HSBC Bank Malta p.l.c.

Annual Report and Accounts 2022

HSBC

The HSBC Group

HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network is spread across 64 countries and territories in Europe, Asia, North America, Latin America, and the Middle East and North Africa.

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21 February 2023

DIRECTORS' DECLARATION
ON ESEF ANNUAL REPORT AND ACCOUNTS 2022

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

i. That the Annual Report and Accounts 2022 ("ARA") for the year ended 31 December 2022 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

Readers are reminded that the official statutory Annual Report and Accounts 2022, 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 2022 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 Bank Malta p.l.c. Chairman

2022 saw the beginning of a recovery in our economy, particularly in the tourism sector, despite the considerable economic headwinds that persist internationally. The adverse effects of Covid-19 have largely been replaced by worsening geopolitical events, in particular the war in Ukraine, energy costs, supply chain issues and inflation. Uncertainty continues to be the dominant sentiment.

Malta's removal from the so-called FATF 'Grey List' in a short time is testament to the commitment by the authorities and the wider financial community to address the shortcomings that had been identified. It is, of course, essential that our guard is not allowed to slip and that the advances that have been made are retained and the commitment to fight financial crime continues to increase. There is no room for complacency in this space. At HSBC we will continue to strive to be a safe and compliant bank working to the highest international standards whilst pursuing safe growth.

Our results for the year were considerably better than the previous year, largely driven by the removal of the negative interest rate environment and the recovery of a commercial debt for which we had fully provided in previous years. We also benefitted from the hard work that was put in to re-structure our operations and costs.

We also remain at our clients' disposal to assist in their efforts to reduce emissions and transition to net zero, as we work to reduce our own, and to provide the market with sustainable and responsible investment opportunities.

Results

The reported profit before tax for the year ended 31 December 2022 was €57.3m. This represents an increase of €30.4m when compared with the prior year. The bank's improvement in performance was driven by rising interest rates and a significant recovery on a commercial non-performing loan which was largely provided for in prior years. In 2022, the underlying results of the insurance company were impacted positively by an improvement in the yield curve. We also maintained effective cost management resulting in cost savings.

The adjusted profit before tax increased to €58.8m, or 98% compared to 2021. The adjusted profit before tax for 2022 and 2021 excludes a restructuring provision of €1.5m and €2.8m respectively. More details on the financial results can be found in the CEO's review.

Profit attributable to shareholders amounted to €37.6m, resulting in earnings per share of 10.4 cent compared with 4.9 cent in 2021.

The bank's capital ratios improved marginally with CET1 increasing from 18.4% to 18.5% and the total capital ratio increasing from 21.1% to 21.3%. This improvement was driven by the profits for the year partially offset by the reduction in revaluation reserves of €23.2m as a result of the decrease in the market prices of financial instruments. 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. The Board has thus recommended a dividend pay-out ratio of 35% on reported profits.

The final gross dividend will be 5.61 cent per share (3.64 cent per share net of tax).

From left: Charlotte Cilia, Chief Financial Officer, John Bonello, Chairman, Simon Vaughan Johnson, Chief Executive Officer

Our regulatory environment

During the course of 2022, the focus on prudential risk management by the regulatory and supervisory authorities continued, focusing mainly on the bank's governance and risk management activities as well as climate risk. 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 including climate risk and the bank's Internal Capital Adequacy Assessment Process (ICAAP) which were undertaken as a result of the European Central Bank's direct supervision and its supervisory priorities. During this period regulatory engagement was mainly focused on ensuring that governance and prudential risk management structures, procedures and internal controls are operating effectively. 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') and the Sustainable Finance Disclosure Regulation ('SFDR'). The new Central Bank of Malta Directive on the Use of Cheques and Bank Drafts ('CBM Directive 19'), was implemented within the required timeframes in 2022. 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 2022, the bank remained in close engagement with regulators and industry bodies during the consultation and ongoing implementation processes of other regulatory changes. 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 all our 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.

During 2022, 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 make regular and transparent disclosures to communicate our progress in line with guidelines set out by the Taskforce on Climate-related Financial Disclosures guidelines. We warmly encourage our customers and clients to do the same. HSBC Bank Malta is also one of the founding members of the Malta ESG Alliance.

HSBC Malta Foundation supports the High 5 Mathematics challenge. Winners and awardees of the seventh High 5 Junior Mathematics Challenge 2022 receive their accolades at the Malta National Aquarium in Qawra.

Currently the HSBC Malta Foundation is sponsoring two 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 and guidelines for a net zero carbon commercial building in the Maltese context.

Every year, the HSBC Malta Foundation earmarks part of its funding for causes that are important to our community. During 2022, the Foundation supported a number of projects including the Prince's Trust International Achieve Programme, the JAYE (Young Enterprise) Malta Foundation, The Malta Chamber of Commerce, The Chamber of SME's, 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 for the benefit of the community we serve.

Our People

Once again I have to congratulate and thank all the employees 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 2022, there were three changes to the membership of the Board. On 26 October 2022, 5 December 2022 and 7 December 2022, the bank announced the respective appointments of Henri Mizzi, Maria Micallef and Terecina Kwong as Non-Executive Directors of the bank. These appointments were effective on the date of 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

In these difficult and uncertain times, our customers will undoubtedly be exercising caution, as will we, but I am confident they will continue to seek investment opportunities to grow their business and we will continue to support the opportunities that are aligned to our values. We will also continue to leverage our unique ability to connect Maltese companies to the global economy.

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

Signed by John Bonello (Chairman) on 21 February 2023

Chief Executive Officer's review

As the Chairman stated, 2022 continued to be a challenging year for both the Maltese and global economy. Despite persistent shocks from the pandemic and the unstable geopolitical environment, we succeeded in delivering innovative solutions to our customers and have invested time and effort in identifying and realising opportunities to grow the business. We remain focused on the future, with a very strong appetite to grow our bank safely.

The bank achieved strong growth in profit in 2022. The bank's fundamentals remain robust and underlying performance was resilient.

We remain committed to executing our Safe Growth strategy that is focused on three strategic pillars: Growth, our Customers and our People. I am pleased that our Safe Growth strategy is delivering tangible results and I'm confident that our future-focused framework positions HSBC Malta well for long term success.

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.

Financial crime undermines financial systems, hinders economic growth, and negatively affects legitimate businesses and innocent people. Malta is part of the global financial system and therefore weak controls or complacency might have an impact not only on Malta but worldwide.

Malta's successful removal from the FATF 'Grey List' in a relatively short period of time is very positive and the result of a collective effort at country level. Having said that, all relevant stakeholders including authorities, regulators, financial service operators and other subject persons should continue to work together to ensure that Malta does not find itself in a similar position and to convert this decision into an opportunity to re-position Malta as a financial services hub and utilise this as a competitive advantage internationally.

We believe that the steps which have been and continue to be taken on this front provide stability and security to the financial system at large and to all those who make use of it. 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.

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 colleagues to develop skills, learn new capabilities and adapt to the future, whilst reducing complexity and bureaucracy.

Our customers and people remain two key strategic focus areas. We were delighted to launch the largest capital expenditure project for HSBC in Europe to transform and update our Operations Centre in Qormi. This exciting project will create a modern, fit for purpose business environment for all who work in, or visit, our premises at 80 Mill Street Qormi. Furthermore, this landmark project will facilitate a number of carbon net zero initiatives that are fully aligned with our published targets. I would like to express my sincere thanks and gratitude to our Board and my colleagues for their dedication, hard work and support in 2022.

Performance

The bank achieved strong growth in profit in 2022. The reported profit before tax for the year ended 31 December 2022 was €57.3m. This represents an increase of €30.4m or 113% compared to prior year. The adjusted profit before tax of €58.8m increased by €29.2m, or 98% versus 2021. The adjusted profit before tax excludes the impact of restructuring provisions of €1.5m.

Reported profit attributable to shareholders was €37.6m, resulting in earnings per share of 10.4 cent compared with 4.9 cent in the same period in 2021.

Net interest income increased by 11% to €108.2m compared to prior year as the bank benefitted from rising interest rates. The European Central Bank increased the interest rate on their overnight deposit facility from -0.50% on 26 July 2022 rising to 2% as from 21 December 2022 and therefore the bank's surplus liquidity position was no longer being placed at negative rates.

Net fee income decreased by €2.1m compared to 2021 to €22.1m. This was driven by the removal of the high balance fee in July 2022, which was a customer-driven decision taken by the bank in view of the rising interest rate environment. We also saw a decrease in the refund on card scheme fees. On an underlying basis, the bank has sustained good progress in generating fee income.

Net trading income increased by €2.2m as we continue to strengthen and deepen our relationships with our corporate customers. As the leading international bank in the market, we have continued to offer a comprehensive range of award winning transaction banking services, including foreign exchange and other hedging products.

Operating costs for the year reduced by 2% and amounted to €103.0m. Operating expenses include restructuring provisions of €1.5m in 2022 and €2.8m in 2021. Excluding the restructuring provisions, expenses decreased by €1.1m, or 1%, compared to prior year, demonstrating continuously effective cost management actions.

A number of factors contributed to the net decrease in adjusted costs of €1.1m. The most material items were lower long term employee benefit costs in view of the increase in interest rates, savings on our commercial real estate costs and lower regulatory fees. These cost savings were partially offset by higher amortisation of intangible assets since we continue to invest in digitalisation, higher recharges from Group entities in view of increased outsourced services and higher costs incurred by the insurance subsidiary for the implementation of new accounting requirements.

During the year, we reported a release of Expected Credit Losses (ECL) of €9.6m, compared to a release of €1.0m in 2021. In 2022, our Commercial Banking business reported a net release of €12.3m which was mainly attributable to a significant recovery on a commercial non-performing loan which was largely provided for in prior years. Wealth and Personal Banking incurred a net charge of €2.7m. Provisions relating to a deterioration in the forward economic outlook from heightened levels of uncertainty and inflationary pressures were partially offset by the release of Covid-19 provisions booked in prior years.

The effective tax rate was 34.4%. This translated into a tax expense of €19.7m, €10.6m higher than the €9.1m expense for 2021. The increase in tax expense resulted mainly from increased profits.

HSBC Life Assurance (Malta) Ltd reported a profit before tax of €4.8m compared to a loss of €3.0m in 2021. The positive variance in profitability of €7.8m is mainly attributable to rising interest rates and lower actuarial losses, partially offset by higher expenses arising from increased costs associated with IFRS 17 implementation. The entity benefitted from the direct impact of increased interest rate expectations, reflected in the revision of the yield curve impacts of €17.4m and positive actuarial adjustments in line with inflationary expectations amounting to €0.9m, which were partially offset by the decrease in the fair value movement of investments of €12.8m, resulting in a net gain in 2022 of €5.5m, with a year-on-year increase of €3.6m. Performance in comparison to previous year was also positively impacted by lower adverse actuarial impacts. The entity incurred increases in expenses of €1.0m mainly driven by the implementation costs of new accounting requirements.

Net loans and advances to customers decreased marginally by €21.6m to €3,175m. Commercial balances decreased by 1.9%, while retail balances decreased by 0.2%. The bank continued to improve asset quality by reducing commercial non-performing loans by 22%. Retail non-performing loans decreased by 34% mainly driven by mortgage upgrades on which moratoria were extended during Covid-19. We saw an increase in new loans and other facilities approved to commercial banking customers, which were up by over 30% on prior year. We expect drawdown of these facilities in 2023.

Customer deposits grew by 6% to €5,971m driven by both retail and commercial deposits. The bank maintained a healthy advances to deposits ratio of 53% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio increased by 19% to €1,005m. The increase was driven by higher liquidity as a result of the growth in customer deposits. During the year, the fair value of the hold-to-collect-and-sell investments was impacted by adverse price movements on financial instruments, as a result of the increase in term market yield curves, impacting negatively revaluation reserves by €23.2m. The bank took action to address the negative impact by entering into fair value hedges to mitigate against further decreases in market prices, as well as establishing a hold-to-collect portfolio. The risk appetite for investment quality remained unchanged. The portfolio consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better.

The bank's common equity tier 1 capital was 18.5% as at 31 December 2022, compared to 18.4% at the end of 2021. The total capital ratio increased to 21.3% compared to 21.1% at 31 December 2021. The improvement in the capital ratios was driven by increased profits, partially offset by adverse price movements on financial instruments. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The bank is determined to maintain a strong capital base, at the same time recognising the importance of dividends to our shareholders. In view of the adverse price movements experienced this year, expected changes in capital regulations and the uncertain economic outlook, the Board has recommended a dividend pay-out ratio of 35% on reported profits after tax amounting to €13.1m which is the highest dividend paid in the last 4 years. The final dividend will be paid on 25 April 2023 to shareholders who are on the bank's register of shareholders on 21 March 2023, subject to approval at the Annual General Meeting scheduled for 20 April 2023.

Wealth and Personal Banking ('WPB')

In early 2022, as the restrictions of Covid-19 started to ease, we resumed full operations through twelve Branches across Malta and Gozo.

Enabling our customers to bank with us continues to be a key focus. Our customers' expectations are changing fast as digital channels are becoming the primary payments tool. We have continued to grow digital channel usage, with over 95% of basic transactions now carried out through our internet and mobile banking platforms. During 2022, customer adoption of HSBC Malta's Mobile Banking App increased by 12% and monthly mobile logins increased by 20%, as more transactions were completed online. We have also deployed a number of mobile banking enhancements which will improve the user experience and align with new regulatory requirements. During the process, protecting our customers remained a key priority as we enhanced our mobile application's security features.

Helping our customers to buy their first home, or move to a new property, remains key to HSBC and we continue to provide best in class expertise through our team of Mortgage Protection Managers, offering both mortgages and life assurance. Given the external environment, a prudent credit policy was retained for both secured and unsecured lending to ensure the long-term sustainability of our service proposition.

We continued to increase the number of retail customers that trust us with their day-to-day banking relationship, evidenced through growth in the number of customers who choose HSBC as their main Bank, thanks to process improvements and best-in-market propositions, namely HSBC Premier and HSBC Advance.

This year we launched the Employee Banking Solutions initiative that is a collaboration with Commercial Banking with the aim of engaging new customers in our retail propositions, including the Employee Pension Plan.

During 2022, the bank launched new products and initiatives, primarily in Wealth Management, including: the new sustainable Multi-Asset Fund, providing customers with additional income generation options; returning to the market to act as a Financial Intermediary for local corporate bond issuance; and launch of the Corporate Employee Pension Plan. In January 2023, we have also launched the Key Five Critical Illness Cover, which is the first product to market of its kind that provides stand-alone insurance protection for customers.

We have successfully implemented a number of transformational regulatory projects following new legislation that came into force, safeguarding the interests of our customers. We also deployed a new Cards system that provides enhanced features and protection to our customers.

As we look ahead to 2023, we remain focused on creating accessible banking for our customers to meet their changing needs through a multichannel banking experience, as we continue to embed our Environmental, Social and Governance strategy. We remain committed to supporting the local economy to achieve the Paris Agreement goal of net zero by 2050.

HSBC Bank Malta p.l.c launched a new student campaign, pledging to plant a tree for every new student enrolled

Commercial Banking ('CMB')

The past year has, once again, brought about various challenges and uncertainties that businesses across the world have had to face, with supply chain disruptions taking centre stage for most of the year. Despite this, many businesses are finding new ways to adapt and seize opportunities, including navigating international markets. We have continued working closely with our customers to support them as they face these challenges, not only by meeting their financing needs, but also by giving them access to the wealth of resources provided by the HSBC Group, such as webinars, leading international market research and relevant articles and industry insights. Our focus remains on building strong and mutually beneficial partnerships with our customers and adding value to them. We were pleased to see another increase in new loans and other facilities approved to customers, which were up by 30% on prior year. We expect drawdown of these facilities in 2023.

We have provided a number of Green and Sustainability Linked Trade Finance and other lending products to a number of our customers, enabling them to invest in greener energy sources and reduce greenhouse gas emissions. This was made possible following the rollout of a full suite of such products in 2021. We are also increasingly engaging with customers on their transition plans towards net zero and providing them with relevant information and support. This is an area of ongoing focus, in alignment with the Group's ESG commitments and also with regulatory requirements.

As the leading international bank in Malta, we have continued our efforts to grow revenues from our award winning Transaction Banking products and solutions leveraging on our core strengths. We have seen a further increase in deposits, as more customers have trusted us with their funds, with a related increase in payment volumes routed through our customers' accounts. This was attributable both to existing customers as well as newly on-boarded ones. Our Trade and Receivables Finance area has also performed very strongly in the past 12 months, generating growth in volumes and revenue. This is another area where we can provide unique services and solutions to our customers who trade internationally, drawing on the strengths of the Group which was named Global Best Bank for Trade Finance 2022 by Euromoney. We were delighted to be awarded Market Leader and best service provider for Trade Finance in Malta by Euromoney in February 2023.

HSBC Bank Malta p.l.c. has supported Pet Nutrition House, a Maltese pet food manufacturer and distributor, to internationalise its portfolio of products under the Prince and Princess brand names. Today, exports account for approximately 60 per cent of the company's sales

In an effort to make it easier for our customers to bank with us, we have continued to invest in technology, acknowledging a clear customer preference for digital services. We have introduced a number of enhancements to HSBCnet and its related processes that are aimed at saving our customers time, giving them more control, simplifying key functionalities and making it easier to access timely support when required. We have also standardised our Trade and Receivables Finance documentation and simplified our terms, making them easily accessible online. Thanks to this investment, as well as to a continued focus on increasing digitisation, we have seen higher penetration of HSBCnet across our customer base and higher utilization by customers. We have consequently seen lower usage of branches by business customers. These initiatives allow customers to spend less time banking and more time growing their business.

We were very pleased to see our efforts to improve customer satisfaction result in strong customer satisfaction scores in 2022. For the second year in a row, we saw a material increase in the satisfaction scores given by customers who took part in an online survey at the end of the year. Once again, customers scored the quality of their Relationship Manager highly, which is testament to the dedication and professionalism of our people. We will, as we have done in previous years, review in depth the feedback given by our customers with a view to finding areas where we can improve further and particularly to increase the ease with which customers do business with us.

In 2022, we announced the renewal of our long-standing Gold Partnership Agreement with The Malta Chamber, reinforcing our commitment to support Maltese businesses. Through this partnership, we support the Malta Chamber's ongoing operations while creating unique joint events through which we make our international expertise and business connections available to members. Later in the year, we also reaffirmed our commitment to supporting Maltese businesses' expansion into international markets through a three-year agreement with TradeMalta, which supports the internationalisation of Maltese businesses.

We have continued investing in our greatest asset, our dedicated and professional team. The ever-changing business environment requires our people to be updated on issues that impact our customers and we have therefore continued rolling out ongoing training programs in ESG and regulatory issues, among others. This training enables colleagues to better understand the issues faced by our customers and to be in a better position to provide expert support.

Our strategy remains unchanged. We aim to grow our lending book responsibly, including providing trade finance facilities to allow more businesses to grow internationally. We will also leverage our strengths and capabilities to increase our transaction banking flows. In the current economic environment which presents various challenges to businesses worldwide, we will additionally support customers by providing hedging products which help them to mitigate market risks.

Global Markets ('GM')

2022 has been another challenging year for Global Markets as the market continued to face demanding external factors. Notwithstanding this, Global Markets has generated significantly higher profits in 2022, reaching levels not seen for a number of years. GM continues to successfully deliver on its strategy to provide best in class services to local and international customers. Global Markets leverages on HSBC's competitive advantage as the leading international bank in Malta and on the expertise available across the HSBC Group's worldwide network. Collaboration with Commercial Banking and Wealth and Personal Banking businesses remains one of Global Markets strategic priorities in our safe growth strategy. During the year GM, together with CMB, organised various events during which leading industry specialists interacted with our clients.

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. Both the Hold to Collect and Sell as well as the Hold to Collect securities portfolio are mainly invested in high quality liquid assets, reflecting our conservative risk appetite. During the course of the year, the bank took action to address the decrease in market prices of financial instruments by entering into fair value hedges to mitigate against further decreases in market prices as well as setting up a hold-to-collect portfolio.

Digital Business Services ('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.

In 2022, various teams in DBS remained pivotal in maintaining customer service and business continuity during the ongoing Covid-19 pandemic. Technology solutions and more established remote working practices enabled over 90% of our colleagues to continue to work as efficiently from home when necessary. Our Corporate Services team ensured that changes in Health Authority Guidelines continued to be respected in all work places and customer facing locations, which involved a number of initiatives such as reinstalling sun shades to protect our customers during the hot summer months and so safeguard social distancing measures. 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, many positive changes for which have been adopted as permanent improvements as we reached a "new normal" phase of operation.

DBS continued to deliver on key strategic projects in 2022 and, with sustainability at the forefront of all that DBS stands for, these included the launch of the largest capital expenditure project for HSBC in Europe to transform and update our Operations Centre in Qormi. The project has successfully progressed in line with the ambitious plan to achieve a LEED accredited, modern, fit for purpose business environment for all who work or visit there. In addition to facilitating a number of carbon net zero initiatives that are fully aligned to our published targets, the interior design and supporting technological investment will provide more flexibility for employees, to maximise the opportunity brought about by the modern approach of "hybrid" working. The project is also attracting growing external interest, as we showcase it against the backdrop of Malta's high profile sustainability agenda and boasts the highest safety practices in terms of construction.

Our people

Our people and the community we serve remain at the heart of our business. Employee engagement and personal growth are key drivers for the provision of excellent customer service. Our focus is on providing our people with opportunities to realise their career aspirations and tools to safeguard their well-being.

Throughout the first half of 2022, we continued to adapt our ways of working as the Covid-19 situation persisted. Customer and employee wellbeing remained at the forefront of our decisions and strategy. As the Covid-19 situation improved later in the year, we reverted to a hybrid working model remaining vigilant despite a relaxation of restrictions across the country. We continued to capitalise on our employee platforms and tools to facilitate employee personal development and further enhance skills and abilities. This was achieved through various forms of virtual-led programs. These included career progression sessions, HSBC's Degreed platform, and future skills training launched during 2022. A number of middle managers also joined the Group's "You Grow, Unlocking your Potential and Accelerating into Leadership" programmes, as part of their personal development during the year.

Photo: DOI - Pierre Sammut

Labour Market Forecast and Future Skills Project supported by the HSBC Malta Foundation and The Malta Chamber, focuses on identifying the future skills required to ensure Malta's continued competitiveness in the global economy and will examine sectors such as: banking and financial services; information technology and communication, professional and technical services sectors.

L-R: Dr Clifton Grima, Minister for Education and Sport; Marisa Xuereb, President at The Malta Chamber; Simon Vaughan Johnson, CEO at HSBC Bank Malta p.l.c.

The attraction and retention of talent was high on our agenda throughout 2022. In July we successfully introduced a 'Refer a Friend' initiative to create a stronger resourcing pool in view of an increase in demand for resources across the financial services market. We also expanded our Internship proposition by collaborating with the University of Malta, and continued our collaboration with all educational institutions to recruit students and provide them a rich working experience. This year we welcomed back several students who returned to HSBC as full time employees after completing their studies. We strongly believe in the importance of engaging with our future talent, thereby providing future pipeline for the business. Flexible (including remote) working practices have been engrained in our business thereby facilitating a healthy work/life balance for our people. Throughout the year we organised various sessions for our employees focusing on topics of interest including mental, physical and financial well-being. In December we organised another successful Mental First Aid Training course for line managers which reconfirmed our Gold Standard in this area, awarded by the Richmond Foundation.

During 2022 we continued leading our HSBC HR roundtable sessions bringing together Heads of Human Resources from other leading organisations in Malta to discuss best practices and share challenges to identify common solutions and drive a strong human capital strategy.

In December, the Malta Council for the Voluntary Sector held the National Volunteer Awards for 2022. These awards are under the patronage of H.E. the President of Malta, Dr. George Vella, and they recognize the work of people and entities who are making a positive contribution to society and who are an inspiration to others. During the event, HSBC Bank Malta was honoured as winner of the National Corporate Voluntary Organisations Award, reflecting the outstanding work that HSBC Malta colleagues do to support the community we serve beyond banking.

Financial Crime Compliance ('FCC')

The Anti-Money Laundering program and agenda has continued to be a focal part of the bank's safe growth strategy and HSBC has continued to operate at the highest standards of financial crime risk management. Across the bank, colleagues have continued to receive training on financial crime risk contributing in the creation of a safer community, providing stability and security to the financial system at large and to all those who make use of it. 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.

Change of majority shareholder

On 30 November 2022, HSBC Europe B.V. transferred its direct shareholding in the Bank to HSBC Continental Europe ('HBCE'). As a result of this transaction, HBCE holds a direct shareholding of c70.03% in HSBC Bank Malta p.l.c. This transaction occurred to comply with an EU Directive requiring non-EU headquartered banking groups like the HSBC Group to have an intermediate parent undertaking in the EU by 31 December 2023. The transaction will not involve any material change in the day-to-day business of the Bank and its subsidiaries. Ultimate control of the HSBC Malta Group will not change and remains vested in HSBC Holdings plc.

Outlook

While the interest rate outlook is now more positive, the outlook for 2023 remains uncertain in view of heightened levels of inflationary pressures and continued geopolitical tensions.

HSBC remains strategically focused on growing our business in Malta through the Safe Growth program which is delivering tangible benefits to our customers, shareholders and the wider community. As the leading international bank in Malta, HSBC remains fully committed to pursuing the digitalisation journey and to offering local and global products and services to our customers, supporting them to realise opportunities to grow both locally and internationally.

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. We will also continue to support the wider community through the HSBC Malta Foundation, which, once again, has been very active throughout 2022.

We are determined to operate in a sustainable manner and will continue to give high importance to our net zero ambitions, aiming to be net zero ourselves by 2030.

I am enormously grateful to our colleagues for their dedication and commitment and I would like to thank them sincerely for all they have done – and are doing – for our customers, communities and each other.

We have our sights on the future and we remain confident that the 'Safe Growth' strategy will deliver increased returns to our shareholders, as we strive to open up a world of opportunity.

Signed by Simon Vaughan Johnson (Chief Executive Officer) on 21 February 2023

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. He is also a fellow member of the Institute of Chartered Accountants in England and Wales.

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 and also heads the bank's Corporate Sustainability arm and is the Deputy Chair of the HSBC Foundation. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 41 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').

Henri Mizzi, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in October 2022. Member of the bank's Audit Committee and Remuneration and Nomination Committee. Dr Mizzi is an Independent Arbitrator and Mediator and a Member of the International Chambers for Arbitrators, Mediators, Adjudicators and Dispute Board Members. He was an Associate at Camilleri Preziosi Advocates between 1989 and 1994 and became Partner in 1995 till 2020. In 1988 he obtained his Doctor of Laws Degree from the University of Malta. He then obtained his Master Degree from the University of Cambridge (Trinity Hall) in 1988 and became a CEDR Accredited Member in 2021.

Yiannos Michaelides, NON-EXECUTIVE DIRECTOR

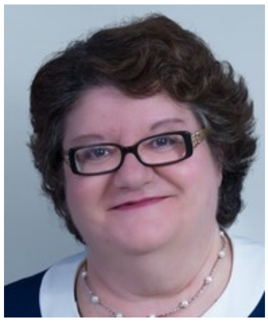
Appointed Director of the bank in May 2017. Presently Member of the bank's Risk Committee. Mr Michaelides has over 28 years of international business experience involving telecoms and media as CEO and holder of other Executive positions. He is currently CEO of Cablenet Communication Systems Ltd. Till 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. Ms 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.

Maria Micallef, NON-EXECUTIVE DIRECTOR

Appointed as Director in December 2022. Currently, Ms Micallef is the Chairperson of the bank's Remuneration and Nomination Committee, and Member of the bank's Audit Committee. She was the Managing Partner at RSM Malta until her retirement in December 2020. Ms Micallef specialised in business advisory services including mergers and acquisitions, corporate finance, valuations and investment appraisals. She is a visiting lecturer at the University of Malta. Currently Ms Micallef is pursuing a Degree in Humanities at the same University. Ms Micallef has a B.A. Hons Accountancy degree and is a Certified Public Accountant. She is a fellow of the Malta Institute of Accountants, a member of the US Institute of Internal Auditors and a member of the Association of Certified Fraud Examiners. Ms Micallef served as President of the Malta Institute of Accountants during the period 2013 to 2015.



Manfred Galdes, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in January 2021. Dr Galdes is the Chairman of the bank's Risk Committee. He 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 practicing 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.

Terecina Kwong, NON-EXECUTIVE DIRECTOR

Appointed as Director in December 2022. Ms Kwong started her career at the HSBC Group via the Hong Kong Management Associate Programme in 2000. She has held several senior positions within HSBC including Global Head of Channels Distribution, Global Commercial Banking Chief Risk and Administration Officer, Global Control Office Chief Operating Officer and Head of Centre of Excellence, Group Head of Operational Management and Chief Operating Office at HSBC China. She is currently Chief Operating Officer, HSBC Bank plc and HSBC Europe and a Non-Executive Director of HSBC Armenia. In 1997 she obtained a Bachelor of Arts Degree (Economics) from the University of British Columbia, Vancouver, Canada. In 1999 she graduated with Master of Business Administration from the Chinese University of Hong Kong. She also graduated in 2007 with a Bachelor of Law from the University of London and is a Fellow CPA, CPA Australia.

Paula Mamo, COMPANY SECRETARY

Company Secretary of HSBC Bank Malta p.l.c. since May 2022. Dr Mamo joined the bank in February 2018 as Deputy Company Secretary supporting the Company Secretary. She was appointed Company Secretary for the two subsidiary companies of the bank, HSBC Life Assurance (Malta) Ltd and HSBC Global Asset Management (Malta) Limited in May 2018. Prior to joining HSBC, Dr Mamo progressed through a number of roles primarily within legal, regulatory compliance and financial crime compliance, with other licensed financial institutions. She graduated as Doctor of Laws from the University of Malta in 2010.

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. In 2022, Mrs Hardy celebrated 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.

Alvaro Luis Teixeira, HEAD OF WEALTH AND PERSONAL BANKING

Mr. Teixeira was appointed Head of Wealth and Personal Banking in June 2022, pending regulatory approvals, and has a career spanning 30 years, 7 countries and many different areas of both wholesale and retail banking and wealth management. He joined HSBC in 2010 and has had roles in Brazil, Hong Kong, Mexico, USA and UK, managing large business units, such as Wealth and Private Clients in Mexico as well as large global programs, such as Wealth Transformation. He also served in the boards of some of HSBC's Insurance, Asset Management and Private Banking subsidiaries. Previously he spent nearly 20 years in trading desks in Brazil, USA and Canada. Mr Teixeira was trained as an economist in Brazil and then studied organisational behaviour in France and the UK.

Michel Cordina, EXECUTIVE DIRECTOR AND HEAD OF BUSINESS DEVELOPMENT

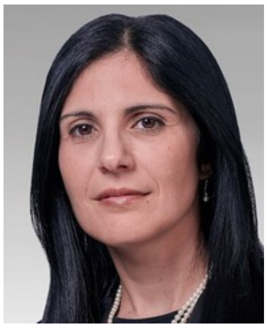
Appointed Executive Director in April 2019. Mr Cordina, formerly Head of Commercial Banking, is presently Head of Business Development and also heads the bank's Corporate Sustainability arm and is the Deputy Chair of the HSBC Foundation. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 41 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').

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. Prior to his role as Head of Global Markets, Mr Apap 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. In 2022, in addition to her HR responsibilities in Malta, she took over regional HR responsibilities for Commercial Banking across HSBC Europe. 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 has occupied a number of roles, primarily in Malta, during her 26 year career with HSBC. She has been heading Commercial Banking team for three years, during which she has implemented a number of changes, reshaping the team to ensure there is a focus on customer needs. Prior to her current role, she gained experience in various areas of Risk through a number of positions within the Risk department, and became the Bank’s Chief Risk Officer in 2013, a role she occupied for 6 years. In previous roles, she led Customer Value Management within the bank’s Personal Banking area for a number of years. She had also worked in the Trade Finance and Commercial Banking areas.
A strong supporter of diversity and inclusion in its various forms, she is the chairperson of the bank’s Diversity and Inclusion Committee. She is particularly involved in gender diversity and aims to support female colleagues through mentoring and other initiatives and activities.

Steven Beddow, CHIEF RISK OFFICER

Mr Beddow was appointed Chief Risk Officer in November 2022. Mr Beddow holds a Bachelor and Master’s Degree from the University of Oxford in Modern Languages. He has over 20 years of experience within the HSBC Group and has worked in a number of locations across Europe, Asia, the Middle East and the Americas. Mr Beddow has previously held a number of banking related Director positions, served on different country level executive committees, led transformation work, and co-sponsored a country level diversity and inclusion committee. He is passionate about staff development and mentoring.

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 16 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).

Paula Mamo, COMPANY SECRETARY

Company Secretary of HSBC Bank Malta p.l.c. since May 2022. Dr Mamo joined the bank in February 2018 as Deputy Company Secretary supporting the Company Secretary. She was appointed Company Secretary for the two subsidiary companies of the bank, HSBC Life Assurance (Malta) Ltd and HSBC Global Asset Management (Malta) Limited in May 2018. Prior to joining HSBC, Dr Mamo progressed through a number of roles primarily within legal, regulatory compliance and financial crime compliance, with other licensed financial institutions. She graduated as Doctor of Laws from the University of Malta in 2010.

Morgan Carabott, HEAD OF INTERNAL AUDIT

In September 2021, the Bank announced the appointment of Morgan Carabott as Head of Internal Audit. 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 2022 the bank had 12 branches in Malta, one of which is located in Gozo.

The local group comprised the following subsidiaries at 31 December 2022: 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 through HSBC Bank Malta p.l.c. which is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Ltd under the Insurance Distribution Act (chapter 487, Laws of Malta).

HSBC Global Asset Management (Malta) Limited is regulated by the Malta Financial Services Authority. It has an Investment Services Licence and is principally engaged in the asset management of Collective Investment Schemes and Discretionary Portfolio Mandates.

Business and strategy

HSBC Malta is part of HSBC Group, which has an unrivalled global position which serves customers worldwide from offices in 63 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,967bn at 31 December 2022, HSBC is one of the world's largest banking and financial services organisations. HSBC Malta is Malta's leading international bank. No international bank has our presence in Malta and no domestic bank has our international reach.

HSBC Group launched its refreshed purpose, strategy and values in 2021, HSBC Group's 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. 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. 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 2022, the bank launched new products and initiatives, such as the sustainable Multi-Asset Fund, providing customers with income generation options and returning to act as a financial intermediary for local corporate bond issuance.

Throughout 2022, the Commercial Banking business continued to focus on its commitment to increase Green and Sustainable Financing to both public and private companies in Malta. Solutions have been provided via various Trade Finance and core lending products, with HSBC Malta acting as both sole lender and as part of a syndicate in order to provide optimal financing packages to customers of various sizes. The Sustainable facilities provided have enabled our customers to transition to using greener fuel sources, and have incentivised reducing greenhouse gas emissions and focusing on social improvements (e.g. gender diversity) within their organisations.

In the past year we introduced several enhancements to HSBCnet and its related processes which have enhanced our customers' digital cash management journey. These include the automation of form processing which materially reduced the time for profile setup and account loading; introduction of e-signature capability on all HSBCnet related forms; enhanced beneficiary management which saves clients time and effort when making payments; and the introduction of LiveChat via HSBCnet Mobile, providing clients with an alternative method for assistance.

Looking ahead to 2023, we seek to continue embedding our Climate Strategy, actively supporting the local economy to achieve the Paris Agreement goal of net zero by 2050, and launching new stand-alone insurance protection products.

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 2022.

Conduct

Our Conduct Approach ensures that we continue to do the right thing and to focus on the impact we have on our customers and the financial market in which we operate.

The HSBC Purpose-Led Conduct Approach programme recognises cultural and behavioural drivers of good conduct outcomes, and it applies across all risk disciplines, operational processes and technologies.

HSBC has undertaken specific Conduct-related initiatives engaging staff to consider the practical aspects of Conduct and engagement. Oversight of conduct and related issues in governance has also been enhanced.

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 2022

HSBC Bank Malta p.l.c. ('the bank') and its subsidiaries (collectively referred to as the local group), reported a profit before tax of €57.3m for the year under review. The local group's profit attributable to shareholders was €37.6m.

The Directors have proposed a gross final dividend of 5.61 cent per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 21 March 2023.

Further information about the results of the local group is provided in the Income Statements and the Statements of Comprehensive Income on pages 46 and 47 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.

	2022	2021
Profit before tax (reported) (€m)	**57.3**	26.9
Profit before tax (adjusted) (€m)	**58.8**	29.7
Cost efficiency ratio (reported) (%)	**68.4**	80.3
Cost efficiency ratio (adjusted) (%)	**67.4**	78.2
Post-tax return on equity (reported) (%)	**7.6**	3.7
Post-tax return on equity (adjusted) (%)	**7.8**	4.0
Common Equity Tier 1 ratio (%)	**18.5**	18.4

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 a significant recovery on a commercial non-performing loan largely provided for in prior years, better performance from the insurance business, continued robust cost management and rising interest rates. Both 2021 and 2022 included a one-off restructuring provision to deliver future cost savings.

Outcome (adjusted): The adjusted profit before tax is higher than 2021 due to factors mentioned in the Outcome (reported). Adjusted costs which related to restructuring provisions were lower in 2022.

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 decreased from 78% in 2021 to 67% in 2022. Adjusted costs decreased by 1% year on year. Staff costs decreased as the bank continued to achieve sustainable savings from transformation programmes and also long term benefit costs were lower in view of the increase in interest rates. Non-staff costs also decreased due to savings on commercial real estate costs and lower regulatory fees, partly offset by higher intangible assets amortisation, higher group recharges as a result of increased outsourced services and higher costs incurred by the insurance subsidiary for the implementation of new accounting requirements.

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

Outcome (reported): The reported return on equity is significantly higher than that reported last year in view of the increase in profits.

Outcome (adjusted): The adjusted return on equity excludes the notable items and is significantly better than 2021.

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 2021 due to increased profits partially offset by adverse movements on financial instruments.

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

Our people and the community we serve remain at the heart of our business. Employee engagement and growth are key drivers for the provision of excellent customer service. We therefore provide our people with opportunities to realise their career aspirations and the knowledge and tools to safeguard their well-being.

Diversity and Inclusion

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, taking responsibility and getting 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.

Our Diversity and Inclusion Committee continues to ensure that we drive our Diversity and Inclusion policies and principles through all activities including recruitment processes, learning programmes and various initiatives across the bank and Malta. In 2022, 53% of our senior leadership roles were held by women and 83.5% of internal appointments were from our female population. We delivered regular career sessions to support employee development and career progression. 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+.

Well-being

Throughout the first half of 2022, we continued to adapt our ways of working as the Covid-19 situation persisted. Customer and employee wellbeing remained at the forefront of our decisions and strategy. As the Covid situation improved later in the year we reverted to a hybrid working model remaining vigilant despite a relaxation of restrictions across the country. Throughout the year we organised various sessions for our employees focusing on topics of interest including mental, physical and financial well-being. In December we organised another successful Mental Health First Aid Training course for line managers which reconfirmed our high standard in this area, supported by the Richmond Foundation.

Learning and Development

We continued to capitalise on our employee platforms and tools to facilitate employee personal development and the enhancing of skills and abilities. This was achieved through various virtual-led programs including career progression sessions, HSBC's Degreed platform, and future skills training launched during 2022. Several middle managers joined the Group's "uGrow", "Unlocking your Potential" and "Accelerating into Leadership" programmes as part of their personal development during the year.

Attraction and retention of quality employees

The attraction and retention of talent was high on our agenda throughout 2022. In July we introduced a 'Refer a Friend' initiative to create a stronger resourcing pool in view of an increase in demand for resources across the financial services market. We also expanded our internship proposition by collaborating with the University of Malta and continued our collaboration with all educational institutions to recruit students and provide them with a rich working experience. This year, several students returned to HSBC as full-time employees upon completion of their studies, proof over the positive value of student placements. We strongly believe in the importance of engaging with our future Talent, thereby providing future pipeline for the business. Flexible (including remote) working have been engrained in our work practice thereby facilitating a healthy work/life balance for our people.

Listening to our People

We continue to run a Snapshot Survey every year to have a better understanding about our employees' needs. During 2022 we had a 46% response rate which saw an improvement over the previous semester. We will continue to encourage higher response rates during 2023. In the first quarter of 2022, we cascaded the newly revised purpose and values through an extensive range of virtual sessions and discussions across the bank. 72% 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. In the 2022 employee survey, 68% of colleagues stated that they are confident to speak up when they see behaviours which they consider are wrong. Furthermore 86% of our employees stated having trust in line management. Our conduct framework and policies ensure that we deliver fair outcomes for our people to foster a healthy working environment.

Guiding Principles

The bank is committed to respecting 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.

Networking

Throughout 2022 we continued leading our HSBC HR roundtable sessions bringing together Heads of Human Resources from other leading organisations in Malta to discuss best practice and experience.

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. HSBC provides a number of channels to speak up, however it is recognised that 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 is open to all 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, customers, 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

HSBC Group's climate strategy; our Plan for the Planet, has three elements:

- Help our portfolio of customers to make the transition

The Group plans to support customers with between USD750 billion and USD1 trillion of finance and investment by 2030.

- Unlock climate solutions and innovation

HSBC Group will develop ways to finance the management of natural environments, and invest in activities that preserve, protect and enhance nature over the long-term. We'll also launch a USD100 million philanthropic programme to help scale climate innovation.

- Transform HSBC into a net zero bank.

HSBC is committed to reach net zero emissions for our own operations and supply chain by 2030 or sooner. We're focused on helping to deliver a net zero global economy. It's a pillar of our strategy as a business.

We aim to achieve net zero in our operations and supply chain by 2030 and in our financing portfolio by 2050. Between now and then, we're working with our clients to help them reduce their emissions and scale up low-carbon solutions, as we work to reduce our own. This will be a change over time, as businesses and economies progressively move away from high-carbon activities.

We call this the transition to net zero. We can have the biggest impact by working with our clients to help them achieve it. 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.

In 2022 we supported a number of Future Skills Projects. The launch of the Human Capital Research Project together with the Minister for Education and the Malta Chamber of Commerce will assist to review the local curriculum. The HSBC Malta Foundation is supporting the Human Capital Research Project through a donation of €135K. The three-year long research project, will focus on identifying current and future skills in financial services and banking, information technology, communication, professional, scientific and technical services. Once concluded, the project will contribute to Malta's ongoing competitiveness in the global economy by delivering a series of evidence-based policy recommendations. We continued to support the Prince's Trust International Achieve Programme which has surpassed our targeted reach this year, supporting 383 newly enrolled students. This year, the HSBC Group provided funding of $350K to the JAYE 'Future Skills Impact Fund'.

The HSBC Malta Foundation continues to support the Net Zero Building Framework for Malta research project with a donation of €120K. The aim of this project is to create a guideline for zero-carbon commercial buildings in the Maltese context. This project will help to 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 and will raise standards in energy efficiency and conservation. The intended framework is inspired by models such as LEED certification, for example.

Additionally HSBC Bank Malta is one of the 13 founding members of the Malta ESG Alliance. The Alliance has the aim of acting as a platform for Maltese businesses to collaborate and work together in order to lead and drive national ESG goals and ultimately act as catalysts while leading by example.

A number of information sessions on sustainability finance were held with the Malta Chamber of SMEs. The Malta Chamber of SMEs and HSBC Malta Foundation held a series of sustainability seminars for small and medium-sized enterprises on corporate sustainability practices across a variety of industries.

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. Five CBC meetings were held in 2022.

During the year, the bank continued to support 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 two climate action network teams in 2022 thanks to the commitment of our employees ranging from environmental to future skills topics. The CAN teams drive various internal learning initiatives to increase the capabilities of our own employees and also within the community. All these initiatives were led ably by our people who use a central platform where they share their achievements and successes of their projects.

From a learning and development perspective, Sustainability programs progressed throughout the year to further embed sustainability across businesses and functions in order to translate into growth opportunities. As in the preceding year, the programs ranged from raising awareness, to developing technical skills for front line and specialist roles within our control functions and business lines. The programs also focused on building a network for participants to promote intra-Group collaboration in transforming HSBC into a net zero bank. Employees were also encouraged to personally participate in any one sustainability initiative to effectively connect theory with hands-on experience. For the second year running, members of the CAN delivered a number of webinars in relation to Sustainability as well as direct engagement in HBCE led Sustainability initiatives.

Leadership and Soft Skills training was also delivered throughout 2022 in addition to technical training related to specific roles.

2022 has been instrumental in the bank's drive to achieve the Group's published Net Zero Charter by 2030. The biggest impact on our carbon footprint is maintaining our property portfolio and during the year we have commenced major works on our Operations Centre at Qormi, to redevelop and fully refurbish the campus, replacing all the plant and equipment to achieve operational efficiency levels to meet our targets. The redevelopment includes energy saving measures and the creation of a solar farm, which will potentially provide 75% of our electricity needs in future years. The project is aiming for Gold status LEED accreditation and is already well on track to meet these requirements.

The introduction of hybrid working has reduced our office portfolio by 30% and our new campus will allow us to maximise own usage of our freehold property, reducing reliance on our leasehold estate.

Within the year, we also increased our electric car charging facilities for both employees and customers at the Qormi location, with the intention to introduce better facilities for cyclists, including secure storage and shower facilities. Work continues on our Green Travel Plan to explore more initiatives to reduce Carbon Emissions.

We have accelerated our retail sustainable solutions by providing attractive rates on Energy Efficiency Loans, and rolling out PVC cards made up of 85% recycled material, issuing them to customers needing new or replacement cards. The recycled PVC plastic card action is expected to reduce CO2 emissions and save tonnes of plastic waste per year as part of our net zero strategy.

We have implemented measures to further reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings and continue to track our water consumption.

We have also added a new sustainable investment fund to our product shelf with the total subscriptions into the sustainable funds offered exceeding €18 million. The bank launched several educational webinars for our Retail and Small to Medium Entities on how to transition to a greener business model, how to cut costs and improve efficiency while being environmentally friendly. We have reduced 318,000 paper statements by migrating customers to digital banking. We have held training and informative sessions for our employees on their pension plans and the importance of sustainable investments.

Within Commercial Banking, we have continued to engage with our customers with a view to identifying ways in which we can support their transition to a more sustainable business. Our approach remains multi-faceted, taking into consideration the different sectors in which our customers operate and the challenges and opportunities that they face. 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 and retrofit of existing commercial premises, energy efficiency, sustainable water and wastewater management. We also offer a range of sustainability linked products, where the customer's overall performance is measured against pre-agreed and meaningful environmental, social or governance ('ESG') criteria. We have stepped up engagement with our top customers whose activities expose them to high ESG risks and are discussing and supporting their transition plans. We have meanwhile continued to provide extensive training to our Relationship Managers, using Group resources where appropriate, and are supporting some colleagues who are seeking to obtain external certification in this broad subject.

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] followed by an amendment to the Delegated Act in 2022 to include certain energy sectors. Under these regulations, HSBC Bank Malta p.l.c. is therefore required to provide information to investors about the environmental performance of our assets and economic activities.

In the first two years of disclosure from 2021, 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 2022		31 Dec 2021	
	Mandatory as proportion of total assets	**Voluntary as proportion of total assets**	Mandatory as proportion of total assets	Voluntary as proportion of total assets
	%	**%**	%	%
Exposures towards taxonomy relevant sectors (Taxonomy eligible)	**33**	**33**	35	35
Exposures towards taxonomy non-relevant sectors (Taxonomy non-eligible)	**5**	**5**	2	2
Exposures to Counterparties not subject to NFRD[3] disclosure obligations	**13**	**13**	18	18
Exposures to central governments, central banks and supranational issuers and derivatives	**19**	**19**	20	20
Trading portfolio and On-demand interbank loans	**5**	**5**	4	4
Other assets	**25**	**25**	21	21
Total Assets	**100**	**100**	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 HSBC Bank Malta p.l.c. as at 31 December 2022. 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 the Non-Financial Reporting[4] disclosure obligation.

Other assets, which principally 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, other 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 or not.

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. This includes exposures to undertakings subject to the NFRD where the use of proceeds is known such as green lending, green bonds and property-related lending.

In 2022, eligibility of general lending exposures has been assessed using the turnover eligibility ratios published by our NFRD counterparty's in their most recently available annual reports.

Taxonomy non-eligible economic activities

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

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.

Until such time as financial institutions disclose KPIs in accordance with the EU taxonomy regulation, exposures to these financial institutions are treated as non-eligible.

Total exposures to undertakings not subject to NFRD

Exposures to undertakings that are not obliged to publish Non-Financial Reporting(4) 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.

Data limitations

HSBC Bank Malta p.l.c. 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.

HSBC Bank Malta p.l.c. 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 simplified methodology 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, listing status, 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 for both financial and non-financial undertakings.

In 2022, where we have continued to rely on the NACE code of the principal activity to determine the counterparty's taxonomy eligibility, we consider this to be an estimate and included these exposures in the additional voluntary disclosures. In addition, exposures to undertakings not subject to NFRD including loans collateralised by commercial property and green bonds have been included on a voluntary basis as taxonomy eligible.

In July 2022, the European Commission amended the Delegated Act to include technical screening criteria for economic activities in the fossil gas and nuclear energy sectors. Where our counterparties published estimated taxonomy eligibility ratios inclusive of energy sector activities, we have used these ratios for assessing our eligible exposures in the voluntary disclosure.

Exposures to central governments, central banks, supranational issuers and derivatives as well as Trading portfolio 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 2022 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 risk 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 our risk appetite and strong risk management capability. We aim to deliver sustainable and diversified earnings as well as 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. We are committed to managing the climate risks that have an impact on our financial position and delivering on our net zero ambition.

Enterprise-wide application

Our risk appetite includes consideration of financial and non-financial risks and is expressed in both quantitative and qualitative terms.

The Risk Appetite Statement is approved by the Board following advice from the Risk Committee and is a key component of the risk management framework, with the Risk Map report and the Emerging risk dashboard.

Setting out risk appetite ensures that planned business activities provide an appropriate balance of return for the risk being taken, and that a suitable level of risk for our strategy is defined. In this way, risk appetite permits the financial planning process and helps senior management of the bank to allocate capital to business activities, services and products.

The business performance against these risk appetite metrics is reviewed on a frequent basis in the Risk Management Meeting and quarterly in the Risk Committee and Board. Details of metrics that have fallen outside of the appetite/tolerance are provided, along with remediating actions. This reporting allows risks to be promptly identified and mitigated.

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.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. The framework fosters continual monitoring, promotes risk awareness, and encourages a sound operational and strategic decision-making and escalation process. It also supports a consistent approach to identifying, assessing, managing, and reporting the risks we accept and incur in our activities, with clear accountabilities. We continue to actively review and develop our risk management framework and enhance our approach to managing risk, through our activities with regard to people and capabilities; governance; reporting and management information; credit risk management models; and data.

Risk and Compliance is independent from the global businesses, including our sales and trading functions, to provide challenge, oversight, and appropriate balance in risk/reward decisions

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 is 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 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.

Top and emerging risks

HSBC Malta uses a top and emerging risks process to provide a forward looking view of issues with the potential to threaten the execution of its strategy or operations over the medium to long term. HSBC Malta proactively assesses the internal and external risk environment, as well as reviews the themes identified for any risks that may require escalation. The bank updates its top and emerging risks as and when necessary.

Our risk management framework

The following diagram and descriptions summarise 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 bank'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 function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	The local group has processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
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	HSBC has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

The Risk Committee is aligned with the Bank approach focusing on risk governance, providing 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, amongst other things, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance.

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 Chief Compliance Officer with other business/ functions present for risks within their respective areas of responsibility.

In addition to the Risk Committee, the Risk Management Meeting ('RMM'), is the overarching management committee for both financial and non-financial risk management.

Chaired by the Chief Risk Officer, the Risk Management Meeting gathers the members of the Executive Committee in order to examine major risks faced by HSBC Bank Malta p.l.c.

It reviews financial and non-financial risks for the whole HSBC Bank Malta p.l.c. perimeter, including the risks linked to Digital Business Services, and the evolution of action plans put in place in order to mitigate identified risks. The HSBC Bank Malta p.l.c. Risk Management Meeting reports functionally to the HSBC Continental Europe Risk Management Meeting, and to the HBMT Risk Committee.

This framework is completed by dedicated risk forums and working groups for specific risks in businesses and functions combining the various levels of internal control, in order to manage, monitor and control all HSBC activities within HSBC Bank Malta p.l.c.

Responsibility for managing both financial and non-financial risk lies with all HSBC Bank Malta p.l.c. employees. They are required to manage the risks of the business and operational activities for which they are responsible. HBMT maintains oversight of its risks through various Risk Stewards, as well as the accountability held by the Chief Risk Officer.

Non-financial risk includes some of the most material risks HSBC Bank Malta p.l.c. faces, such as cyber attacks, poor customer outcomes and loss of data. Actively managing non-financial risk is crucial to serve our customers effectively and in having a positive impact in the social environment.

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 has ultimate ownership for risk and controls, including read across assessments of identified issues, 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 provides subject matter expertise, advice, guidance and challenges the first line of defence activities to help ensure that risk management decisions and actions are appropriate.
- The third line of defence is our Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

Risk and Compliance

Our Risk and Compliance functions are responsible for the local group's risk management framework. This responsibility includes establishing local 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 the Chief Risk Officer.

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 local group, and provides confidence to regulators on the local 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 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 informed by 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 local group 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.

During 2022, we conducted a range of internal stress tests. These included stress tests to assess the ongoing impacts of the Covid-19 and geopolitical crises 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 local group's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on internal stress test outcomes.

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 HSBC 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 2022, the Bank continued to develop its recovery and resolution capabilities in line with both the Single Resolution Board and Bank of England resolvability requirements. The bank is committed to further developing its recovery and resolution capabilities to ensure it meets current and future requirements as well as integrates the evolution of its business.

Key developments in 2022

We actively managed the risks related to macroeconomic uncertainties including inflation, fiscal and monetary policy, Russia-Ukraine war, broader geopolitical uncertainties, as well as the continued risks resulting from the Covid-19 pandemic and other key risks described in this section. In addition, we enhanced our risk management in the following areas:

- We continued to improve our risk governance decision making, particularly with regard to the governance of treasury risk, to ensure senior executives have appropriate oversight and visibility of macroeconomic trends around inflation and interest rates.
- We began a process of enhancement of our country credit risk management framework to strengthen our control of risk tolerance and appetite at a country level.
- We continued to develop our approach to emerging risk identification and management, including the use of forward-looking indicators to support our analysis.
- We enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including by capturing the materiality, oversight and individual monitoring of these risks.
- We further strengthened our third-party risk policy and processes to improve control and oversight of our material third parties to maintain our operational resilience, and to meet new and evolving regulatory requirements.
- We made progress with our comprehensive regulatory reporting programme to strengthen our processes, improve consistency and enhance controls.
- We have progressed with the simplification and reshaping of initiatives to ensure we have a sustainable cost base, a resilient control environment and the skills and capabilities to support the business.
- We continued to embed the governance and oversight around model adjustments and related processes for IFRS 9 models.
- Through our dedicated climate risk programme, we continued to embed climate considerations throughout the organisation, including updating the scope of our programme to cover all risk types, expanding the scope of climate-related training and developing new climate risk metrics to monitor and manage exposures.
- We continued to improve the effectiveness of our financial crime controls.

Key Risks

The most important types of financial risk comprise credit risk, market risk and liquidity risk. Owing to the insurance operation, 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 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 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 and a portfolio of highly liquid assets with the objective of enabling the local group to respond quickly and smoothly to unforeseen liquidity requirements.

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

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and market prices will impact the local group's income or the value of its portfolios. Exposure to market risk arises from positions that primarily emanate from the interest rate management of the local group's retail and commercial banking assets and liabilities and financial investments. The objective of the local group's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the local group's status as a premier provider of financial products and services. Market risk is managed and controlled through risk appetite setting and limits. 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 daily.

Insurance risk

HSBC Malta 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 the Wealth and Personal Banking business through the bank's branches. The insurance contracts HSBC Malta sells relate to the underlying needs of the local group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. Where HSBC Malta does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the local group's customers through its banking network. The local subsidiary sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Meeting.

In addition, the local subsidiary's Asset and Liabilities Committee monitors and reviews the matching over time of the expected cash flows of insurance assets and liabilities. All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

Financial crime risk

HSBC Malta p.l.c. has zero appetite to have its products and services used to launder the profits originating from criminal activities, terrorist financing or corruption, or to do business with countries or individuals which are subject to international sanctions, or which facilitate tax evasion. The risk of financial crime remains intrinsically high and requires continuous work to strengthen the system for preventing, detecting and reporting criminal activities. We believe that the enforcement of high compliance standards is a competitive advantage, and is essential to our success and that of the jurisdiction. The management of Financial Crime Risk is a key area of focus at the HSBC Bank p.l.c. Risk Management Meeting, as well as at the Board and Risk Committee.

Climate Risk

Climate-related risks

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

We are subject to financial and non-financial risks associated with environmental, social and governance ('ESG') related matters. Our current areas of focus are climate risk and nature-related risks. These can impact us both directly and indirectly through our customers.

Focus on climate-related risk increased over 2022, owing to the pace and volume of policy and regulatory changes globally 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.

Climate risk may also impact on model risk, as the uncertain impacts of climate change and data limitations present challenges to creating reliable and accurate model outputs.

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.

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.

Mitigating actions

- We have identified six key sectors where our wholesale credit customers have the highest climate risk, based on their CO2 emissions. These are oil and gas, building and construction, chemicals, automotive, power and utilities and metals and mining. These sectors were incorporated within Risk Appetite Statement in 2022. Climate Risk Appetite metrics will continue to be enhanced throughout 2023.
- Climate Risk specific governance fora have been set up, such as Climate Business Council and Climate Risk Oversight Forum that follows through progress against climate and environmental risks. Progress is also reported to the Risk Management Meeting, Risk Committee, and the Board.
- Climate stress tests and scenarios are being used to further improve our understanding of our risk exposures for use in risk management and business decision making.
- 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 scenario analysis, and disclosures.
- We continue to engage with our customers, proactively on the management of climate risks as transition risks are assessed and monitored by the client facing and the credit teams for high transition risk sectors.
- Related Disclosures for main drivers of transition climate risk – policy and legal, technology, end-demand (market) and reputational – and two physical risk drivers – acute and chronic.
- We will continue to enhance our climate risk management capabilities throughout 2023, 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.

Externally driven risks

Geopolitical and macroeconomic risks

The Russia-Ukraine war has had far-reaching geopolitical and economic implications. HSBC is monitoring the direct and indirect impacts of the war and continues to respond to the extensive sanctions and trade restrictions that have been imposed, noting the challenges that arise in implementing the complex, novel, and ambiguous aspects of certain of these sanctions. Numerous sanctions have been imposed against the Russian government and its officials, alongside individuals with close ties to the Russian government and a number of Russian financial institutions and companies. Russia has implemented certain countermeasures in response.

Global commodity markets have been significantly impacted by the Russia-Ukraine war, leading to lingering supply chain disruptions. This has resulted in product shortages appearing across several regions, and increased prices for both energy and non-energy commodities, such as food. We do not expect these to ease significantly in the near term. In turn, this has had a significant impact on global inflation, leading to rising interest rates. However, locally during 2022 the government has stepped in to reduce the impact of the increased price of energy on local consumers and the economy.

Mitigating actions

- We closely monitor geopolitical and economic developments in key markets and sectors and undertake scenario analysis where appropriate. This helps us to take portfolio actions where necessary, including enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We regularly review key portfolios to help ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through any downturn is appropriate.

Interest rate increases

The combined pressure of inflation and interest rate rises may lead to affordability pressures for customers and their ability to repay debt. These risks are considered during underwriting and estimated credit loss assessment.

Branches and offices

A list of branches and offices is found on page 153.

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 cent each. The issued share capital consists of one class of ordinary shares with equal voting rights attached and are freely transferable.

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

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

There is a Restricted Share Awards scheme in existence whereby employees can be awarded shares in HSBC Holdings plc. Share awards will be released to the individual staggered over three years, provided the participant remains continuously employed within the Group.

Vesting of these awards are generally not subject to performance conditions. During the vesting period the employee has no voting rights whatsoever.

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

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 which may result in restrictions on the transfer of securities and/or voting rights and agreements pertaining to changes in control of the bank did not apply to the bank as at 31 December 2022.

Shareholder register information pursuant to Banking rule 7 – Appendix 1

Directors' interest in the share capital of the bank

	At 31 Dec 2022
	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 2022 to 31 January 2023.

Shareholders holding five per cent (5%) or more of the share capital or of the voting rights of the bank at 31 January 2023: HSBC Continental Europe. 70.03%.

No connectivity of holders with direct and indirect shareholding of 5% or more of the bank's share capital or of the voting rights have been identified by the bank.

Number of shareholders at 31 January 2023:

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

Number of shareholders analysed by range

	At 31 Jan 2023	
	Total shareholders	Shares
Range of shareholding		
1 – 500	**1,495**	**447,558**
501 – 1,000	**1,147**	**864,050**
1,001 – 5,000	**3,794**	**9,694,406**
5,001 and over	**2,656**	**349,300,085**
Total shareholding	**9,092**	**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 R1 2.2.3) 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 (resigned on 13th April 2022)
Henri Mizzi (appointed on 24th October 2022)
Sue Vella (resigned on 1st December 2022)
Maria Micallef (appointed on 1st December 2022)
Yiannos Michaelides
Michel Cordina
Ingrid Azzopardi
Manfred Galdes
Matthew Colebrook (resigned on 28th February 2022)
Terecina Kwong (appointed on 6th December 2022)

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
Henri Mizzi	3 Non-Executive Directorships within the same Group and 2 Non-Executive Directorships.
Terecina Kwong	1 Executive Directorship and 2 Non-Executive Directorships
Ingrid Azzopardi	1 Non-Executive Directorship
Maria Micallef	1 Executive Directorship and 2 Non-Executive Directorships
Yiannos Michaelides	1 Executive Directorship and 1 Non-Executive Directorship
Manfred Galdes	2 Executive Directorships within the same Group and 2 Non-Executive Directorships.

None of the Directors required approval from the Competent Authority regarding the number of directorships held.

Board Fit and Proper Policy

The Board's Fit and Proper Policy was last reviewed and approved by the Board in June 2022. This policy includes principles on the selection, appointment, monitoring, re-appointment of and succession planning of members of the Board of Directors and Key Function Holders. The policy also refers and describes the criteria to be used in the assessment for the Board members and Key Function Holders. It also includes the Board diversity and inclusion policy and the induction and training policy.

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. When carrying out the fit and proper assessment, consideration is also given to the Board's Diversity Policy and to the Board's Conflicts of Interest Policy. Before appointment, the potential member undergoes thorough vetting and is required to submit a number of supporting documents.

Knowledge, Skills and Expertise of the Board Members

John Bonello	Accountancy and Audit
Simon Vaughan Johnson	Banking and Finance
Michel Cordina	Banking and Finance
Terecina Kwong	Banking and Finance
Henri Mizzi	Commercial and Finance Law
Ingrid Azzopardi	Accountancy and Audit
Maria Micallef	Accountancy and Audit
Yiannos Michaelides	Information Technology
Manfred Galdes	Financial and Anti-Money Laundering Legislation

In terms of the Board Succession Policy, the Board acknowledges that robust 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.

The objective of the Board Diversity and Inclusion Policy is to ensure diversity and inclusion is taken into consideration in the succession planning, selection, nomination, operation, and evaluation of the Board. Consideration is given to a wide range of backgrounds including the gender, ethnicity, age, geographical, educational and professional backgrounds of candidates.

The bank remains committed to an inclusive culture in the Boardroom where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated.

The bank's diversity target is of 33% female share of Board Directors (presently there are three female Directors on the Board). The bank has achieved this target and aspires to achieve gender parity over the long term. while abiding by the principle of meritocracy.

Details regarding the bank's Risk Committee are included under Principle 4 of the Statement of Compliance with the Code of Principle of Good Corporate Governance.

Executive Committee and Head of Internal Audit

As at 31 December 2022, 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
Alvaro L Teixeira	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 CMB Europe and Malta
Joyce Grech	Head of Commercial Banking
Joseph Sammut	General Counsel
Steven M Beddow	Chief Risk Officer
Mandy Falzon	Chief Compliance Officer
Carine Arpa	Head of Communications
Paula Mamo	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 21 February 2023 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 2022.

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 2022 are included in the *Annual Report 2022*, 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 21 February 2023 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 2022.

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 its 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. The criteria considered when carrying out the individual fit and proper assessment relate to time commitment, knowledge, skills and experience, independence and reputation, honesty and integrity. 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. The Directors allocate sufficient time to perform their responsibilities and regularly attend the meetings of the board. 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.

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 and the Remuneration and Nomination 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% of the Ordinary Share Capital is entitled to appoint one Director for each 11% 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% of the ordinary share capital participate in the election of the remaining three Directors. The largest single shareholder (subject to a minimum 33% 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.

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 2022, 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.

Apart from the minimum time commitment expected to be dedicated to the bank being stipulated in the letter of appointment, each director annually confirms that he/she is able to commit sufficient time to effectively fulfill the responsibilities as a Director of the bank.

In accordance with the Code Provision 3.2, the independent Non-Executive Directors as at 31 December 2022 were the following:

John Bonello, Ingrid Azzopardi, Yiannos Michaelides, Manfred Galdes, Henri Mizzi and Maria Micallef.

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 Manfred Galdes is a partner in a firm that will be providing consultancy services to the bank (for a limited period of time) does not influence this Director's objective and balanced judgement or in any way reduce his ability to take decisions independently. Furthermore, this has been recorded in the Board's Conflict of Interest Register together with the relevant controls that will be put in place.

In accordance with Code Provision 3.2.1, the Board had decided that the employment of Terecina Kwong with the Group rendered her non-independent from the bank. This did not however, in any manner, detract from this Director's ability to maintain independence of free judgement and character at all times. She was deemed able to make her own sound, objective judgement and independent decisions when performing her 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 and reviews the bank's strategy, major operational and financial plans, policies and business plans and performance objectives. Strategy is discussed on a regular basis at Board meetings. The Board of Directors monitors the implementation by management of strategy and corporate performance 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, 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 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 Fit and Proper Policy for Board Members and Key Function Holders, which includes a succession policy. The Board has also reviewed and approved 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 always maintained at the highest level. 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 and disclosures 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 financial resource 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 always adhered to 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 five times during 2022 and was composed of Ingrid Azzopardi as Chairperson, and Henri Mizzi and Maria Micallef as Members at December 2022.

Attendance at Audit Committee meetings

	Attended
Ingrid Azzopardi	5 out of 5
Andrew Muscat	2 out of 2
Sue Vella	5 out of 5
Henri Mizzi	1 out of 1
Maria Micallef	Not applicable

During the year, regular informal meetings were held between the Chairman of this Committee and Members of Senior Management especially 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 always has a right of direct access to the Chairman of the Committee.

In terms of Capital Markets Rule 5.117, the bank has established and maintained an Audit Committee that is composed of three non-executive Directors, all of whom have been deemed to be independent. Ingrid Azzopardi was appointed by the Board as the Chairperson of the Committee and who is independent and competent in accounting and/or auditing 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 5.127.5, 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 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 eight times during 2022 and was composed of Manfred Galdes as Chairman, and Ingrid Azzopardi and Yiannos Michaelides as Members.

Attendance at Risk Committee meetings

	Attended
Manfred Galdes	**8 out of 8**
Ingrid Azzopardi	**8 out of 8**
Yiannos Michaelides	**5 out of 8**

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 2022 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 assisting the bank's Chairman in keeping the composition of the Board and its committees under review and to lead the process for nominations to the Board and its committees. It oversees a continuous and proactive process for planning and assessment of candidates to ensure plans are in place for the orderly succession for executive and non-executive directors and other senior appointments within the Company and its subsidiaries. In so doing, the Committee reviews the structure and composition of the Board and its committees and makes recommendations to the Board on appointments based on merit and against objective criteria, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. This, bearing in mind the target for the representation of the underrepresented gender in 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.

The Committee assesses the knowledge, skills and experience of individual members of the Board and of the Board collectively at least on an annual basis, and report to the Board accordingly. The suitability of key function holders is also carried out at least annually. The process of the fit and proper assessment exercises for both the Board and Key Function Holders is documented within the bank's Fit and Proper Policy, which is reviewed annually by RemNom and the Board.

The Committee also assess the independent of the non-executive directors and reviews and monitors the training and continuous professional development of directors.

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. For the attendance details please refer to the Remuneration report on page 39.

Time commitment is also considered when carrying out the fit and proper assessment of the Board members. Furthermore, each Director is requested to confirm his commitment on an annual basis through a declaration.

Executive Committee ('ExCo')

This Committee is a management meeting 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 responsibilities to the Board. This Committee is designed to strengthen decision making by ensuring collective input to decisions.

The members of the Committee have individual responsibility for the development and implementation of the strategy for the business or function they represent in accordance with their role profiles and powers delegated to them, directly or indirectly by the CEO and subject to any limitations on their authority.

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 six 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. During 2022, all the meetings were chaired by the Chief Risk Officer. 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.

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 Global Payments Services. 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. With effect from October 2022 this Committee was merged into the Risk Management meeting and/or the Executive Committee meeting as appropriate, in line with Group policy.

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, giving enough time for Directors to review the material.

During the meetings, Board Members are given the 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	7 out of 10
Andrew Muscat	3 out of 3
Manfred Galdes	10 out of 10
Sue Vella	8 out of 8
Ingrid Azzopardi	10 out of 10
Matthew Colebrook	3 out of 3
Henri Mizzi	2 out of 2
Maria Micallef	2 out of 2
Terecina Kwong	1 out of 2

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 members of senior management. In this regard, the bank benefits from the vast wealth of competence, talent and experience found across the Group.

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

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 related to legal responsibilities of directors, sustainable finance and Environment, Social and Governance ('ESG'), regulatory expectations for banks, IT outsourcing and cyber resilience and financial crime compliance. Directors also participate in the Group's mandatory training, which covers health safety and wellbeing, risk management, cybersecurity, sustainability, financial crime compliance topics, data literacy, workplace harassment and data privacy. 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 advising the Board through the Chairman on all governance matters and for adherence to Board procedures as well as for effective information flows within the Board, its Committees and with senior management.

The Chairman of the Board and Chairpersons of the Audit and Risk Committees attend a number of Chairpersons' Fora organised throughout the year by the Group. In 2022, Group also organised two Summits for all Non-Executive Directors. During these meetings the Directors are updated on the latest topical issues.

The succession plan for senior management is discussed with the Board. 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

Details on the Committees is covered under Principle 4. 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 Directors 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 Social Responsibility

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 the bank's key stakeholders (i.e. customers, employees, and the community). In Malta, the bank fulfils the Group's CS strategy primarily through its Corporate 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 and education, the environment 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. In December 2022 the bank was honoured as winner of the National Corporate Volunteering Award during the National Volunteer Awards organised by the Malta Council for the Voluntary Sector.

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 2022 to drive initiatives aligned with this strategy. The Climate Business Council, led by the senior management team of the bank, oversees the execution of this ambition.

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 ('CEO') to manage the day-to-day affairs of the business for which he is accountable within limits set by the Board. Delegation of authority from the Board requires the CEO to maintain appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to the business.
- Risk identification and monitoring: Systems and procedures are in place to identify, control and report on the major risks facing the bank including, credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability and operational (including accounting, tax, legal, compliance, fiduciary, information, external fraud, internal fraud, political, physical, business continuity, systems operations, project and people risk). Exposure to these risks is monitored by the Risk Management Meeting, Asset and Liability Committee and Executive Committee.
- Changes in market conditions/practices: Processes are in place to identify new risks arising from changes in market conditions/ practices or customer behaviours, which could expose the bank to heightened risk of loss or reputational damage. Further improvements have been, and will continue to be, implemented to combat the inherent challenges posed by financial crime. In addition, 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 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, using a risk-based approach. The Head of Internal Audit also reports to the Audit Committee 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 21 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 46 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 part of 2022, the Annual General Meeting was held remotely and live streamed on 13 April 2022 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 overseeing the implementation and operation of the bank's remuneration framework, satisfying itself that the remuneration framework is aligned with local law, rules or regulations, as well as with the risk appetite, business strategy culture and values, and long-term interests of the bank. The Committee also seeks to satisfy itself that the remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the bank. It ensures that the remuneration policy is consistent with and promotes sound and effective risk management. The Committee carries out its role in line with The Code of Principles of Good Corporate Governance, as presented within Appendix 5.1 to 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 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 Financial Resource 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 meetings 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 as at 31 December 2022 are Maria Micallef (Chairperson), John Bonello and Henri Mizzi. During the financial year ended 31 December 2022, Andrew Muscat and Sue Vella have relinquished their position as Directors and Members of the Committee with effect from 13 April 2022 and 1 December 2022 respectively. In this respect, the vacant positions on the RemNom Committee have been filled by Maria Micallef, who was appointed as Chairperson of RemNom on 1 December 2022, and Henri Mizzi, who became a Member of the Committee on 26 October 2022. These dates represent the dates upon which the new Members of the Committee were formally approved as Directors by the regulator. Until then, RemNom was chaired by Sue Vella. No RemNom meetings were held in 2022 since Maria Micallef and Henri Mizzi became Members of the Committee, as per the table below.

Attendance at Remuneration and Nomination Committee meetings

	Attended
Sue Vella	9 out of 9
John Bonello	9 out of 9
Andrew Muscat	5 out of 5
Henri Mizzi	Not applicable
Maria Micallef	Not applicable

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 2022 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, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience in line with our Diversity and Inclusion Policy. The aim is to retain those 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.

In addition to a few minor amendments, a clarification was added to the bank's Remuneration Policy during 2022 through the introduction of a note under 'Purpose and Scope' confirming that the policy applies: 'to all employees of the bank, including those seconded to HSBC Life Assurance (Malta) Ltd ("HSBC Life") and HSBC Global Asset Management (Malta) Limited, the bank's subsidiaries. In addition, employees who qualify as "key/critical function holders" for HSBC Life in terms of the applicable regulatory requirements under the Solvency II regime are also subject to a supplementary remuneration policy adopted by HSBC Life.'

In determining remuneration levels for 2022, 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 the following:

- 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 and 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.

Key principles of the remuneration framework include the following:

- Assessment of risk and compliance is a critical part of the process to determine the performance of all employees, especially 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 Executive Directors, Senior Management 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/230123-hsbc-remuneration-policy-2023.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 Executive Director or Senior Management positions. 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 in HSBC Bank Holdings plc.
	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 Financial Resource 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 awarded 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 Anti-Money Laundering ('AML') and sanctions compliance programme or non-compliance with the Deferred Prosecution Agreement ('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 (99.82%)
Those against	255,305 votes (0.09%)
Abstentions	257,296 votes (0.09%)

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 clawback 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 2022:

	Simon Vaughan Johnson		Michel Cordina	
	2022	2021	**2022**	2021
	€	€	**€**	€
Fixed pay	**452,998**	446,692	**147,467**	147,666
Variable pay:				
– Immediate Cash	**66,932**	70,454	**43,000**	34,850
– Immediate Shares*	**66,932**	70,454	**–**	–
– Deferred Cash	**44,621**	46,970	**–**	–
– Deferred Shares*	**44,621**	46,970	**–**	–
Benefits	**124,542**	130,510	**12,253**	12,184
Aggregate	**800,646**	812,050	**202,720**	194,700
Effective period	**01/01/22-31/12/22**	01/01/21-31/12/21	**01/01/22-31/12/22**	01/01/21-31/12/21

* *The value of the shares awarded to Simon Vaughan Johnson amounting to €111,553 relate to performance year 2022. The number of shares to be awarded in this respect will be formally communicated on 1 March 2023 and determined on the share price as at that date. The number of shares awarded during 2022 in relation to performance year 2021 are disclosed in a subsequent table 'Share Awards and Share Options awarded in 2022'.*

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 three most recent financial years.

	2021/2022	2020/2021
Percentage annual change in remuneration		
Simon Vaughan Johnson[1]	**(1)%**	9%
Michel Cordina[2]	**4%**	10%
Percentage annual change of the bank's performance[3]	**76%**	47%
Percentage annual change of the average remuneration of the bank's employees, on a full-time equivalent basis[4]	**6%**	5%

1 *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.*
2 *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.*
3 *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 is deemed by management to be the most appropriate basis for measuring performance.*
4 *In order to allow for a meaningful comparison, new joiners employed during the second year of each two-year comparative period are excluded from the calculation; the remuneration paid to terminated employees during the second year of each two-year comparative period is being annualised to enable comparison with the annual remuneration paid in the first year; and the remuneration paid to new joiners employed during the first year of each two-year comparative period is annualised to enable comparison with the annual remuneration paid in the second year. The annual remuneration paid to employees who were in employment for the full calendar years across each two-year comparative period is compared as normal.*

Shares and Share Options awarded in 2022

	Grant Date	Share Value €	Number of Shares	Performance Period
Immediate Shares	**01/03/2022**	**70,454**	**11,286**	**2021**
Deferred Shares*	**01/03/2022**	**46,970**	**8,719**	**2021**

- *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 2027.*

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 49% of his fixed pay (excluding benefits), is lower than the 100% of fixed pay threshold. In addition, 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 represents 40% of the variable pay component and 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 2022. This mechanism ensures that the remuneration of the bank's

Executive Directors 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 applied 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. Michel Cordina is also assessed on driving the Climate Ambition Program and is directly responsible for the Corporate Sustainability team. Specific objectives in respect of sustainable finance are set for each line of business including risk exposure in the various sectors (i.e. automotive; construction and building; power and utilities; chemicals, metals, and mining; and oil and gas). Michel Cordina's targets comprised customer engagement and retention; the strengthening of key customer relationships, mainly in the corporate segment; 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 29% 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 2022.

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. The aggregate Directors' fee pool, as approved by a simple majority at the last Annual General Meeting 13 April 2022 by way of Ordinary Resolution – Special Business, amounted to €480,000. No change will be proposed at the forthcoming Annual General meeting to this aggregate amount. 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 2022 and 2021 were as follows:

	2022 Fees	2021 Fees
	€	€
John Bonello	**74,400**	74,400
Andrew Muscat	**13,024**	45,600
Sue Vella	**42,900**	46,800
Yiannos Michaelides	**39,600**	39,600
Ingrid Azzopardi	**59,700**	59,700
Manfred Galdes	**50,400**	50,400
Henri Mizzi	**32,523**	N/A
Maria Micallef	**8,231**	N/A
Total	**320,778**	316,500

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the bank is required to disclose the annual change of remuneration of the Non-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 three most recent financial years.

In this respect, there was no change in annual fees paid to Non-Executive Directors in absolute terms over the three most recent financial years. For Andrew Muscat and Sue Vella, who have relinquished their position as Directors and Members of the Committee with effect from 13 April 2022 and 1 December 2022 respectively, the annualisation of the fees paid in respect of the financial year ended 31 December 2022 would result in fees which are in line with those paid in respect of the previous two financial years.

Henri Mizzi and Maria Micallef have been appointed as Non-Executive Directors during the financial year ended 31 December 2022.

In this respect, Henri Mizzi was appointed as a Non-Executive Director by the Annual General Meeting, held on 13 April 2022, subject to regulatory approval, which was obtained on 24 October 2022. Similarly, Maria Micallef was appointed as a Non-Executive Director on 1 December 2022, which also represents the date when regulatory approval was obtained. Fees shown in the above table reflect the amounts paid from the date of regulatory approval.

The aggregate amount paid in Directors' fees in respect of the financial year ended 31 December 2022 does not exceed the maximum aggregate amount approved at the last Annual General Meeting.

Matthew Colebrook who was 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. He resigned his directorship on 28 February 2022. Matthew Colebrook was replaced by Terecina Kwong on the Board of Directors, who was appointed as a Director on 6 December 2022 upon formalisation of regulatory approval. Neither Matthew Colebrook nor Terecina Kwong received 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 undertakings respectively, taking cognisance of their role as Non-Executive Directors of the bank. Accordingly, no disclosure in respect of their remuneration for their 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 2021 was approved at the Annual General Meeting held on 13 April 2022, with 276,115,679 votes in favour, 128,747 votes against and 255,894 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 2023 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. Identified Staff include:

- Executive Directors, presented under 'MB Management function' in the table below;
- Senior Management, defined as members of the Executive Committee excluding Executive Directors, and presented under 'Other senior management' in the table below; and
- Other employees who are not members of the Executive Committee but are identified as having a material impact on the bank's risk profile, referred to as 'Other Identified Staff in the table below.

Accordingly, the figures disclosed in the tables below relating to the MB Supervisory function 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.

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 classified as Identified Staff.

Remuneration information for individuals classified as Identified Staff at the level of subsidiaries is also reflected in the tables below.

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 Executive Directors and Senior Management employed by the bank, who would similarly be entitled to a notice period 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 Management 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	12	36
2		Total fixed remuneration (€000)	321	737	1,925	2,556
3		*– of which: cash-based (€000)*	*321*	*597*	*1,766*	*2,279*
EU-5x		*– of which: other instruments (€000)*	–	*3*	*11*	*74*
7		*– of which: other forms (€000)*	–	*137*	*148*	*203*
9	Variable remuneration	Number of Identified Staff	6	2	12	36
10		Total variable remuneration (€000)	–	266	466	282
11		*– of which: cash-based (€000)*	–	*109*	*277*	*282*
12		*– of which: deferred (€000)*	–	*45*	*54*	–
EU-13a		*– of which: shares or equivalent ownership interests (€000)*	–	*67*	*81*	–
EU-14a		*– of which: deferred (€000)*	–	*45*	*54*	–
17	**Total remuneration for the year ended 31 December 2022 (€000)**		**321**	**1,003**	**2,391**	**2,838**

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, Chief Operating Officer, Chief Risk Officer and Head of Wealth & Personal Banking, 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. During 2022, the bank continued to organise programmes around soft and technical skills and launched specific programmes relating to climate risk and sustainability. Whilst the Climate Risk Management Capabilities training aims to steward and manage the impacts of climate risk on the bank's customers, balance sheet and internal operations, the Sustainability Academy programmes help equip employees to play a leading role in mobilising the transition to a global net zero economy.

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 2022, the bank participated in Group-led programmes relating to financial crime, leadership and sustainability through the HSBC University. These programmes 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 p.l.c. 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 €000	*Of which due to vest in the financial year* €000	*Of which vesting in subsequent financial years* €000	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year €000	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years €000	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) €000	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year €000	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods €000
7	MB Management function								
8	Cash-based	132	*41*	*91*	–	–	–	42	–
9	Shares or equivalent ownership interests	171	*63*	*108*	–	–	8	64	24
13	Other senior management								
14	Cash-based	22	*2*	*20*	–	–	–	2	–
15	Shares or equivalent ownership interests	90	*26*	*64*	–	–	2	27	2
18	Other forms	–	–	–	–	–	–	–	–
25	**Total amount as at 31 December 2022**	415	*132*	*283*	–	–	10	135	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 2022
1	Total number of Identified Staff	6	2	8	2	5	9	17	13	2	56
2	– *of which: members of the MB (€000)*	*6*	*2*	*8*	–	–	–	–	–	–	*8*
3	– *of which: other senior management (€000)*	–	–	–	*1*	*2*	–	*6*	*2*	*1*	*12*
4	– *of which: other Identified Staff (€000)*	–	–	–	*1*	*3*	*9*	*11*	*11*	*1*	*36*
5	Total remuneration of Identified Staff (€000)	321	1,003	1,324	194	1,084	569	1,937	1,096	349	6,553
6	– *of which: variable remuneration (€000)*	–	*266*	*266*	*42*	*264*	*53*	*232*	*147*	*10*	*1,014*
7	– *of which: fixed remuneration (€000)*	*321*	*737*	*1,058*	*152*	*820*	*516*	*1,705*	*949*	*339*	*5,539*

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 2022 and 2021, 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 2022 and 2021, 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 2022 and 2021, no payments were made to past Directors.

Financial statements

Income statements

for the year ended 31 December

	Notes	Group 2022 €000	Group 2021 €000	Bank 2022 €000	Bank 2021 €000
Interest and similar income					
– on loans and advances to banks and customers and other financial assets	7	**113,947**	103,593	**113,947**	103,593
– on debt and other fixed income instruments	7	**2,692**	2,117	**2,692**	2,117
Interest expense	8	**(8,397)**	(7,952)	**(8,397)**	(7,952)
Net interest income		**108,242**	97,758	**108,242**	97,758
Fee income		**25,765**	25,940	**22,390**	22,380
Fee expense		**(3,711)**	(1,831)	**(3,213)**	(1,234)
Net fee income	9	**22,054**	24,109	**19,177**	21,146
Net trading income	10	**7,689**	5,534	**7,689**	5,534
Net (expense)/income from financial instruments of insurance operations measured at fair value through profit or loss		**(76,000)**	27,225	**—**	—
Dividend income from subsidiaries	11	**—**	—	**1,308**	1,462
Net insurance premium income	12	**50,691**	50,866	**—**	—
Movement in present value of in-force long-term insurance business		**2,775**	(6,973)	**—**	—
Other operating income	13	**1,517**	1,406	**1,514**	1,402
Total operating income		**116,968**	199,925	**137,930**	127,302
Net insurance claims and benefits paid and movement in liabilities to policyholders	14	**33,677**	(68,632)	**—**	—
Net operating income before change in expected credit losses and other credit impairment charges		**150,645**	131,293	**137,930**	127,302
Change in expected credit losses and other credit impairment charges	15	**9,643**	995	**9,643**	995
Net operating income		**160,288**	132,288	**147,573**	128,297
Employee compensation and benefits	16	**(40,103)**	(42,326)	**(37,784)**	(39,843)
General and administrative expenses	17	**(54,781)**	(55,529)	**(49,172)**	(51,157)
Depreciation of property, plant and equipment and right-of-use assets	32,31	**(3,300)**	(3,675)	**(3,300)**	(3,675)
Amortisation and impairment of intangible assets	33	**(4,853)**	(3,876)	**(4,757)**	(3,801)
Total operating expenses		**(103,037)**	(105,406)	**(95,013)**	(98,476)
Profit before tax	17	**57,251**	26,882	**52,560**	29,821
Tax expense	18	**(19,680)**	(9,127)	**(18,053)**	(10,158)
Profit for the year		**37,571**	17,755	**34,507**	19,663
Earnings per share	19	**€0.10**	€0.05		

The notes on pages 52 to 149 are an integral part of these financial statements.

Statements of comprehensive income

for the year ended 31 December

		Group		Bank	
		2022	2021	**2022**	2021
	Notes	**€000**	€000	**€000**	€000
Profit for the year		**37,571**	17,755	**34,507**	19,663
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:		**(23,177)**	(6,095)	**(23,177)**	(6,095)
– fair value losses	*46*	**(35,657)**	(9,377)	**(35,657)**	(9,377)
– income taxes	*46*	**12,480**	3,282	**12,480**	3,282
Items that will not be reclassified subsequently to profit or loss:					
Properties:		**166**	2,150	**166**	2,150
– surplus arising on revaluation	*46*	**185**	2,389	**185**	2,389
– income taxes	*46*	**(19)**	(239)	**(19)**	(239)
Post employment benefit obligations:		**893**	292	**893**	292
– remeasurement of post employment benefit obligations	*41*	**1,374**	450	**1,374**	450
– income taxes		**(481)**	(158)	**(481)**	(158)
Equity instruments designated at fair value through other comprehensive income:		**1**	1	**1**	1
– fair value gains	*46*	**2**	2	**2**	2
– income taxes	*46*	**(1)**	(1)	**(1)**	(1)
Other comprehensive income for the year, net of tax		**(22,117)**	(3,652)	**(22,117)**	(3,652)
Total comprehensive income for the year		**15,454**	14,103	**12,390**	16,011

The notes on pages 52 to 149 are an integral part of these financial statements.

Statements of financial position

for the year ended 31 December

		Group		Bank	
		2022	2021	**2022**	2021
	Notes	**€000**	€000	**€000**	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*20*	**1,584,861**	1,496,407	**1,584,861**	1,496,407
Items in the course of collection from other banks		**6,921**	4,453	**6,921**	4,453
Financial assets mandatorily measured at fair value through profit or loss	*21*	**660,282**	767,808	**—**	—
Derivatives	*22*	**25,745**	4,640	**25,745**	4,640
Loans and advances to banks	*23*	**732,493**	619,273	**726,217**	613,062
Loans and advances to customers	*24*	**3,175,167**	3,196,725	**3,175,167**	3,196,725
Financial investments	*25*	**1,004,770**	845,735	**1,004,768**	845,733
Prepayments and accrued income	*26*	**20,126**	20,558	**17,535**	17,591
Current tax assets		**3,496**	3,669	**1,363**	1,353
Reinsurance assets	*27*	**49,792**	77,972	**—**	—
Other non-current assets held for sale	*28*	**5,173**	6,673	**5,173**	6,673
Investments in subsidiaries	*29*	**—**	—	**30,859**	30,859
Investment property	*30*	**—**	1,600	**—**	—
Right-of-use assets	*31*	**2,459**	2,569	**2,459**	2,569
Property, plant and equipment	*32*	**44,627**	41,923	**44,623**	41,921
Intangible assets	*33*	**55,509**	50,168	**18,604**	16,022
Deferred tax assets	*34*	**35,620**	29,119	**35,620**	29,119
Other assets	*35*	**11,292**	5,513	**9,965**	4,848
Total assets		**7,418,333**	7,174,805	**6,689,880**	6,311,975
Liabilities					
Deposits by banks	*36*	**2,861**	1,397	**2,861**	1,397
Customer accounts	*37*	**5,970,958**	5,621,195	**6,010,392**	5,657,681
Items in the course of transmission to other banks		**27,397**	21,573	**27,397**	21,573
Derivatives	*22*	**10,252**	4,592	**10,252**	4,592
Accruals and deferred income	*38*	**27,300**	21,976	**22,279**	17,634
Current tax liabilities		**2,104**	499	**2,104**	—
Liabilities under investment contracts	*39*	**162,676**	185,137	**—**	—
Liabilities under insurance contracts	*40*	**544,246**	658,197	**—**	—
Provisions	*41*	**20,080**	21,252	**18,830**	20,122
Deferred tax liabilities	*34*	**15,819**	15,005	**3,569**	3,722
Borrowings from a group undertaking	*42*	**60,000**	60,000	**60,000**	60,000
Subordinated liabilities	*43*	**62,000**	62,000	**62,000**	62,000
Other liabilities	*44*	**15,569**	12,245	**11,067**	8,395
Total liabilities		**6,921,262**	6,685,068	**6,230,751**	5,857,116
Equity					
Called up share capital	*45*	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	*46*	**64**	24,330	**64**	24,330
Retained earnings	*46*	**388,915**	357,315	**350,973**	322,437
Total equity		**497,071**	489,737	**459,129**	454,859
Total liabilities and equity		**7,418,333**	7,174,805	**6,689,880**	6,311,975
Memorandum items					
Contingent liabilities	*47*	**134,126**	143,064	**134,126**	143,066
Commitments	*48*	**877,820**	967,739	**877,820**	967,739

The notes on pages 52 to 149 are an integral part of these financial statements.

The financial statements on pages 46 to 149 were approved and authorised for issue by the Board of Directors on 21 February 2023. 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 2022.

Statements of changes in equity

for the year ended 31 December

		Group			
	Notes	Share capital €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
At 1 January 2022		**108,092**	**24,330**	**357,315**	**489,737**
Profit for the year		**–**	**–**	**37,571**	**37,571**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	*46*	**–**	**(23,176)**	**–**	**(23,176)**
Properties:					
– surplus arising on revaluation, net of tax	*46*	**–**	**166**	**–**	**166**
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		**–**	**–**	**893**	**893**
Total other comprehensive income		**–**	**(23,010)**	**893**	**(22,117)**
Total comprehensive income for the year		**–**	**(23,010)**	**38,464**	**15,454**
Other movements					
Properties:					
– transfer of revaluation surplus on disposal of property to retained earnings, net of tax	*46*	**–**	**(1,256)**	**1,256**	**–**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**–**	**–**	**(110)**	**(110)**
– dividends	*50*	**–**	**–**	**(8,010)**	**(8,010)**
Total contributions by and distributions to owners		**–**	**–**	**(8,120)**	**(8,120)**
At 31 December 2022		**108,092**	**64**	**388,915**	**497,071**
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
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		–	–	292	292
Total other comprehensive income		–	(3,944)	292	(3,652)
Total comprehensive income for the year		–	(3,944)	18,047	14,103
Other movements					
Properties:					
– transfer of revaluation surplus on disposal of property to retained earnings, net of tax	*46*	–	(4,444)	4,444	–
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

The notes on pages 52 to 149 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 2022		**108,092**	**24,330**	**322,437**	**454,859**
Profit for the year		**–**	**–**	**34,507**	**34,507**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	*46*	**–**	**(23,176)**	**–**	**(23,176)**
Properties:					
– surplus arising on revaluation, net of tax	*46*	**–**	**166**	**–**	**166**
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		**–**	**–**	**893**	**893**
Total other comprehensive income		**–**	**(23,010)**	**893**	**(22,117)**
Total comprehensive income for the year		**–**	**(23,010)**	**35,400**	**12,390**
Other movements					
Properties:					
– transfer of revaluation surplus on disposal of property to retained earnings, net of tax	*46*	**–**	**(1,256)**	**1,256**	**–**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**–**	**–**	**(110)**	**(110)**
– dividends	*50*	**–**	**–**	**(8,010)**	**(8,010)**
Total contributions by and distributions to owners		**–**	**–**	**(8,120)**	**(8,120)**
At 31 December 2022		**108,092**	**64**	**350,973**	**459,129**
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
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		–	–	292	292
Total other comprehensive income		–	(3,944)	292	(3,652)
Total comprehensive income for the year		–	(3,944)	19,955	16,011
Other movements					
Properties:					
– transfer of revaluation surplus on disposal of property to retained earnings, net of tax	*46*	–	(4,444)	4,444	–
Transactions with owners, recognised directly in equity					
Contributions by and distribution 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

The notes on pages 52 to 149 are an integral part of these financial statements.

Statements of cash flows

for the year ended 31 December

		Group		Bank	
		2022	2021	**2022**	2021
	Notes	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Interest, fees, loan recoveries and premium receipts		**223,986**	213,257	**149,702**	135,492
Interest, fees and claims payments		**(77,827)**	(84,691)	**(10,823)**	(8,756)
Payments to employees and suppliers		**(87,304)**	(87,080)	**(79,550)**	(78,713)
Cash flows from operating activities before changes in operating assets and liabilities		**58,855**	41,486	**59,329**	48,023
(Increase)/decrease in operating assets:					
– financial assets mandatorily measured at fair value through profit or loss		**5,232**	5,072	**—**	—
– reserve deposit with Central Bank of Malta		**(4,072)**	(5,192)	**(4,072)**	(5,192)
– loans and advances to banks and customers		**20,592**	335,070	**20,592**	335,070
– Treasury Bills		**161,352**	41,109	**161,352**	41,109
– other assets		**(1,221)**	11,439	**(1,673)**	11,439
(Decrease)/increase in operating liabilities:					
– deposits by banks and customer accounts		**347,356**	333,185	**350,304**	328,165
– other liabilities		**(2,253)**	(4,372)	**(2,163)**	(4,372)
Net cash from operating activities before tax		**585,841**	757,797	**583,669**	754,242
– tax paid		**(11,550)**	(12,194)	**(10,116)**	(9,961)
Net cash from operating activities		**574,291**	745,603	**573,553**	744,281
Cash flows from investing activities					
Dividends received		**—**	—	**850**	950
Interest received from financial investments		**6,142**	11,897	**6,142**	11,897
Purchase of financial investments		**(464,793)**	(221,697)	**(464,793)**	(221,697)
Proceeds from sale and maturity of financial investments		**255,296**	249,667	**255,296**	249,667
Purchase of property, plant and equipment, investment property and intangible assets		**(12,808)**	(8,508)	**(12,726)**	(8,502)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		**1,600**	56	**—**	50
Net cash from investing activities		**(214,563)**	31,415	**(215,231)**	32,365
Cash flows from financing activities					
Dividends paid		**(8,010)**	(2,717)	**(8,010)**	(2,717)
Proceeds from borrowings from a group undertaking		**—**	60,000	**—**	60,000
Net cash from financing activities		**(8,010)**	57,283	**(8,010)**	57,283
Net increase in cash and cash equivalents		**351,718**	834,301	**350,312**	833,929
Cash and cash equivalents at beginning of year		**1,599,671**	782,704	**1,593,517**	776,884
Effect of exchange rate changes on cash and cash equivalents		**(12,765)**	(17,334)	**(11,481)**	(17,296)
Cash and cash equivalents at end of year	*51*	**1,938,624**	1,599,671	**1,932,348**	1,593,517

The notes on pages 52 to 149 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 2022 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 2022, there were no unendorsed standards effective for the year ended 31 December 2022 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:

- 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 2022, 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.

Standards adopted during the year ended 31 December 2022

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 2023, which have been endorsed by the EU and published a number of minor amendments to IFRSs that are effective from 1 January 2024, 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' is an IFRS that was issued by the IASB in May 2017 and amended in June 2020 and is applicable for annual periods beginning on or after 1 January 2023, with early adoption permitted. IFRS 17 was adopted by the EU on 19 November 2021, with an optional exemption regarding the annual cohort requirement. Furthermore, on 9 December 2021, the IASB issued 'Initial Application of IFRS 17 and IFRS 9 - Comparative Information' as an amendment to IFRS 17, which was endorsed by the European Commission on 9 September 2022. The local group has not early adopted IFRS 17 and will apply IFRS 17 for the first time on 1 January 2023.

IFRS 17 sets out the requirements that the local group will apply in accounting for insurance contracts it issues, reinsurance contracts it holds, and investment contracts with discretionary participation features. Below we set out the impact of IFRS 17 compared with the current accounting policy for insurance contracts.

To identify groups of insurance contracts for the purposes of measurement, individual contracts subject to similar risk and managed together are identified as a portfolio of insurance contracts. Each portfolio is further separated by profitability group and issue date, and may be subdivided further.

Under IFRS 17, no present value of in-force business ('PVIF') asset is recognised. Instead, the measurement of the insurance contracts liability is based on groups of insurance contracts and will include fulfilment cash flows ('FCF'), as well as the contractual service margin ('CSM'), which represents the unearned profit. Unlike current accounting, where market impacts and changes in assumptions are reported immediately in profit or loss, under IFRS 17 these are primarily accumulated with the CSM and recognised in profit or loss over the remaining life of the contracts. Whilst IFRS 17 changes the timing of profit recognition, there is no impact to the underlying economics of the insurance business, including solvency, capital and cash generation.

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the local group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services). A substantive obligation to provide services ends when the local group has:

- the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the local group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The FCF comprise of:

- the best estimates of future cash flows, including amounts expected to be collected from premiums and payouts for claims, benefits and expenses, which are projected using assumptions such as those based on demographic and operating experience;
- an adjustment for the time value of money and financial risks associated with the future cash flows; and
- an adjustment for non-financial risk that reflects the uncertainty in timing and in amounts of future cash flows.

In contrast to IFRS 4 accounting, where profits are recognised up front, the CSM will be systematically recognised in revenue, as services are provided over the expected coverage period of the group of contracts without any change to the overall profit of the contracts. Losses resulting from the recognition of onerous contracts are recognised immediately in profit or loss.

The CSM is adjusted depending on the measurement model of the group of insurance contracts. While the general measurement model ('GMM') is the default measurement model under IFRS 17, products with direct participation features which satisfy certain eligibility criteria will be measured using the variable fee approach ('VFA').

Under IFRS 17, the amounts recognised in the income statement are disaggregated into the insurance service result, comprising insurance revenue and insurance service expenses, and insurance finance income or expenses. The local group will use the risk mitigation option for a number of economic offsets between those contracts measured under the VFA and certain reinsurance contracts held arrangements that satisfy the required criteria. Amounts from reinsurance contracts will continue to be presented separately. There will also be additional notes to the financial statements, including detailed reconciliations.

The local group has applied the option under IFRS 9 to re-designate eligible financial assets held to support insurance liabilities, currently measured at amortised cost, to fair value through profit or loss.

Transitional impact of IFRS 17

IFRS 17 requires entities to apply IFRS 17 retrospectively as if IFRS 17 had always been applied, using the full retrospective approach ('FRA') unless it is impracticable, in which case the alternative Modified Retrospective Approach or Fair Value Approach ('FVA') are to be applied. The local group expects that it will apply the FRA for new business from 2020 onwards. Where the FVA is used, the measurement will take into account the cost of capital that a market participant within the jurisdiction would be expected to hold based on the asset and liability positions on the transition date.

Changes to equity on transition are driven by the elimination of the PVIF asset, the remeasurement of insurance liabilities and assets under IFRS 17. IFRS 17 requires the use of current market values for the measurement of insurance liabilities. IFRS 17 also requires the use of discount rates determined at the date of initial recognition for groups of contracts measured under GMM. The shareholder's share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under VFA. For contracts measured under GMM, the shareholder's share of the investment volatility is recorded in profit or loss as it arises. Under IFRS 17, directly attributable costs will not be expensed as incurred. Instead, they will be incorporated in the CSM and eventually expensed and recognised in the insurance service result. Costs that are not directly attributable will continue to be expensed as incurred within administrative expenses. This will result in a reduction in reported expenses in the year of initiating a contract. While the profit over the life of an individual contract will be unchanged, its emergence will change under IFRS 17.

The local group have made working accounting policy decisions, as well as put in place data and measurement models, and made progress with running dry runs of transitional numbers and 2022 estimates of selected comparative data. The transitional balance sheet and restated 2022 comparative will be presented in the next interim financial statements to be issued by the local group and the transition balance sheet will present the impact on the local group's total assets, liabilities and equity.

(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 on the next page, 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 2022 Financial Statements. Management's selection of the local group's accounting policies which contain critical estimates and judgements (listed on the next page) 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(o)(ii) and Note 14; and
- Present value of in-force long-term assurance business ('PVIF'): Note 3(o)(iv) and Note 33.

Further information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment, related to the matters highlighted above, is included in Note 58.

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

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group 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 uncertainty that the global Covid-19 pandemic and the war between Russia and Ukraine has had on the local group's and bank's operations, as well as considering potential impacts from other top and emerging risks, including exposure to interest rate hikes, inflationary pressures, drops in asset prices, and local jurisdiction 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.

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).

However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the local group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable or the local group enters into an offsetting transaction. The fair value of financial instruments is generally measured on an individual basis.

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 ('FVPL') 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 FVPL.

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 and debt securities measured at amortised cost.

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 in Note 3(b)(iv).

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 in Note 3(b)(iv) and impairment is recognised in profit or loss.

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. Otherwise, equity securities are measured at fair value through profit or loss (except for dividend income, which is recognised in 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 FVPL. 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 FVPL. In addition, financial assets are measured at FVPL 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 FVPL.

iii Derecognition of financial assets

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

- substantially all the risks and rewards of ownership have been transferred; or
- the local group has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

iv Impairment of amortised cost and FVOCI financial assets

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

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

In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk ('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 on page 59.

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.

For staging purposes, exposures classified within the mortgage portfolio are segmented on the basis of current delinquency past delinquency in the past 12 months, and a behaviour score determined at borrower level, whereas exposures classified within the other unsecured portfolios are segmented on the basis of current delinquency only.

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, even where regulatory rules permit default to be defined based on 180 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.

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 renegotiation is strictly limited to non-payment related concessions (e.g. covenant waivers) 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. 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. These loans could be transferred to stage 1 or 2 based on the mechanism as described on page 59 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.

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. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment. 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: a probability of default ('PD'), a loss given default ('LGD'), and the 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, where required 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 applies multiple forward-looking economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased ECLs in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate.

The recognition and measurement of ECL involves the use of significant judgement and estimation. In this respect, multiple forward-looking scenarios are determined based on macroeconomic forecasts and applied to credit risk models to estimate expected credit losses. Probability weights are applied to the scenarios in order to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late breaking events, data and model limitations, model deficiencies and expert credit judgements.

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. Within this methodology, four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to the local group's top and emerging risks.

Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed to represent the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer consensus scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to distributions that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario – the Downside 2 scenario – is designed to represent management's view of severe downside risks. It is a narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends. The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed with a 5% probability. The Central scenario is assigned the remaining 75%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, the local group may depart from this probability-based scenario weighting approach when the economic outlook is determined to be particularly uncertain and risks are elevated.

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) 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 FVPL. 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/(expense) from financial instruments of insurance operations measured at fair value through profit or loss'.

(d) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as currency forwards or interest rates swaps. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

When derivatives are not part of fair value designated relationships, these financial instruments are designated as held for trading. Accordingly, all gains and losses from changes in the fair values of such derivatives 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'.

Fair value hedge accounting

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Derivatives are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met.

The local group applies fair value hedging to hedge separate hedged positions on an individual asset basis, generally fixed interest securities, by utilising interest rate swaps as hedging instruments. The gain or loss relating to the effective portion of interest rate swaps hedging fixed interest loans and securities is recognised in profit or loss within interest income, together with changes in the fair value of the hedged fixed interest securities attributable to interest rate risk.

The gain or loss relating to the ineffective portion is also recognised in profit or loss within interest income and disclosed separately.

(e) Financial liabilities

The local group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The local group's financial liabilities are classified into two categories: i) financial liabilities which are designated at fair value through profit or loss; and ii) 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 a group undertaking and customer accounts.

(f) 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.

(g) Offsetting financial assets and financial liabilities

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

(h) Investments in subsidiaries

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

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

(i) Intangible assets

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

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

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

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

The accounting policy in respect of the PVIF long-term insurance business is reflected within Note 3(o)(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.

(j) Property, plant and equipment

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

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

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

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(m)).

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.

(k) Investment property

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

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

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

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

(l) Right-of-use assets

Right-of-use assets are initially measured at cost, which comprises the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the local group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life. While the local group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the local group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

(m) 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.

(n) 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.

(o) 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.

In addition, the local group issues investment contracts with discretionary participation features (‘DPF’), which are also accounted for as insurance contracts as required by IFRS 4 ‘Insurance Contracts’.

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.

(p) 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.

(q) Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- payments, less any lease incentives receivable;
- amounts expected to be payable by the local group under residual value guarantees;
- the exercise price of a purchase option if the local group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the local group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the local group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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.

(z) 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.

(aa) 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.

During the financial year ended 31 December 2022, the socioeconomic impact of the Covid-19 pandemic subsided, with a significant rebound in economic growth registered during 2021 and 2022, restoring the local economy to pre-Covid levels. The economic growth registered was a result of a recovery in the tourism sector in the aftermath of the Covid-19 pandemic as well as an increase in private consumption.

During the financial years ended 31 December 2020 and 2021, moratoria on capital and/or interest payments in respect of retail and wholesale exposures were granted in accordance with Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') issued by the Central Bank of Malta ('CBM'), 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'). These moratoria, referred to as general payment moratoria, have now matured and customers have gradually returned to the pre-moratoria repayment schedules. The local group has not experienced significant defaults subsequent to the expiry of general payment moratoria. In addition, the local group continues to service facilities which were granted to support corporates during the pandemic and guaranteed under the Malta Development Bank Covid-19 Guarantee Scheme.

In addition, Malta was officially removed from the Financial Action Task Force's ('FATF') grey list in June 2022. This was the result of nation-wide efforts to strengthen the effectiveness of the country's Anti-Money Laundering and Countering the Financing of Terrorism ('AML/CFT') regime to meet the commitments established within the national action plan to address the strategic deficiencies identified by the FATF in June 2021, related to the detection of inaccurate company ownership information and sanctions on gatekeepers who fail to obtain accurate beneficial ownership information, as well as the pursuit of tax-based money laundering cases utilising financial intelligence.

Notwithstanding the above, the level of economic uncertainty remained elevated during the financial year ended 31 December 2022, primarily driven by the geopolitical developments as a result of the escalation of the military conflict between Russia and Ukraine in February 2022, as well as widespread supply chain disruptions experienced as the world economy recovers from the impacts of the pandemic, which triggered significant inflationary pressures across the world. In order to curb the spiralling effect of inflationary pressures, the European Central Bank ('ECB') and other national central banks applied monetary policy tools at their disposal by increasing interest rates to manage demand.

Locally, the government has implemented price-mitigating fiscal measures to support households and firms, with energy prices in Malta remaining fixed and the production of essential foodstuffs being subsidised. In this respect, whilst significantly higher than both national targets and previous year levels, inflation rates in Malta remain below those observed in most euro area countries. Corrections to national salary levels were also implemented through the national Cost Of Living Adjustment ('COLA') mechanism.

As a result, economic uncertainty continues to prevail especially in view of the increasing interest rate environment and inflationary pressures, partially mitigated by government support measures. This uncertainty impacts the business model, income levels and/or cash flow generation capacity of a significant portion of the local group's customers. This has impacted the performance of the bank's expected credit loss models, requiring enhanced monitoring of model outputs and the use of alternative mechanisms or controls.

Sectorial reviews are performed on a periodic basis to identify customers or groups of customers who are experiencing, or are likely to experience, financial difficulty as a result of the ongoing macroeconomic challenges. These sectorial reviews are monitored on a regular basis in order to assess ongoing developments, such as announced monetary policy changes, inflation rates, together with the impact of government support measures.

With respect to wholesale exposures, during 2022, the local group performed a risk assessment in respect of industries / sectors deemed to be most susceptible to supply chain disruptions and inflationary pressures to identify borrowers deemed to be at risk of a Significant Increase in Credit Risk ('SICR') or Unlikeliness-To-Pay ('UTP') trigger event. The bank assessed and individually rated 'at risk' borrowers 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).

In relation to retail exposures, the bank resorts more to portfolio measures or reviews in respect of groups of exposures exhibiting shared risk characteristics. In this respect, during 2022, focus was placed on performing affordability assessments on customers more susceptible to these conditions.

At 31 December 2022, as a result of the elevated level of economic uncertainty, a degree of caution has been reflected both in the calibration of weightings assigned to scenarios, as well as through the use of management judgemental adjustments.

Further information in respect of macroeconomic forecasts and management judgemental adjustments 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.

	2022	2021
	€000	€000
Balances with Central Bank of Malta and Treasury Bills	**1,555,361**	1,469,626
Items in course of collection from other banks	**6,921**	4,453
Loans and advances to banks	**726,217**	613,062
Loans and advances to customers	**3,175,167**	3,196,725
Debt instruments measured at fair value through other comprehensive income	**637,709**	845,700
Debt instruments measured at amortised cost	**367,024**	—
Accrued income and other assets	**18,174**	17,655
Off-balance sheet:		
– financial guarantee and similar contracts	**131,816**	140,359
– loan and other credit related commitments	**877,820**	967,739
At 31 December	**7,496,209**	7,255,319

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. FVPL):

	2022	2021
	€000	€000
Derivatives	**25,745**	4,640

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 presented on the next page, 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 2022		At 31 December 2021	
	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	3,222,901	(47,734)	3,254,757	(58,032)
– personal	2,286,234	(24,710)	2,290,194	(24,470)
– corporate and commercial	872,673	(20,669)	839,153	(29,835)
– non-bank financial institutions	63,994	(2,355)	125,410	(3,727)
Loans and advances to banks at amortised cost	726,218	(1)	613,064	(2)
Other financial assets measured at amortised cost	1,710,784	(5,596)	1,273,258	(9,696)
– balances at central banks	1,270,880	(13)	1,241,462	(8)
– items in the course of collection from other banks	6,921	—	4,453	—
– debt instruments measured at amortised cost	367,042	(18)	—	—
– Treasury Bills measured at amortised cost	42,203	(1)	—	—
– accrued income and other assets	23,738	(5,564)	27,343	(9,688)
Total gross carrying amount on balance sheet	5,659,903	(53,331)	5,141,079	(67,730)
Loan and other credit-related commitments	877,820	(1,187)	967,739	(1,173)
– personal	361,245	(26)	406,384	(15)
– corporate and commercial (including non-bank financial institutions)	514,199	(1,161)	552,613	(1,158)
– banks	2,376	—	8,742	—
Financial guarantee and similar contracts	131,816	(557)	140,359	(597)
– personal	6,403	(30)	5,712	(31)
– corporate and commercial (including non-bank financial institutions)	125,413	(527)	134,647	(566)
Total nominal amount off balance sheet	1,009,636	(1,744)	1,108,098	(1,770)
Total	6,669,539	(55,075)	6,249,177	(69,500)

	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	637,709	(60)	845,700	(69)
Treasury Bills measured at fair value through other comprehensive income	242,292	(4)	228,172	(7)
Total	880,001	(64)	1,073,872	(76)

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 and at amortised cost

The bank's holdings of debt securities are spread across a range of issuers in both 2022 and 2021, with the exception of 48% (2021: 62%) 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 €25,745,000 at 31 December 2022 (2021: €4,640,000), with €24,086,000 (2021: €2,372,000) transacted with HSBC Group and €1,659,000 (2021: €2,268,000) 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 2022				
Personal lending				
– first lien residential mortgages	**2,100,009**	**65.2**	**53,032**	**2.5**
– other personal lending	**186,225**	**5.8**	**10,120**	**5.4**
Wholesale lending				
– commercial real estate and other property related	**182,077**	**5.6**	**32,852**	**18.0**
– state-owned entities	**303,387**	**9.4**	**—**	**—**
– other commercial	**451,203**	**14.0**	**23,006**	**5.1**
Total	**3,222,901**	**100**	**119,010**	**3.7**
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

The amount of gross loans and advances to customers of the bank stood at €3,222,901,000 at 31 December 2022 (2021: €3,254,757,000). As at 31 December 2022, there were no loans and advances payable to the bank by any of its subsidiaries (2021: 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				Net maximum exposure
		Residential property	Commercial property	Securities/ cash	Other	
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Electricity, gas, water supply and waste management	**111,046**	**62**	**1**	**3,325**	**53,736**	**53,922**
Accommodation and food service	**79,168**	**784**	**44,618**	**6**	**–**	**33,760**
Construction, real estate activities	**108,445**	**10,250**	**66,495**	**1,919**	**5,453**	**24,328**
Wholesale and retail trade and repairs	**179,956**	**4,577**	**42,785**	**3,744**	**18,162**	**110,688**
Services	**396,817**	**4,902**	**84,126**	**8,257**	**205,981**	**93,551**
Manufacturing, agriculture and fishing	**62,196**	**2,948**	**19,574**	**317**	**779**	**38,578**
Households and individuals	**2,285,273**	**2,153,777**	**305**	**10,106**	**4,570**	**116,515**
	3,222,901	**2,177,300**	**257,904**	**27,674**	**288,681**	**471,342**
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

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 50%**	**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 50% and 90%**	**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 90% and 100%** **Not past due with unperfected collateral**	**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, history of delinquency in prior 12 months, or performing forborne**	**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 2022							
	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:	938,415	1,188,418	743,387	233,671	119,010	3,222,901	(47,734)	3,175,167
– personal	637,076	1,186,794	294,342	104,870	63,152	2,286,234	(24,710)	2,261,524
– corporate and commercial	301,326	1,624	396,841	121,996	50,886	872,673	(20,669)	852,004
– non-bank financial institutions	13	–	52,204	6,805	4,972	63,994	(2,355)	61,639
Loans and advances to banks held at amortised cost	726,218	–	–	–	–	726,218	(1)	726,217
Other financial assets held at amortised cost:								
Balances at central banks	1,270,880	–	–	–	–	1,270,880	(13)	1,270,867
Items in the course of collection from other banks	6,921	–	–	–	–	6,921	–	6,921
Debt instruments measured at amortised cost	367,042	–	–	–	–	367,042	(18)	367,024
Treasury Bills measured at amortised cost	42,203	–	–	–	–	42,203	(1)	42,202
Accrued income and other assets	7,138	2,169	4,375	1,300	8,756	23,738	(5,564)	18,174
– endorsements and acceptances	–	–	1,500	–	–	1,500	(5)	1,495
– accrued income	7,138	2,169	2,875	1,300	8,756	22,238	(5,559)	16,679
Total gross carrying amount on balance sheet	3,358,817	1,190,587	747,762	234,971	127,766	5,659,903	(53,331)	5,606,572
Percentage of total credit quality	59.3%	21.0%	13.2%	4.2%	2.3%	100%		
Loan and other credit-related commitments	422,905	84,595	310,566	50,856	8,898	877,820	(1,187)	876,633
Financial guarantees and similar contracts	19,668	4,185	91,960	15,169	834	131,816	(557)	131,259
Total nominal amount off balance sheet	442,573	88,780	402,526	66,025	9,732	1,009,636	(1,744)	1,007,892
At 31 December 2022	3,801,390	1,279,367	1,150,288	300,996	137,498	6,669,539	(55,075)	6,614,464

	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	637,709	–	–	–	–	637,709	(60)
Treasury Bills measured at fair value through other comprehensive income	242,292	–	–	–	–	242,292	(4)
At 31 December 2022	880,001	–	–	–	–	880,001	(64)

Distribution of financial instruments by credit quality (continued)

	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
Debt instruments measured at amortised cost	—	—	—	—	—	—	—	—
Treasury Bills measured at amortised cost	—	—	—	—	—	—	—	—
Accrued income and 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)

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, existing geopolitical instabilities as well as the current inflationary and increasing interest rate environment and the consequential economic conditions continue to pose an elevated the level of uncertainty, particularly with respect to the identification of customers that would have experienced a SICR or that exhibit UTP characteristics.

The bank utilises segmentation techniques for the purposes of identifying indicators of SICR within both wholesale and retail portfolios. The bank performs periodic assessments to determine whether the current macroeconomic circumstances may transform into long-term borrower financial difficulties, thereby potentially requiring a downgrade of exposures to stage 2 or stage 3 to reflect the level of change in credit risk as appropriate. This assessment is performed on a periodic basis at borrower level in respect of wholesale exposures, whereas the assessment in respect of retail exposures is performed by reference to shared credit quality characteristics, including assumed levels of net disposable income by reference to age and marital status.

In respect of individually significant loans within the wholesale portfolio, during 2022 the bank focused on those borrowers that are deemed to be more susceptible to the current inflationary and increasing interest rate environment. These exposures were assessed 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 were 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 the financial years ended 31 December 2020 and 2021, the bank participated 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.

As at 31 December 2022, gross loans originated under the Malta Development Bank Covid-19 Guarantee Scheme classified as stage 1 and stage 2 amounted to €19,085,000 (2021: €25,024,000) and €6,483,000 (2021: €9,530,000) respectively. As at 31 December 2022, loans originated under this scheme classified in stage 3 amounted to €2,391,000 (2021: €3,206,000). The allowance for ECL in respect of the corresponding loans classified as stage 1, stage 2 and stage 3 amounted to €347,000 (2021: €343,000), €452,000 (2021: €354,000) and €18,000 (2021: 127,000) respectively.

Until 2021, the timely identification of SICR or UTP events in respect of retail portfolios was usually linked to delinquency status as the principal credit deterioration indicator. During the financial year ended 31 December 2022, the credit risk policy in respect of mortgages was enhanced through the inclusion of Early Warning Indicators (‘EWI’) designed to identify early signs of distress in relation to retail customers whose creditworthiness has deteriorated due to financial difficulties. As part of a redevelopment exercise carried out during 2022 in respect of the ECL model for the mortgage portfolio, the credit deterioration indicators used to segment the portfolio for staging purposes were enhanced to include past delinquency as well as behavioural score indicators designed to capture certain credit risk characteristics.

In addition, the bank utilises management judgemental assumptions in respect of its retail mortgage portfolio designed to estimate the impact of the delayed identification of SICR events resulting from the current inflationary and increasing interest rate environment, which is reflected within the ECL calculations as detailed in Note 4(b)(iii) within the section entitled ‘Forward-looking information incorporated in the ECL model’.

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	2,812,374	291,517	119,010	3,222,901	(10,177)	(18,744)	(18,813)	(47,734)	0.4	6.4	15.8	1.5
– personal	2,112,941	110,141	63,152	2,286,234	(6,671)	(8,716)	(9,323)	(24,710)	0.3	7.9	14.8	1.1
– corporate and commercial	682,367	139,420	50,886	872,673	(3,272)	(8,168)	(9,229)	(20,669)	0.5	5.9	18.1	2.4
– non-bank financial institutions	17,066	41,956	4,972	63,994	(234)	(1,860)	(261)	(2,355)	1.4	4.4	5.2	3.7
Loans and advances to banks at amortised cost	726,218	–	–	726,218	(1)	–	–	(1)	–	–	–	–
Other financial assets measured at amortised cost	1,700,443	1,585	8,756	1,710,784	(37)	–	(5,559)	(5,596)	–	–	63.5	0.3
Loan and other credit-related commitments	793,226	75,696	8,898	877,820	(392)	(141)	(654)	(1,187)	–	0.2	7.3	0.1
– personal	352,216	8,648	381	361,245	(26)	–	–	(26)	–	–	–	–
– corporate and commercial (including non-bank financial institutions)	438,634	67,048	8,517	514,199	(366)	(141)	(654)	(1,161)	0.1	0.2	7.7	0.2
– banks	2,376	–	–	2,376	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts	105,440	25,542	834	131,816	(226)	(101)	(230)	(557)	0.2	0.4	27.6	0.4
– personal	6,403	–	–	6,403	(30)	–	–	(30)	0.5	–	–	0.5
– corporate and commercial (including non-bank financial institutions)	99,037	25,542	834	125,413	(196)	(101)	(230)	(527)	0.2	0.4	27.6	0.4
At 31 December 2022	6,137,701	394,340	137,498	6,669,539	(10,833)	(18,986)	(25,256)	(55,075)	0.2	4.8	18.4	0.8

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The following disclosure presents the ageing of stage 2 financial assets. It distinguishes those assets that are classified as stage 2 when they are less than 30 days past due (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 2022

	Gross exposure			Allowance for ECL			ECL coverage %		
		of which:	*of which:*		*of which:*	*of which:*		*of which:*	*of which:*
	Stage 2	*<30 DPD*	*>30 DPD*	Stage 2	*<30 DPD*	*>30 DPD*	Stage 2	*<30 DPD*	*>30 DPD*
	€000	*€000*	*€000*	€000	*€000*	*€000*	%	*%*	*%*
Loans and advances to customers at amortised cost:	291,517	*288,474*	*3,043*	(18,744)	*(18,300)*	*(444)*	6.4	*6.3*	*14.6*
– personal	110,141	*107,228*	*2,913*	(8,716)	*(8,276)*	*(440)*	7.9	*7.7*	*15.1*
– corporate and commercial	139,420	*139,290*	*130*	(8,168)	*(8,164)*	*(4)*	5.9	*5.9*	*3.1*
– non-bank financial institutions	41,956	*41,956*	–	(1,860)	*(1,860)*	–	4.4	*4.4*	–
Other financial assets measured at amortised cost	1,585	*1,568*	*17*	–	–	–	–	–	–

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	2,830,787	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

Stage 2 days past due analysis at 31 December 2021 (continued)

	Gross exposure			Allowance for ECL			ECL coverage %		
		of which:	*of which:*		*of which:*	*of which:*		*of which:*	*of which:*
	Stage 2	*<30 DPD*	*>30 DPD*	Stage 2	*<30 DPD*	*>30 DPD*	Stage 2	*<30 DPD*	*>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*	—	—	—	—	—	—

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	**938,415**	**1,188,418**	**743,387**	**233,671**	**119,010**	**3,222,901**	**(47,734)**	**3,175,167**
– stage 1	**938,172**	**1,188,340**	**671,025**	**14,837**	**—**	**2,812,374**	**(10,177)**	**2,802,197**
– stage 2	**243**	**78**	**72,362**	**218,834**	**—**	**291,517**	**(18,744)**	**272,773**
– stage 3	**—**	**—**	**—**	**—**	**119,010**	**119,010**	**(18,813)**	**100,197**
Loans and advances to banks at amortised cost	**726,218**	**—**	**—**	**—**	**—**	**726,218**	**(1)**	**726,217**
– stage 1	**726,218**	**—**	**—**	**—**	**—**	**726,218**	**(1)**	**726,217**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**1,694,184**	**2,169**	**4,375**	**1,300**	**8,756**	**1,710,784**	**(5,596)**	**1,705,188**
– stage 1	**1,694,182**	**2,168**	**4,056**	**37**	**—**	**1,700,443**	**(37)**	**1,700,406**
– stage 2	**2**	**1**	**319**	**1,263**	**—**	**1,585**	**—**	**1,585**
– stage 3	**—**	**—**	**—**	**—**	**8,756**	**8,756**	**(5,559)**	**3,197**
Loan and other credit-related commitments	**422,905**	**84,595**	**310,566**	**50,856**	**8,898**	**877,820**	**(1,187)**	**876,633**
– stage 1	**422,893**	**84,525**	**276,428**	**9,380**	**—**	**793,226**	**(392)**	**792,834**
– stage 2	**12**	**70**	**34,138**	**41,476**	**—**	**75,696**	**(141)**	**75,555**
– stage 3	**—**	**—**	**—**	**—**	**8,898**	**8,898**	**(654)**	**8,244**
Financial guarantees and similar contracts	**19,668**	**4,185**	**91,960**	**15,169**	**834**	**131,816**	**(557)**	**131,259**
– stage 1	**17,008**	**4,185**	**78,867**	**5,380**	**—**	**105,440**	**(226)**	**105,214**
– stage 2	**2,660**	**—**	**13,093**	**9,789**	**—**	**25,542**	**(101)**	**25,441**
– stage 3	**—**	**—**	**—**	**—**	**834**	**834**	**(230)**	**604**
At 31 December 2022	**3,801,390**	**1,279,367**	**1,150,288**	**300,996**	**137,498**	**6,669,539**	**(55,075)**	**6,614,464**

	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	**637,709**	**—**	**—**	**—**	**—**	**637,709**	**(60)**
– stage 1	**637,709**	**—**	**—**	**—**	**—**	**637,709**	**(60)**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Treasury Bills measured at fair value through other comprehensive income	**242,292**	**—**	**—**	**—**	**—**	**242,292**	**(4)**
– stage 1	**242,292**	**—**	**—**	**—**	**—**	**242,292**	**(4)**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2022	**880,001**	**—**	**—**	**—**	**—**	**880,001**	**(64)**

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

	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

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	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)

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. 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. Exposures which are originated in stage 1 and are later migrated to stage 2 as a result of identified SICR events during the course of the same financial year are also presented in this line item.

A decrease in credit loss allowances amounting to €2.7 million during 2021 was primarily attributable to significant repayments effected during the year 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 judgemental adjustments on the basis of expert credit risk judgement designed to capture the sustained level of uncertainty driven by the general slowdown in economic activity as well as uncertainties in respect of potential additional waves of Covid-19 infections or new virus strains and the potential economic impact of Malta's grey-listing by the FATF during 2021.

During the financial year ended 31 December 2022, an ECL release amounting to €14.4 million was primarily driven by assets written off amounting to €15.2 million. ECL reductions amounting to €5.2 million, particularly in respect of stage 2 and stage 3 exposures, were driven by significant repayments effected during 2022.

These reductions were offset by migrations of exposures, primarily from stage 1 to stage 2, resulting in increases in credit loss allowances during 2022 amounting to €5.2 million. This was largely driven by the redevelopment of the model used by the bank to estimate ECLs in respect of the retail mortgage portfolio, which comprised a refreshed segmentation approach for staging purposes, resulting in the migration of significant balances from stage 1 to stage 2, with lifetime ECLs being calculated in respect of these balances as at 31 December 2022.

Changes in risk parameters during the financial year ended 31 December 2022 resulted in a net increase in credit loss allowances amounting to €0.8 million comprising releases in ECL allowances in respect of stage 1 and stage 2 exposures together with an increase in ECLs on stage 3 exposures. The ECL increase in respect of stage 3 exposures is attributable to a change in policy effected during the financial year ended 31 December 2022, through which higher LGDs are applied in respect of retail mortgage exposures which have been classified as defaulted for a number of years, and deemed to be unrecoverable.

Meanwhile, a net release of ECL in respect of exposures classified in stage 1 and stage 2 was driven by movements in management judgemental adjustments. In this respect, management judgemental adjustments relating to the impact of the pandemic and Malta's grey-listing by the FATF as at 31 December 2021, amounting to €5.2 million and €12.2 million in respect of the wholesale and retail portfolios respectively, were released during the financial year ended 31 December 2022.

Simultaneously, new adjustments were estimated during the financial year ended 31 December 2022, designed to capture the potential impact of elevated inflation rates and the increasing interest rate environment on the affordability of mortgage exposures. In this respect, a management judgemental adjustment amounting to €5.1 million was reflected in the ECL calculation of retail mortgage exposures classified in stage 1 as at 31 December 2022.

As a result of the above, the movement in management judgemental adjustments in respect of exposures classified in stage 1 and stage 2 amounted to €12.3 million during the financial year ended 31 December 2022, which is reflected in an overall net release in ECL as per the table presented on the next page.

The difference, amounting to €7.2 million is the result of increases in ECLs driven by movements in modelled forward-looking risk parameters (PDs and LGDs), reflecting updated macroeconomic scenarios used to capture the prevailing level of economic uncertainty in the modelling of credit loss allowances. These, as well as movements in the management judgemental adjustments, are 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 2022	**3,817,513**	**(15,382)**	**365,803**	**(16,108)**	**194,447**	**(38,000)**	**4,377,763**	**(69,490)**
Transfers of financial instruments	(78,443)	(374)	90,471	(1,927)	(12,028)	2,301	—	—
– transfers from stage 1 to stage 2	(116,822)	580	116,822	(580)	—	—	—	—
– transfers from stage 2 to stage 1	40,580	(744)	(40,580)	744	—	—	—	—
– transfers from stage 3	3,111	(238)	20,919	(2,527)	(24,030)	2,765	—	—
– transfers to stage 3	(5,312)	28	(6,690)	436	12,002	(464)	—	—
Net remeasurement of ECL arising from stage transfers	—	708	—	(5,461)	—	(436)	—	(5,189)
Changes in risk parameters	—	3,470	—	1,608	—	(5,831)	—	(753)
Net new and further lending/repayments	(21,819)	778	(61,934)	2,902	(29,717)	1,506	(113,470)	5,186
Assets written off	—	—	—	—	(15,204)	15,204	(15,204)	15,204
As at 31 December 2022	**3,717,251**	**(10,800)**	**394,340**	**(18,986)**	**137,498**	**(25,256)**	**4,249,089**	**(55,042)**
ECL change for the year								14,448
Assets written off								(15,204)
Change in expected credit losses excluding effect of write-offs								**(756)**
Recoveries								9,359
Other								1,051
Change in expected credit losses and other credit impairment charges								**9,654**

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 2022 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

	At 31 December 2022		12 months ended 31 December 2022
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	**4,249,089**	**(55,042)**	**9,654**
Balances at central banks	1,270,880	(13)	(5)
Loans and advances to banks measured at amortised cost	726,218	(1)	1
Debt instruments and Treasury Bills measured at amortised cost	409,245	(19)	(19)
Items in course of collection	6,921	—	—
Accrued interest on debt instruments and other accrued income	4,810	—	—
Loan and other credit related commitments - banks	2,376	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	**6,669,539**	**(55,075)**	**9,631**
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	880,001	(64)	12
Total allowance for ECL/total income statement ECL release for the year	**N/A**	**(55,139)**	**9,643**

	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 change for the year								2,672
Assets written off								(4,308)
Change in expected credit losses excluding effects of write-offs								(1,636)
Recoveries								1,114
Other								1,215
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
Debt instruments measured at amortised cost	—	—	—
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 charge for the year	N/A	(69,576)	995

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 2022 and 31 December 2021.

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	**6,682**	**8,705**	**9,320**	**24,707**
CMB	**3,495**	**10,039**	**9,493**	**23,027**
At 31 December 2022	**10,177**	**18,744**	**18,813**	**47,734**
Loan and other credit-related commitments and financial guarantee and similar contracts				
WPB	**56**	**—**	**—**	**56**
CMB	**562**	**242**	**884**	**1,688**
At 31 December 2022	**618**	**242**	**884**	**1,744**

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

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
Loans and advances to customers				
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

The measurement of allowances for ECL and the ECL release/charge for 2022 and 2021 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 where the obligor is experiencing or about to experience difficulties in meeting its financial commitments. 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 personal 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, observed over a minimum one-year period, and there are no other indicators of impairment. Forborne loans curing to a non-credit impaired status will remain classified as forborne for a minimum of two years from the date that the exposure is no longer classified as credit impaired. Any forbearance measures granted in respect of a loan already classified as forborne will lead to the customer being classified as credit impaired. 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. 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. Any new loans that arise following derecognition events are considered to be POCI and will continue to be disclosed as renegotiated loans.

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 CBM Directive No. 18' provided guidance on the treatment of general payment moratoria in line with EBA Guidelines.

In this respect, exposures meeting established criteria and eligible for the granting of a general payment moratorium were not classified as forborne/renegotiated, unless the borrower was already experiencing financial difficulties prior to the pandemic.

In accordance with the requirements of CBM 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 and are classified as renegotiated loans and included in the tables below accordingly.

Accordingly, as at 31 December 2022 and 31 December 2021, no outstanding gross loans and advances were subject to general payment moratoria.

Outstanding gross loans and advances classified as renegotiated loans as a result of extensions of general payment moratoria beyond the terms prescribed by Directive No. 18 amounted to €35,380,000 as at 31 December 2022 (2021: €49,847,000). Accordingly, these are classified as Stage 3 exposures in the tables below. The allowance for ECL in respect of such exposures amounted to €4,453,000 as at 31 December 2022 (2021: €5,809,000).

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.

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	**–**	**27,403**	**23,048**	**50,451**
– other personal lending	**–**	**3,352**	**4,252**	**7,604**
Wholesale				
– corporate and commercial	**–**	**20,314**	**44,469**	**64,783**
– non-bank financial institutions	**–**	**7,473**	**4,972**	**12,445**
At 31 December 2022	**–**	**58,542**	**76,741**	**135,283**
Allowance for ECL				
Personal				
– first lien residential mortgages	**–**	**(1,798)**	**(2,883)**	**(4,681)**
– other personal lending	**–**	**(278)**	**(516)**	**(794)**
Wholesale				
– corporate and commercial	**–**	**(2,465)**	**(6,246)**	**(8,711)**
– non-bank financial institutions	**–**	**(584)**	**(261)**	**(845)**
At 31 December 2022	**–**	**(5,125)**	**(9,906)**	**(15,031)**
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)

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

	2022	2021
	€000	€000
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers	**4.2%**	5.6%
Interest income recognised in respect of forborne/renegotiated assets	**5,860**	7,173
Movement in forbearance activity during the year:		
At 1 January	**183,893**	103,799
Loans renegotiated without derecognition	**8,978**	96,491
Repayments	**(49,870)**	(13,097)
Amounts written off	**(7,718)**	(3,300)
At 31 December	**135,283**	183,893

None of the renegotiated loans effected during the financial years ended 31 December 2022 and 31 December 2021 were subject to a substantial modification in cash flows and, as a result, none of the renegotiations led to the derecognition of the original financial instrument and subsequent recognition of POCI financial instruments.

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 2022 and 2021 to the closing carrying/nominal amounts as at 31 December 2022 and 2021 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	**682,367**	**139,420**	**50,886**	**872,673**	**(3,272)**	**(8,168)**	**(9,229)**	**(20,669)**
– agriculture, forestry and fishing	**51**	**128**	**97**	**276**	**(1)**	**(2)**	**(6)**	**(9)**
– manufacture	**50,050**	**8,182**	**3,541**	**61,773**	**(362)**	**(309)**	**(496)**	**(1,167)**
– electricity, gas, steam and air-conditioning supply	**85,018**	**2,056**	**–**	**87,074**	**(204)**	**(132)**	**–**	**(336)**
– water supply, sewerage, waste management and remediation	**23,746**	**217**	**–**	**23,963**	**(5)**	**(1)**	**–**	**(6)**
– construction	**18,311**	**1,686**	**2,102**	**22,099**	**(177)**	**(60)**	**(1,521)**	**(1,758)**
– wholesale and retail trade, repair of motor vehicles and motorcycles	**135,304**	**36,384**	**7,948**	**179,636**	**(611)**	**(806)**	**(2,944)**	**(4,361)**
– transportation and storage	**5,170**	**547**	**8**	**5,725**	**(21)**	**(22)**	**(8)**	**(51)**
– accommodation and food	**17,494**	**40,648**	**20,984**	**79,126**	**(347)**	**(3,207)**	**(2,353)**	**(5,907)**
– information and communication	**23,522**	**4,122**	**1**	**27,645**	**(268)**	**(970)**	**(1)**	**(1,239)**
– real estate	**71,443**	**5,041**	**9,765**	**86,249**	**(745)**	**(355)**	**(299)**	**(1,399)**
– professional, scientific and technical activities	**90,225**	**17,927**	**13**	**108,165**	**(373)**	**(1,110)**	**(12)**	**(1,495)**
– administrative and support services	**5,875**	**7,338**	**413**	**13,626**	**(93)**	**(463)**	**(2)**	**(558)**
– education	**530**	**18**	**3,188**	**3,736**	**(8)**	**–**	**(726)**	**(734)**
– health and care	**1,666**	**14,748**	**2,435**	**18,849**	**(20)**	**(724)**	**(787)**	**(1,531)**
– arts, entertainment and recreation	**197**	**23**	**68**	**288**	**–**	**(1)**	**–**	**(1)**
– other services	**1,263**	**355**	**323**	**1,941**	**(18)**	**(6)**	**(74)**	**(98)**
– public administration and defence, compulsory social security	**152,502**	**–**	**–**	**152,502**	**(19)**	**–**	**–**	**(19)**
Non-bank financial institutions	**17,066**	**41,956**	**4,972**	**63,994**	**(234)**	**(1,860)**	**(261)**	**(2,355)**
At 31 December 2022	**699,433**	**181,376**	**55,858**	**936,667**	**(3,506)**	**(10,028)**	**(9,490)**	**(23,024)**
Other financial assets measured at amortised cost								
– endorsements and acceptances	**1,500**	**–**	**–**	**1,500**	**(5)**	**–**	**–**	**(5)**
– accrued income	**3,055**	**1,084**	**4,754**	**8,893**	**–**	**–**	**(2,424)**	**(2,424)**
At 31 December 2022	**4,555**	**1,084**	**4,754**	**10,393**	**(5)**	**–**	**(2,424)**	**(2,429)**
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)

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	**519,602**	**84,429**	**7,924**	**611,955**	**(542)**	**(236)**	**(883)**	**(1,661)**
Non-bank financial institutions	**18,069**	**8,161**	**1,427**	**27,657**	**(20)**	**(6)**	**(1)**	**(27)**
At 31 December 2022	**537,671**	**92,590**	**9,351**	**639,612**	**(562)**	**(242)**	**(884)**	**(1,688)**
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)

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 2022	**1,258,190**	**(3,403)**	**307,377**	**(11,722)**	**100,484**	**(27,843)**	**1,666,051**	**(42,968)**
Transfers of financial instruments	**(18,750)**	**(54)**	**17,633**	**87**	**1,117**	**(33)**	**—**	**—**
– transfers from stage 1 to stage 2	**(51,304)**	**237**	**51,304**	**(237)**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**33,265**	**(295)**	**(33,265)**	**295**	**—**	**—**	**—**	**—**
– transfers from stage 3	**—**	**—**	**15**	**—**	**(15)**	**—**	**—**	**—**
– transfers to stage 3	**(711)**	**4**	**(421)**	**29**	**1,132**	**(33)**	**—**	**—**
Net remeasurement of ECL arising from stage transfers	**—**	**218**	**—**	**(1,582)**	**—**	**(28)**	**—**	**(1,392)**
Changes in risk parameters	**—**	**(769)**	**—**	**1,264**	**—**	**(594)**	**—**	**(99)**
Net new and further lending/ repayments	**2,219**	**(65)**	**(49,960)**	**1,683**	**(18,196)**	**2,258**	**(65,937)**	**3,876**
Assets written off	**—**	**—**	**—**	**—**	**(13,442)**	**13,442**	**(13,442)**	**13,442**
As at 31 December 2022	**1,241,659**	**(4,073)**	**275,050**	**(10,270)**	**69,963**	**(12,798)**	**1,586,672**	**(27,141)**
ECL change for the year								**15,827**
Assets written off								**(13,442)**
Change in expected credit losses excluding effect of write-offs								**2,385**
Recoveries								**8,880**
Other								**1,070**
Change in expected credit losses and other credit impairment charges								**12,335**

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 2022 and included in 'Other' in the above reconciliation.

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 (continued)

	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 change for the year								3,301
Assets written off								(3,520)
Change in expected credit losses excluding effect of write-offs								(219)
Recoveries								409
Other								1,322
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.

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	**170,398**	**12,442**	**364,036**	**57,155**	**7,924**	**611,955**	**(1,660)**	**610,295**
Non-bank financial institutions	**2,000**	**—**	**18,816**	**5,414**	**1,427**	**27,657**	**(28)**	**27,629**
At 31 December 2022	**172,398**	**12,442**	**382,852**	**62,569**	**9,351**	**639,612**	**(1,688)**	**637,924**
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

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 2022 and 31 December 2021, 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	**682,367**	**139,420**	**50,886**	**872,673**	**(3,272)**	**(8,168)**	**(9,229)**	**(20,669)**	**2.4**
CRR1	145,974	–	–	145,974	(16)	–	–	(16)	–
CRR2	155,352	–	–	155,352	(32)	–	–	(32)	–
CRR3	1,576	48	–	1,624	(3)	–	–	(3)	0.2
CRR4	194,632	2,167	–	196,799	(875)	(10)	–	(885)	0.4
CRR5	170,003	30,039	–	200,042	(1,978)	(1,081)	–	(3,059)	1.5
CRR6	14,773	66,079	–	80,852	(367)	(3,156)	–	(3,523)	4.4
CRR7	57	36,070	–	36,127	(1)	(2,719)	–	(2,720)	7.5
CRR8	–	5,017	–	5,017	–	(1,202)	–	(1,202)	24.0
CRR9/10	–	–	50,886	50,886	–	–	(9,229)	(9,229)	18.1
Non-bank financial institutions	**17,066**	**41,956**	**4,972**	**63,994**	**(234)**	**(1,860)**	**(261)**	**(2,355)**	**3.7**
CRR1	13	–	–	13	–	–	–	–	–
CRR2	–	–	–	–	–	–	–	–	–
CRR3	–	–	–	–	–	–	–	–	–
CRR4	2,919	–	–	2,919	(20)	–	–	(20)	0.7
CRR5	14,128	35,157	–	49,285	(214)	(1,347)	–	(1,561)	3.2
CRR6	6	1,638	–	1,644	–	(338)	–	(338)	20.6
CRR7	–	5,161	–	5,161	–	(175)	–	(175)	3.4
CRR8	–	–	–	–	–	–	–	–	–
CRR9/10	–	–	4,972	4,972	–	–	(261)	(261)	5.2
At 31 December 2022	**699,433**	**181,376**	**55,858**	**936,667**	**(3,506)**	**(10,028)**	**(9,490)**	**(23,024)**	**2.5**
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

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 2022 and 2021 to the closing carrying/nominal amounts as at 31 December 2022 and 2021 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	**1,954,743**	**92,233**	**53,033**	**2,100,009**	**(6,161)**	**(6,566)**	**(7,698)**	**(20,425)**
Other personal lending	**158,198**	**17,908**	**10,119**	**186,225**	**(510)**	**(2,150)**	**(1,625)**	**(4,285)**
– second lien residential mortgages	**79,905**	**8,271**	**9,029**	**97,205**	**(208)**	**(326)**	**(927)**	**(1,461)**
– credit cards	**24,792**	**3,143**	**88**	**28,023**	**(227)**	**(1,260)**	**(56)**	**(1,543)**
– other	**53,501**	**6,494**	**1,002**	**60,997**	**(75)**	**(564)**	**(642)**	**(1,281)**
At 31 December 2022	**2,112,941**	**110,141**	**63,152**	**2,286,234**	**(6,671)**	**(8,716)**	**(9,323)**	**(24,710)**
Other financial assets measured at amortised cost								
– accrued income	**4,032**	**501**	**4,002**	**8,535**	**–**	**–**	**(3,135)**	**(3,135)**
At 31 December 2022	**4,032**	**501**	**4,002**	**8,535**	**–**	**–**	**(3,135)**	**(3,135)**
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)

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	**358,619**	**8,648**	**381**	**367,648**	**(56)**	**–**	**–**	**(56)**
At 31 December 2022	**358,619**	**8,648**	**381**	**367,648**	**(56)**	**–**	**–**	**(56)**
Personal	403,699	8,278	119	412,096	(46)	–	–	(46)
At 31 December 2021	403,699	8,278	119	412,096	(46)	–	–	(46)

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 2022	**2,559,323**	**(11,979)**	**58,426**	**(4,386)**	**93,963**	**(10,157)**	**2,711,712**	**(26,522)**
Transfers of financial instruments	**(59,693)**	**(320)**	**72,838**	**(2,014)**	**(13,145)**	**2,334**	**–**	**–**
– transfers from stage 1 to stage 2	**(65,518)**	**343**	**65,518**	**(343)**	**–**	**–**	**–**	**–**
– transfers from stage 2 to stage 1	**7,315**	**(449)**	**(7,315)**	**449**	**–**	**–**	**–**	**–**
– transfers from stage 3	**3,111**	**(238)**	**20,904**	**(2,527)**	**(24,015)**	**2,765**	**–**	**–**
– transfers to stage 3	**(4,601)**	**24**	**(6,269)**	**407**	**10,870**	**(431)**	**–**	**–**
Net remeasurement of ECL arising from stage transfers	**–**	**490**	**–**	**(3,879)**	**–**	**(408)**	**–**	**(3,797)**
Changes in risk parameters	**–**	**4,239**	**–**	**344**	**–**	**(5,237)**	**–**	**(654)**
Net new and further lending/ repayments	**(24,038)**	**843**	**(11,974)**	**1,219**	**(11,521)**	**(752)**	**(47,533)**	**1,310**
Assets written off	**–**	**–**	**–**	**–**	**(1,762)**	**1,762**	**(1,762)**	**1,762**
As at 31 December 2022	**2,475,592**	**(6,727)**	**119,290**	**(8,716)**	**67,535**	**(12,458)**	**2,662,417**	**(27,901)**
ECL change for the year								**(1,379)**
Assets written off								**(1,762)**
Change in expected credit losses excluding effect of write-offs								**(3,141)**
Recoveries								**479**
Other								**(19)**
Change in expected credit losses and other credit impairment charges								**(2,681)**
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 change for the year								(629)
Assets written off								(788)
Change in expected credit losses for the year								(1,417)
Recoveries								705
Other								(107)
Change in expected credit losses and other credit impairment charges								(819)

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	**1,954,743**	**92,233**	**53,033**	**2,100,009**	**(6,161)**	**(6,566)**	**(7,698)**	**(20,425)**	**1.0**
Not past due	**1,954,653**	**73,316**	**16,316**	**2,044,285**	**(6,161)**	**(5,366)**	**(2,400)**	**(13,927)**	**0.7**
Past due by:									
less than 30 days	**90**	**16,569**	**11,113**	**27,772**	**—**	**(918)**	**(1,258)**	**(2,176)**	**7.8**
30 to 59 days	**—**	**1,819**	**4,439**	**6,258**	**—**	**(137)**	**(480)**	**(617)**	**9.9**
60 to 89 days	**—**	**529**	**2,187**	**2,716**	**—**	**(145)**	**(243)**	**(388)**	**14.3**
90 days and more	**—**	**—**	**18,978**	**18,978**	**—**	**—**	**(3,317)**	**(3,317)**	**17.5**
Other personal lending	**158,198**	**17,908**	**10,119**	**186,225**	**(510)**	**(2,150)**	**(1,625)**	**(4,285)**	**2.3**
Not past due	**156,572**	**14,512**	**3,133**	**174,217**	**(494)**	**(1,703)**	**(307)**	**(2,504)**	**1.4**
Past due by:									
less than 30 days	**1,626**	**2,801**	**1,187**	**5,614**	**(16)**	**(285)**	**(81)**	**(382)**	**6.8**
30 to 59 days	**—**	**332**	**687**	**1,019**	**—**	**(72)**	**(135)**	**(207)**	**20.3**
60 to 89 days	**—**	**263**	**246**	**509**	**—**	**(90)**	**(24)**	**(114)**	**22.4**
90 days and more	**—**	**—**	**4,866**	**4,866**	**—**	**—**	**(1,078)**	**(1,078)**	**22.2**
At 31 December 2022	**2,112,941**	**110,141**	**63,152**	**2,286,234**	**(6,671)**	**(8,716)**	**(9,323)**	**(24,710)**	**1.1**
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

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 on the next page 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.

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 on the next page. 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 to customers

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	**169,622**	**(1,026)**	**0.6**
Fully collateralised	**457,924**	**(1,992)**	**0.4**
– less than or equal to 50%	**162,217**	**(1,608)**	**1.0**
– 51% to 75%	**29,657**	**(284)**	**1.0**
– 76% to 90%	**2,106**	**(8)**	**0.4**
– 91% to 100%	**263,944**	**(92)**	**–**
Partially collateralised			
– greater than 100% LTV	**71,887**	**(488)**	**0.7**
– *of which: Collateral value*	***13,460***		
Total	**699,433**	**(3,506)**	**0.5**
Stage 2			
Not collateralised	**45,793**	**(1,274)**	**2.8**
Fully collateralised	**123,503**	**(8,180)**	**6.6**
– less than or equal to 50%	**115,287**	**(7,854)**	**6.8**
– 51% to 75%	**6,521**	**(308)**	**4.7**
– 76% to 90%	**1,480**	**(10)**	**0.7**
– 91% to 100%	**215**	**(8)**	**3.7**
Partially collateralised			
– greater than 100% LTV	**12,080**	**(574)**	**4.8**
– *of which: Collateral value*	***3,441***		
Total	**181,376**	**(10,028)**	**5.5**
Stage 3			
Not collateralised	**34,581**	**(6,173)**	**17.9**
Fully collateralised	**19,299**	**(2,243)**	**11.6**
– less than or equal to 50%	**18,102**	**(2,049)**	**11.3**
– 51% to 75%	**1,188**	**(185)**	**15.6**
– 76% to 90%	**–**	**–**	**–**
– 91% to 100%	**9**	**(9)**	**100.0**
Partially collateralised			
– greater than 100% LTV	**1,978**	**(1,074)**	**54.3**
– *of which: Collateral value*	***678***		
Total	**55,858**	**(9,490)**	**17.0**
At 31 December 2022	**936,667**	**(23,024)**	**2.5**

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

	Gross carrying amount €000	Allowance for ECL €000	ECL coverage %
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 obligor grade

	Gross carrying amount €000	**Allowance for ECL €000**	**ECL coverage %**
CRR 1 to 8			
Not collateralised	**215,415**	**(2,300)**	**1.1**
Fully collateralised	**581,427**	**(10,172)**	**1.7**
– less than or equal to 50%	**277,504**	**(9,462)**	**3.4**
– 51% to 75%	**36,178**	**(592)**	**1.6**
– 76% to 90%	**3,586**	**(18)**	**0.5**
– 91% to 100%	**264,159**	**(100)**	**–**
Partially collateralised			
– greater than 100% LTV	**83,967**	**(1,062)**	**1.3**
– *of which: Collateral value*	***16,901***		
Total	**880,809**	**(13,534)**	**1.5**
CRR 9 to 10			
Not collateralised	**34,581**	**(6,173)**	**17.9**
Fully collateralised	**19,299**	**(2,243)**	**11.6**
– less than or equal to 50%	**18,102**	**(2,049)**	**11.3**
– 51% to 75%	**1,188**	**(185)**	**15.6**
– 76% to 90%	**–**	**–**	**–**
– 91% to 100%	**9**	**(9)**	**100.0**
Partially collateralised			
– greater than 100% LTV	**1,978**	**(1,074)**	**54.3**
– *of which: Collateral value*	***678***		
Total	**55,858**	**(9,490)**	**17.0**
At 31 December 2022	**936,667**	**(23,024)**	**2.5**

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

	Gross carrying amount €000	Allowance for ECL €000	ECL coverage %
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

Personal lending to customers

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

	Gross carrying amount €000	Allowance for ECL €000	ECL coverage %
Stage 1			
Not collateralised	**72,884**	**(296)**	**0.4**
Fully collateralised	**2,036,266**	**(6,370)**	**0.3**
– less than or equal to 50%	**910,869**	**(2,674)**	**0.3**
– 51% to 75%	**852,590**	**(2,773)**	**0.3**
– 76% to 90%	**271,060**	**(921)**	**0.3**
– 91% to 100%	**1,747**	**(2)**	**0.1**
Partially collateralised :			
– greater than 100% LTV	**3,791**	**(5)**	**0.1**
– *of which: Collateral value*	***969***		
Total	**2,112,941**	**(6,671)**	**0.3**
Stage 2			
Not collateralised	**8,379**	**(1,762)**	**21.0**
Fully collateralised	**101,395**	**(6,932)**	**6.8**
– less than or equal to 50%	**66,286**	**(2,937)**	**4.4**
– 51% to 75%	**30,812**	**(3,491)**	**11.3**
– 76% to 90%	**3,919**	**(480)**	**12.2**
– 91% to 100%	**378**	**(24)**	**6.3**
Partially collateralised:			
– greater than 100% LTV	**367**	**(22)**	**6.0**
– *of which: Collateral value*	***137***		
Total	**110,141**	**(8,716)**	**7.9**
Stage 3			
Not collateralised	**1,005**	**(647)**	**64.4**
Fully collateralised	**62,122**	**(8,659)**	**13.9**
– less than or equal to 50%	**48,289**	**(4,798)**	**9.9**
– 51% to 75%	**11,507**	**(3,137)**	**27.3**
– 76% to 90%	**1,932**	**(519)**	**26.9**
– 91% to 100%	**394**	**(205)**	**52.0**
Partially collateralised:			
– greater than 100% LTV	**25**	**(17)**	**68.0**
– *of which: Collateral value*	***4***		
Total	**63,152**	**(9,323)**	**14.8**
At 31 December 2022	**2,286,234**	**(24,710)**	**1.1**

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

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Stage 1			
Not collateralised	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

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	**81,096**	**(2,095)**	**2.6**
Fully collateralised	**2,166,637**	**(16,869)**	**0.8**
– less than or equal to 50%	**999,672**	**(7,418)**	**0.7**
– 51% to 75%	**888,503**	**(7,606)**	**0.9**
– 76% to 90%	**276,138**	**(1,727)**	**0.6**
– 91% to 100%	**2,324**	**(118)**	**5.1**
Partially collateralised			
– greater than 100% LTV	**4,155**	**(25)**	**0.6**
– *of which: Collateral value*	***1,106***		
Total	**2,251,888**	**(18,989)**	**0.8**
30 days to 89 days past due			
Not collateralised	**506**	**(178)**	**35.2**
Fully collateralised	**9,977**	**(1,136)**	**11.4**
– less than or equal to 50%	**7,739**	**(716)**	**9.3**
– 51% to 75%	**1,902**	**(339)**	**17.8**
– 76% to 90%	**336**	**(81)**	**24.1**
– 91% to 100%	**—**	**—**	**—**
Partially collateralised			
– greater than 100% LTV	**19**	**(12)**	**63.2**
– *of which: Collateral Value*	***2***		
Total	**10,502**	**(1,326)**	**12.6**
90 days past due or more			
Not collateralised	**666**	**(431)**	**64.7**
Fully collateralised	**23,170**	**(3,958)**	**17.1**
– less than or equal to 50%	**18,034**	**(2,272)**	**12.6**
– 51% to 75%	**4,504**	**(1,462)**	**32.5**
– 76% to 90%	**437**	**(111)**	**25.4**
– 91% to 100%	**195**	**(113)**	**57.9**
Partially collateralised			
– greater than 100% LTV	**8**	**(6)**	**75.0**
– *of which: Collateral value*	***2***		
Total	**23,844**	**(4,395)**	**18.4**
At 31 December 2022	**2,286,234**	**(24,710)**	**1.1**
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

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 2022 and 2021.

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 judgemental adjustments.

Methodology

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

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. The Central, Upside and Downside scenarios selected with reference to external forecast distributions are termed the 'consensus economic scenarios'. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur.

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.

To generate the consensus 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 fourth scenario, the Downside 2 scenario is derived from a scenario developed by an external vendor, which represents a more severe downside scenario in the short term and is designed to capture tail-end risk. The scenario is constructed by realigning the implied shocks applied through the construction of the severe downside scenario developed by the external vendor to the consensus Central scenario. Amendments to the standard rules are applied when the Downside 2 scenario appears to be more optimistic than the consensus Downside scenario to ensure that the trajectory of the overall set of scenarios is reasonable.

Scenarios are developed and established by the HSBC Group in respect of each country in which it operates. Therefore, specific scenarios are developed by the HSBC Group for the local group in order to capture the nuances within the local economy and to reflect the impact of possible macroeconomic scenarios in the local group's ECL calculation.

Description of economic scenarios

Global economic growth slowed and economic forecasts deteriorated in the fourth quarter of the financial year ended 31 December 2022. In Europe, high inflation and rising interest rates have reduced real household incomes and raised business costs, dampening consumption and investment and lowering growth expectations. The effects of higher interest rate expectations and lower growth are evident in asset price expectations, with house prices forecasts, in particular, significantly lower.

Economic forecasts remain subject to a high degree of uncertainty. At the end of 2022, risks to the economic outlook included the persistence of inflation risks relating to energy pricing and supply security.

Geopolitical risks also remain significant and include the possibility of a prolonged and escalating military conflict between Russia and Ukraine, continued differences between the United States of America ('USA') and other countries with China over a range of economic and strategic issues, and the evolution of the United Kingdom's ('UK') relationship with the European Union ('EU').

The macroeconomic forecasts applied by the local group in the ECL calculation also reflect risks which are specific to Malta, including the impact of higher inflation rates and the increasing interest rate environment, together with the possible effect of further supply chain disruptions caused by a possible prolonging of the military conflict between Russia and Ukraine, on the local economy.

The scenarios used to calculate ECL are described below.

The consensus Central scenario

The local group's Central scenario reflects a low growth and higher inflation environment. The scenario features an initial period of below-trend GDP growth as higher inflation and tighter monetary policy causes a squeeze on business margins and households' real disposable income. Growth returns to its long term expected trend in later years as central banks bring inflation back to target. In this respect, the forecasted five-year average real GDP growth rate modelled for the Maltese economy under the consensus Central scenario has been set at 2.9%, which is lower than the real GDP growth rates observed in Malta during the five-year period prior to the outbreak of the pandemic.

The Central scenario assumes that inflation peaked at the end of 2022 but remains high through 2023 before moderating as energy prices stabilise and supply chain disruptions abate. Central banks are expected to keep raising interest rates until midway through 2023. Inflation is forecast to revert to target in most markets by early 2024.

The probability weight assigned to the Central scenario is 60%.

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations. It also incorporates a faster fall in the rate of inflation than that incorporated in the Central scenario.

The scenario is consistent with a number of key upside risk themes, including faster resolution of supply chain issues; a rapid conclusion to the military conflict between Russia and Ukraine; de-escalation of tensions between the USA and China; relaxation of Covid policies in Asia; and improved relations between the UK and the EU. The probability weight assigned to the consensus Upside scenario is 5%.

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks.

High inflation and the tighter monetary policy response have become key concerns for growth. In the downside scenarios, supply chain disruptions intensify, exacerbated by an escalation in the spread of Covid-19 globally and rising geopolitical tensions drive inflation higher.

There also remains a risk that energy and food prices rise further due to the military conflict between Russia and Ukraine, exacerbating inflation and further pressuring household budgets and firm costs.

The possibility of inflation expectations becoming detached from central bank targets also remains a risk. A wage-price spiral triggered by higher inflation and pandemic-related labour supply shortages could put sustained upward pressure on wages, aggravating cost pressures and the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from central banks, a steeper trajectory for interest rates and ultimately, deep economic recession.

The risks relating to Covid-19 are centred on the emergence of a new variant with greater vaccine resistance that necessitates a stringent public health policy. In Asia, despite the reopening of China's borders in December 2022, management of Covid-19 remains a key source of uncertainty, with the rapid spread of the virus posing a heightened risk of a new variant emerging.

The geopolitical environment also presents risks, including a prolonged military conflict between Russia and Ukraine, with escalation beyond Ukraine’s borders; the deterioration of the trading relationship between the UK and the EU over the Northern Ireland Protocol; and continued differences between the USA and other countries with China, which could affect sentiment and restrict global economic activity.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario. In this scenario, GDP growth weakens below the Central scenario, unemployment rates rise and asset prices increase at lower rates. The scenario features a temporary supply side shock that keeps inflation higher than the baseline, before the effects of weaker demand begin to dominate leading to a fall in commodity prices and to lower inflation. The probability weight assigned to the consensus Downside scenario is 25%.

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including further escalation of the military conflict between Russia and Ukraine, worsening of supply chain disruptions, the emergence of a vaccine-resistant Covid-19 variant that necessitates a stringent public health policy response globally, and an initial supply-side shock that pushes up inflation and interest rates higher. This impulse is expected to prove short lived as large downside demand pressures cause commodity prices to correct sharply and price inflation to fall, as a severe and prolonged recession takes hold. Under the Downside 2 scenario, house prices are projected to fall, thereby capturing the potential impact of a deep recession on the property market. The probability weight assigned to the Downside 2 scenario is 10%.

Macroeconomic scenario trajectories

The projected economic paths in respect of each of the key macroeconomic variables specific to the Maltese economy across the four macroeconomic scenarios described above are presented in the tables below:

Malta: Real GDP growth rates - 2022 projections

	Consensus scenarios			Downside 2 scenario
	Central	**Upside**	**Downside**	
2022: Annual average growth rate (%)	**5.0**	**5.0**	**5.0**	**5.0**
2023: Annual average growth rate (%)	**3.2**	**4.5**	**1.7**	**(2.2)**
2024: Annual average growth rate (%)	**3.1**	**4.7**	**1.5**	**(1.7)**
2025: Annual average growth rate (%)	**2.8**	**3.7**	**2.1**	**4.6**
2026: Annual average growth rate (%)	**2.8**	**2.8**	**2.8**	**4.8**
Five year average growth rate (%)	**2.9**	**3.7**	**2.2**	**1.7**

Malta: Real GDP growth rates - 2021 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2021: Annual average growth rate (%)	5.5	5.5	5.5	5.5
2022: Annual average growth rate (%)	4.9	6.5	3.2	(1.5)
2023: Annual average growth rate (%)	3.3	4.7	2.0	1.3
2024: Annual average growth rate (%)	2.6	3.3	2.0	4.1
2025: Annual average growth rate (%)	2.7	2.7	2.7	3.8
Five year average growth rate (%)	3.2	4.0	2.5	2.2

Malta: Unemployment rate - 2022 projections

	Consensus scenarios			Downside 2 scenario
	Central	**Upside**	**Downside**	
2022: Annual average rate (%)	**3.3**	**3.3**	**3.3**	**3.3**
2023: Annual average rate (%)	**3.5**	**2.2**	**4.7**	**4.7**
2024: Annual average rate (%)	**3.5**	**2.2**	**4.9**	**5.1**
2025: Annual average rate (%)	**3.6**	**3.0**	**4.1**	**4.8**
2026: Annual average rate (%)	**3.5**	**3.5**	**3.5**	**4.2**
Five year average rate (%)	**3.5**	**2.9**	**4.2**	**4.6**

Malta: Unemployment rate - 2021 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
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
2025: Annual average rate (%)	3.8	3.8	3.8	6.4
Five year average rate (%)	3.9	3.1	4.7	6.9

Malta: Consumer price index - 2022 projections

	Consensus scenarios			Downside 2 scenario
	Central	**Upside**	**Downside**	
2022: Annual average growth rate (%)	**5.9**	**5.9**	**5.9**	**5.9**
2023: Annual average growth rate (%)	**3.2**	**2.5**	**4.6**	**7.2**
2024: Annual average growth rate (%)	**1.9**	**1.4**	**1.9**	**(1.4)**
2025: Annual average growth rate (%)	**1.9**	**2.1**	**0.8**	**0.3**
2026: Annual average growth rate (%)	**2.0**	**2.0**	**2.0**	**1.3**
Five year average growth rate (%)	**2.2**	**2.0**	**2.2**	**1.8**

Malta: Consumer price index - 2021 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2021: Annual average % change	0.7	0.7	0.7	0.7
2022: Annual average % change	1.7	2.1	1.3	(0.6)
2023: Annual average % change	1.7	2.3	1.0	0.2
2024: Annual average % change	1.8	2.0	1.6	1.4
2025: Annual average % change	1.8	1.8	1.8	1.3
Five year average % change	1.7	2.0	1.5	0.8

Malta: House price index - 2022 projections

	Consensus scenarios			Downside 2 scenario
	Central	**Upside**	**Downside**	
2022: Annual average growth rate (%)	**5.9**	**5.9**	**5.9**	**5.9**
2023: Annual average growth rate (%)	**7.0**	**8.3**	**5.4**	**3.5**
2024: Annual average growth rate (%)	**6.7**	**8.3**	**5.0**	**(10.7)**
2025: Annual average growth rate (%)	**3.9**	**4.7**	**3.1**	**(13.0)**
2026: Annual average growth rate (%)	**3.9**	**3.9**	**3.9**	**(3.1)**
Five year average growth rate (%)	**5.2**	**6.0**	**4.4**	**(3.8)**

Malta: House price index - 2021 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2021: Annual average % change	1.4	1.4	1.4	1.4
2022: Annual average % change	3.8	4.9	2.8	(0.6)
2023: Annual average % change	5.6	7.6	2.9	(0.6)
2024: Annual average % change	6.2	6.9	5.4	4.2
2025: Annual average % change	6.0	6.0	6.0	7.0
Five year average % change	5.5	6.3	4.6	3.5

Malta: Short-term interest rates - 2022 projections

	Consensus scenarios			Downside 2 scenario
	Central	**Upside**	**Downside**	
2022: Annual average rate (%)	**0.4**	**0.4**	**0.4**	**0.4**
2023: Annual average rate (%)	**2.8**	**2.5**	**3.0**	**4.8**
2024: Annual average rate (%)	**2.7**	**2.4**	**1.5**	**2.1**
2025: Annual average rate (%)	**2.3**	**2.3**	**0.6**	**0.7**
2026: Annual average rate (%)	**2.3**	**2.3**	**0.9**	**0.6**
Five year average rate (%)	**2.5**	**2.4**	**1.5**	**1.8**

Malta: Short-term interest rates - 2021 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2021: Annual average rate (%)	(0.5)	(0.5)	(0.5)	(0.5)
2022: Annual average rate (%)	(0.5)	(0.4)	(0.6)	(0.1)
2023: Annual average rate (%)	(0.3)	0.1	(0.6)	(0.6)
2024: Annual average rate (%)	(0.1)	0.3	(0.6)	(0.6)
2025: Annual average rate (%)	0.0	0.3	(0.6)	(0.6)
Five year average rate (%)	(0.2)	0.1	(0.6)	(0.5)

As can be observed in the economic paths presented above, the average unemployment rates forecasted under the consensus Downside and Downside 2 scenarios, to which a combined probability weight of 35% is assigned, reflect a significant increase in the national unemployment rate during the first three years to capture different assumptions in respect of the possible economic shocks triggered by a more prolonged and severe impact of inflationary pressures and the increasing interest rate environment on the labour market.

The 2022 base annual average unemployment rate of 3.3% reflects the stabilisation of unemployment rates to pre-Covid levels, relative to an unemployment rate of 3.4% during 2019. Under the Central scenario, which is assigned a probability weight of 60%, the annual average unemployment rate during 2023 is expected to remain in line with the closing unemployment rate experienced during 2022, relative to an expected unemployment rate of 4.0% in the first year of projections as at 31 December 2021.

The actual unemployment rate for 2022 is the result of the ongoing implementation of government support schemes, which has maintained local unemployment rates at relatively subdued levels, as well as the economic recovery in the aftermath of the pandemic.

The five year average real GDP growth rate is marginally lower than that forecasted as at 31 December 2021. This is attributable to the normalisation of real GDP growth rates following the extraordinary growth rates experienced during 2021 and 2022, triggered by the economic recovery to pre-Covid levels.

As disclosed in the tables above, under the Central scenario GDP is expected to grow by 3.2% in the first year of projections as at 31 December 2022, relative to an expected increase in real GDP of 4.9% in the first year of projections as at 31 December 2021.

The actual economic recovery during 2022 was in line with the prior year projections, with an actual real GDP growth rate of 5.0% being registered during 2022, compared to an expected increase in real GDP growth rate of 4.9% under the Central scenario as at 31 December 2021.

Albeit, the risks relating to the current macroeconomic challenges, principally the impact of the inflationary pressures, an increasing interest rate environment, as well as the uncertainty around geopolitical developments in respect of the military conflict between Russia and Ukraine, might not necessarily be captured in the projections of real GDP growth rates and unemployment rates. Specifically, the stagflationary environment being currently experienced challenges the relationship between real GDP growth rates and inflation, given that these two macroeconomic variables are typically expected to be positively correlated with one another.

In this respect, adjustments were made to the consensus scenarios to capture the economic reality of a stagflationary environment, whereby inflation is now expected to increase in the consensus Downside scenario and decrease in the consensus Upside scenario. This is evidenced by the modelled economic paths in respect of the consumer price index ('CPI'). Under the consensus Upside scenario, a 4.5% real GDP growth rate is expected in 2023, compared to a 3.2% real GDP growth rate under the consensus Central scenario. In turn, the CPI is expected to increase by 2.5% in 2023 compared to an increase of 3.2% under the consensus Central scenario.

Conversely, a 1.7% real GDP growth rate is expected in 2023 under the consensus Downside scenario, while the CPI is expected to increase by 4.6% in 2023 under this scenario.

The Downside 2 scenario is designed to capture a more severe economic scenario, with elevated interest rates and inflation rates, which lead to a contraction in the local economy, as evidenced by the negative real GDP growth rates and elevated unemployment rates in 2023 and 2024. This scenario also captures the potential impact of a significant drop in property prices.

Scenario weighting

In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered both global and country-specific factors. This has led management to assign scenario probabilities that are tailored to its view of uncertainty which in the context of Malta, remain elevated due to the current level of inflationary pressures as well as Europe's exposure to the military conflict between Russia and Ukraine through the economic costs incurred from the imposition of sanctions and trade disruption.

Standard probabilistic assessments based on historical and observed macroeconomic experience are of limited value when extreme economic events occur, given that such events are poorly represented in historical macroeconomic data. As such, the historical distributions are only used as a guidance and less relied upon when determining the appropriate weights.

Management continues to adjust the weightings given that the macroeconomic outlook remains highly uncertain. In this respect, the combined probability assigned to the Downside scenarios as at 31 December 2022 is slightly higher when compared to 31 December 2021, with less weight being assigned to the consensus Upside scenario at 31 December 2022. As at 31 December 2022, the consensus Upside and Central scenarios had a combined weighting of 65% (2021: 70%). In contrast, the probability weight assigned to the Downside 2 scenario has been lowered to 10% (2021: 15%) during the financial year ended 31 December 2022, based on expert judgement applied in response to changes in the severity of modelled scenarios since the prior year. The 35% probability weight assigned to the Downside scenarios reflects the uncertain economic outlook driven by the elevated inflation rates and the current increasing interest rate environment. The probability weights assigned to the respective scenarios across all wholesale and retail portfolios as at 31 December 2022 and 31 December 2021 are presented in the table below:

	Consensus Scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
Probability (%) – 31 December 2022	**60**	**5**	**25**	**10**
Probability (%) – 31 December 2021	60	10	15	15

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. In contrast, no FEG impact on LGD is modelled in respect of exposures classified within any of the retail portfolios.

The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained on previous pages. Up until the third quarter of the financial year ended 31 December 2022, the key macroeconomic variable used in the mortgage ECL model was the real GDP growth rate. As part of the model redevelopment process concluded in the fourth quarter of the financial year ended 31 December 2022, an assessment was performed by the local group in respect of correlation between historical observed default rates within the mortgage portfolio and various macroeconomic variables. Based on this assessment, it was determined that the most relevant macroeconomic variables to use within the ECL calculation in respect of mortgages were unemployment and real GDP growth rates. A relative 80:20 weighting was assigned to unemployment and real GDP growth rates respectively. Expert judgement was applied in the selection of the macroeconomic variables as well as the assignment of the relative weightings. In view of the fact that the Loan to Value ('LTV') ratio represents one of the criteria used for segmentation purposes in respect of exposures classified within the mortgage portfolio, the House Price Index ('HPI') is also considered in the estimation of forward-looking PIT PDs, with exposures migrating between segments on the basis of forecasted shocks to the HPI, which in turn impact the LTV segmentation.

In contrast, the modelling of forward-looking macroeconomic scenarios in respect of exposures classified within unsecured retail portfolios is linked to a singular macroeconomic variable. In this respect, the key macroeconomic variable used in the estimation of ECLs in respect of retail overdrafts and personal loans is the unemployment rate, whereas the real GDP growth rate is used as the key macroeconomic variable for credit cards.

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 the PD calculation, 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 non-credit impaired loans, the local group uses the proxy country's real GDP growth rate, unemployment rate, consumer price index, short-term interest rate, and the house price index as the relevant macroeconomic variables to determine the term structure of PD and LGD.

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 consensus Central scenario outcome for individually significant stage 3 loans.

Management judgemental adjustments

In the context of ECL measurement, management judgemental adjustments are short-term increases or decreases to the ECL at a customer, segment or portfolio level to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge. This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher-level quantitative analysis for impacts that are difficult to model.

The effects of management judgemental adjustments are considered for balances and ECL when determining whether or not a significant increase in credit risk has occurred and are attributed or allocated to a stage as appropriate.

Management judgemental adjustments are reviewed under the governance process for IFRS 9. Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

The drivers of management judgemental adjustments continue to evolve with the economic environment, and as new risks emerge.

As at 31 December 2021, management judgemental adjustments were designed to capture the ECL impact of delayed default emergence in the retail mortgage portfolio due to government support schemes, which amounted to €4.6 million as at 31 December 2021. In addition, the local group also applied adjustments to capture the risk of elevated 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, amounting to €5.2 million and €7.6 million in respect of the wholesale and retail portfolios respectively.

During the financial year ended 31 December 2022, the significance of the above risks subsided as the world returned to relative normality with economic activity returning to pre-Covid levels, with the removal of Malta from the FATF grey list further reducing the level of uncertainty. In this respect, the management judgemental adjustments reflected in the ECL calculation as at 31 December 2021 were released during the financial year ended 31 December 2022.

However, as explained previously, new risks emerged during the financial year ended 31 December 2022. In particular, the inflationary pressures and the current increasing interest rate environment continue to maintain an elevated level of economic uncertainty, with a potential impact on the bank's ECL calculations. In this respect, a management judgemental adjustment amounting to €5.1 million was estimated to capture the risk of increases in inflation and interest rates impacting the affordability of borrowers within the retail mortgage portfolio, which risks are not deemed to be captured by the FEG modelling. This is especially relevant since the ECL calculation in respect of retail portfolios only takes into consideration unemployment rates and real GDP growth rates as the key macroeconomic variables.

No adjustments were deemed to be necessary in respect of the wholesale portfolio since movements in the CPI and short-term interest rates are captured as part of the macroeconomic variables utilised within the wholesale portfolio model. In addition, given that more information is available to management in respect of corporate borrowers compared to individual borrowers, the potential impact of emerging risks on the wholesale portfolio are deemed to be captured as part of the ongoing monitoring of credit risk at borrower level.

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 on previous pages. 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 2022 and 2021, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described on previous pages for the wholesale and retail portfolios, applying a 100% weighting to each scenario in turn. In this respect, the credit loss allowances estimated on the basis of an assumption that the ECL outcome was determined solely on the basis of each respective scenario are presented in the table below.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date. There is a particularly high degree of estimation uncertainty in numbers representing more severe risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes the ECL related to defaulted (stage 3) obligors. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of obligors in default. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Therefore, the ECL in respect of wholesale stage 3 exposures is assumed to remain constant across the sensitivity outcomes presented in the table below.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. Accordingly, the management judgemental adjustments modelled in respect of both comparative periods and referred to previously are assumed to remain constant across the sensitivity outcomes presented in the table below. Additionally, in both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable with the current period, because they reflect different risk profiles relative to the consensus scenarios for the period end.

ECL sensitivity: Applying a 100% weighting to each respective scenario - 2022

		Consensus scenarios			
	Weighted average ECL	**Central**	**Upside**	**Downside**	**Downside 2 scenario**
	€000	**€000**	**€000**	**€000**	**€000**
Wholesale lending	**14,343**	**12,108**	**10,003**	**15,419**	**25,997**
Personal lending	**27,901**	**22,321**	**21,664**	**23,187**	**29,987**

ECL sensitivity: Applying a 100% weighting to each respective scenario - 2021

		Consensus scenarios			
	Weighted average ECL	Central	Upside	Downside	Downside 2 scenario
	€000	€000	€000	€000	€000
Wholesale lending	15,125	13,443	11,070	15,828	26,813
Personal lending	26,522	25,488	25,066	27,168	35,981

In addition, in view of the expert judgement applied in the calibration of weightings applied to unemployment and real GDP growth rates in the estimation of ECLs in respect of exposures classified within the retail mortgage portfolio, another sensitivity was assessed and considered by estimating the ECL outcome using different weighting combinations. In this respect, the ECL outcome under three sets of weightings is presented in the table below:

ECL sensitivity: Applying different sets of weightings to macroeconomic variables

	Weighted average ECL
	€000
Unemployment 80% : Real GDP growth rate 20%	**24,867**
Unemployment 50% : Real GDP growth rate 50%	**21,549**
Unemployment 20% : Real GDP growth rate 80%	**21,188**

The sensitivity presented in the table above relates to the carrying amount of the retail mortgage portfolio, which comprises first lien and second lien residential mortgages, together with the respective accrued interest attributable to the same portfolio. In this respect, the weighted average ECL under the year-end calibration of weightings (Unemployment 80% : Real GDP growth rate 20%) cannot be agreed to the amounts presented in other tables.

Given that the mortgage ECL model was redeveloped during the financial year ended 31 December 2022, resulting in the application of multiple macroeconomic variables in the ECL calculation as at 31 December 2022, no comparative is being presented in respect of the financial year ended 31 December 2021.

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)(iii).

Debt securities and other bills by rating agency

	Treasury Bills	Debt securities	Total
	€000	€000	€000
– measured at fair value through other comprehensive income	**242,292**	**637,709**	**880,001**
AAA	**–**	**101,233**	**101,233**
AA- to AA+	**–**	**70,818**	**70,818**
A-	**242,292**	**465,658**	**707,950**
– measured at amortised cost	**42,202**	**367,024**	**409,226**
AAA	**–**	**227,655**	**227,655**
AA- to AA+	**–**	**118,910**	**118,910**
A-	**42,202**	**20,459**	**62,661**
As at 31 December 2022	**284,494**	**1,004,733**	**1,289,227**
– measured at fair value through other comprehensive income	228,172	845,700	1,073,872
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

Derivatives

The bank participates in transactions exposing it to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it and it arises principally from Over-the-Counter ('OTC') derivatives. Transactions vary in value by reference to a market factor such as interest rate, exchange rate or asset price. The bank manages its trading derivative market risk positions principally through back-to-back derivative transactions with HSBC Group entities in respect of derivatives forming part of fair value designated relationships. 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 €24,086,000 (2021: €2,372,000) 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 €1,587,000 (2021: €2,268,000) 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 2022 %	31 Dec 2021 %
Actual LCR	**468**	379
Regulatory Minimum	**100**	100

During the financial years ended 31 December 2022 and 2021, 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.

The bank calculates the NSFR in line 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 2022 %	31 Dec 2021 %
Actual NSFR	**208**	199
Regulatory Minimum	**100**	100

During the financial years ended 31 December 2022 and 2021, 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 2022 and 2021, 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 2022						
	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	**29,500**	**–**	**–**	**–**	**–**	**–**	**29,500**
Balances with Central Bank of Malta and Treasury Bills	**1,452,279**	**22,765**	**19,437**	**–**	**–**	**60,880**	**1,555,361**
Items in the course of collection from other banks	**6,921**	**–**	**–**	**–**	**–**	**–**	**6,921**
Derivatives	**982**	**920**	**1,232**	**20,162**	**2,449**	**–**	**25,745**
Loans and advances to banks	**548,524**	**10,564**	**67,129**	**100,000**	**–**	**–**	**726,217**
Loans and advances to customers	**283,203**	**7,479**	**25,984**	**359,203**	**2,499,298**	**–**	**3,175,167**
Financial investments	**9,226**	**78,980**	**129,492**	**761,219**	**25,816**	**37**	**1,004,770**
Other assets	**26,234**	**–**	**–**	**–**	**–**	**–**	**26,234**
Total assets	**2,356,869**	**120,708**	**243,274**	**1,240,584**	**2,527,563**	**60,917**	**6,549,915**
Liabilities							
Deposits by banks	**2,861**	**–**	**–**	**–**	**–**	**–**	**2,861**
Customer accounts	**5,541,374**	**131,912**	**242,138**	**55,534**	**–**	**–**	**5,970,958**
Items in course of transmission to other banks	**27,397**	**–**	**–**	**–**	**–**	**–**	**27,397**
Derivatives	**925**	**865**	**1,164**	**4,854**	**2,444**	**–**	**10,252**
Borrowings from a group undertaking	**–**	**–**	**–**	**–**	**60,000**	**–**	**60,000**
Subordinated liabilities	**–**	**–**	**–**	**–**	**62,000**	**–**	**62,000**
Other liabilities	**7,288**	**355**	**1,013**	**1,069**	**920**	**–**	**10,645**
Total liabilities	**5,579,845**	**133,132**	**244,315**	**61,457**	**125,364**	**–**	**6,144,113**
Liquidity gap	**(3,222,976)**	**(12,424)**	**(1,041)**	**1,179,127**	**2,402,199**		
Cumulative liquidity gap	**(3,222,976)**	**(3,235,400)**	**(3,236,441)**	**(2,057,314)**	**344,885**		

	At 31 December 2021						
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
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
Derivatives	1,144	739	1,105	1,525	79	–	4,592
Borrowings from a 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		

Financial assets and liabilities by remaining contractual maturities

	Bank						
	At 31 December 2022						
	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	**29,500**	**—**	**—**	**—**	**—**	**—**	**29,500**
Balances with Central Bank of Malta and Treasury Bills	**1,452,279**	**22,765**	**19,437**	**—**	**—**	**60,880**	**1,555,361**
Items in the course of collection from other banks	**6,921**	**—**	**—**	**—**	**—**	**—**	**6,921**
Derivatives	**982**	**920**	**1,232**	**20,162**	**2,449**	**—**	**25,745**
Loans and advances to banks	**548,524**	**10,564**	**67,129**	**100,000**	**—**	**—**	**726,217**
Loans and advances to customers	**283,203**	**7,479**	**25,984**	**359,203**	**2,499,298**	**—**	**3,175,167**
Financial investments	**9,226**	**78,980**	**129,492**	**761,219**	**25,816**	**35**	**1,004,768**
Other assets	**26,140**	**—**	**—**	**—**	**—**	**—**	**26,140**
Total assets	**2,356,775**	**120,708**	**243,274**	**1,240,584**	**2,527,563**	**60,915**	**6,549,819**
Liabilities							
Deposits by banks	**2,861**	**—**	**—**	**—**	**—**	**—**	**2,861**
Customer accounts	**5,580,808**	**131,912**	**242,138**	**55,534**	**—**	**—**	**6,010,392**
Items in course of transmission to other banks	**27,397**	**—**	**—**	**—**	**—**	**—**	**27,397**
Derivatives	**925**	**865**	**1,164**	**4,854**	**2,444**	**—**	**10,252**
Borrowings from a group undertaking	**—**	**—**	**—**	**—**	**60,000**	**—**	**60,000**
Subordinated liabilities	**—**	**—**	**—**	**—**	**62,000**	**—**	**62,000**
Other liabilities	**7,288**	**355**	**1,013**	**1,069**	**920**	**—**	**10,645**
Total liabilities	**5,619,279**	**133,132**	**244,315**	**61,457**	**125,364**	**—**	**6,183,547**
Liquidity gap	**(3,262,504)**	**(12,424)**	**(1,041)**	**1,179,127**	**2,402,199**		
Cumulative liquidity gap	**(3,262,504)**	**(3,274,928)**	**(3,275,969)**	**(2,096,842)**	**305,357**		
	At 31 December 2021						
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
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
Derivatives	1,144	739	1,105	1,525	79	—	4,592
Borrowings from a 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 2022, current accounts and savings deposits payable on demand or at short notice amounted to €5,277 million (2021: €4,911 million) for the local group and €5,316 million at 31 December 2022 (2021: €4,947 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 €200 million at 31 December 2022 (2021: €160 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 2022					
	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	**2,861**	**—**	**—**	**—**	**2,861**	**2,861**
Customer accounts	**5,541,903**	**374,463**	**57,345**	**—**	**5,973,711**	**5,970,958**
Borrowings from a group undertaking	**488**	**1,463**	**7,802**	**67,802**	**77,555**	**60,000**
Subordinated liabilities	**637**	**1,912**	**10,198**	**64,549**	**77,296**	**62,000**
Other liabilities	**7,312**	**1,428**	**1,293**	**989**	**11,022**	**10,645**
	5,553,201	**379,266**	**76,638**	**133,340**	**6,142,445**	**6,106,464**
Commitments and Contingent Liabilities	**1,011,946**	**—**	**—**	**—**	**1,011,946**	**1,011,946**
	At 31 December 2021					
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 a 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

	Bank					
	At 31 December 2022					
Financial liabilities						
Deposits by banks	**2,861**	**—**	**—**	**—**	**2,861**	**2,861**
Customer accounts	**5,581,337**	**374,463**	**57,345**	**—**	**6,013,145**	**6,010,392**
Borrowings from a group undertaking	**488**	**1,463**	**7,802**	**67,802**	**77,555**	**60,000**
Subordinated liabilities	**637**	**1,912**	**10,198**	**64,549**	**77,296**	**62,000**
Other liabilities	**6,753**	**1,570**	**1,438**	**989**	**10,750**	**10,645**
	5,592,076	**379,408**	**76,783**	**133,340**	**6,181,607**	**6,145,898**
Commitments and Contingent Liabilities	**1,011,946**	**—**	**—**	**—**	**1,011,946**	**1,011,946**
	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 a 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

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 2022				
	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	**70,051**	**142,061**	**117,931**	**128**	**330,171**
Outflows	**(69,828)**	**(140,854)**	**(113,337)**	**(128)**	**(324,147)**
	223	**1,207**	**4,594**	**—**	**6,024**
	At 31 December 2021				
Inflows	57,492	130,786	1,226	241	189,745
Outflows	(57,447)	(130,719)	(1,226)	(241)	(189,633)
	45	67	—	—	112

(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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Total assets at 31 December	**7,418,333**	7,174,805	**6,689,880**	6,311,975
Less:				
Debt securities pledged in terms of the Depositor Compensation Scheme	**11,105**	20,021	**11,105**	20,021
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,513**	1,272	**1,513**	1,272
Less:				
Other assets that cannot be pledged as collateral	**901,774**	996,892	**182,188**	143,235
Assets available to support funding and collateral needs at 31 December	**6,503,941**	6,156,620	**6,495,074**	6,147,447

Out of the €6,504,000,000 (2021: €6,157,000,000) assets available for the local group and €6,495,000,000 (2021: €6,147,000,000) for the bank, €3,975,000,000 (2021: €3,924,000,000) do not form part of the local group's and the bank's HQLA and are therefore not categorised as liquid assets. Debt securities and loans and advances to customers pledged against the provision of credit lines by the Central Bank of Malta amounting to €82,760,000 and €100,615,000 respectively (2021: €81,967,000 and €87,640,000) 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 and financial investments measured at amortised cost.

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.

The local group transacts derivatives primarily to create risk management solutions for clients, referred to as 'trading derivatives', and derivatives to manage and hedge own risks, referred to as 'hedge accounting derivatives'.

Trading derivatives represent a product offering to the local group's customers, enabling them to take, transfer, modify or reduce current or expected risks in relation to foreign exchange and interest rate risk. All such positions are covered by back-to-back derivative transactions with HSBC Group entities, managing the market risk arising from these positions.

Hedge accounting derivatives are used in the management of interest rate risk in respect of the local group's own asset portfolio and to hedge against unfavourable fair value movements in its portfolio of debt instruments measured at fair value through other comprehensive income.

i 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.

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.

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% 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% 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

	2022	2021
	€000	€000
At 31 December	**1,215**	974
Average	**978**	1,097
Minimum	**649**	848
Maximum	**1,827**	1,250

The local group also performs a sensitivity of capital and reserves to movements in market interest rates through the use of a hold-to-collect-and-sell stressed VaR, which is a quantification of the potential losses to a 99% confidence level of the portfolio of high-quality liquid assets held under a hold-to-collect-and-sell business model and classified within 'Financial investments'. The mark-to-market of this portfolio therefore has an impact on the local group's and bank's capital ratio. Stressed VaR is quantified based on the worst losses over a one-year period, assuming a holding period of 60 days. At 31 December 2022, the stressed VaR of the portfolio was €14.6 million (2021: €22.0 million).

In response to increases in market interest rates during the financial year ended 31 December 2022, the local group implemented a risk management strategy to hedge the exposure to interest rate risk in respect of the fair value of debt instruments measured at FVOCI. In this respect, the local group entered into interest rate swap derivative contracts to protect against changes in the fair value of fixed-rate long-term debt instruments due to movements in market interest rates.

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.

ii Interest rate risk

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by the local group's non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Global Markets business. Hedging is generally executed through interest rate derivatives. Any interest rate risk that Global Markets cannot economically hedge is not transferred and will remain within the business where the risks originate. The bank's ALCO is responsible for oversight over the bank's interest rate risk management process and actively uses a net interest income sensitivity to monitor and control interest rate risk in the banking book.

During the financial year ended 31 December 2022, the local group started to enter into interest rate swap derivative contracts to protect against changes in the fair value of fixed-rate long-term debt instruments due to movements in market interest rates. These contracts qualify as fair value hedges for accounting purposes, with all changes in the fair value of the hedge accounting derivative (the 'hedging instrument') and in the fair value of the item in relation to the risk being hedged (the 'hedged item') being recognised in the income statement.

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 2022 and 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 future one year net income	Impact on future one year net income
	2022	2021
	€000	€000
+ 100 basis points	**32,596**	20,629
- 100 basis points	**(35,621)**	(19,217)

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 2022					
	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	**1,453,792**	**22,765**	**19,437**	**–**	**–**	**1,495,994**
Loans and advances to banks	**698,525**	**10,564**	**17,128**	**–**	**–**	**726,217**
Loans and advances to customers	**2,795,616**	**48,961**	**103,703**	**226,887**	**–**	**3,175,167**
Financial investments	**14,196**	**78,980**	**125,478**	**760,263**	**25,816**	**1,004,733**
Total assets	**4,962,129**	**161,270**	**265,746**	**987,150**	**25,816**	**6,402,111**
Liabilities						
Deposits by banks	**2,861**	**–**	**–**	**–**	**–**	**2,861**
Customer accounts	**5,541,374**	**131,912**	**242,138**	**55,534**	**–**	**5,970,958**
Borrowings from a group undertaking	**60,000**	**–**	**–**	**–**	**–**	**60,000**
Subordinated liabilities	**62,000**	**–**	**–**	**–**	**–**	**62,000**
Total liabilities	**5,666,235**	**131,912**	**242,138**	**55,534**	**–**	**6,095,819**
Interest rate sensitivity gap	**(704,106)**	**29,358**	**23,608**	**931,616**	**25,816**	
Cumulative interest rate sensitivity gap	**(704,106)**	**(674,748)**	**(651,140)**	**280,476**	**306,292**	
	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
Financial investments	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 a 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	

	Bank					
	At 31 December 2022					
Assets						
Balances with Central bank of Malta and Treasury Bills	**1,453,792**	**22,765**	**19,437**	**—**	**—**	**1,495,994**
Loans and advances to banks	**698,525**	**10,564**	**17,128**	**—**	**—**	**726,217**
Loans and advances to customers	**2,795,616**	**48,961**	**103,703**	**226,887**	**—**	**3,175,167**
Financial investments	**14,196**	**78,980**	**125,478**	**760,263**	**25,816**	**1,004,733**
Total assets	**4,962,129**	**161,270**	**265,746**	**987,150**	**25,816**	**6,402,111**
Liabilities						
Deposits by banks	**2,861**	**—**	**—**	**—**	**—**	**2,861**
Customer accounts	**5,580,808**	**131,912**	**242,138**	**55,534**	**—**	**6,010,392**
Borrowings from a group undertaking	**60,000**	**—**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**5,705,669**	**131,912**	**242,138**	**55,534**	**—**	**6,135,253**
Interest rate sensitivity gap	**(743,540)**	**29,358**	**23,608**	**931,616**	**25,816**	
Cumulative interest rate sensitivity gap	**(743,540)**	**(714,182)**	**(690,574)**	**241,042**	**266,858**	
	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
Financial Investments	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 a 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	

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.

iii 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				
	2022				
	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	**1,583,419**	**545**	**455**	**442**	**1,584,861**
Items in the course of collection from other banks	**6,902**	**5**	**14**	**—**	**6,921**
Derivatives	**19,493**	**6,252**	**—**	**—**	**25,745**
Financial investments	**958,304**	**17,455**	**21,156**	**7,855**	**1,004,770**
Loans and advances to banks	**241,726**	**302,840**	**107,469**	**74,182**	**726,217**
Loans and advances to customers	**3,136,510**	**38,528**	**129**	**—**	**3,175,167**
Other assets	**23,511**	**2,578**	**68**	**77**	**26,234**
Total assets	**5,969,865**	**368,203**	**129,291**	**82,556**	**6,549,915**
Liabilities					
Deposits by banks	**2,392**	**—**	**—**	**469**	**2,861**
Customer accounts	**5,411,004**	**349,824**	**123,597**	**86,533**	**5,970,958**
Items in the course of transmission to other banks	**27,397**	**—**	**—**	**—**	**27,397**
Derivatives	**4,382**	**5,870**	**—**	**—**	**10,252**
Borrowings from a group undertaking	**60,000**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**62,000**
Other liabilities	**7,913**	**2,075**	**647**	**10**	**10,645**
Total liabilities	**5,575,088**	**357,769**	**124,244**	**87,012**	**6,144,113**
Net open position	**394,777**	**10,434**	**5,047**	**(4,456)**	
	2021				
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
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
Derivatives	1,715	2,852	4	21	4,592
Borrowings from a 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	

	Bank				
	2022				
	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	**1,583,419**	**545**	**455**	**442**	**1,584,861**
Items in the course of collection from other banks	**6,902**	**5**	**14**	**—**	**6,921**
Derivatives	**19,493**	**6,252**	**—**	**—**	**25,745**
Financial investments	**958,302**	**17,455**	**21,156**	**7,855**	**1,004,768**
Loans and advances to banks	**241,726**	**302,840**	**107,469**	**74,182**	**726,217**
Loans and advances to customers	**3,136,510**	**38,528**	**129**	**—**	**3,175,167**
Other assets	**23,417**	**2,578**	**68**	**77**	**26,140**
Total assets	**5,969,769**	**368,203**	**129,291**	**82,556**	**6,549,819**
Liabilities					
Deposits by banks	**2,392**	**—**	**—**	**469**	**2,861**
Customer accounts	**5,438,715**	**355,354**	**129,790**	**86,533**	**6,010,392**
Items in the course of transmission to other banks	**27,397**	**—**	**—**	**—**	**27,397**
Derivatives	**4,382**	**5,870**	**—**	**—**	**10,252**
Borrowings from a group undertaking	**60,000**	**—**	**—**	**—**	**60,000**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**62,000**
Other liabilities	**7,913**	**2,075**	**647**	**10**	**10,645**
Total liabilities	**5,602,799**	**363,299**	**130,437**	**87,012**	**6,183,547**
Net open position	**366,970**	**4,904**	**(1,146)**	**(4,456)**	
	2021				
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
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
Derivatives	1,715	2,852	4	21	4,592
Borrowings from a 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	

All derivatives are transacted primarily to create risk management solutions for clients and to manage and hedge own risks. All trading derivatives 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:

	2022 €000	2021 €000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**223,262**	270,591
Term assurance and other long-term contracts	**87,792**	122,648
Total non-linked	**311,054**	393,239
Life insurance (linked)	**233,192**	264,958
Liabilities under insurance contracts	**544,246**	658,197

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 by monetary policy changes during the financial year ended 31 December 2022 to control inflationary pressures.

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 €5,863,000 (2021: €4,610,000) 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	
	2022	2021
	€000	€000
+100 basis points shift in yield curves	**(197)**	3,582
-100 basis points shift in yield curves	**(2,893)**	(6,032)
+10 per cent increase in equity prices	**644**	789
-10 per cent decrease in equity prices	**(644)**	(789)

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 €2,772,000 (2021: €2,079,000), 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 2022 and 2021 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	
	2022	2021	**2022**	2021	**2022**	2021
	€000	€000	**€000**	€000	**€000**	€000
AAA	**—**	—	**5,633**	3,868	**5,633**	3,868
AA+ to AA-	**—**	—	**30,791**	23,803	**30,791**	23,803
A+ to A-	**457**	554	**131,237**	157,777	**131,694**	158,331
BBB+ to BBB-	**734**	1,554	**44,433**	61,629	**45,167**	63,183
BB+ to B-	**240**	1,353	**—**	—	**240**	1,353
Unrated	**1,841**	959	**15,699**	19,309	**17,540**	20,268
Total	**3,272**	4,420	**227,793**	266,386	**231,065**	270,806

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 €2,951,000 (2021: €3,109,000) include accrued interest amounting to €2,418,000 (2021: €2,456,000) 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

	At 31 December 2022					
	No fixed maturity	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Financial assets mandatorily measured at fair value through profit or loss	**429,189**	**2,002**	**16,602**	**103,133**	**109,356**	**660,282**
Reinsurance assets	**49,792**	**—**	**—**	**—**	**—**	**49,792**
Cash	**6,276**	**—**	**—**	**—**	**—**	**6,276**
	485,257	**2,002**	**16,602**	**103,133**	**109,356**	**716,350**
	At 31 December 2021					
Financial assets mandatorily measured at fair value through profit or loss	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

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

	At 31 December 2022					
	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Liabilities to customers:						
– insurance contracts	**—**	**12,741**	**32,929**	**151,727**	**350,295**	**547,692**
– investment contracts	**104,755**	**379**	**1,121**	**12,750**	**43,671**	**162,676**
	104,755	**13,120**	**34,050**	**164,477**	**393,966**	**710,368**
	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

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(g).

ii Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the local group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia:*

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the reporting date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and, where possible, (iv) model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

iii Fair value hierarchy

Fair values are determined according to the following hierarchy:

- 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 more 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 2022			
	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	**–**	**242,292**	**–**	**242,292**
Derivatives	**–**	**25,745**	**–**	**25,745**
Financial assets mandatorily measured at fair value through profit or loss	**652,302**	**–**	**7,980**	**660,282**
Financial investments	**637,709**	**–**	**37**	**637,746**
	1,290,011	**268,037**	**8,017**	**1,566,065**
Liabilities				
Derivatives	**–**	**10,252**	**–**	**10,252**
Liabilities under investment contracts	**162,676**	**–**	**–**	**162,676**
	162,676	**10,252**	**–**	**172,928**
	At 31 December 2021			
Assets				
Treasury Bills	–	228,172	–	228,172
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				
Derivatives	–	4,592	–	4,592
Liabilities under investment contracts	185,137	–	–	185,137
	185,137	4,592	–	189,729

	Bank			
	At 31 December 2022			
Assets				
Treasury Bills	**–**	**242,292**	**–**	**242,292**
Derivatives	**–**	**25,745**	**–**	**25,745**
Financial investments	**637,709**	**–**	**35**	**637,744**
	637,709	**268,037**	**35**	**905,781**
Liabilities				
Derivatives	**–**	**10,252**	**–**	**10,252**
	–	**10,252**	**–**	**10,252**
	At 31 December 2021			
Assets				
Treasury Bills	–	228,172	–	228,172
Derivatives	–	4,640	–	4,640
Financial assets mandatorily measured at fair value through profit or loss	–	–	–	–
Financial investments	845,700	–	33	845,733
	845,700	232,812	33	1,078,545
Liabilities				
Derivatives	–	4,592	–	4,592
	–	4,592	–	4,592

The local group's and bank's assets categorised within Level 2 comprise Treasury Bills and financial assets mandatorily measured at fair value comprising 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.

As at 31 December 2022, financial assets mandatorily measured at fair value through profit or loss categorised in Level 3 comprise investments in a European Property Fund and a Mid-Market Debt Fund valued at €4,077,000 and €3,903,000 respectively.

The European Property Fund invests in a diversified portfolio of European commercial and residential property and seeks opportunities to add value to the fund, whereas the European Mid-Market Debt Fund consists of predominantly senior debt to European mid-market companies concentrating on primary market transactions, within Western Europe, focusing on the largest economies.

In view of the absence of quoted market prices or observable inputs for modelling the fair value of these assets, the fair value of the investment held is derived by reference to net asset values sourced from custodians. The net asset value of the fund as at 31 December 2022 is based on unaudited financial statements provided by the fund administrators, thereby making reference to significant unobservable inputs. In this respect, the investment in the European Property Fund was transferred from Level 2 to Level 3 during the financial year ended 31 December 2022. No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial year ended 31 December 2021.

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 January	**4,610**	5,374	**–**	–
Disposal/redemptions	**(738)**	(529)	**–**	–
Acquisitions	**–**	96	**–**	–
Transfer from Level 2 to Level 3	**4,077**	–	**–**	–
Changes in fair value (recognised in profit or loss)	**31**	(331)	**–**	–
At 31 December	**7,980**	4,610	**–**	–

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 2022 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 2022, 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 2022 and 2021, the carrying amounts of the local group's land and buildings within property, plant and equipment, were adjusted to reflect the properties' estimated open market value.

The 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 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 2022 and 2021 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 was held for rental yield and capital appreciation. This investment property has been sold during the financial year ended 31 December 2022 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 2022 and 2021.

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 32 respectively.

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Assets				
Property	**38,092**	34,422	**38,092**	34,422
Investment property	**–**	1,600	**–**	–
	38,092	36,022	**38,092**	34,422

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 5.25% – 6.46% (2021: 5.20% – 6.50%), 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 2022			
	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	**38,092**	**Capitalised rental approach**	**Rental rate per square metre**	**43 – 217 (130)**
	At 31 December 2021			
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)

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 following table sets out the carrying amounts of these financial instruments:

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**1,342,569**	1,268,235	**1,342,569**	1,268,235
Items in course of collection from other banks	**6,921**	4,453	**6,921**	4,453
Loans and advance to banks	**732,493**	619,273	**726,217**	613,062
Loans and advance to customers	**3,175,167**	3,196,725	**3,175,167**	3,196,725
Financial investments measured at amortised cost	**367,024**	—	**367,024**	—
Accrued interest	**18,134**	17,772	**15,639**	15,281
Other assets	**10,595**	6,479	**10,501**	5,886
	5,652,903	5,112,937	**5,644,038**	5,103,642
Liabilities				
Deposits by banks	**2,861**	1,397	**2,861**	1,397
Customer accounts	**5,970,958**	5,621,195	**6,010,392**	5,657,681
Items in the course of transmission to other banks	**27,397**	21,573	**27,397**	21,573
Borrowings from a group undertaking	**60,000**	60,000	**60,000**	60,000
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**1,864**	1,431	**1,677**	1,215
Other liabilities	**14,193**	9,751	**8,968**	5,903
	6,139,273	5,777,347	**6,173,295**	5,809,769

As at 31 December 2022, financial instruments measured at amortised cost include Treasury Bills amounting to €42,202,000 (2021:nil) and debt instruments amounting to €367,024,000 (2021:nil). Fair values for these financial instruments as at 31 December 2022, determined by reference to quoted market prices, are €42,186,000 and €349,553,000 respectively (2021:nil and nil). The fair value for Treasury Bills is categorised as Level 2 given that fair value is determined on the basis of quoted prices in an active market, whereas the fair value for debt instruments is categorised as Level 1, given that the fair value is determined by reference to quoted market prices in active markets.

The fair values of the other financial instruments measured at amortised cost 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. 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.

The fair values of listed financial investments are determined using bid market prices.

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 a 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.

	2022	2021
	€000	€000
Common Equity Tier 1 capital		
Called up share capital	**108,092**	108,092
Retained earnings	**388,915**	357,315
Revaluation reserve	**64**	24,330
Adjustments		
– depositor compensation scheme	**(11,111)**	(20,193)
– intangible assets	**(8,283)**	(5,062)
– expected final dividend	**(13,139)**	(8,010)
– retained earnings – HSBC Life Assurance (Malta) Ltd	**(37,936)**	(34,804)
– prudential valuation adjustment	**(918)**	(1,083)
– IFRS 9 transitional adjustments	**9,279**	14,831
– single resolution fund	**(1,513)**	(1,272)
– non-performing loans	**(22,596)**	(21,720)
– amount exceeding the 17.65% threshold	**(704)**	–
Total Tier 1 capital	**410,150**	412,424
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
Total Tier 2 capital	**62,000**	62,000
Total own funds	**472,150**	474,424

The deduction of €22,596,000 (2021: €21,720,000) 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 2022 and 31 December 2021, the bank has met all external capital requirements at all times, notwithstanding the decrease in the revaluation reserve and 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 2022 and 31 December 2021, the subsidiary has complied with all such externally imposed regulatory capital requirements.

7 Interest and similar income

	Group/Bank	
	2022	2021
	€000	€000
On balances with Central Bank of Malta	5,062	89
On Treasury Bills	690	—
On loans and advances to banks	7,041	558
On loans and advances to customers	101,154	102,946
On loans and advances to banks and customers and other financial assets	**113,947**	103,593
Interest on debt instruments	6,384	10,237
Amortisation of net premiums on debt instruments	(3,551)	(8,120)
Net loss representing ineffective portion of fair value hedges	(141)	—
On debt and other fixed income instruments	**2,692**	2,117
	116,639	105,710

Interest income recognised on credit impaired loans and advances, which is entirely included in interest income on loans and advances to customers, amounted to €4,546,000 (2021: €5,105,000).

8 Interest expense

	Group/Bank	
	2022	2021
	€000	€000
On balances with Central Bank of Malta	2,663	205
On Treasury Bills	441	1,019
On loans and advances to banks	182	2,795
On deposits by banks	74	58
On customer accounts	2,953	2,816
On lease liabilities	38	92
On subordinated liabilities and borrowings from a group undertaking	2,046	967
	8,397	7,952

9 Net fee income

	Group		Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Fee income by product:				
Funds under management	4,291	4,673	—	—
Cards	4,967	3,896	4,967	3,896
Credit facilities	1,582	1,953	1,582	1,953
Broking income	1,022	1,086	1,022	1,086
Account services	5,345	6,253	5,345	6,253
Global custody	47	50	47	50
Remittances	2,003	1,786	2,003	1,786
Imports/exports	1,373	1,088	1,373	1,088
Receivables finance	869	548	869	548
Insurance agency commission	1,690	1,765	—	—
Other	2,576	2,842	5,182	5,720
Fee income	**25,765**	25,940	**22,390**	22,380
Less: fee expense	(3,711)	(1,831)	(3,213)	(1,234)
Net fee income	**22,054**	24,109	**19,177**	21,146

Net fee income amounting to €1,069,000 (2021: €1,136,000) is derived from the investment services activities of the local group.

10 Net trading income

	Group/Bank	
	2022	2021
	€000	€000
Net income from foreign exchange activities	6,854	5,370
Net income from trading activities	835	164
	7,689	5,534

11 Dividend income

Dividend income received by the bank in 2022 amounted to €1,308,000 (2021: €1,462,000) 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	**26,270**	**30,177**	**56,447**
Reinsurers' share of gross premium income	**(5,756)**	**–**	**(5,756)**
Year ended 31 December 2022	**20,514**	**30,177**	**50,691**
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

13 Other operating income

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Operating income				
Gains arising on disposal of re-possessed properties	**749**	38	**749**	38
Gains arising on disposal of owned properties classified as non-current assets held for sale	**440**	517	**440**	517
Other income	**328**	851	**325**	847
	1,517	1,406	**1,514**	1,402

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

	Group	
	2022	2021
	€000	€000
Claims, benefits and surrenders paid	**(54,599)**	(58,904)
Movement in liabilities	**113,951**	(10,167)
Gross claims, benefits paid and movement in liabilities	**59,352**	(69,071)
Reinsurers' share of claims, benefits and surrenders paid	**975**	2,566
Reinsurers' share of movement in liabilities	**(26,650)**	(2,127)
Reinsurers' share of claims, benefits paid and movement in liabilities	**(25,675)**	439
	33,677	(68,632)

15 Change in expected credit losses and other credit impairment charges

	Group/Bank	
	2022	2021
	€000	€000
Change in expected credit losses:		
– loans and advances to customers including accrued interest	**(15,478)**	(3,230)
– loans and advances to banks	**(1)**	(6)
– balances with Central Bank of Malta	**5**	(2)
– debt instruments and Treasury Bills measured at amortised cost	**19**	—
– loan commitments and guarantees	**(26)**	(650)
– other financial assets	**5**	(7)
– debt instruments and Treasury Bills measured at fair value through other comprehensive income	**(12)**	(294)
Other credit impairment charges:		
– bad debts written off	**15,204**	4,308
– bad debts recovered	**(9,359)**	(1,114)
	(9,643)	(995)

16 Employee compensation and benefits

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Wages, salaries and allowances	**35,451**	36,224	**33,287**	33,920
Social security costs	**2,144**	2,170	**2,004**	2,033
Termination benefits	**1,558**	3,208	**1,558**	3,208
Defined contribution benefits	**499**	522	**466**	486
Post employment and other long-term employee benefits	**275**	(31)	**275**	(31)
Share-based payments	**176**	233	**194**	227
	40,103	42,326	**37,784**	39,843
Average number of employees:				
– executive and senior managerial	**253**	256	**233**	236
– other managerial, supervisory and clerical	**672**	709	**634**	669
– others	**6**	6	**6**	6
	931	971	**873**	911

Termination benefits

In 2021 the bank announced a 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 amounting to €3,208,000 attributable to local group and bank employees that opted for one of the voluntary redundancy schemes which closed by end of year. This amount reflected 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 the provision was recognised during 2022 and amounted to €1,558,000 attributable to local group and bank. This amount reflects the estimated payments to the affected individual employees which were approximately 11 applicants, representing 11 full time equivalent employees, for the local group and bank.

Post employment and other long-term employee benefits

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 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 release of the provision to the income statement amounting to €305,000 (2021: €431,000) (refer to Note 41). Current service costs attributable to these obligations, amounting to €729,000 (2021: €787,000) and actuarial gains attributable to changes in financial assumptions, demographic assumptions and experience adjustments of €148,000 (2021: €387,000) relating to long-term employee benefits, were recognised in the income statement during current financial year.

Defined contribution benefits

The local group also contributes towards an employee pension plan with no commitment beyond the payment of fixed contributions.

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 grant 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 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. 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 €611,000 (2021: €542,000) in relation to the annual statutory audit of the financial statements, of which €443,000 (2021: €389,000) 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 €66,000 (2021: €60,000). Other fees, exclusive of VAT, charged by the appointed independent auditors to the bank comprise other assurance services in respect of Investor Services Rules and the Calculation of

Contributions to the Single Resolution Fund, amounting to €15,000 (2021:€15,000). In 2021, other fees also included fees in respect of Directive No.16 issued by the Central Bank of Malta in respect of the Regulation on Borrower-Based Measures which in total amounted to €25,000.

General and administration expenses are analysed as follows:

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Premises and equipment costs	**4,192**	4,964	**4,175**	4,948
IT support and telecommunication costs	**9,206**	10,435	**8,593**	9,692
Insurance, security and maintenance costs	**2,159**	2,243	**2,159**	2,243
Investment management and administrator fees	**721**	825	**—**	—
Actuarial services	**1,601**	1,028	**—**	—
Service contracted out costs	**13,037**	11,317	**12,072**	10,445
Regulatory fees	**5,923**	6,637	**5,777**	6,521
Professional fees	**1,655**	2,090	**1,280**	1,721
Other administrative expenses	**16,287**	15,990	**15,116**	15,587
	54,781	55,529	**49,172**	51,157

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

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18 Tax expense

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

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Current tax:	**13,328**	10,755	**12,668**	9,543
– for this year	**13,340**	11,317	**12,680**	10,105
– adjustments in respect of prior years	**(12)**	(562)	**(12)**	(562)
Deferred tax:	**6,352**	(1,628)	**5,385**	615
– origination and reversal of temporary differences	**6,352**	(2,184)	**5,385**	59
– adjustments in respect of prior years	**—**	556	**—**	556
	19,680	9,127	**18,053**	10,158

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Profit before tax	**57,251**	26,882	**52,560**	29,821
Tax at the applicable rate of 35%	**20,038**	9,409	**18,396**	10,437
Tax effect of:				
– non-taxable income	**(7)**	(8)	**—**	—
– income taxed at different rates	**(434)**	(405)	**(434)**	(405)
– non-deductible expenses	**62**	37	**62**	37
– disallowed expense arising from depreciation of property, plant and equipment	**117**	159	**117**	159
– further allowances on rental income	**—**	(1)	**—**	(1)
– current tax adjustments in respect of prior years	**(12)**	(562)	**(12)**	(562)
– deferred tax not previously recognised	**—**	556	**—**	556
– tax credit on pension contribution	**(111)**	(109)	**(111)**	(109)
– loss on disposal of property, plant and equipment	**—**	36	**—**	36
– others	**27**	15	**35**	10
Tax expense	**19,680**	9,127	**18,053**	10,158

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					
	2022			2021		
	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	**(35,655)**	**12,479**	**(23,176)**	(9,375)	3,281	(6,094)
Fair valuation of properties:						
– net changes in fair value	**185**	**(19)**	**166**	2,389	(239)	2,150
Remeasurement of defined benefit obligation:						
– net remeasurement	**1,374**	**(481)**	**893**	450	(158)	292
	(34,096)	**11,979**	**(22,117)**	(6,536)	2,884	(3,652)

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 €37,571,000 (2021: €17,755,000), while the weighted average number of ordinary shares in issue was 360,306,099 (2021: 360,306,099). The basic earnings per share of the local group amounted to €0.10 (2021: €0.05). 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	
	2022	2021
	€000	€000
Balances with Central Bank of Malta	**1,270,867**	1,241,454
Malta Government Treasury Bills		
– measured at fair value through other comprehensive income	**242,292**	228,172
– measured at amortised cost	**42,202**	–
Cash	**29,500**	26,781
	1,584,861	1,496,407

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 €59,367,000 (2021: €55,536,000).

Balances with Central Bank of Malta include an amount of €1,513,000 (2021: €1,272,000) 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 €13,000 (2021: €8,000) and €5,000 (2021: €7,000) respectively.

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

	Group	
	2022	2021
	€000	€000
Debt securities and other fixed income instruments	**231,065**	270,806
Equity and other non-fixed income instruments	**429,217**	497,002
	660,282	767,808

Debt securities and other fixed income instruments

	Group	
	2022	2021
	€000	€000
Issued by public bodies:		
– local government	**74,083**	92,699
– foreign governments	**46,647**	52,860
Issued by other bodies:		
– local banks	**6,122**	7,072
– foreign banks	**18,834**	24,586
– other local issuers	**9,578**	10,152
– other foreign issuers	**75,801**	83,437
	231,065	270,806
Listing status:		
– listed on the Malta Stock Exchange	**89,783**	109,923
– listed on other recognised exchanges	**82,398**	158,056
– unlisted	**58,884**	2,827
	231,065	270,806
At 1 January	**270,806**	275,080
Acquisitions	**42,324**	34,969
Disposals/redemptions	**(48,423)**	(30,739)
Changes in fair value	**(33,642)**	(8,504)
At 31 December	**231,065**	270,806

Equity and other non-fixed income instruments

	Group	
	2022	2021
	€000	€000
Issued by other bodies:		
– local banks	**–**	1,331
– foreign banks	**3,259**	3,589
– other local issuers	**96,849**	100,589
– other foreign issuers	**329,109**	391,493
	429,217	497,002
Listing status:		
– listed on the Malta Stock Exchange	**14,306**	15,240
– listed on other recognised exchanges	**40,068**	46,667
– local unlisted	**82,543**	86,680
– foreign unlisted	**292,300**	348,415
	429,217	497,002
At 1 January	**497,002**	458,590
Acquisitions	**23,102**	31,003
Disposals	**(27,857)**	(40,320)
Changes in fair value	**(63,030)**	47,729
At 31 December	**429,217**	497,002

22 Derivatives

The local group transacts derivatives primarily to create risk management solutions for clients, referred to as 'trading derivatives', and derivatives to manage and hedge own risks, referred to as 'hedge accounting derivatives'.

Trading derivatives

Trading derivative transactions relate mainly to sales activities. These activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

All of the positions held for trading purposes 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. Therefore, revenue is generated based on volume and spread.

Hedge accounting derivatives

The local group uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset portfolio. This enables the local group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. During the financial year ended 31 December 2022, the local group has entered into fair value hedges, which consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate-long-term debt instruments due to the movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivatives (the 'hedging instrument') and in the fair value of the item in relation to the risk being hedged (the 'hedged item') are recognised in the income statement.

Hedge effectiveness is determined at inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The local group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The local group matches the nominal amount of the hedged item with the notional amount of the interest rate swaps. As all critical terms matched during the year, the hedging instruments share the same risk exposures as the hedged items and, as a result, an economic relationship is deemed to exist.

Hedge effectiveness for interest rate swaps is also assessed by reference to qualitative tests, including both retrospective and prospective effectiveness tests. However, to the extent hedging instruments are exposed to different risks than hedged items, this could result in hedge ineffectiveness. This may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged item.

The weighted average hedge rate in respect of the hedge accounting derivatives for the year was 0.55% per annum. The contractual maturity date of the hedge derivatives is reflected in Note 4 (c)(iv).

Derivatives

	Group/Bank							
	Notional contract amount		Fair value - Assets			Fair value - Liabilities		
	Trading €000	Hedging €000	Trading €000	Hedging €000	Total €000	Trading €000	Hedging €000	Total €000
Foreign exchange derivatives								
Foreign exchange	**318,988**	**–**	**6,273**	**–**	**6,273**	**5,879**	**–**	**5,879**
Interest rate derivatives								
Interest rate swaps	**117,173**	**271,000**	**4,382**	**15,090**	**19,472**	**4,373**	**–**	**4,373**
At 31 Dec 2022	**436,161**	**271,000**	**10,655**	**15,090**	**25,745**	**10,252**	**–**	**10,252**
Foreign exchange derivatives								
Foreign exchange	188,010	–	2,960	–	2,960	2,852	–	2,852
Interest rate derivatives								
Interest rate swaps	173,680	–	1,680	–	1,680	1,740	–	1,740
At 31 Dec 2021	361,690	–	4,640	–	4,640	4,592	–	4,592

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

Foreign exchange derivatives 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.

Fair value hedges

The local group enters into fixed-for-floating interest rate swaps to hedge the exposure to change in fair value caused by the movement in interest rates on certain fixed-rate debt securities that are measured at fair value through other comprehensive income (FVOCI). Therefore, the hedges provide protection for changes in fair value of the relevant securities.

Hedging instrument and hedged item by hedged risk

	Group/Bank				
	Notional[1] €000	Fair value movements since hedge inception[2] €000	Balance sheet presentation	Hedge ineffectiveness recognised in profit and loss €000	Profit or loss presentation
Hedging instrument	**271,000**	**15,173**	**Derivatives**	**(141)**	**Net loss representing ineffective portion of fair value hedges**
Hedged item	**N/A**	**(15,314)**	**Financial investments**		
At 31 Dec 2022	**271,000**	**(141)**		**(141)**	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

23 Loans and advances to banks

	Group		Bank	
	2022 €000	2021 €000	**2022 €000**	2021 €000
Repayable on call and at short notice	**355,766**	288,682	**349,490**	282,471
Term loans and advances	**376,727**	330,591	**376,727**	330,591
	732,493	619,273	**726,217**	613,062

Loans and advances to banks in the table above are shown net of credit loss allowances which amounted to €1,000 (2021: €2,000).

24 Loans and advances to customers

	Group/Bank	
	2022 €000	2021 €000
Repayable on call and at short notice	**199,523**	160,166
Term loans and advances	**3,023,378**	3,094,591
Gross loans and advances to customers	**3,222,901**	3,254,757
Allowance for ECL	**(47,734)**	(58,032)
Net loans and advances to customers	**3,175,167**	3,196,725
Allowance for ECL		
– allowances booked under stage 1	**10,177**	14,740
– allowances booked under stage 2	**18,744**	15,615
– allowances booked under stage 3	**18,813**	27,677
	47,734	58,032

Loans and advances to customers with a carrying amount of €100,615,000 (2021: €87,640,000) have been pledged against the provision of credit lines by the Central Bank of Malta.

25 Financial investments

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Measured at fair value through other comprehensive income:				
Debt instruments	**637,709**	845,700	**637,709**	845,700
Equity and other non-fixed income instruments	**37**	35	**35**	33
Measured at amortised cost:				
Debt instruments	**367,024**	–	**367,024**	–
	1,004,770	845,735	**1,004,768**	845,733

Debt instruments measured at fair value through other comprehensive income

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Issued by public bodies:				
– local government	**465,658**	520,528	**465,658**	520,528
– foreign governments	**106,943**	203,734	**106,943**	203,734
Issued by other bodies:				
– other foreign issuers	**65,108**	121,438	**65,108**	121,438
	637,709	845,700	**637,709**	845,700
Listing status:				
– listed on the Malta Stock Exchange	**465,658**	520,528	**465,658**	520,528
– listed on other recognised exchanges	**172,051**	325,172	**172,051**	325,172
	637,709	845,700	**637,709**	845,700
At 1 January	**845,700**	877,452	**845,700**	877,452
Exchange adjustments	**3,889**	13,409	**3,889**	13,409
Amortisation of premium/discount	**(5,166)**	(8,120)	**(5,166)**	(8,120)
Acquisitions	**99,384**	221,697	**99,384**	221,697
Disposals/redemptions	**(255,296)**	(249,667)	**(255,296)**	(249,667)
Changes in fair value	**(50,802)**	(9,071)	**(50,802)**	(9,071)
At 31 December	**637,709**	845,700	**637,709**	845,700

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.

Credit loss allowances in respect of debt instruments measured at fair value through other comprehensive income amounted to €60,000 as at 31 December 2022 (2021: €69,000).

Debt securities measured at fair value through other comprehensive income with a carrying amount of €82,760,000 (2021: €81,967,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2022 and 2021, no balances were outstanding against these credit lines. In addition debt securities measured at fair value through other comprehensive income with a carrying amount of €11,105,000 (2021: €20,021,000) have been pledged in terms of the Depositor Compensation Scheme (refer to Note 46).

Debt instruments measured at amortised cost

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Issued by public bodies:				
– local government	**20,459**	–	**20,459**	–
– foreign governments	**173,650**	–	**173,650**	–
Issued by other bodies:				
– other foreign issuers	**172,915**	–	**172,915**	–
	367,024	–	**367,024**	–
Listing status:				
– listed on the Malta Stock Exchange	**20,459**	–	**20,459**	–
– listed on other recognised exchanges	**346,565**	–	**346,565**	–
	367,024	–	**367,024**	–
At 1 January	**–**	–	**–**	–
Acquisitions	**365,409**	–	**365,409**	–
Amortisation of premium/discount	**1,615**	–	**1,615**	–
At 31 December	**367,024**	–	**367,024**	–

Debt instruments measured at amortised cost in the table above are shown net of credit loss allowances amounting to €18,000 (2021:nil).

Equity and other non-fixed income instruments

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks:				
– local issuers	**7**	7	**5**	5
– foreign issuers	**30**	28	**30**	28
	37	35	**35**	33
Listing status:				
– unlisted	**37**	35	**35**	33
	37	35	**35**	33

The increase in value of equity instruments from €33,000 as at 31 December 2021 to €35,000 as at 31 December 2022 is due to increase in the equity's fair value during the year.

26 Prepayments and accrued income

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Gross accrued interest	**23,693**	27,460	**21,198**	24,969
Allowance for ECL	**(5,559)**	(9,688)	**(5,559)**	(9,688)
Net accrued interest	**18,134**	17,772	**15,639**	15,281
Other accrued income	**434**	2,001	**1,040**	1,532
Prepayments	**858**	785	**856**	778
	19,426	20,558	**17,535**	17,591

27 Reinsurance assets

	Group	
	2022	2021
	€000	€000
Life insurance assets (non-linked)		
Long-term insurance contracts	**50,838**	77,175
Claims outstanding	**1,777**	2,090
Other payables	**(2,823)**	(1,293)
	49,792	77,972

28 Other non-current assets held for sale

	Group/Bank	
	2022	2021
	€000	€000
Assets acquired in satisfaction of debt	**3,269**	3,876
Assets held for sale attributable to closed branches	**1,904**	2,797
	5,173	6,673

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The local group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers. During the financial year ended 31 December 2022, profit on sale of repossessed properties amounting to €749,000 (2021: €38,000) was recorded and is recognised in profit or loss under 'Other operating income'.

Assets acquired in satisfaction of debt, amounting to €3,876,000 as at 31 December 2021, are net of an impairment provision of €200,000 in relation to a subsequent write down to fair value to one of the properties held for sale. Based on an assessment performed by management during the financial year ended 31 December 2022, the carrying amount of this property was deemed to be unrecoverable. In this respect, the prior year impairment provision amounting to €200,000 was reversed and the gross carrying amount of €686,000 was written off. During the financial year ended 31 December 2022, the carrying amount of a plot of land was written down to fair value less costs to sell and consequently a provision amounting to €22,000 was raised.

In addition, a property with a carrying amount of €70,000 was disposed of during the financial year ended 31 December 2022, resulting in a gain on disposal amounting to €149,000, whereas other assets with a carrying amount of €20,000 were written off during the year. Gains on disposals realised in respect of other repossessed properties with a carrying amount of nil amounted to €600,000.

During 2021 a number of branches were not re-opened 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 €554,000 (2021: €4,018,000) attributable to a specific closed branch was reclassified from Property, plant and equipment (refer to Note 32). In addition, 1 branch (2021: 5 branches) with a carrying amount of €1,448,000 (2021: €5,372,000) was disposed of. Upon sale, the property revaluation reserve in respect of this branch, amounting to €1,256,000 (2021: €4,444,000) net of deferred tax, was transferred to Retained Earnings (refer to Note 46). A gain on disposal amounting to €440,000 (2021: €517,000) was recognised in respect of this branch within profit or loss.

The carrying amount as at 31 December 2022 of the remaining assets will be recovered through sale transactions rather than through continuing use.

29 Investments in subsidiaries

	Bank			
	Nature of business	Equity interest	2022	2021
		%	€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

	Group			
	Fair value	**Cost**	Fair value	Cost
	2022	**2022**	2021	2021
	€000	**€000**	€000	€000
Freehold land and buildings				
As at 1 January	**1,600**	**1,720**	1,600	1,720
Disposals	**(1,600)**	**(1,720)**	—	—
At 31 December	**—**	**—**	1,600	1,720

The local group's investment property was sold during the financial year ended 31 December 2022. No gains or losses were realised on disposal given that the transaction price was equal to the carrying amount. No rental income was generated by the local group during the financial years ended 31 December 2021 and 2022.

31 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	
	2022	2021
Right-of-use assets	**€000**	€000
At 1 January	**2,569**	4,200
Additions	**875**	1,010
Terminations	**—**	(71)
Decreases	**—**	(1,311)
Depreciation	**(985)**	(1,259)
At 31 December	**2,459**	2,569
Lease liabilities at 31 December		
Current	**435**	856
Non-current	**1,991**	1,594
	2,426	2,450

	Group/Bank	
	2022	2021
	€000	€000
The income statement reflects the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**985**	1,259
Interest expense	**39**	92
Expense relating to short-term leases (included in administrative expenses)	**10**	10
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**287**	276

The total cash payments for leases, including short-term and low-value leases, in 2022 was €1,273,000 (2021: €1,602,000).

32 Property, plant and equipment

	Group			
	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Cost/revaluation				
At 1 January 2022	**36,292**	**18,093**	**37,861**	**92,246**
Additions	**4,309**	**500**	**580**	**5,389**
Revaluation	**(63)**	**—**	**—**	**(63)**
Disposals/Write offs	**(45)**	**—**	**(1,986)**	**(2,031)**
Transfers (refer to Note 28)	**(609)**	**—**	**(175)**	**(784)**
At 31 December 2022	**39,884**	**18,593**	**36,280**	**94,757**
Accumulated depreciation and impairment losses				
At 1 January 2022	**1,870**	**16,677**	**31,776**	**50,323**
Depreciation charge for the year	**274**	**488**	**1,553**	**2,315**
Revaluation	**(248)**	**—**	**—**	**(248)**
Disposals/Write offs	**(45)**	**—**	**(1,985)**	**(2,030)**
Transfers (refer to Note 28)	**(59)**	**—**	**(171)**	**(230)**
At 31 December 2022	**1,792**	**17,165**	**31,173**	**50,130**
Carrying amount at 1 January 2022	**34,422**	**1,416**	**6,085**	**41,923**
Carrying amount at 31 December 2022	**38,092**	**1,428**	**5,107**	**44,627**
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

	Bank			
	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Cost/revaluation				
At 1 January 2022	**36,292**	**17,855**	**37,652**	**91,799**
Additions	**4,309**	**500**	**578**	**5,387**
Revaluation	**(63)**	**—**	**—**	**(63)**
Disposals/Write offs	**(45)**	**—**	**(1,986)**	**(2,031)**
Transfers (refer to Note 28)	**(609)**	**—**	**(175)**	**(784)**
At 31 December 2022	**39,884**	**18,355**	**36,069**	**94,308**
Accumulated depreciation and impairment losses				
At 1 January 2022	**1,870**	**16,439**	**31,569**	**49,878**
Depreciation charge for the year	**274**	**488**	**1,553**	**2,315**
Revaluation	**(248)**	**—**	**—**	**(248)**
Disposals/Write offs	**(45)**	**—**	**(1,985)**	**(2,030)**
Transfers (refer to Note 28)	**(59)**	**—**	**(171)**	**(230)**
At 31 December 2022	**1,792**	**16,927**	**30,966**	**49,685**
Carrying amount at 1 January 2022	**34,422**	**1,416**	**6,083**	**41,921**
Carrying amount at 31 December 2022	**38,092**	**1,428**	**5,103**	**44,623**
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

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 were not re-opened. In this regard, during the current financial year, land and buildings and other equipment with a carrying amount of €554,000 (2021: €4,018,000) attributable to a specific closed branch was reclassified to Other non-current assets held for sale, as its 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 €1,972,000 (2021: €2,507,000) 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. In addition, during current financial year, equipment with a carrying amount of €1,000 was disposed following termination of a lease agreement.

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	
	2022	2021
	€000	€000
At 31 December		
Cost	**11,827**	7,563
Accumulated depreciation	**(2,040)**	(1,875)
Carrying amount	**9,787**	5,688

Valuations of land and buildings are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period.

33 Intangible assets

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Software	**19,127**	16,561	**18,604**	16,022
PVIF	**36,340**	33,565	**—**	—
Deferred acquisition costs	**42**	42	**—**	—
	55,509	50,168	**18,604**	16,022

Software

	Group		Bank	
	2022	2021	**2022**	2021
Cost	**€000**	€000	**€000**	€000
At 1 January	**52,449**	45,819	**50,238**	43,612
Additions	**7,419**	6,675	**7,339**	6,671
Write offs	**—**	(45)	**—**	(45)
At 31 December	**59,868**	52,449	**57,577**	50,238
Accumulated amortisation				
At 1 January	**35,888**	32,057	**34,216**	30,460
Amortisation and impairment charge for the year	**4,853**	3,876	**4,757**	3,801
Write offs	**—**	(45)	**—**	(45)
At 31 December	**40,741**	35,888	**38,973**	34,216
Carrying amount at 1 January	**16,561**	13,762	**16,022**	13,152
Carrying amount at 31 December	**19,127**	16,561	**18,604**	16,022

PVIF

	Group	
	2022	2021
	€000	€000
At 1 January	**33,565**	40,538
Addition from current year new business	**4,036**	4,925
Movement from in-force business	**(1,261)**	(11,898)
At 31 December	**36,340**	33,565

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:

	2022	2021
	%	%
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	
		2022	2021
Assumptions	Movement	**€000**	€000
Risk free rate	+100 basis points	**2,579**	4,226
Risk free rate	-100 basis points	**(4,345)**	(7,000)
Expenses inflation	+10%	**(1,619)**	(1,305)
Expenses inflation	-10%	**1,694**	1,424
Lapse rate	+ 50 basis points	**1,298**	5,207
Lapse rate	- 50 basis points	**(2,341)**	(8,344)

Deferred acquisition costs

	Group	
	2022	2021
	€000	€000
At 1 January	**42**	42
Amortisation	—	—
At 31 December	**42**	42

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Deferred tax assets	**35,620**	29,119	**35,620**	29,119
Deferred tax liabilities	**(15,819)**	(15,005)	**(3,569)**	(3,722)
	19,801	14,114	**32,051**	25,397

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% (2021: 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 (2021: 8% or 10%).

The local group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the local group.

The balance at 31 December represents temporary differences attributable to:

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Depreciation of property, plant and equipment	**(2,116)**	(1,653)	**(2,140)**	(1,658)
Expected credit loss allowances	**19,299**	24,352	**19,299**	24,352
Fair valuation of properties	**(3,569)**	(3,850)	**(3,569)**	(3,722)
Fair value gains on financial instruments	**12,086**	(393)	**12,086**	(393)
Value of in-force life insurance business	**(12,719)**	(11,748)	**—**	—
Provisions for liabilities and other charges	**6,418**	6,819	**5,980**	6,423
Other	**402**	587	**395**	395
	19,801	14,114	**32,051**	25,397

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

	Group				
	At 1 Jan 2022	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised directly in equity**	**At 31 Dec 2022**
	€000	**€000**	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(1,653)**	**(463)**	**—**	**—**	**(2,116)**
Expected credit loss allowances	**24,352**	**(5,053)**	**—**	**—**	**19,299**
Fair valuation of properties	**(3,850)**	**300**	**(19)**	**—**	**(3,569)**
Fair value movements on financial instruments	**(393)**	**—**	**12,479**	**—**	**12,086**
Value of in-force life insurance business	**(11,748)**	**(971)**	**—**	**—**	**(12,719)**
Provisions for liabilities and other charges	**6,819**	**80**	**(481)**	**—**	**6,418**
Other	**587**	**(245)**	**—**	**60**	**402**
	14,114	**(6,352)**	**11,979**	**60**	**19,801**

	At 1 Jan 2021	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 Dec 2021
	€000	€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	2,884	34	14,114

	Bank				
	At 1 Jan 2022	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised directly in equity**	**At 31 Dec 2022**
	€000	**€000**	**€000**	**€000**	**€000**
Depreciation of property, plant and equipment	**(1,658)**	**(482)**	**—**	**—**	**(2,140)**
Expected credit loss allowances	**24,352**	**(5,053)**	**—**	**—**	**19,299**
Fair valuation of properties	**(3,722)**	**172**	**(19)**	**—**	**(3,569)**
Fair value movements on financial instruments	**(393)**	**—**	**12,479**	**—**	**12,086**
Provisions for liabilities and other charges	**6,423**	**38**	**(481)**	**—**	**5,980**
Other	**395**	**(60)**	**—**	**60**	**395**
	25,397	**(5,385)**	**11,979**	**60**	**32,051**

	At 1 Jan 2021	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 Dec 2021
	€000	€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)	2,884	34	25,397

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Committed letters of credit	**1,495**	842	**1,495**	842
Other	**9,797**	4,671	**8,470**	4,006
	11,292	5,513	**9,965**	4,848

Committed letters of credit in the table above are shown net of credit loss allowances which amounted to €5,000 (2021: Nil).

Other assets mainly comprise settlement account balances with international card payment processors.

36 Deposits by banks

	Group/Bank	
	2022	2021
	€000	€000
Term deposits	**—**	499
Repayable on demand	**2,861**	898
	2,861	1,397

37 Customer accounts

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Term deposits	**694,071**	710,487	**694,071**	710,487
Repayable on demand	**5,276,887**	4,910,708	**5,316,321**	4,947,194
	5,970,958	5,621,195	**6,010,392**	5,657,681

38 Accruals and deferred income

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Accrued interest	**1,864**	1,431	**1,677**	1,215
Accrued expenses	**25,163**	20,334	**20,444**	16,363
Deferred income	**273**	211	**158**	56
	27,300	21,976	**22,279**	17,634

39 Liabilities under investment contracts

	Group	
	2022	2021
	€000	€000
At 1 January	**185,137**	170,865
Premiums received	**6,144**	7,489
Amounts paid on surrender and other terminations during the year	**(12,064)**	(12,707)
Changes in unit prices and other movements	**(16,541)**	19,490
At 31 December	**162,676**	185,137

40 Liabilities under insurance contracts

	Group	
	Gross	Gross
	2022	2021
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**308,493**	391,627
Outstanding claims	**2,561**	1,612
Total non-linked	**311,054**	393,239
Life insurance (linked)		
Provisions for policyholders	**231,406**	264,186
Outstanding claims	**1,786**	772
Total linked	**233,192**	264,958
Total liabilities under insurance contracts	**544,246**	658,197

	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 2022	**391,627**	**264,186**	**2,384**	**658,197**
Premiums received	**—**	**29,999**	**—**	**29,999**
Other movements for the year	**(83,134)**	**(40,566)**	**1,963**	**(121,737)**
Account balances paid on surrender and other terminations during the year	**—**	**(22,213)**	**—**	**(22,213)**
At 31 December 2022	**308,493**	**231,406**	**4,347**	**544,246**
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

41 Provisions

	Group				
	Termination benefits	**Litigation provision**	**Post employment and other long-term employee benefits**	**Other provisions**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Provisions (excluding contractual commitments)					
At 31 December 2021	**2,042**	**1,207**	**13,293**	**2,940**	**19,482**
Additions	**1,558**	**963**	**729**	**623**	**3,873**
Amounts utilised	**(1,814)**	**(2)**	**(376)**	**(754)**	**(2,946)**
Unused amounts reversed	**—**	**(60)**	**(305)**	**(186)**	**(551)**
Remeasurement of post employment and other long-term employee benefits	**—**	**—**	**(1,522)**	**—**	**(1,522)**
At 31 December 2022	**1,786**	**2,108**	**11,819**	**2,623**	**18,336**
Contractual commitments					
At 31 December 2021					**1,770**
Change in expected credit loss provision					**(26)**
At 31 December 2022					**1,744**
Total Provisions					
At 31 December 2021					**21,252**
At 31 December 2022					**20,080**

	Bank				
Provisions (excluding contractual commitments)					
At 31 December 2021	**2,042**	**1,207**	**13,293**	**1,810**	**18,352**
Additions	**1,558**	**843**	**729**	**623**	**3,753**
Amounts utilised	**(1,814)**	**(2)**	**(376)**	**(754)**	**(2,946)**
Unused amounts reversed	**—**	**(60)**	**(305)**	**(186)**	**(551)**
Remeasurement of post employment and other long-term employee benefits	**—**	**—**	**(1,522)**	**—**	**(1,522)**
At 31 December 2022	**1,786**	**1,988**	**11,819**	**1,493**	**17,086**
Contractual commitments					
At 31 December 2021					**1,770**
Change in expected credit loss provision					**(26)**
At 31 December 2022					**1,744**
Total Provisions					
At 31 December 2021					**20,122**
At 31 December 2022					**18,830**

	Group				
	Termination benefits	Litigation provision	Post employment and other 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)
Remeasurement of post employment and other long-term employee	—	—	(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		
	€000	€000	€000	€000	€000
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)
Remeasurement of post employment and other long-term employee benefits	—	—	(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

(a) Termination benefits

In 2021 the bank announced a 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, during 2021 a provision for €3,208,000 for the local group and the bank was recognised in respect of voluntary redundancies for 33 full time equivalent employees. This scheme was introduced in view of the 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 both 2021 and 2022. Another provision was recognised during 2022 for €1,558,000 for the local group and for the bank. This second provision was raised in respect of the planned transfer of a number of employees and activities to a local service provider, as announced in June 2021, and reflects the full amount of payments agreed with the 18 full time equivalent employees who applied for this voluntary redundancy scheme.

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 2022 amounted to €2,108,000 for the local group and €1,988,000 for the bank (2021: €1,207,000 for both 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 2022, comprising a net increase in provision of €903,000 for the local group and €783,000 for the bank (2021: a net decrease in provision of €91,000 for both the local group and for the bank), is recognised in profit or loss under 'General and administrative expenses', whilst amounts utilised during the year amounts to €2,000 (2021: €5,000).

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 cases opened against the local group and the bank.

(c) Post employment and other 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 obligations as at 31 December 2022 have been estimated at €11,819,000 (2021: €13,293,000) 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. In 2022, another release amounting to €305,000 was recognised in profit or loss which is mainly the result of the planned transfer of a number of employees to a local service provider. Furthermore, net current service charges of €729,000 (2021: €787,000) reported under 'Additions' were recognised in the income statement. In addition, actuarial (gains)/losses attributable to changes in financial assumptions, demographic assumptions and experience adjustments of €1,374,000 (2021: €450,000) in respect of post-employment benefits and €148,000 (2021: €387,000) attributable to long-term employee benefits, reported under 'Remeasurement of post employment and other long-term employee benefits', were recognised in other comprehensive income and in profit or loss, respectively.

The present value of the defined benefit obligation at 31 December 2022 and 2021 has been estimated after taking into consideration the following assumptions:

i a rate of 3.65% (2021: 0.82%) 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 2.50% (2021: 1.90%) in line with the eurozone inflation curve;

iii a salary increase assumption of 4.00% including cost of living allowance for 2023 (2021:1.00% plus cost of living adjustments for 2022-2023) and 2.00% including cost of living adjustments from 2024 onwards (2021: 2.00% from 2024 onwards);

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 provisions

Other provisions as at 31 December 2022 amounted to €2,623,000 for the local group (2021: €2,940,000) and €1,493,000 (2021: €1,810,000) for the bank. This represents mainly an onerous contract provision resulting from a closed investment product held by one of the subsidiary companies whereby future losses were estimated and a 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 a group undertaking

In December 2021, the bank 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 2022 the interest rate was 3.25% (2021: 0.56%).

Subsequent events

In January 2023, the bank entered into a further €30,000,000 loan agreement with HSBC Continental Europe. The purpose of the loan is to enable the bank to meet its compliance with 'MREL' as set by the Single Resolution Board.

This loan is unsecured and has been granted on normal commercial terms for a period of 4 years with maturity date of 30 January 2027 and an option of early repayment, 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 127 basis points.

Both loans are designated as, and will constitute, the lower ranking liabilities referred to in regulation 108(4) of the Recovery and Resolution Regulations (Subsidiary Legislation 330.09).

43 Subordinated liabilities

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 2022, the interest rate was 4.11% (2021: 1.47 %).

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.

44 Other liabilities

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Committed letters of credit	**1,500**	842	**1,500**	842
Lease liabilities (refer to Note 31)	**2,426**	2,450	**2,426**	2,450
Other	**11,643**	8,953	**7,141**	5,103
	15,569	12,245	**11,067**	8,395

Other liabilities mainly comprise settlement account balances with international card payment processors and direct insurance payables.

45 Called up share capital

	Group/Bank	
	2022	2021
	€000	€000
Authorised		
470,000,000 ordinary shares of 30 cent each	**141,000**	141,000
Issued and fully paid up		
360,306,099 ordinary shares of 30 cent each	**108,092**	108,092

46 Reserves

(a) Revaluation reserve

The revaluation reserve comprises the surplus arising on the revaluation of the local group's freehold and long leasehold properties and the cumulative net change in fair value of financial investments measured at fair value through other comprehensive income held by the local group, net of deferred taxation. The revaluation reserve is not available for distribution.

	Group/Bank
	€000
On land and buildings	
1 January 2021	25,893
– surplus arising on revaluation	2,389
– deferred tax on revaluation loss	(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
– surplus arising on revaluation	185
– deferred tax on revaluation surplus	(19)
– transfer to retained earnings upon realisation through disposal	(1,396)
– deferred tax on transfer upon realisation through disposal	140
31 December 2022	22,509
On financial investments	
1 January 2021	6,825
– fair value adjustments	(9,375)
– deferred tax on fair value adjustments	3,281
31 December 2021	731
– fair value adjustments	(35,655)
– deferred tax on fair value adjustments	12,479
31 December 2022	(22,445)
Total revaluation reserve	
Total as at 31 December 2021	24,330
Total as at 31 December 2022	64

(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 €11,111,000 (2021: €20,193,000). As at 31 December 2022, debt securities with a carrying amount of €11,105,000 (2021: €20,021,000) 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 2022, the General Banking Risk reserve amounts to €6,209,000 (2021: €6,209,000).

47 Contingent liabilities

	Group Contract amount		Bank Contract amount	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Guarantees	**113,686**	123,127	**113,686**	123,129
Standby letters of credit	**18,130**	17,230	**18,130**	17,230
Other contingent liabilities	**2,310**	2,707	**2,310**	2,707
	134,126	143,064	**134,126**	143,066

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	
	2022	2021
	€000	€000
Documentary credits	**17,816**	16,862
Undrawn formal standby facilities, credit lines and other commitments to lend	**860,004**	950,877
	877,820	967,739

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 2022 amounting to €1,164,000 (2021: €62,000) are mainly related to the acquisition of property, plant and equipment.

50 Dividends

	Group			
	2022	2021	**2022**	2021
	EUR per share	EUR per share	**€000**	€000
Gross of income tax				
– prior year's final dividend	**0.03**	0.01	**12,323**	4,180
– current year's interim dividend	**—**	—	**—**	—
	0.03	0.01	**12,323**	4,180
Net of income tax				
– prior year's final dividend	**0.02**	0.01	**8,010**	2,717
– current year's interim dividend	**—**	—	**—**	—
	0.02	0.01	**8,010**	2,717

The bank is proposing a final net dividend of €13,139,000 in respect of the financial year ended 31 December 2022. The final dividend will be paid on 25 April 2023 to shareholders who are on the bank's register of shareholders on 21 March 2023 subject to approval by the Annual General Meeting scheduled for 20 April 2023.

	Group	
	2022	2021
	€000	€000
Proposed dividend		
Profit for the year	**37,571**	17,755
Proposed dividend	**13,139**	8,010
Less: interim dividend paid	**—**	—
Available for distribution	**13,139**	8,010
Proposed final dividend	**13,139**	8,010
Issued and fully paid up shares (Note 45)	**360,306,099**	360,306,099
	EUR per share	EUR per share
Proposed final dividend		
– gross of income tax per share	**0.06**	0.03
– net of income tax per share	**0.04**	0.02

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**29,500**	26,781	**29,500**	26,781
Malta Government Treasury Bills of three months or less	**232,346**	14,010	**232,346**	14,010
Balances with Central Bank of Malta (excluding reserve deposit and restricted cash) of three months or less	**1,209,987**	1,184,648	**1,209,987**	1,184,648
Loans and advances to banks of three months or less	**487,267**	391,352	**480,991**	385,198
Items in course of collection from other banks	**6,921**	4,453	**6,921**	4,453
Items in course of transmission to other banks	**(27,397)**	(21,573)	**(27,397)**	(21,573)
Per Statements of Cash Flows	**1,938,624**	1,599,671	**1,932,348**	1,593,517
Adjustment to reflect balances with contractual maturity of more than three months	**358,253**	498,889	**358,253**	498,832
Per Statements of Financial Position	**2,296,877**	2,098,560	**2,290,601**	2,092,349
Analysed as follows:				
Cash and balances with Central Bank of Malta	**1,300,366**	1,268,235	**1,300,366**	1,268,235
Malta Government Treasury Bills	**284,494**	228,172	**284,494**	228,172
Loans and advances to banks	**732,493**	619,273	**726,217**	613,062
Items in course of collection from other banks	**6,921**	4,453	**6,921**	4,453
Items in course of transmission to other banks	**(27,397)**	(21,573)	**(27,397)**	(21,573)
	2,296,877	2,098,560	**2,290,601**	2,092,349

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, payments and cash management. 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.

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 presented on the next page 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 on the next page. 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 €1,558,000 attributable to the local group and bank to continue implementing the bank's latest strategic initiative, which demanded the issuance of a second Voluntary Redundancy Scheme as outlined in Note 16, which was treated as a significant item in view of its non-recurring nature. Accordingly, the adjusted profit by global business reported on the next page is higher than the reported profit.

	Group			
	2022			
	Wealth and Personal Banking	**Commercial Banking**	**Global Markets**	**Group Total**
	€000	**€000**	**€000**	**€000**
Net interest income	**75,821**	**32,421**	**—**	**108,242**
– external	**75,894**	**32,348**	**—**	**108,242**
– internal	**(73)**	**73**	**—**	**—**
Net non-interest income	**25,318**	**13,286**	**3,799**	**42,403**
Net operating income before loan impairment charges	**101,139**	**45,707**	**3,799**	**150,645**
Change in expected credit losses and other credit impairment charges	**(2,680)**	**12,323**	**—**	**9,643**
Net operating income	**98,459**	**58,030**	**3,799**	**160,288**
Employee compensation and benefits	**(29,523)**	**(8,588)**	**(434)**	**(38,545)**
General and administrative expenses	**(41,731)**	**(12,687)**	**(363)**	**(54,781)**
Depreciation of property, plant and equipment and right-of-use assets	**(2,634)**	**(654)**	**(12)**	**(3,300)**
Amortisation of intangible assets	**(3,465)**	**(1,364)**	**(24)**	**(4,853)**
Total operating expenses	**(77,353)**	**(23,293)**	**(833)**	**(101,479)**
Adjusted profit before tax	**21,106**	**34,737**	**2,966**	**58,809**
Reported balance sheet data				
Loans and advances to customers (net)	**2,264,031**	**911,136**	**—**	**3,175,167**
Total external assets	**5,731,297**	**1,660,474**	**26,562**	**7,418,333**
Customer accounts	**4,545,286**	**1,425,672**	**—**	**5,970,958**
	2021			
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/reported 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

Reconciliation of reported and adjusted profit by global business

During 2022, 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 2022 is shown in the table below.

	Group			
	2022			
	Wealth and Personal Banking	**Commercial Banking**	**Global Markets**	**Group Total**
	€000	**€000**	**€000**	**€000**
Adjusted profit before tax	**21,106**	**34,737**	**2,966**	**58,809**
Significant item:	**(1,288)**	**(252)**	**(18)**	**(1,558)**
– Restructuring provision	**(1,288)**	**(252)**	**(18)**	**(1,558)**
Reported profit before tax	**19,818**	**34,485**	**2,948**	**57,251**

	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

53 Related party transactions

During the period up to 30 November 2022, the immediate parent company of the local group and bank was HSBC Europe B.V., a company incorporated in the Netherlands, with the registered address at Karspeldreef 6K, Amsterdam, 1101 CJ, Netherlands.

In accordance with the company announcement dated 30 November 2022, the immediate parent company of the local group and the bank became HSBC Continental Europe ('HBCE') as of that date, a company incorporated in France, with its registered address 38, avenue Kléber – 75116 Paris.

With effect from the current financial year, a new table is being presented to disclose 'Balances and transactions with HSBC Continental Europe' as a result of the change in the immediate parent company completed on 30 November 2022.

The ultimate parent company of the local group and the bank is and remains 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
	2022	**2022**	2021	2021
	€000	**€000**	€000	€000
Credit card balances	**13**	**8**	7	7
Commitments to lend	**571**	**562**	700	579

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Directors' emoluments (including Non-Executive Directors)				
Salaries and other emoluments	**2,033**	1,905	**1,271**	1,264
Benefits	**124**	124	**117**	118
Share-based payments	**32**	14	**32**	14
	2,189	2,043	**1,420**	1,396
Other key management personnel				
Salaries and other emoluments	**1,434**	1,283	**950**	947
Benefits	**122**	121	**117**	118
Share-based payments	**32**	14	**32**	14
	1,588	1,418	**1,099**	1,079

Directors' emoluments for the local group include the compensation of certain key management personnel of the bank amounting to €488,000 (2021: €338,000) that also serve as Directors of subsidiary companies, as well as the compensation of Non-Executive Directors of subsidiary companies amounting to €64,000 (2021: €77,000).

(c) Balances and transactions with other related parties

Balance and transactions with HSBC Continental Europe

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Assets				
Derivatives	**20,161**	—	**20,161**	—
Loans and advances to banks	**659,843**	334,378	**659,843**	334,378
Prepayments and accrued income	**921**	6	**921**	6
Liabilities				
Deposits by banks	**—**	499	**—**	—
Accruals and deferred income	**438**	219	**438**	219
Income statement				
Interest income	**6,126**	97	**6,126**	97
Interest expense	**230**	2,634	**230**	2,634
Fee income	**112**	56	**112**	56
Fee expense	**78**	97	**84**	43
Net trading income	**9,006**	—	**9,006**	—
Other income	**24**	27	**24**	27
General and administrative expenses	**696**	327	**696**	327

Balance and transactions with HSBC Bank plc

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Assets				
Derivatives	**3,925**	2,372	**3,925**	2,372
Loans and advances to banks	**53,322**	143,425	**51,494**	140,953
Prepayments and accrued income	**189**	25	**189**	25
Liabilities				
Derivatives	**1,587**	2,268	**1,587**	2,268
Deposits by banks	**1,074**	880	**1,074**	880
Borrowings from a group undertaking	**60,000**	60,000	**60,000**	60,000
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accruals and deferred income	**1,157**	344	**219**	163
Income statement				
Interest income	**343**	86	**343**	86
Interest expense	**2,048**	1,174	**2,048**	1,174
Fee expense	**2**	3	**2**	3
Net trading income	**15,664**	3,388	**15,664**	3,388
Other income	**22**	89	**22**	89
General and administrative expenses	**485**	617	**41**	246

Balances and transactions with other subsidiaries of HSBC Holdings plc

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Assets				
Loans and advances to banks	**15,392**	136,449	**13,717**	134,789
Prepayments and accrued income	**476**	183	**311**	13
Other assets	**600**	937	**600**	937
Liabilities				
Deposits by banks	**469**	—	**469**	—
Customer accounts	**3,266**	2,789	**3,266**	2,789
Accruals and deferred income	**10,468**	9,658	**8,116**	7,112
Income statement				
Interest income	**566**	375	**566**	375
Interest expense	**5**	1	**5**	1
Fee income	**1,504**	1,528	**—**	—
Fee expense	**154**	162	**5**	4
Net trading income	**2**	10	**2**	10
Other income	**266**	696	**266**	696
General and administrative expenses	**27,400**	26,402	**25,859**	24,032

Balances and transactions with local group entities

	Bank	
	2022	2021
	€000	€000
Assets		
Prepayments and accrued income	**340**	287
Investment in subsidiaries	**30,859**	30,859
Other assets	**747**	—
Liabilities		
Customer accounts	**39,434**	36,486
Income statement		
Fee income	**2,678**	2,891
Net trading income	**14**	77
Dividend income	**1,308**	1,462

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 Fiduciary activities

The local group provides fiduciary 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. Assets held in a fiduciary capacity 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 2022, total assets held by the local group on behalf of customers amounted to €484,773,000 (2021: €587,713,000).

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. • To generate fees from managing assets on behalf of third party investors.	• Investments in units issued by the fund • Management fees

As fund manager, the local group is entitled to receive a management and performance fee based on the assets under management. The total management fees earned during the year were €3,211,000 (2021: €3,601,000) as presented under 'Fee income' in profit or loss.

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.

	2022	2021
	€000	€000
Carrying amount of units in HSBC managed investment funds - classified as financial investments measured at fair value through profit or loss	**82,543**	86,680
Total assets of HSBC managed funds	**301,919**	375,114

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.

As had been announced by the Bank in accordance with the company announcement dated 10 December 2021, the transaction occurred in the context of a corporate restructuring by the HSBC Group to comply with the obligation under Article 21(b) of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V) for non-EU headquartered banking groups like the HSBC Group to have an intermediate parent undertaking ('EU IPU') in the EU by 30 December 2023. As a result, all of HSBC's relevant EU banking subsidiaries, including the Bank, are now owned by the HSBC Group through HSBC Continental Europe ('HBCE') as the EU intermediate parent undertaking. The transaction between HSBC Europe B.V. and HBCE was completed on 30 November 2022. The transaction did not involve any change in the day-to-day business of the bank and its subsidiaries ('the HSBC Malta Group').

Hence, the ultimate parent company of HSBC Bank Malta p.l.c. remains as HSBC Holdings plc, and as per the announcement dated 30 November 2022, the immediate parent company is HBCE, which are incorporated and registered in the United Kingdom and France respectively. The registered address of HSBC Holdings plc is 8, Canada Square, London E14 5HQ, United Kingdom and the registered address of HBCE is 38, avenue Kléber – 75116 Paris, France. Copies of the HSBC Holdings plc Annual Report and Accounts may be obtained from its registered office or viewed on www.hsbc.com.

57 Investor compensation scheme

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

58 Critical accounting estimates and judgements

This note contains information about critical judgements, significant assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment and that have the most significant effects on the amounts recognised in the financial statements. Information about assumptions and estimation uncertainties relating to fair valuation of financial instruments is disclosed in Note 5.

Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Expected credit loss allowances on loans and advances

Credit loss allowances represent management's best estimate of expected credit losses in the loan portfolios and other financial assets subject to IFRS 9 impairment requirements at the balance sheet date. In this respect, management is required to exercise judgement in 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;
- selecting economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected losses; and
- making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements

In particular, the measurement of the expected credit loss allowances 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 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)(iii). 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.

The level of estimation uncertainty and judgement has remained elevated since 31 December 2021 as a result of the economic effects of the global geopolitical and macroeconomic events occurring in the aftermath of the Covid-19 pandemic. Specifically, despite a general recovery in economic conditions during 2021 and 2022, the level of estimation uncertainty and judgement has remained high as a result of the escalation of the military conflict between Russia and Ukraine as well as the ongoing economic effects of the Covid-19 pandemic, including supply chain disruptions, which have resulted in significant inflationary pressures being experienced globally. In turn, this triggered a response by the European Central Bank ('ECB') as well as other national central banks across Europe from a monetary policy perspective, with announced increases in interest rates designed to curb the spiralling effect of inflationary pressures resulting in an increasing interest rate environment.

Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain highly subjective.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios given the rapidly changing economic conditions and wide economic forecasts due to the potential impacts of further escalation of inflationary pressures and ensuing monetary policy changes, geopolitical developments in respect of the military conflict between Russia and Ukraine, and the effect of the implementation and eventual unwinding of government support measures designed to alleviate adverse economic impacts, including subsidies in respect of energy prices and foodstuffs.

Significant judgement is therefore also required in making assumptions about the effects of inflation, interest rates, economic growth, and supply chain disruptions. As alluded to earlier, there is an absence of an observable historical trend that can accurately represent the severity and speed of such forecasts, which represent a high degree of estimation uncertainty, particularly in assessing downside scenarios. Such complexities have never been modelled.

Consequently, management applied a higher level of expert judgement in order to assess the impact of the current geopolitical and macroeconomic environment on the local group's level of defaults, including evaluating the impact of monetary policy and government support schemes, and the unwinding of such measures, on both the incidence of default events and the severity of losses as described below.

These model limitations have been addressed through the introduction of an additional downside scenario in 2021 – the Downside 2 scenario – to capture tail risk and the recalibration of probability weights based on expert judgement, as described in further detail in Note 4(b)(iii) to the financial statements.

Specifically in respect of the mortgage portfolio, the selection of the macroeconomic variables used to determine forward-looking point-in-time PDs as well as the calibration of the impact of changes in macroeconomic variables on modelled ECL have been refreshed as part of the redevelopment of the ECL model during the financial year ended 31 December 2022. In this respect, the ECL model for mortgages takes into consideration two macroeconomic variables, namely unemployment and real GDP growth, with relative 80:20 weights applied respectively. In this respect, the determination of the relative weights requires a significant level of expert judgement to be applied by management.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is also highly judgemental due to limitations in available credit information on customers. This is particularly relevant in those instances where customers are significantly dependent on government support measures, such as subsidies in respect of energy prices and foodstuffs, to address short-term liquidity issues. In response to such limitations, a management overlay was developed in respect of the mortgage portfolio in order to estimate the potential impact of elevated inflation and interest rates on borrower affordability, which might result in the delayed identification of borrowers experiencing a significant increase in credit risk, on the calculation of credit loss allowances as at 31 December 2022. Amongst other factors, the calculation of the management overlay takes into consideration the assumed level of net disposable income and salaries at borrower level, adjusted by reference to assumed increases in inflation and interest rates in 2023.

Judgement was 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 current inflationary pressures and high interest rate environment, the Bank assesses and individually rates those individually significant borrowers within wholesale sub-portfolios deemed mostly impacted by these macroeconomic pressures 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.

In view of the above, management considered the sensitivity of the ECL outcome to the macroeconomic 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.

In addition, in view of the expert judgement required to determine the relative weights applied to the macroeconomic variables used in the ECL calculation for the mortgage portfolio, management also considered the sensitivity of the ECL outcome to changes in the relative weights. The sensitivity analysis is presented in Note 4(b)(iii) within the section entitled 'Economic scenarios sensitivity analysis of ECL estimates'.

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 current inflationary pressures and increasing interest rate environment, 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 these macroeconomic pressures will not be fully known until market conditions stabilise.

(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 due to epidemics 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. The local group is also exposed to the volatility of the yield curve. 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 €697,000 (2021: €14,771,000) or increase by €4,070,000 (2021: €7,391,000). 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 €847,000 (2021: €1,261,000) or decrease by €1,026,000 (2021: €1,454,000). If the expenses in future years differ by +/-10% from management's estimate, the liability would increase by €1,349,000 (2021: €1,735,000) or decrease by €1,274,000 (2021: €1,615,000). 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 €9.5 million 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 €8.6 million 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 2022 and 31 December 2021 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 3.45% (2021: 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. (2021: 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 assumption is informed by the Central Bank of Malta's inflation forecast published by the end of 2022 (2.1% as from 2024 onwards) and a commitment by the Company to control salary related cost. This results in a term dependent expense inflation assumption increasing from 2.5% p.a. to 5.4% p.a. (2021: 2.3% p.a. to 2.9% p.a.).

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The impact of reasonably possible changes in main assumptions on the PVIF are disclosed in Note 33. Assumptions are reviewed annually by the local group's Board of Directors.

Five-year comparison: Income statements and statements of comprehensive income

Group Income Statements

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
Interest receivable and similar income	116,639	105,710	113,598	120,573	118,943
Interest expense	(8,397)	(7,952)	(7,696)	(10,462)	(10,321)
Net interest income	108,242	97,758	105,902	110,111	108,622
Net non-interest income	42,403	33,535	27,521	41,672	41,779
Change in expected credit losses and other credit impairment charges	9,643	995	(25,589)	(389)	(3,488)
Operating expenses	(103,037)	(105,406)	(97,391)	(120,685)	(108,357)
Profit before tax	57,251	26,882	10,443	30,709	38,556
Tax expense	(19,680)	(9,127)	(2,871)	(10,541)	(9,860)
Profit for the year	37,571	17,755	7,572	20,168	28,696
Earnings per share	€0.10	€0.05	€0.02	€0.06	€0.08

Group Statements of Comprehensive Income

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
Profit for the year	37,571	17,755	7,572	20,168	28,696
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:	(23,177)	(6,095)	753	311	(3,592)
– fair value (losses)/gains	(35,657)	(9,377)	1,159	478	(5,527)
– income taxes	12,480	3,282	(406)	(167)	1,935
Items that will not be reclassified subsequently to profit or loss:					
Properties:	166	2,150	304	(475)	382
– surplus/(loss) arising on revaluation	185	2,389	338	(528)	424
– income taxes	(19)	(239)	(34)	53	(42)
Post employment benefit obligations:	893	292	(446)	(619)	(334)
– remeasurement of post employment benefit obligations	1,374	450	(686)	(952)	(514)
– income taxes	(481)	(158)	240	333	180
Equity instruments designated at fair value through other comprehensive income:	1	1	2	—	1,045
– fair value gains	2	2	3	—	1,608
– income taxes	(1)	(1)	(1)	—	(563)
Other comprehensive income, net of tax	(22,117)	(3,652)	613	(783)	(2,499)
Total comprehensive income	15,454	14,103	8,185	19,385	26,197

Five-year comparison: Statements of financial position

	2022 €000	2021 €000	2020 €000	2019 €000	2018 €000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**1,584,861**	1,496,407	996,679	586,072	190,768
Items in course of collection from other banks	**6,921**	4,453	4,959	3,436	5,404
Financial assets mandatorily measured at fair value through profit or loss	**660,282**	767,808	733,670	754,020	694,081
Derivatives	**25,745**	4,640	6,574	5,320	4,956
Loans and advances to banks	**732,493**	619,273	589,259	676,031	1,097,714
Loans and advances to customers	**3,175,167**	3,196,725	3,264,664	3,257,433	3,110,412
Financial investments	**1,004,770**	845,735	877,485	943,603	904,920
Prepayments and accrued income	**20,126**	20,558	24,148	23,578	27,312
Current tax assets	**3,496**	3,669	1,813	1,719	16,728
Reinsurance assets	**49,792**	77,972	80,083	78,945	85,205
Other non-current assets held for sale	**5,173**	6,673	8,919	8,422	5,908
Investment property	**—**	1,600	1,600	9,788	9,714
Property, plant and equipment	**44,627**	41,923	44,206	47,403	55,413
Intangible assets	**55,509**	50,168	54,342	61,518	59,136
Right-of-use assets	**2,459**	2,569	4,200	4,685	—
Deferred tax assets	**35,620**	29,119	27,130	22,427	21,509
Other assets	**11,292**	5,513	10,728	13,217	21,814
Total assets	**7,418,333**	7,174,805	6,730,459	6,497,617	6,310,994
Liabilities					
Deposits by banks	**2,861**	1,397	3,754	840	2,542
Customer accounts	**5,970,958**	5,621,195	5,272,961	4,976,580	4,887,473
Items in the course of transmission to other banks	**27,397**	21,573	21,372	23,473	15,206
Derivatives	**10,252**	4,592	6,551	5,190	4,991
Accruals and deferred income	**27,300**	21,976	14,843	20,335	19,151
Current tax liabilities	**2,104**	499	88	2,489	538
Liabilities under investment contracts	**162,676**	185,137	170,865	183,706	166,347
Liabilities under insurance contracts	**544,246**	658,197	648,028	658,470	620,781
Provisions	**20,080**	21,252	21,031	33,271	20,689
Deferred tax liabilities	**15,819**	15,005	17,562	22,443	23,427
Borrowings from a group undertaking	**60,000**	60,000	—	—	—
Subordinated liabilities	**62,000**	62,000	62,000	62,000	62,000
Other liabilities	**15,569**	12,245	12,990	38,854	29,071
Total liabilities	**6,921,262**	6,685,068	6,252,045	6,027,651	5,852,216
Total equity	**497,071**	489,737	478,414	469,966	458,778
Total liabilities and equity	**7,418,333**	7,174,805	6,730,459	6,497,617	6,310,994
Memorandum items					
Contingent liabilities	**134,126**	143,064	152,296	158,654	149,783
Commitments	**877,820**	967,739	1,071,319	1,075,524	1,433,773

Five-year comparison: Statements of cash flows

	2022 €000	2021 €000	2020 €000	2019 €000	2018 €000
Net cash from/(used in) operating activities	**574,291**	745,603	158,480	(204,056)	(71,376)
Cash flows from investing activities					
Dividends received	**—**	—	33	29	18
Interest received from financial investments	**6,142**	11,897	14,746	16,229	20,091
Purchase of financial investments	**(464,793)**	(221,697)	(214,787)	(315,277)	(242,523)
Proceeds from sale and maturity of financial investments	**255,296**	249,667	263,519	270,965	254,972
Purchase of property, plant and equipment, investment property and intangible assets	**(12,808)**	(8,508)	(7,677)	(6,980)	(5,194)
Proceeds on sale of property, plant and equipment, investment property and intangible assets	**1,600**	56	7,903	1,865	1,300
Net cash flows from/(used in) investing activities	**(214,563)**	31,415	63,737	(33,169)	28,664
Cash flows from financing activities					
Dividends paid	**(8,010)**	(2,717)	—	(8,197)	(38,409)
Proceeds from borrowings from a group undertaking	**—**	60,000	—	—	—
Issue of subordinated liabilities	**—**	—	—	—	62,000
Repayment of subordinated liabilities	**—**	—	—	—	(29,277)
Net cash from/(used in) financing activities	**(8,010)**	57,283	—	(8,197)	(5,686)
Net increase/(decrease) in cash and cash equivalents	**351,718**	834,301	222,217	(245,422)	(48,398)

Five-year comparison: Accounting ratios

	2022	2021	2020	2019	2018
	%	%	%	%	%
Net operating income before loan impairment charges to total assets	**2.0**	1.8	2.0	2.3	2.4
Operating expenses to total assets	**1.4**	1.5	1.4	1.9	1.7
Cost efficiency ratio	**68.4**	80.3	73.0	80.2	73.0
Profit before tax to total assets	**0.8**	0.4	0.2	0.5	0.6
Profit before tax to equity	**11.6**	5.6	2.2	6.5	8.4
Profit after tax to equity	**7.6**	3.7	1.6	4.3	6.1

	2022	2021	2020	2019	2018
Shares in issue (millions)	**360.3**	360.3	360.3	360.3	360.3
Net assets per 30 cent share (euro)	**1.4**	1.4	1.3	1.3	1.3
Earnings per 30 cent share (euro)	**0.10**	0.05	0.02	0.06	0.08
Dividend per 30 cent share (euro)					
– gross	**0.06**	0.03	0.01	0.02	0.06
– net	**0.04**	0.02	0.01	0.01	0.04
Dividend cover	**2.9**	2.2	2.8	5.1	2.1

Branches and offices

Malta offices

Registered Office/Head Office

116 Archbishop Street, Valletta VLT 1444
Tel: 2380 2380

Wealth and Personal Banking
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Premier Centre

Wealth Management Office
80 Mill Street, Qormi QRM 3101
Tel: 2148 9100

Commercial Banking
Business Banking Centre
Triq il-Kbira, Zebbug
Tel: 2380 8000

International Banking Centre
High Street, Sliema SLM 1549
Tel: 2380 2600

Trade Services
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
61/63 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
Airways House, 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
36/38/40 Main 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

80 Mill Street Qormi QRM 3101
Tel: 2380 5128

HSBC Life Assurance (Malta) Ltd

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 2022, 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 2022;
- the Consolidated and Parent Company statements of financial position as at 31 December 2022;
- 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

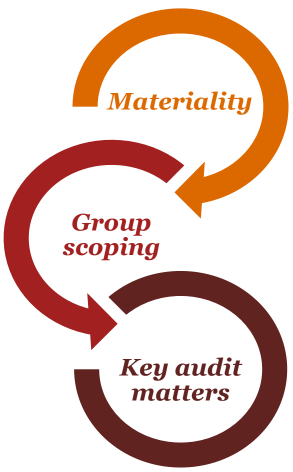
We are independent of the Group and the Parent Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements 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 2022 to 31 December 2022, are disclosed in note 17 to the financial statements.

Our audit approach

Overview



- Overall group materiality: €2.3 million, which represents approximately 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 2022 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	€2,300,000
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 2022, we have applied a higher materiality of €3,000,000 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 €115,000 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, followed by the ensuing global macroeconomic uncertainties driven by the Russia-Ukraine conflict, have resulted in supply chain disruptions and significant inflationary pressures. These realities have 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. In general, the bank 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 bank 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 bank'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	During our audit of the financial statements for the year ended 31 December 2022, 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 were evaluated and tested. The redevelopment of the Mortgage ECL model represented a significant update to the methodology used by management to estimate ECLs. Accordingly, the underlying assumptions and key judgements around the redevelopment of the model used to estimate ECLs in respect of the Mortgage portfolio were reviewed, assessed and tested to evaluate the reasonableness of the modelled ECLs. Discussions with the Audit Committee included: • inputs, assumptions and adjustments to ECLs within the bank's models, for which we provided updates on the results of our testing procedures; • observations in respect of changes to the key assumptions and judgements applied by management in the redevelopment of the Mortgage ECL model, together with the impact of the model change on ECLs; • the application of forward economic guidance, particularly in the context of the estimated impact of the macroeconomic challenges characterising the aftermath of the Covid-19 pandemic and the escalation of the military conflict between Russia and Ukraine; • considerations around post model adjustments, mainly in response to the impact of the inflationary pressures and interest rate environment being experienced in the aftermath of the Covid-19 pandemic and the escalation of the military conflict between Russia and Ukraine, and the estimation uncertainty involved in determining ECLs on the basis of historical experience; • observations in relation to the control processes around the estimation of ECLs in respect of individually significant loans classified within the Wholesale portfolio, including the inputs to the calculations; and • considerations in respect of the governance framework around the implementation of model changes.

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 bank's portfolio. In addition, the output proxy PD is further adjusted using a scalar to reflect local macroeconomic conditions.

Staging is determined on the basis of both quantitative criteria and qualitative criteria. In respect of the former, for the Wholesale portfolio, the bank's ECL model captures Significant Increase in Credit Risk ("SICR") events at an individual borrower level through a quantitative comparison of changes in PiT PDs at reporting date with the equivalent estimation at origination date. In respect of the latter, a Customer Risk Rating ("CRR") is assigned at individual borrower level on the basis of a qualitative credit risk assessment performed at least annually to assess the default risk by reference to a defined set of criteria, with pre-established notch deteriorations in CRR grades representing a SICR event. The application of the SICR criteria used by management therefore involves a significant level of judgement.

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 and the ensuing supply chain disruptions and global inflationary pressures.

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 models are utilised in order to estimate ECLs. Judgement is required to determine when a

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.
- Testing over the automated calculation of ECLs, in case of the redevelopment of the Mortgage 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 portfolios, 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

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. During the financial year ended 31 December 2022, the bank redeveloped the model used to estimate ECL in respect of exposures classified within the Mortgage portfolio, which inherently required a significant level of judgement to be applied by management in the determination of key assumptions and calibration of key model parameters.

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, as well as the status of the perfection of collateral and the vintage years in default. 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 are based on the bank's recovery history.

Staging in respect of Retail portfolios is determined at segment level in view of the homogeneity in nature and relatively low value of retail exposures. Segmentation is determined on the basis of the relevant identified credit risk characteristics for each portfolio. Exposures classified within the Mortgage portfolio are segmented by reference to delinquency status, past delinquency in the previous 12 months, as well

by management, taking into consideration the impact of the current macroeconomic environment on the repayment capabilities of the sampled borrowers.

- Challenged the criteria used to allocate an exposure to stage 1, 2 or 3 in accordance with IFRS 9 and tested exposures 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.
- In respect of the redevelopment of the ECL model for the Mortgage portfolio, reviewed the 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.
- Specifically in the context of the redevelopment of the model used to estimate ECL in respect of exposures classified within the Mortgage portfolio, challenged and tested the assumptions and judgements applied by management to estimate the key ECL parameters. In particular, we assessed the appropriateness of judgements around segmentation methods; data periods used for model development purposes (in the context of calibration of loss rates and loss severities); the calibration of staging criteria; the definition of default; assessment of appropriateness of rank ordering of PDs across segments; and LGD assumptions applied within the model.
- For the Wholesale portfolio, assessed the reasonableness of modelled PDs through a comparison of historically predicted and observed default rates, and the adequacy of modelled LGDs in light of the potential impact of the current macroeconomic environment 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 current macroeconomic

as a behavioural score in case of exposures with no history of delinquency throughout the previous 12 months. Segmentation in respect of the other retail portfolios is based on current delinquency status. A SICR threshold is determined in respect of each retail portfolio by reference to the average PD twelve months prior to exposures falling more than 30 days past due. In this respect, PDs are estimated in respect of each segment and segments with a PD in excess of the SICR threshold are classified as stage 2 exposures. The local impact of supply chain disruptions and the resultant inflation pressures being experienced in the local economy 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. In this respect, these inflationary pressures might be reasonably expected to impact the affordability of repayments within the Mortgage portfolio due to the rapid rise in the cost of living being experienced locally together with the potential resultant impact on market interest rates. Such inflationary pressures are deemed to be partially mitigated by government support measures, including subsidies on energy prices and foodstuffs. For the purposes of avoiding the cliff edge effect on ECLs upon the unwinding of government support schemes, as well as to capture risks which are not fully captured by the selected macroeconomic variables applied in the ECL model, an overlay was applied by the bank determined on the basis of quantitative assumptions in respect of borrower affordability and levels of net disposable income to enable the identification of significant increase in credit 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	environment on local property prices. Additionally, we assessed the appropriateness of the post model overlay intended to address early identification of SICR events in respect of those exposures which are deemed to be more susceptible to inflationary pressures. • For the Mortgage portfolio, tested the newly implemented modelling approach which takes into consideration the status of perfection of collateral for the purposes of modelling loss severities. In addition, we tested the accuracy of the bank's data in respect of the status of perfection of collateral and assessed the key judgements applied by management to identify exposures with unperfected collateral which are deemed to carry a higher level of risk in the estimation of ECL. • Independent testing of model calculations in the event of changes to key parameters or model development data, such as in the case of the redevelopment of the ECL model for the Mortgage portfolio. • 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 current macroeconomic environment, including the recalibration of probability weights. We assessed whether the severity of the forecasted macroeconomic variables was appropriate in view of the high level of uncertainty surrounding the current macroeconomic conditions, which is highly characterised by significant inflationary pressures and an increasing interest rate environment. We challenged the correlation and impact of the macroeconomic factors on the ECL. • For the Mortgage portfolio, we assessed the reasonableness and appropriateness of assumptions applied by management to model forward-looking point-in-time loss rates within the redeveloped ECL model. Specifically, we challenged and reviewed the appropriateness of the selection of macroeconomic variables used within the model, as well as the reasonableness of the relative weighting applied to each macroeconomic variable. 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.

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 ensuing macroeconomic uncertainty induced by the Russia-Ukraine conflict and related supply chain disruptions have significantly impacted macroeconomic factors such as Gross Domestic Product ('GDP'), unemployment, inflation and interest rates, 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. During the financial year ended 31 December 2022, the bank also redeveloped the macroeconomic model used to reflect the impact of multiple forward-looking economic conditions on the ECL modelled in respect of the Mortgage portfolio. In this respect, the selection of the macroeconomic variables applied to modelled PDs as well as the methodology used to calibrate the sensitivity of PDs to changes in macroeconomic conditions require a significant level of expert judgement. 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 requirements is deemed to be an area of focus, especially in the context of the unprecedented macroeconomic conditions being experienced, which have 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	*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 is deemed to be particularly susceptible to the potential impact of the significant inflationary pressures being experienced and for determining whether a UTP/default event had occurred by testing a sample of loans to 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 be particularly impacted by the current macroeconomic environment, 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

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).	(such as market value haircuts and time to sell for gone concern assessments) were appropriate given the borrowers' circumstances taking cognisance of the current macroeconomic environment, particularly supply chain disruptions, inflationary pressures and an increasing interest rate environment. • 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 current macroeconomic environment 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. • Tested 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 assets are highly sensitive. Changes to assumptions can materially impact the local group's estimates. Estimation uncertainty is heightened as a result of the current macroeconomic environment. Relevant references in the financial statements are: • Accounting policies: Notes 3(i) and 3(o); • Note on Intangible assets: Note 33 • Note on Liabilities under insurance contracts: Note 40; and • Critical accounting estimates and judgements: Note 58(b) and Note 58(c).	Our audit procedures addressing the valuation of the local group's non-linked life insurance contract liabilities and of the PVIF including 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; • we tested management's controls in respect of the valuation and assumption setting processes, • we tested the reasonableness of certain calculations performed by management, by validating whether these are aligned with internal documentation and our expectations; 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 local group 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 expenses 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). We further understood the main drivers of the increase in per policy expenses (disclosed in Note 33) and challenged management's intent to carry out certain future actions linked to renewal expenses by inter alia confirming that these actions were approved by the board. 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 difference 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 further considered the extent of related disclosures to the financial statements. 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 2022* (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, future events or conditions may cause the local group or the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the local group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 2022, 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 2022 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

Other reporting requirements

The *Annual Report and Accounts 2022* 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 2022* 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 Directors' report, 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 Directors' report 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 Directors' report 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 Directors' report, 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, our responsibility is limited to ensuring that such information has been provided.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report 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.

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 bank on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

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