about current and future economic conditions; and
- selecting economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected losses.

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 ECL, are reviewed regularly in light of differences between loss estimates and actual loss experience, although available information in respect of the local group's historical loss experience since the initial adoption of IFRS 9 is still contained. The level of estimation uncertainty and judgement has increased as a result of the economic effects of the Covid-19 pandemic, especially since there is no observable historical trend, which can be reflected within the models, that will accurately represent the effects of the economic changes brought about by the pandemic.

Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain highly subjective.

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 4(b)(iv). In addition, many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole is sensitive.

A key judgement in the context of the Covid-19 pandemic is whether the heightened level of macroeconomic uncertainty and its effects are more likely to be temporary or prolonged. The shape of recovery is also a significant uncertainty. This in turn increases significantly the level of subjectivity around the estimation of credit loss allowances in respect of loans and advances to customers. Although the effective implementation of vaccination roll-out programmes has amongst other factors, led to an economic recovery during 2021, the level of subjectivity around the estimation of credit loss allowances remains significant, particularly due to successive waves of infections, the potential mutation of Covid-19 variants, the efficacy of such vaccines/boosters upon the emergence of new virus strains, and the unwinding of Government support schemes and regulatory relief measures.

In this regard, management applied a higher level of expert judgement in order to assess the impact of the pandemic on the local group's level of defaults, including evaluating the impact of government support schemes and regulatory relief measures, and the unwinding of such measures, on both the incidence of default events and the severity of losses as described below.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers. This is particularly relevant in those instances where customers have accepted payment deferrals and other relief designed to address short-term liquidity issues or have extended those deferrals. In response to such limitations, management uses segmentation techniques for the purposes of identifying indicators of significant increase in credit risk within both wholesale and retail portfolios.

In relation to retail portfolios, ECL models are generally reliant on the assumption that default emergence is directly impacted by delinquency related indicators since less information is available at asset level to enable the timely identification of a SICR or UTP events.

In this respect, a management overlay was developed in respect of the mortgage portfolio in order to estimate the impact of the delayed emergence of defaults due to government support schemes and regulatory relief measures on the calculation of credit loss allowances as at 31 December 2021 and 2020. Amongst other factors, the segmentation technique used for this purpose takes into consideration employment status of the borrower and the economic sector within which the borrower is employed.

Judgement was also required in determining whether individually significant loans have experienced a SICR or a UTP event within the wholesale portfolio. In this respect, as part of management's response to the Covid-19 pandemic, the Bank assesses and individually rates those borrowers that requested payment deferrals/moratoria as well as those individually significant borrowers within wholesale sub-portfolios deemed mostly impacted by the pandemic, through individual periodic credit assessments on the basis of recently obtained management information, including forecasts. As part of these credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

For individually significant credit impaired loans, management determines 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 flows to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The heightened level of uncertainty within the local property market, driven by the pandemic, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of the pandemic will not be fully known until market conditions stabilise. To reflect the volatile economic conditions associated with the Covid-19 pandemic, judgemental overlay adjustments were applied by management in order to overcome limitations in respect of determining collateral valuations, and the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios. The level of expert judgement required is exacerbated by the heightened level of uncertainty around predictions in respect of the potential impacts of epidemiological assumptions in relation to the pandemic, of the efficacy of vaccines/boosters upon the emergence of new virus strains, and of the effectiveness of government support schemes and regulatory relief measures together with the impacts of their unwinding, on key macroeconomic variables and, as a result on forward-looking PDs and LGDs. As alluded to earlier, there is an absence of an observable historical trend that can accurately represent the severity and speed of the economic impacts brought about by the pandemic. Moreover, the complexities of government support schemes and their unwinding, regulatory guidance on the treatment of customer impacts (such as forbearance) and the unpredictable pathways of the pandemic taking cognisance of potential new virus strains, have never been modelled. Consequently, in some cases, the bank's IFRS 9 models generate outputs that appear overly sensitive when compared with other credit risk metrics and as a result, modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions.

These model limitations have been addressed through the introduction of an additional downside scenario and the recalibration of probability weights, as described in further detail in Note 4(b)(iii) to the financial statements.

In addition to the above, Malta's grey-listing by the FATF during the financial year ended 31 December 2021 has compounded the level of economic uncertainty within the local markets. The estimated economic impact of the grey-listing remains difficult to gauge, since this is highly dependent on the speed at which Malta exits grey-listing, the effectiveness of national efforts to address the findings, as well as the response from foreign investors. Significant judgement is required in order to assess the potential impact of the FATF grey-listing on the local economy. In this respect, expert judgement was applied by management when determining the appropriateness of selected macroeconomic scenarios and their respective probability weights, with judgemental overlay adjustments being applied as referred to previously.

In view of the above, management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario. The effect of economic uncertainty on the ECL outcome is disclosed in the sensitivity analysis presented in Note 4(b)(iii) within the section entitled 'Economic scenarios sensitivity analysis of ECL estimates'. The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes as there is a high degree of estimation uncertainty in the numbers representing tail risk scenarios when assigned a 100% weighting.

(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, Covid-19 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 EIOPA yield 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 €14,771,000 (2020: €16,794,000) or increase by €7,391,000 (2020: €27,249,000). 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 €1,261,000 (2020: €1,264,000) or decrease by €1,454,000 (2020: €1,430,000). If the expenses in future years differ by +/-10% from management's estimate, the liability would increase by €1,735,000 (2020: €1,197,000) or decrease by €1,615,000 (2020: €1,075,000). These impacts are calculated before considering changes to other assets and liabilities which may offset the gross impacts of these changes.

The local group holds two sets of expense overrun provisions, one in respect of an 'investment contract' portfolio that is in run-off related to a specific fixed expense and another in respect of the 'insurance contract' portfolio to allow for potential future shortfalls arising for the period that per-policy costs are forecasted to be higher than current assumptions.

- In setting the first provision, judgements are made in relation to the future management actions to reduce the fixed expenses in line with the run-off of the portfolio. Should these actions not be executed, this may lead to a negative impact on Profit before tax of circa €15m for the local group.
- In setting the second provision, the potential future expense shortfalls are reliant on achieving the new business sales plan. A 25% reduction to the future volumes will lead to a negative impact on Profit before tax of circa €10m in respect of the insurance business.

(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 EIOPA yield curve as at 31 December 2021 and 31 December 2020 allowing adjustments using the Smith Wilson method for (1) Credit Risk Adjustment of 10bps, and (2) the EIOPA yield curve is set to the Last Liquid Point ('LLP') of 20 years, and then extrapolated to the Ultimate Forward Rate ('UFR') of 3.75% (2020: 3.75%). The risk discount rate is set to the risk free curve with no margins.

The PVIF valuation assumes lapse rates varying by product and duration in-force that range from 0.2% to 18.3% p.a. (2020: from 0.2% to 18.3% 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 2.3% p.a. to 2.9% p.a. (2020: 1.8% p.a. to 2.2% p.a.).

The local group has limited lapse experience pertaining to some of its products and therefore draws comparisons to other internal lapse experience on similar business. This is a source of estimation uncertainty, and a change in lapse assumptions could impact the result of future accounting periods. In the case of the Inheritance Tax Planning product, the impact of any change to lapse rates will be highly material. During 2021, as a result of sustained low lapse experience, the likelihood of these impacts and their materiality, the insurance subsidiary has introduced an overlay adjustment that reduces the PVIF as included in Note 32.

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The local group is exposed to the risk of increased uncertainty to changes in assumptions as a result of Covid-19. The impact of reasonably possible changes in main assumptions on the PVIF are disclosed in Note 32. Assumptions are reviewed annually by the local group's Board of Directors.

59 Comparative financial information

With effect from the current financial year, items in course of transmission to other banks are being presented as a separate line item on the face of the Statement of financial position. It was previously presented within other liabilities.

In this respect, comparative figures presented in the Statement of financial position have been reclassified to conform with the current year's presentation for the purposes of fairer presentation. The presentation of the Statement of financial position as at 31 December 2019 was not deemed necessary taking cognisance of the nature and significance of the reclassification.

Five-year comparison: Income statements and statements of comprehensive income

Group income statements

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
Interest receivable and similar income	105,710	113,598	120,573	118,943	132,850
Interest expense	(7,952)	(7,696)	(10,462)	(10,321)	(12,190)
Net interest income	97,758	105,902	110,111	108,622	120,660
Net non-interest income	33,535	27,521	41,672	41,779	42,029
Change in expected credit losses and other credit impairment charges	995	(25,589)	(389)	(3,488)	—
Loan impairment charges	N/A	N/A	N/A	N/A	1,168
Operating expenses	(105,406)	(97,391)	(120,685)	(108,357)	(114,034)
Profit before tax	26,882	10,443	30,709	38,556	49,823
Tax expense	(9,127)	(2,871)	(10,541)	(9,860)	(18,968)
Profit for the year	17,755	7,572	20,168	28,696	30,855
Earnings per share	4.9c	2.1c	5.6c	8.0c	8.6c

Group Statements of Comprehensive Income

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
Profit for the year	17,755	7,572	20,168	28,696	30,855
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/ available-for-sale investments:	(6,095)	753	311	(3,592)	(4,739)
– fair value (losses)/gains	(9,377)	1,159	478	(5,527)	(7,290)
– income taxes	3,282	(406)	(167)	1,935	2,551
Items that will not be reclassified subsequently to profit or loss:					
Properties:	2,150	304	(475)	382	—
– surplus/(loss) arising on revaluation	2,389	338	(528)	424	—
– income taxes	(239)	(34)	53	(42)	—
Defined benefit obligation:	292	(446)	(619)	(334)	—
– remeasurement of defined benefit obligation	450	(686)	(952)	(514)	—
– income taxes	(158)	240	333	180	—
Equity instruments designated at fair value through other comprehensive income:	1	2	—	1,045	N/A
– fair value gains	2	3	—	1,608	N/A
– income taxes	(1)	(1)	—	(563)	N/A
Other comprehensive income, net of tax	(3,652)	613	(783)	(2,499)	(4,739)
Total comprehensive income	14,103	8,185	19,385	26,197	26,116

Five-year comparison: Statements of financial position

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**1,496,407**	996,679	586,072	190,768	164,059
Items in course of collection from other banks	**4,453**	4,959	3,436	5,404	18,158
Financial investments designated at fair value attributable to insurance operations	**N/A**	N/A	N/A	N/A	727,270
Financial assets mandatorily measured at fair value through profit or loss	**767,808**	733,670	754,020	694,081	N/A
Held for trading derivatives	**4,640**	6,574	5,320	4,956	5,175
Loans and advances to banks	**619,273**	589,259	676,031	1,097,714	1,059,308
Loans and advances to customers	**3,196,725**	3,264,664	3,257,433	3,110,412	3,128,833
Financial investments	**845,735**	877,485	943,603	904,920	926,096
Prepayments and accrued income	**20,558**	24,148	23,578	27,312	24,236
Current tax assets	**3,669**	1,813	1,719	16,728	13,911
Reinsurance assets	**77,972**	80,083	78,945	85,205	85,887
Assets attributable to disposal group held for sale	**—**	—	—	—	473,797
Other non-current assets held for sale	**6,673**	8,919	8,422	5,908	7,411
Investment property	**1,600**	1,600	9,788	9,714	10,600
Property, plant and equipment	**41,923**	44,206	47,403	55,413	56,308
Intangible assets	**50,168**	54,342	61,518	59,136	64,062
Right-of-use assets	**2,569**	4,200	4,685	—	—
Deferred tax assets	**29,119**	27,130	22,427	21,509	16,488
Other assets	**5,513**	10,728	13,217	21,814	16,384
Total assets	**7,174,805**	6,730,459	6,497,617	6,310,994	6,797,983
Liabilities					
Deposits by banks	**1,397**	3,754	840	2,542	54,703
Customer accounts	**5,621,195**	5,272,961	4,976,580	4,887,473	4,765,995
Items in the course of transmission to other banks	**21,573**	21,372	23,473	15,206	30,495
Held for trading derivatives	**4,592**	6,551	5,190	4,991	5,228
Accruals and deferred income	**21,976**	14,843	20,335	19,151	17,838
Current tax liabilities	**499**	88	2,489	538	—
Liabilities under investment contracts	**185,137**	170,865	183,706	166,347	203,136
Liabilities under insurance contracts	**658,197**	648,028	658,470	620,781	658,792
Provisions for liabilities and other charges	**21,252**	21,031	33,271	20,689	20,099
Deferred tax liabilities	**15,005**	17,562	22,443	23,427	26,295
Borrowings from group undertaking	**60,000**	—	—	—	—
Subordinated liabilities	**62,000**	62,000	62,000	62,000	29,277
Liabilities attributable to disposal group held for sale	**—**	—	—	—	473,797
Other liabilities	**12,245**	12,990	38,854	29,071	33,290
Total liabilities	**6,685,068**	6,252,045	6,027,651	5,852,216	6,318,945
Total equity	**489,737**	478,414	469,966	458,778	479,038
Total liabilities and equity	**7,174,805**	6,730,459	6,497,617	6,310,994	6,797,983
Memorandum items					
Contingent liabilities	**143,064**	152,296	158,654	149,783	122,959
Commitments	**967,739**	1,071,319	1,075,524	1,433,773	1,215,457

Five-year comparison: Statements of cash flows

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
Net cash from/(used in) operating activities	**745,603**	158,480	(204,056)	(71,376)	(156,694)
Cash flows from investing activities					
Dividends received	**—**	33	29	18	—
Interest received from financial investments	**11,897**	14,746	16,229	20,091	32,305
Purchase of financial investments	**(221,697)**	(214,787)	(315,277)	(242,523)	(139,115)
Proceeds from sale and maturity of financial investments	**249,667**	263,519	270,965	254,972	231,950
Purchase of property, plant and equipment, investment property and intangible assets	**(8,508)**	(7,677)	(6,980)	(5,194)	(2,999)
Proceeds on sale of property, plant and equipment, investment property and intangible assets	**56**	7,903	1,865	1,300	—
Net cash flows from/(used in) investing activities	**31,415**	63,737	(33,169)	28,664	122,141
Cash flows from financing activities					
Dividends paid	**(2,717)**	—	(8,197)	(38,409)	(20,610)
Proceeds from borrowings from group undertaking	**60,000**	—	—	—	—
Issue of subordinated liabilities	**—**	—	—	62,000	—
Repayment of subordinated liabilities	**—**	—	—	(29,277)	(58,158)
Net cash from/(used in) financing activities	**57,283**	—	(8,197)	(5,686)	(78,768)
Net increase/(decrease) in cash and cash equivalents	**834,301**	222,217	(245,422)	(48,398)	(113,321)

Five-year comparison: Accounting ratios

	2021	2020	2019	2018	2017
	%	%	%	%	%
Net operating income before loan impairment charges to total assets	**1.8**	2.0	2.3	2.4	2.4
Operating expenses to total assets	**1.5**	1.4	1.9	1.7	1.7
Cost efficiency ratio	**80.3**	73.0	80.2	73.0	70.9
Profit before tax to total assets	**0.4**	0.2	0.5	0.6	0.7
Profit before tax to equity	**5.6**	2.2	6.5	8.4	10.4
Profit after tax to equity	**3.7**	1.6	4.3	6.1	6.5

	2021	2020	2019	2018	2017
Shares in issue (millions)	**360.3**	360.3	360.3	360.3	360.3
Net assets per 30 cents share (cents)	**135.9**	132.8	130.4	127.3	133.0
Earnings per 30 cents share (cents)	**4.9**	2.1	5.6	8.0	8.6
Dividend per 30 cents share (cents)					
– gross	**3.42**	1.16	1.70	5.80	17.10
– net	**2.22**	0.75	1.10	3.80	11.10
Dividend cover	**2.2**	2.8	5.1	2.1	0.8

Branches and offices

Malta offices

Registered Office/Head Office

116 Archbishop Street, Valletta VLT 1444
Tel: 2380 2380

Wealth and Personal Banking
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

Birkirkara
1 Naxxar Road BKR 9049
Tel: 2380 2380

Gzira
196 The Strand GZR 1023
Tel: 2380 2380

Mosta
63 Constitution Street MST 9058
Tel: 2380 2380

Paola
12 Antoine De Paule Square PLA 1261
Tel: 2380 2380

Qormi
80 Mill Street QRM 3101
Tel: 2380 2380

Rabat
12 Saqqajja Square RBT 1190
Tel: 2380 2380

Sliema
High Street SLM 1549
Tel: 2380 2380

Swieqi
St Andrew's Road SWQ 9020
Tel: 2380 2380

Valletta
32 Merchants Street VLT 1173
Tel: 2380 2380

Zejtun
25th November Avenue ZTN 2018
Tel: 2380 2380

Zurrieq
38 High Street ZRQ 1318
Tel: 2380 2380

Gozo office

Victoria
90 Republic Street VCT 1017
Tel: 2380 2380

Subsidiary companies

HSBC Global Asset Management (Malta) Limited

Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 5128

HSBC Life Assurance (Malta) Ltd

Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 8699

Independent auditor's report

To the Shareholders of HSBC Bank Malta p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position of HSBC Bank Malta p.l.c. as at 31 December 2021, and of the Group's and the Parent Company's 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 comprise:

- the Consolidated and Parent Company income statements and statements of comprehensive income for the year ended 31 December 2021;
- the Consolidated and Parent Company statements of financial position as at 31 December 2021;
- 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 significant accounting policies and other explanatory information.

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

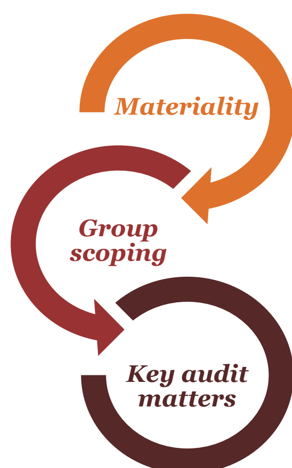
We are independent of the local group and the bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of 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 bank 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 2021 to 31 December 2021, are disclosed in note 17 to the financial statements.

Our audit approach

Overview



- Overall group materiality: €1.4 million, which represents 5% of profit before tax adjusted for non-recurring 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 2021 comprising HSBC Bank Malta p.l.c. and its subsidiaries HSBC Life Assurance (Malta) Ltd 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	€1,447,000
How we determined it	5% of profit before tax adjusted for non-recurring items
Rationale for the materiality benchmark applied	We chose the profit before tax adjusted for non-recurring 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% which is within the range of quantitative materiality thresholds that we consider acceptable.

In relation to the audit of the financial statements of HSBC Life Assurance (Malta) Ltd for the year ended 31 December 2021, we have applied a higher materiality of €3,300,000 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 €72,000 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	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 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. The development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. The outbreak of the Covid-19 pandemic has exacerbated the level of uncertainty around the calculation of ECLs, giving rise to heightened subjectivity in the determination of model assumptions used to estimate key model risk parameters and hence necessitating a higher level of expert judgement.	During our audit of the financial statements for the year ended 31 December 2021, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continuing appropriateness of management assumptions, updates to key parameters and new assumptions and enhancements, largely driven by the Covid-19 pandemic, 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, for which we provided updates on the results of our testing procedures; • the application of forward economic guidance, including the severity and magnitude of modelled scenarios, particularly in the context of the estimated impact of the Covid-19 pandemic;

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. The bank also applies overlays where management's view is that the calculated ECLs based on these key inputs do not fully capture the risks within the local group's portfolios.

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 HSBC Group level. Through-The-Cycle ('TTC') PDs are determined by reference to a Global Master Scale which captures historical default rates at credit rating level observed in respect of similar portfolios held by the HSBC Group across a number of countries. TTC PDs are converted to Point-in-Time ('PiT') PDs on the basis of correlations attributable to the proxy country/portfolio within the HSBC Group that has the credit risk characteristics which are most similar to those of the local group's portfolio. In addition, the output proxy PD is further adjusted using a scalar to reflect local macroeconomic 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.

The LGD modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by unprecedented economic conditions such as those currently experienced as a result of the Covid-19 pandemic.

In order to address these modelling limitations, the bank has applied overlays based on expert judgement to reflect the risks that downturn LGD materialises, which risks are not captured by the model.

For defaulted (Stage 3) exposures within the Wholesale portfolio, discounted cash flow

- considerations around post model adjustments, mainly in response to the impact of Covid-19 and Malta's grey-listing, and the estimation uncertainty involved in determining ECLs on the basis of historical experience; and
- individually significant loan impairments.

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 based on historic data, we assessed the impact of the unprecedented circumstances we are currently experiencing on the adequacy of key model parameters, since these are based on historical experience that is not necessarily reflective of the current level of credit risk 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.
- 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 the automated calculation of ECLs, in case of amendments to the model, to ensure it is performed in line with business requirements.
- Review and challenge 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

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 also 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 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. The model for loss severities in respect of the mortgage portfolio takes into consideration multiple work-out options. The loss severities for the remaining Retail portfolios is based on the local group's recovery history.

The local impact of the pandemic has been mitigated by a number of government programmes and measures, including general payment moratoria which have given rise to the deferral of payments of capital and/or interest over time periods that potentially extended until the end of the current financial reporting period. This factor has increased the level of uncertainty around judgements made in determining the timing of defaults and in respect of staging, particularly within the mortgage portfolio. For the purposes of avoiding the cliff edge effect on ECLs upon expiry of the moratoria and the unwinding of government support schemes, an overlay was applied by the bank determined on the basis of qualitative characteristics to enable the identification of significant increase in credit portfolio, risk profile, credit risk management practices and the macroeconomic environment.

- Tested a sample of loans within the Wholesale portfolio 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, taking into consideration the impact of Covid-19 on the repayment capabilities of the sampled borrowers.
- 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.
- Risk based testing of models, including a review of the continuing appropriateness of model 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.
- For the Wholesale portfolio, assessed the reasonableness of modelled PDs through a comparison of historically predicted and observed default rates, taking into consideration the potential postponement in timing of defaults due to government support programmes and measures, and the adequacy of modelled LGDs in light of the potential impact of the pandemic and Malta's grey-listing by the FATF on local property prices.
- For the Mortgage portfolio, assessed the reasonableness of market value haircuts and time to sell assumptions used as inputs to modelled LGDs, in light of the potential impact of the pandemic and Malta's grey-listing on local property prices. Additionally, we assessed the appropriateness of the post model overlay intended to address early identification of SICR or UTP events in respect of those exposures to which the bank extended general payment moratoria or which benefitted from Government support schemes or measures.

risk ('SICR') or Unlikeliness-to-Pay ('UTP') events as early as possible.

Under IFRS 9, the bank is also 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 macroeconomic scenarios based on the selected macroeconomic variables are considered to capture non-linearity across credit portfolios. The complexity attributable to this factor requires management to develop multiple macroeconomic scenarios involving the use of significant judgements. The bank utilises a methodology to generate the economic inputs applied within the ECL models.

The outbreak of Covid-19 and the government support and relief measures adopted to mitigate it have significantly impacted macroeconomic factors such as GDP and unemployment, increasing the uncertainty around judgements made in determining the severity and likelihood of macroeconomic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience.

The level of uncertainty has been exacerbated by Malta's inclusion in the list of jurisdictions under increased monitoring, referred to as the grey-list, by the Financial Action Task Force ('FATF') during the year ended 31 December 2021. This gave rise to an elevated level of uncertainty in respect of judgements made in determining macroeconomic forecasts underlying the different economic scenarios used in ECL models. The bank has applied overlays based on expert judgement to reflect risks that are not fully captured by 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. 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

- For the Mortgage portfolio, assessed the potential risks associated with unperfected collateral in order to evaluate the potential implications on the estimation of ECL.
- Independent testing of model calculations.
- Tested the multiple macroeconomic scenarios and variables using our experts to assess their reasonableness. We assessed the appropriateness of changes effected to factor the impact of the pandemic, including the recalibration of probability weights. We assessed whether the severity of the forecasted macroeconomic variables was appropriate in view of the pandemic and the high level of uncertainty surrounding the economic conditions. We challenged the correlation and impact of the macroeconomic factors on the ECL.

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

Based on the evidence obtained, we found that 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 established by management were tested over:

- The timeliness of the performance and review of the credit file review processes.
- The determination of which loans and advances are credit-impaired, including the timely identification of such defaulted exposures.

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 by management for identifying borrowers whose financial performance was particularly impacted by Covid-19 and for determining whether a UTP/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 or material sector disruption) to

requirements is deemed to be an area of focus, especially in the context of Covid-19, which has had an unprecedented impact on the economy and has significantly increased the level of estimation uncertainty around the calculation of credit loss allowances.

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 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 macroeconomic scenarios; and
- Measurements of individually assessed provisions including the assessment of multiple scenarios.

Relevant references in the financial statements:

- Accounting policies: Note 3(b);
- Credit risk management: Note 4(b);
- Note on Change in expected credit losses and other credit impairment charges: Note 15;
- Note on Loans and advances to customers: Note 24; and
- Critical accounting estimates and judgements: Note 58(a).

challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner.

- Selected a sample of performing loans, including from within those sectors that we consider to have been significantly impacted by the pandemic, which had not been identified by management as potentially defaulted, to form our own judgement as to whether management's judgement 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 size 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 (such as market value haircuts and time to sell for gone concern assessments) were appropriate given the borrowers' circumstances taking cognisance of the pandemic.
- Challenged the appropriateness of the scenarios being applied for the exposures referred to above, particularly in respect of the extent to which they consider the potential impact of the pandemic on the local property market, together with their respective probability weights, by forming an independent view of the market value haircuts and time to sell assumptions used by the bank under different scenarios in determining the recoverability of the selected corporate loans.
- Challenged the reasonableness of the use of a going concern assessment in respect of a sample of individually significant defaulted exposures, as well as the appropriateness of the methodology applied by management to estimate ECL under a going concern scenario.
- 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 our experts.
- The perfection of security in line with the bank's policy.

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)

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. Changes to assumptions can materially impact the local group's estimates. Future estimation uncertainty is heightened as a result of the ongoing Covid-19 pandemic.

Relevant references in the financial statements are:

- Accounting policies: Notes 3(h) and 3(m);
- Note on Intangible assets: Note 32
- Note on Liabilities under insurance contracts: Note 40 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:

- we assessed the assumptions for investment mix and projected investment returns by reference to company-specific and market observable data (EIOPA curve);
- we considered the appropriateness of the mortality assumptions by reference to local group 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 projected and allocated between new business and renewals, and by reference to market observable data (inflation curve).

The following procedures in relation to 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 local group

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.

We also assessed the appropriateness of the disclosures within the financial statements, including reference to related uncertainties brought about by the ongoing Covid-19 pandemic, and sensitivity analysis around the key assumptions.

Based on the work performed, we found the valuation of the non-linked life insurance contract liabilities and the present value of in-force business to be consistent with the explanations and evidence obtained.

How we tailored our group audit scope

The local group is composed of three components: HSBC Bank Malta p.l.c. (the "Parent Company" or "bank"), and its subsidiaries HSBC Life Assurance (Malta) Ltd, 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 to enable us to provide an opinion on the 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.

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 all of the information presented in the *Annual Report and Accounts 2021* (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 and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the local group's or the bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that Covid-19 will have on the local group's and the bank's trade, customers and suppliers, and the disruption to their business and the overall economy.
- 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, actions taken to eliminate threats or safeguards applied.

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 compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by reference to Capital Markets Rule 5.55.6

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the Annual Financial Report of HSBC Bank Malta p.l.c. for the year ended 31 December 2021, entirely prepared in a single electronic reporting format.

Responsibilities of the directors

The directors are responsible for the preparation of the Annual Financial Report, including the consolidated financial statements and the relevant mark-up requirements therein, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibilities

Our responsibility is to obtain reasonable assurance about whether the Annual Financial Report, including the consolidated financial statements and the relevant electronic tagging therein, complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the Annual Financial Report, in accordance with the requirements of the ESEF RTS.
- Obtaining the Annual Financial Report and performing validations to determine whether the Annual Financial Report has been prepared in accordance with the requirements of the technical specifications of the ESEF RTS.
- Examining the information in the Annual Financial Report to determine whether all the required taggings therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF RTS.

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

Opinion

In our opinion, the Annual Financial Report for the year ended 31 December 2021 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

Other reporting requirements

The *Annual Report and Accounts 2021* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Financial Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report and Accounts 2021* and the related Directors' responsibilities	Our responsibilities	Our reporting
Report of the Directors The Maltese Companies Act (Cap. 386) requires the Directors to prepare a Report of the Directors, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether 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. We are also required to express an opinion as to whether the Report of the Directors has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Report of the Directors, and if so to give an indication of the nature of any such misstatements. With respect to the information required by paragraphs 8 and 11 of the Sixth Schedule to the Act,	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). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

	our responsibility is limited to ensuring that such information has been provided.	
Statement of Compliance with the Code of Principles of Good Corporate Governance The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in the Annual Financial Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Capital Markets Rules. The Statement's required minimum contents are determined by reference to Capital Markets Rule 5.97. The Statement provides explanations as to how the bank has complied with the provisions of the Code, presenting the extent to which the bank has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.	We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the bank and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements. We are also required to assess whether the Statement of Compliance includes all the other information required to be presented as per Capital Markets Rule 5.97. 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 has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority. We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
Remuneration report The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare a Remuneration report, including the contents listed in Appendix 12.1 to Chapter 12 of the Capital Markets Rules.	We are required to consider whether the information that should be provided within the Remuneration report, as required in terms of Appendix 12.1 to Chapter 12 of the Capital Markets Rules, has been included.	In our opinion, the Remuneration report has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

Other matters prescribed by the Maltese Banking Act (Cap. 371)

In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- 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;
- in our opinion, 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 which may from time to time be in force in the manner so required.

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, adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.

We also have responsibilities under the Capital Markets 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.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

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 7 years.

PricewaterhouseCoopers
78, Mill Street
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Qormi
Malta

Fabio Axisa
Partner

24 February 2022

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

Cover designed by Superunion (formerly Addison Group), London; text pages designed by Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, Hong Kong, and Global Finance, HSBC Holdings plc, London.

ISSN 1811-7570
ISBN 978-99932-12-23-2

Photography
Page 2: Jean-Marc Zerafa
Pages 3, 4: Andrew Gauci Attard
Pages 6, 8, 10: Rene Rossignaud
Page 11: Axis Architecture
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