HSBC Bank Malta p.l.c.

Interim Report and Accounts 2019

HSBC

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by HSBC Bank Malta p.l.c. pursuant to the Listing Rules issued by the Listing Authority.

HSBC BANK MALTA p.l.c.
INTERIM RESULTS FOR 2019

5 August 2019

Strategy execution

- Successful risk management strategy has positioned the bank to manage the range of risks facing the financial system, supporting growth in profitability.
- Next phase growth actions gaining momentum with notable progress in retail banking delivering record new customer acquisition and home loan performance.
- Commercial Banking has stabilised following completion of risk management actions. Outlook remains more challenging than in retail. Quarter of a billion euro business fund launched to accelerate revenue development.
- Good progress on cost management in the first half of the year.
- Strong capital position with dividend payout ratio sustained at 30%.

Financial performance

- Reported profit before tax of €20.9m for the six months ended 30 June 2019, an increase of €4.8m or 30% compared with the same period last year. 2019 results benefited from the non re-occurrence of a significant expected credit loss taken in 2018.
- Profit attributable to shareholders of €13.6m for the six months ended 30 June 2019 resulting in earnings per share of 3.8 cents compared with 4.0 cents in the same period in 2018.
- Common equity tier 1 capital ratio of 16.2% as at 30 June 2019, up from 14.6% at the end of 2018 well above regulatory requirements.
- Recommended gross interim dividend of 1.7 cents per share (1.1 cents per share net of tax).
- Cost efficiency ratio improved to 73% for the six months ended 30 June 2019 from 74% for the same period in 2018.
- Return on equity of 5.8% for the six months ended 30 June 2019, compared with 6.1% for the same period in 2018.
- Net loans and advances to customers were €3,183m, up €73m compared with 31 December 2018.
- Customer deposits of €4,850m at 30 June 2019, down €38m compared with 31 December 2018.
- The advances to deposits liquidity ratio increased from 64% at 31 December 2018 to 66%.

Dr George Brancaleone LL.D.
Company Secretary

This Company Announcement is issued by
HSBC Bank Malta p.l.c.
Company Secretary Tel: (+356) 2380 2404

Registered in Malta number C3177.

Registered Office: 116, Archbishop Street, Valletta VLT 1444, Malta.

HSBC Bank Malta p.l.c. is regulated and licensed to conduct investment services business by the Malta Financial Services Authority.

Listed on and is a member of the Malta Stock Exchange.

Commentary

Financial performance

Profit attributable to shareholders amounted to €13.6m resulting in earnings per share of 3.8 cents compared with 4.0 cents in the first half of 2018. The Board proposes to maintain the current dividend payout ratio of 30% and recommends an interim gross dividend of 1.7 cents per share (1.1 cents per share net of tax). The interim dividend will be paid on 18 September 2019 to shareholders who are on the bank's register as at 16 August 2019.

All three main business lines, Retail Banking and Wealth Management ('RBWM'), Commercial Banking and Global Markets, continued to be profitable during the six-month period under review.

Net interest income ('NII') decreased marginally to €53.6m compared with €54.1m in the same period in 2018 with contraction in the commercial bank loan book interest and further decline in the average yield on the investment book. The decline was largely offset by the growth in NII within the mortgage book and effective management of excess liquidity.

Non-interest income (fees and commissions and trading income) reduced by €0.6m which is largely driven by a reduction in fees due to the disposal of a specific insurance portfolio in December 2018 and a reduction in management fees within the Asset Management Company partly offset by strong performance in foreign exchange.

Operating expenses reduced by 2% to €53.6m compared with €54.9m in the same period in 2018. This reduction reflects the bank's continuous focus on cost control and the implementation of initiatives at cost base streamlining through outsourcing and processes optimisation.

Expected Credit Loss ('ECL') was a release of €1.0m versus a charge of €3.4m in 2018. 2019 results benefited from the non re-occurrence of the significant ECL seen in 2018. The bank continues to maintain a conservative provisioning approach. Overall asset quality remained satisfactory and total non-performing loans further declined from €136m to €125m during the first six months of 2019.

The effective tax rate is 35%. This translated into a tax expense of €7.3m, €5.5m higher than the same period in 2018. During the first six months of 2018, the bank benefited from a specific tax treatment applied on a one-off transaction.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €2.4m, 39% higher than the same period of 2018. The increase was partly driven by positive market movements in 2019 which were not seen in the first half of 2018. In addition, the insurance subsidiary registered a 2% increase in premium income, as a result of the growth in pensions post the launch of the new Employee Pension Plan to all HSBC Bank Malta employees in December 2018.

Financial position and capital

Net loans and advances to customers stood at €3,183m, €73m higher than at 31 December 2018 with strong growth across the RBWM mortgage portfolio and marginal growth in the commercial lending book.

The bank's financial investments portfolio increased by €53m to €958m and composed of highly rated securities and is conservatively positioned with the lowest investment grade of A-.

Customer accounts were €4,850m as at 30 June 2019, €38m or 1% lower than at 31 December 2018 with increases in Retail deposits offset by reduction in Commercial Banking deposits. The bank maintained a healthy advances to deposits ratio of 66% and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity tier 1 capital was 16.2% as at 30 June 2019, up from 14.6% at the end of 2018 well above regulatory requirements. Total capital ratio increased to 18.8% compared to 17.0% at 31 December 2018.

Andrew Beane, Director and Chief Executive Officer of HSBC Malta, said

These are a good set of results as the bank emerges from implementation of its successful risk management strategy with increasing momentum. Strategically we are now focused on delivery of world-class customer service to support growth. Progress in retail banking is ahead of expectations with significant marketshare gains achieved in new customer acquisition and home loans without increasing risk appetite. Retail Banking will also benefit from a number of digital innovations the bank will launch in the second half of the year.

Following completion of significant risk management actions, Commercial Banking has now stabilised and the performance of our Insurance company improved. Both of these divisions require further work to increase profitability and are a strategic focus for the Board. We have launched a quarter of a billion euro lending fund to help Maltese companies succeed internationally.

Progress on costs is encouraging and the bank is committed to further reduce its cost efficiency ratio over time. Additionally, HSBC's signature credit discipline has delivered further reductions to the risk profile of our portfolio. While Malta's economic performance and outlook remain positive, we are positioning the bank for the long-term economic cycle and remain cautious in growing exposure to higher risk sectors such as corporate real estate.

We welcome actions being taken by the local authorities to reform corporate insolvency practices and augur this be completed at pace. The bank's capacity to better use its capital to support lending into the economy and, if appropriate, higher dividends will significantly increase once these reforms are concluded.

Finally, as is the case with all Domestic Systemically Important Banks in the Single Supervisory Mechanism, HSBC is in early-stage discussions with the European Central Bank Single Resolution Board to understand the requirements that will apply for new Required Eligible Liabilities, commonly known as MREL. MREL is likely to further increase capital requirements for the sector and the bank intends to provide more detail with the 2019 annual results as these requirements become clearer.

Financial summary

Income statement

	Group		Bank	
	Half-year to			
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	€000	€000	**€000**	€000
Interest and similar income				
– on loans and advances, balances with Central Bank of Malta and Treasury Bills	**54,699**	55,819	**54,699**	55,820
– on debt and other fixed income instruments	**8,538**	9,092	**8,538**	9,080
Interest expense	**(9,637)**	(10,804)	**(9,637)**	(10,804)
Net interest income	**53,600**	54,107	**53,600**	54,096
Fee income	**11,959**	12,950	**10,443**	10,618
Fee expense	**(849)**	(1,016)	**(704)**	(724)
Net fee income	**11,110**	11,934	**9,739**	9,894
Net trading income	**2,756**	2,559	**2,756**	2,559
Net income/(expense) from financial instruments of insurance operations measured at fair value through profit or loss	**35,009**	(2,711)	**–**	–
Dividend income	**15**	5	**8,939**	11,412
Net insurance premium income	**32,000**	31,466	**–**	–
Movement in present value of in-force long-term insurance business	**29**	(1,430)	**–**	–
Net other operating income	**876**	1,848	**896**	1,870
Total operating income	**135,395**	97,778	**75,930**	79,831
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(61,939)**	(23,360)	**–**	–
Net operating income before changes in expected credit losses	**73,456**	74,418	**75,930**	79,831
Change in expected credit losses and other credit impairment charges	**1,036**	(3,355)	**1,036**	(3,355)
Net operating income	**74,492**	71,063	**76,966**	76,476
Employee compensation and benefits	**(24,186)**	(24,634)	**(22,821)**	(23,282)
General and administrative expenses	**(26,444)**	(27,604)	**(24,302)**	(25,544)
Depreciation of property, plant and equipment	**(2,125)**	(1,735)	**(2,125)**	(1,735)
Amortisation of intangible assets	**(798)**	(929)	**(742)**	(885)
Total operating expenses	**(53,553)**	(54,902)	**(49,990)**	(51,446)
Profit before tax	**20,939**	16,161	**26,976**	25,030
Tax expense	**(7,324)**	(1,832)	**(9,239)**	(4,725)
Profit for the period	**13,615**	14,329	**17,737**	20,305
Earnings per share	**3.8c**	4.0c		

Statements of comprehensive income

	Group		Bank	
	Half-year to			
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	€000	€000	**€000**	€000
Profit for the period	**13,615**	14,329	**17,737**	20,305
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specified conditions are met:				
Debt instruments at fair value through other comprehensive income:	**3,089**	832	**3,089**	840
– fair value gains	**4,752**	1,280	**4,752**	1,292
– income taxes	**(1,663)**	(448)	**(1,663)**	(452)
Items that will not be reclassified subsequently to profit or loss:				
Properties:	**–**	583	**–**	583
– surplus arising on revaluation	**–**	648	**–**	648
– income taxes	**–**	(65)	**–**	(65)
Defined benefit obligation:	**141**		**141**	
– remeasurement of defined benefit obligation	**217**	–	**217**	–
– income taxes	**(76)**	–	**(76)**	–
Equity instruments designated at fair value through other comprehensive income:	**660**	–	**660**	–
– fair value gains	**1,016**	–	**1,016**	–
– income taxes	**(356)**	–	**(356)**	–
Other comprehensive income for the period, net of tax	**3,890**	1,415	**3,890**	1,423
Total comprehensive income for the period	**17,505**	15,744	**21,627**	21,728

Statements of financial position

	Group		Bank	
	30 Jun 2019	31 Dec 2018	**30 Jun 2019**	31 Dec 2018
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**401,589**	190,768	**401,589**	190,768
Items in course of collection from other banks	**16,309**	5,404	**16,309**	5,404
Financial assets mandatorily measured at fair value through profit or loss attributable to insurance operations	**742,528**	694,081	**–**	–
Held for trading derivatives	**5,527**	4,956	**5,527**	4,956
Loans and advances to banks	**728,873**	1,097,714	**722,362**	1,092,773
Loans and advances to customers	**3,183,467**	3,110,412	**3,183,467**	3,110,412
Financial investments	**958,157**	904,920	**958,155**	904,918
Prepayments and accrued income	**27,222**	27,312	**23,490**	22,760
Current tax assets	**17,497**	16,728	**15,976**	15,960
Reinsurance assets	**103,753**	85,205	**–**	–
Other non-current assets held for sale	**5,797**	5,908	**5,797**	5,908
Investment in subsidiaries	**–**	–	**30,859**	30,859
Investment property	**9,726**	9,714	**7,527**	7,515
Property, plant and equipment	**53,171**	55,413	**53,278**	55,520
Intangible assets	**60,200**	59,136	**7,192**	5,831
Deferred tax assets	**17,121**	21,509	**17,121**	21,509
Other assets	**22,820**	21,814	**21,728**	20,531
Total assets	**6,353,757**	6,310,994	**5,470,377**	5,495,624
Liabilities				
Deposits by banks	**467**	2,542	**467**	2,542
Customer accounts	**4,849,917**	4,887,473	**4,891,844**	4,940,980
Held for trading derivatives	**5,431**	4,991	**5,431**	4,991
Accruals and deferred income	**25,502**	19,151	**22,084**	17,063
Current tax liabilities	**3,192**	538	**3,129**	538
Liabilities under investment contracts	**173,896**	166,347	**–**	–
Liabilities under insurance contracts	**670,677**	620,781	**–**	–
Provisions for liabilities and other charges	**20,668**	20,689	**19,769**	19,752
Deferred tax liabilities	**24,042**	23,427	**4,951**	5,119
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Other liabilities	**45,897**	44,277	**39,508**	38,857
Total liabilities	**5,881,689**	5,852,216	**5,049,183**	5,091,842
Equity				
Called up share capital	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	**37,604**	34,265	**37,604**	34,265
Retained earnings	**326,372**	316,421	**275,498**	261,425
Total equity	**472,068**	458,778	**421,194**	403,782
Total liabilities and equity	**6,353,757**	6,310,994	**5,470,377**	5,495,624
Memorandum items				
Contingent liabilities	**159,590**	149,783	**159,592**	149,785
Commitments	**1,224,012**	1,433,773	**1,224,811**	1,434,634

The financial statements were approved and authorised for issue by the Board of Directors on 5 August 2019 and signed on its behalf by:

John Bonello
Chairman

Andrew Beane
Chief Executive Officer

Statements of changes in equity

	Group			
	Share capital	Revaluation reserve	Retained earnings	Total equity
	€000	€000	€000	€000
At 1 Jan 2019	**108,092**	**34,265**	**316,421**	**458,778**
Profit for the period	**–**	**–**	**13,615**	**13,615**
Other comprehensive income				
Financial investments at fair value through other comprehensive income:				
– fair value gains, net of tax	**–**	**3,749**	**–**	**3,749**
Properties:				
– transfer to retained earnings upon realisation through disposal, net of tax	**–**	**(410)**	**410**	**–**
Defined benefit obligation:				
– remeasurement of defined benefit obligation, net of tax	**–**	**–**	**141**	**141**
Total other comprehensive income	**–**	**3,339**	**551**	**3,890**
Total comprehensive income for the period	**–**	**3,339**	**14,166**	**17,505**
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– dividends	**–**	**–**	**(4,215)**	**(4,215)**
Total contributions by and distributions to owners	**–**	**–**	**(4,215)**	**(4,215)**
At 30 Jun 2019	**108,092**	**37,604**	**326,372**	**472,068**
At 31 Dec 2017	108,092	36,430	334,516	479,038
Impact on transition to IFRS 9, net of tax	–	–	(8,049)	(8,049)
At 1 Jan 2018	108,092	36,430	326,467	470,989
Profit for the period	–	–	14,329	14,329
Other comprehensive income				
Financial investments at fair value through other comprehensive income:				
– fair value gains, net of tax	–	832	–	832
Properties:				
– surplus arising on revaluation, net of tax	–	583	–	583
Total other comprehensive income	–	1,415	–	1,415
Total comprehensive income for the period	–	1,415	14,329	15,744
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– dividends	–	–	(29,040)	(29,040)
Total contributions by and distributions to owners	–	–	(29,040)	(29,040)
At 30 Jun 2018	108,092	37,845	311,756	457,693
	Bank			
At 1 Jan 2019	**108,092**	**34,265**	**261,425**	**403,782**
Profit for the period	**–**	**–**	**17,737**	**17,737**
Other comprehensive income				
Financial investments at fair value through other comprehensive income:				
– fair value gains, net of tax	**–**	**3,749**	**–**	**3,749**
Properties:				
– transfer to retained earnings upon realisation through disposal, net of tax	**–**	**(410)**	**410**	**–**
Defined benefit obligation:				
– remeasurement of defined benefit obligation, net of tax	**–**	**–**	**141**	**141**
Total other comprehensive income	**–**	**3,339**	**551**	**3,890**
Total comprehensive income for the period	**–**	**3,339**	**18,288**	**21,627**
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– dividends	**–**	**–**	**(4,215)**	**(4,215)**
Total contributions by and distributions to owners	**–**	**–**	**(4,215)**	**(4,215)**
At 30 Jun 2019	**108,092**	**37,604**	**275,498**	**421,194**

Statements of changes in equity (continued)

	Bank			
	Share capital	Revaluation reserve	Retained earnings	Total equity
	€000	€000	€000	€000
At 31 Dec 2017	108,092	36,420	275,625	420,137
Impact on transition to IFRS 9, net of tax	—	—	(8,049)	(8,049)
At 1 Jan 2018	108,092	36,420	267,576	412,088
Profit for the period	—	—	20,305	20,305
Other comprehensive income				
Financial investments at fair value through other comprehensive income:				
– fair value gains, net of tax	—	840	—	840
Properties:				
– surplus arising on revaluation, net of tax	—	583	—	583
Total other comprehensive income	—	1,423	—	1,423
Total comprehensive income for the period	—	1,423	20,305	21,728
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– dividends	—	—	(29,040)	(29,040)
Total contributions by and distributions to owners	—	—	(29,040)	(29,040)
At 30 Jun 2018	108,092	37,843	258,841	404,776

Statements of cash flows

	Group		Bank	
	Half-year to			
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	€000	€000	**€000**	€000
Cash flows from operating activities				
Interest, fees and premium receipts	**102,769**	100,615	**68,541**	69,671
Interest, fees and claims payments	**(36,636)**	(81,954)	**(5,976)**	(6,199)
Payments to employees and suppliers	**(44,759)**	(52,681)	**(41,799)**	(48,760)
Cash flows from/(used in) operating activities before changes in operating assets/ liabilities	**21,374**	(34,020)	**20,766**	14,712
(Increase)/decrease in operating assets:				
– financial assets mandatorily measured at fair value through profit or loss attributable to insurance operations	**(4,552)**	8,422	**—**	—
– reserve deposit with Central Bank of Malta	**8**	155	**8**	155
– loans and advances to customers and banks	**(230,295)**	(84,791)	**(230,295)**	(84,791)
– Treasury Bills	**(50,005)**	5,266	**(50,005)**	5,266
– other receivables	**6,155**	(3,491)	**5,673**	(2,705)
(Decrease)/increase in operating liabilities:				
– customer accounts and deposits by banks	**(38,502)**	57,333	**(50,084)**	20,070
– other payables	**(9,654)**	18,118	**(9,988)**	7,007
Net cash used in operating activities before tax	**(305,471)**	(33,008)	**(313,925)**	(40,286)
– tax paid	**(2,329)**	(5,840)	**(1,462)**	(4,024)
Net cash used in operating activities	**(307,800)**	(38,848)	**(315,387)**	(44,310)
Cash flows from/(used in) investing activities				
Dividends received	**15**	—	**6,015**	7,600
Interest received from financial investments	**8,470**	11,526	**8,470**	9,240
Purchase of financial investments	**(256,343)**	(114,542)	**(256,343)**	(114,542)
Proceeds from sale and maturity of financial investments	**284,316**	107,202	**284,316**	105,989
Purchase of property, plant and equipment and intangible assets	**(2,484)**	(749)	**(2,468)**	(787)
Proceeds from sale of property, plant and equipment and intangible assets	**999**	—	**999**	11
Net cash from investing activities	**34,973**	3,437	**40,989**	7,511
Cash flows used in financing activities				
Dividends paid	**(4,215)**	(29,040)	**(4,215)**	(29,040)
Net cash used in financing activities	**(4,215)**	(29,040)	**(4,215)**	(29,040)
Net decrease in cash and cash equivalents	**(277,042)**	(64,451)	**(278,613)**	(65,839)
Cash and cash equivalents at beginning of period	**801,882**	848,649	**796,941**	835,035
Effect of exchange rate changes on cash and cash equivalents	**1,839**	893	**1,839**	893
Cash and cash equivalents at end of period	**526,679**	785,091	**520,167**	770,089

Notes on the financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

Our interim condensed consolidated financial statements have been prepared in accordance with Chapter 5 of the Listing Rules issued by the Listing Authority and the Prevention of Financial Markets Abuse Act 2005 and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC Bank Malta p.l.c. (the 'bank') and its subsidiary undertakings (collectively referred to as the 'local group') financial position and performance since the end of 2018. These financial statements should be read in conjunction with the *Annual Report and Accounts 2018* and the information about the application of IFRS 16 'Leases' set out below.

At 30 June 2019, there were no unendorsed standards effective for the half-year to 30 June 2019 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the local group.

Certain comparative amounts have been reclassified to comply with the current period's presentation.

Standards applied during the half-year to 30 June 2019

IFRS 16 'Leases'

On 1 January 2019, we adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by €7m and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

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

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

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

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

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment was applied on 1 January 2019 and had no material impact. Comparatives have not been restated.

(b) Use of estimates and judgements

Management believes that our critical accounting estimates and judgements are those that relate to the expected credit losses on loans and advances, valuation of financial instruments, policyholder claims and benefits and present value of in-force long-term assurance business. There were no changes in the current period to the critical accounting estimates and judgements applied in 2018, which are stated in the *Annual Report and Accounts 2018*.

(c) Composition of Group

There were no material changes in the composition of the local group in the half-year to 30 June 2019.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017 and has not been endorsed for use in the EU. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is consulting on delaying the mandatory implementation date by one year and may make additional changes to the standard. The local group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

(e) Going concern

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

(f) Accounting policies

Except as described above, the accounting policies that we applied for these interim condensed consolidated financial statements are consistent with those described on pages 58 to 75 of the *Annual Report and Accounts 2018*, as are the methods of computation.

2 Net operating income

Net operating income includes net income from Life insurance business, before elimination of intercompany balances, analysed as follows:

	Group	
	Half-year to	
	30 Jun 2019	30 Jun 2018
	€000	€000
Net interest income	**–**	11
Net fee income	**279**	631
Net income/(expense) from financial instruments of insurance operations measured at fair value through profit or loss	**35,009**	(2,711)
Net insurance premium income	**32,000**	31,466
Net other operating income/(expense) including movement in present value of in-force long-term insurance business	**32**	(1,428)
Total operating income	**67,320**	27,969
Net insurance benefits paid and movement in liabilities to policyholders	**(61,939)**	(23,360)
Net operating income	**5,381**	4,609

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

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS9 are applied and the associated allowance for ECL, as well as the fair value of financial instruments measured at FVOCI and the associated allowance for ECL.

All figures presented in this note exclude the balances relating to the insurance and the asset management subsidiaries, as the financial instruments subject to IFRS 9 impairment requirements for these subsidiaries are deemed immaterial.

	At 30 Jun 2019		At 31 Dec 2018	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	€000	**€000**	€000	€000
Loans and advances to customers at amortised cost:	**3,221,392**	**(37,925)**	3,155,180	(44,768)
– personal	**2,207,856**	**(11,940)**	2,140,547	(12,179)
– corporate and commercial	**1,012,595**	**(25,983)**	980,408	(31,837)
– non-bank financial institutions	**941**	**(2)**	34,225	(752)
Loans and advances to banks at amortised cost	**722,365**	**(3)**	1,092,776	(3)
Other financial assets measured at amortised cost:	**246,619**	**(5,802)**	89,474	(6,254)
– balances at central banks	**198,773**	**(1)**	49,253	(1)
– items in the course of collection from other banks	**16,309**	**–**	5,404	–
– accrued income and other assets[2]	**31,537**	**(5,801)**	34,817	(6,253)
Total gross carrying amount on balance sheet	**4,190,376**	**(43,730)**	4,337,430	(51,025)
Loans and other credit-related commitments:	**1,224,811**	**(1,091)**	1,434,634	(1,575)
– personal	**616,132**	**(29)**	587,005	(30)
– corporate and commercial (including non-bank financial institutions)	**608,679**	**(1,062)**	847,629	(1,545)
Financial guarantee and similar contracts:	**157,396**	**(541)**	147,579	(238)
– personal	**4,366**	**(147)**	5,679	–
– corporate and commercial (including non-bank financial institutions)	**153,030**	**(394)**	141,900	(238)
Total nominal amount off balance sheet[3]	**1,382,207**	**(1,632)**	1,582,213	(1,813)
Total	**5,572,583**	**(45,362)**	5,919,643	(52,838)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	€000	**€000**	€000	€000
Financial investments (debt securities) measured at fair value through other comprehensive income	**954,436**	**(23)**	902,215	(20)
Treasury Bills measured at fair value through other comprehensive income	**173,056**	**(1)**	110,347	(1)
Total	**1,127,492**	**(24)**	1,012,562	(21)

1 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.

2 Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments and accrued income' and 'other assets' as presented within the statement of financial position on page 5 include both financial and non-financial assets.

3 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.

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:	**2,971,521**	**125,341**	**124,530**	**3,221,392**	**(7,800)**	**(6,445)**	**(23,680)**	**(37,925)**	**0.3**	**5.1**	**19.0**	**1.2**
– personal	**2,070,300**	**71,214**	**66,342**	**2,207,856**	**(2,266)**	**(3,749)**	**(5,925)**	**(11,940)**	**0.1**	**5.3**	**8.9**	**0.5**
– corporate and commercial	**900,575**	**54,127**	**57,893**	**1,012,595**	**(5,532)**	**(2,696)**	**(17,755)**	**(25,983)**	**0.6**	**5.0**	**30.7**	**2.6**
– non-bank financial institutions	**646**	**–**	**295**	**941**	**(2)**	**–**	**–**	**(2)**	**0.3**	**–**	**–**	**0.2**
Loans and advances to banks at amortised cost	**722,365**	**–**	**–**	**722,365**	**(3)**	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**
Other financial assets measured at amortised cost	**232,194**	**959**	**13,466**	**246,619**	**(5)**	**–**	**(5,797)**	**(5,802)**	**–**	**–**	**43.0**	**2.4**
Loan and other credit-related commitments:	**1,176,509**	**47,580**	**722**	**1,224,811**	**(1,015)**	**(76)**	**–**	**(1,091)**	**0.1**	**0.2**	**–**	**0.1**
– personal	**599,432**	**16,281**	**419**	**616,132**	**(29)**	**–**	**–**	**(29)**	**–**	**–**	**–**	**–**
– corporate and commercial (including non-bank financial institutions)	**577,077**	**31,299**	**303**	**608,679**	**(986)**	**(76)**	**–**	**(1,062)**	**0.2**	**0.2**	**–**	**0.2**
Financial guarantee and similar contracts:	**149,326**	**7,672**	**398**	**157,396**	**(283)**	**(113)**	**(145)**	**(541)**	**0.2**	**1.5**	**36.4**	**0.3**
– personal	**3,940**	**197**	**229**	**4,366**	**–**	**(2)**	**(145)**	**(147)**	**–**	**1.0**	**63.3**	**3.4**
– corporate and commercial (including non-bank financial institutions)	**145,386**	**7,475**	**169**	**153,030**	**(283)**	**(111)**	**–**	**(394)**	**0.2**	**1.5**	**–**	**0.3**
At 30 Jun 2019	**5,251,915**	**181,552**	**139,116**	**5,572,583**	**(9,106)**	**(6,634)**	**(29,622)**	**(45,362)**	**0.2**	**3.7**	**21.3**	**0.8**
Loans and advances to customers at amortised cost:	2,833,200	185,719	136,261	3,155,180	(7,829)	(7,060)	(29,879)	(44,768)	0.3	3.8	21.9	1.4
– personal	2,007,777	67,675	65,095	2,140,547	(2,974)	(3,802)	(5,403)	(12,179)	0.1	5.6	8.3	0.6
– corporate and commercial	796,043	114,969	69,396	980,408	(4,644)	(3,204)	(23,989)	(31,837)	0.6	2.8	34.6	3.2
– non-bank financial institutions	29,380	3,075	1,770	34,225	(211)	(54)	(487)	(752)	0.7	1.8	27.5	2.2
Loans and advances to banks at amortised cost	1,092,776	–	–	1,092,776	(3)	–	–	(3)	–	–	–	–
Other financial assets measured at amortised cost	62,744	6,778	19,952	89,474	(3)	(12)	(6,239)	(6,254)	–	0.2	31.3	7.0
Loan and other credit-related commitments:	1,359,077	69,906	5,651	1,434,634	(1,191)	(295)	(89)	(1,575)	0.1	0.4	1.6	0.1
– personal	580,593	2,566	3,846	587,005	(30)	–	–	(30)	–	–	–	–
– corporate and commercial (including non-bank financial institutions)	778,484	67,340	1,805	847,629	(1,161)	(295)	(89)	(1,545)	0.1	0.4	4.9	0.2
Financial guarantee and similar contracts:	130,635	16,539	405	147,579	(143)	(95)	–	(238)	0.1	0.6	–	0.2
– personal	5,417	5	257	5,679	–	–	–	–	–	–	–	–
– corporate and commercial (including non-bank financial institutions)	125,218	16,534	148	141,900	(143)	(95)	–	(238)	0.1	0.6	–	0.2
At 31 Dec 2018	5,478,432	278,942	162,269	5,919,643	(9,169)	(7,462)	(36,207)	(52,838)	0.2	2.7	22.3	0.9

Summary of credit risk on debt instruments and Treasury Bills measured at FVOCI by stage distribution and ECL coverage by issuer

	Fair Value				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	%	%	%	%
Debt instruments at fair value through other comprehensive income:	**954,436**	**–**	**–**	**954,436**	**(23)**	**–**	**–**	**(23)**	**–**	**–**	**–**	**–**
– issued by local government	**521,997**	**–**	**–**	**521,997**	**(12)**	**–**	**–**	**(12)**	**–**	**–**	**–**	**–**
– issued by foreign governments	**237,563**	**–**	**–**	**237,563**	**(5)**	**–**	**–**	**(5)**	**–**	**–**	**–**	**–**
– issued by other bodies	**194,876**	**–**	**–**	**194,876**	**(6)**	**–**	**–**	**(6)**	**–**	**–**	**–**	**–**
Treasury Bills at fair value through other comprehensive income:	**173,056**	**–**	**–**	**173,056**	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
– issued by local government	**173,056**	**–**	**–**	**173,056**	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
At 30 Jun 2019	**1,127,492**	**–**	**–**	**1,127,492**	**(24)**	**–**	**–**	**(24)**	**–**	**–**	**–**	**–**
Debt instruments at fair value through other comprehensive income:	902,215	–	–	902,215	(20)	–	–	(20)	–	–	–	–
– issued by local government	489,679	–	–	489,679	(14)	–	–	(14)	–	–	–	–
– issued by foreign governments	225,452	–	–	225,452	(4)	–	–	(4)	–	–	–	–
– issued by other bodies	187,084	–	–	187,084	(2)	–	–	(2)	–	–	–	–
Treasury Bills at fair value through other comprehensive income:	110,347	–	–	110,347	(1)	–	–	(1)	–	–	–	–
– issued by local government	110,347	–	–	110,347	(1)	–	–	(1)	–	–	–	–
At 31 Dec 2018	1,012,562	–	–	1,012,562	(21)	–	–	(21)	–	–	–	–

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			
	Stage 1		Stage 2		Stage 3		Total	
	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
At 1 Jan 2019	**4,330,999**	**(9,165)**	**278,942**	**(7,462)**	**162,269**	**(36,207)**	**4,772,210**	**(52,834)**
Transfers of financial instruments:	**61,606**	**(560)**	**(67,786)**	**838**	**6,180**	**(278)**	**–**	**–**
– transfers from Stage 1 to Stage 2	**(57,847)**	**633**	**57,847**	**(633)**	**–**	**–**	**–**	**–**
– transfers from Stage 2 to Stage 1	**125,297**	**(1,208)**	**(125,297)**	**1,208**	**–**	**–**	**–**	**–**
– transfers from Stage 3	**1,656**	**(54)**	**4,564**	**(134)**	**(6,220)**	**188**	**–**	**–**
– transfers to Stage 3	**(7,500)**	**69**	**(4,900)**	**397**	**12,400**	**(466)**	**–**	**–**
Net remeasurement of ECL arising from stage transfers	**–**	**556**	**–**	**(998)**	**–**	**(1,322)**	**–**	**(1,764)**
Changes in risk parameters	**–**	**(115)**	**–**	**(5)**	**–**	**–**	**–**	**(120)**
Net new and further lending/ repayments	**(78,137)**	**182**	**(29,604)**	**993**	**(29,333)**	**629**	**(137,074)**	**1,804**
Assets written off	**–**	**–**	**–**	**–**	**–**	**7,556**	**–**	**7,556**
At 30 Jun 2019	**4,314,468**	**(9,102)**	**181,552**	**(6,634)**	**139,116**	**(29,622)**	**4,635,136**	**(45,358)**
ECL release for the period								**7,476**
Recoveries								**572**
Other								**544**
Change in expected credit losses for the period								**8,592**
Assets written off								**(7,556)**
Change in expected credit losses and other credit impairment charges								**1,036**

The above disclosure provides a reconciliation by stage of the bank's gross carrying/nominal amount and allowances for loans and advances to customers, including loan and other credit-related commitments, acceptances, accrued income and financial guarantees and similar contracts.

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.

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

4 Segmental analysis

Class of business

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by global businesses.

- **Retail Banking and Wealth Management ('RBWM')** offers a broad range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products, global asset management services and financial planning services).
- **Commercial Banking ('CMB')** offers a broad range of products and services to serve the needs of our commercial customers, including small- and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending and international trade and receivables finance. CMB also offers its customers access to products and services offered by other global businesses, for example Global Markets ('GM').
- **GM** provides tailored financial solutions to corporate and institutional clients. The client-focused business line delivers a full range of banking capabilities including assistance with managing risk via interest rate derivatives, the provision of foreign exchange spot and derivative products, and payment services.
- **Corporate Centre ('CC')** comprises mainly of Central Treasury, including Balance Sheet Management.

The local group's internal reporting to the Board of Directors and Senior Management is analysed according to these business lines. For each of the businesses, the Senior Management, in particular the Chief Executive Officer, as chief operating decision-maker, reviews internal management reports in order to make decisions about allocating resources and assessing performance.

The Board considers that global businesses represent the most appropriate information for the users of the financial statements to best evaluate the nature and financial effects of the business activities in which the local group engages, and the economic environments in which it operates. As a result, the local group's operating segments are considered to be the global businesses.

	Retail Banking and Wealth Management		Commercial Banking		Global Markets		Corporate Centre		Group total	
	Half-year to									
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018	**30 Jun 2019**	30 Jun 2018	**30 Jun 2019**	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000	**€000**	€000
Net interest income	**34,506**	32,081	**14,573**	18,205	**–**	–	**4,521**	3,821	**53,600**	54,107
Net non-interest income	**12,305**	12,239	**6,169**	6,872	**1,286**	1,181	**96**	19	**19,856**	20,311
Net operating income before changes in expected credit losses	**46,811**	44,320	**20,742**	25,077	**1,286**	1,181	**4,617**	3,840	**73,456**	74,418
Change in expected credit losses and other credit impairment charges	**142**	(1,008)	**896**	(2,349)	**–**	–	**(2)**	2	**1,036**	(3,355)
Net operating income	**46,953**	43,312	**21,638**	22,728	**1,286**	1,181	**4,615**	3,842	**74,492**	71,063
Total operating expenses	**(38,103)**	(39,262)	**(14,183)**	(14,328)	**(483)**	(519)	**(784)**	(793)	**(53,553)**	(54,902)
Profit before tax	**8,850**	4,050	**7,455**	8,400	**803**	662	**3,831**	3,049	**20,939**	16,161
Total assets	**3,211,364**	3,528,338	**1,064,928**	1,163,509	**6,526**	13,850	**2,070,939**	2,099,897	**6,353,757**	6,805,594
Total equity	**227,677**	219,831	**161,887**	165,486	**8,632**	7,956	**73,872**	64,420	**472,068**	457,693

5 Fair value of financial and non-financial assets and liabilities

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 following table sets out the fair values of financial assets and liabilities as at the reporting date.

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.

The valuation techniques utilised in preparing these condensed interim financial statements are consistent with those applied in the preparation of financial statements for the year ended 31 December 2018. There were no transfers between levels of the fair value hierarchy during the period under review.

Fair value of financial assets and liabilities carried at fair value and basis of valuation

	Quoted market price Level 1	Valuation techniques: Using observable inputs Level 2	Valuation techniques: With significant unobservable inputs Level 3	Total
	€000	€000	€000	€000
Group				
At 30 Jun 2019				
Assets				
Treasury Bills	**–**	**173,056**	**–**	**173,056**
Held for trading derivatives	**–**	**5,527**	**–**	**5,527**
Financial assets mandatorily measured at fair value through profit or loss attributable to insurance operations	**729,357**	**5,329**	**7,842**	**742,528**
Financial investments	**954,436**	**–**	**3,721**	**958,157**
Total assets	**1,683,793**	**183,912**	**11,563**	**1,879,268**
Liabilities				
Held for trading derivatives	**–**	**5,431**	**–**	**5,431**
Liabilities under investment contracts	**168,567**	**5,012**	**317**	**173,896**
Total liabilities	**168,567**	**10,443**	**317**	**179,327**
At 31 Dec 2018				
Assets				
Treasury Bills	–	110,347	–	110,347
Held for trading derivatives	–	4,956	–	4,956
Financial assets mandatorily measured at fair value through profit or loss attributable to insurance operations	678,293	7,635	8,153	694,081
Financial investments	902,217	–	2,703	904,920
Total assets	1,580,510	122,938	10,856	1,714,304
Liabilities				
Held for trading derivatives	–	4,991	–	4,991
Liabilities under investment contracts	163,359	2,408	580	166,347
Total liabilities	163,359	7,399	580	171,338
Bank				
At 30 Jun 2019				
Assets				
Treasury Bills	**–**	**173,056**	**–**	**173,056**
Held for trading derivatives	**–**	**5,527**	**–**	**5,527**
Financial investments	**954,436**	**–**	**3,719**	**958,155**
Total assets	**954,436**	**178,583**	**3,719**	**1,136,738**
Liabilities				
Held for trading derivatives	**–**	**5,431**	**–**	**5,431**
Total liabilities	**–**	**5,431**	**–**	**5,431**
At 31 Dec 2018				
Assets				
Treasury Bills	–	110,347	–	110,347
Held for trading derivatives	–	4,956	–	4,956
Financial investments	902,215	–	2,703	904,918
Total assets	902,215	115,303	2,703	1,020,221
Liabilities				
Held for trading derivatives	–	4,991	–	4,991
Total liabilities	–	4,991	–	4,991

Level 3

(a) Financial assets mandatorily measured at fair value through profit or loss attributable to insurance operations

	2019	2018
	€000	€000
At 1 Jan	**8,153**	7,474
Purchases during the period	**–**	144
Disposals during the period	**(206)**	–
(Losses)/gains recognised in profit or loss	**(105)**	40
At 30 Jun	**7,842**	7,658

The financial assets mandatorily measured at fair value through profit or loss categorised within Level 3 comprise holding of units in collective investment schemes, mainly in a European Mid-Market Debt Fund. 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 value, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians, which is not supported by audited financial statements.

(b) Financial investments

These investments consist of shares in unlisted companies, which have illiquid price sources. In view of no quoted market or observable inputs for modelling their value, the fair value of the shares held is derived using the net asset value of the respective companies as reported in the latest available financial statements.

Any changes in the unobservable inputs of both classes of financial assets categorised in Level 3 are not considered to result in significantly higher or lower fair value measurement, given that the amounts invested are considered to be immaterial.

VISA valuation

As disclosed in the bank's *Annual Report and Accounts of 2018*, the Level 3 investments predominantly comprise preferred stock of Visa Inc., which were received by the bank in 2016 in exchange for its membership interest in Visa Europe Limited, as part of a transaction in which VISA Europe Limited was acquired by VISA Inc.

The value of the convertible preference shares has been estimated at €3,691,353.

(c) Non-financial instruments at fair value

The local group's land and buildings, within property, plant and equipment, comprise commercial branches, bank offices and other operational premises. Investment property comprises commercial property leased out as offices to third parties including the local group's intermediate parent. All the recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

	Group		Bank	
	30 Jun 2019	31 Dec 2018	**30 Jun 2019**	31 Dec 2018
	€000	€000	**€000**	€000
Assets				
Property	**42,418**	43,578	**42,525**	43,676
Investment property	**9,726**	9,714	**7,527**	7,515
	52,144	53,292	**50,052**	51,191

The local group's land and buildings within property, plant and equipment and investment property are fair valued annually by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Fair values are determined on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area and, whenever possible, having regard to recent market transactions for similar properties in the same location.

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.

Fair value of financial assets and liabilities not carried at fair value

Certain financial assets and liabilities are either carried at amortised cost or cost less impairment. The fair value of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of the fair value because these are either re-priced to current market rates frequently or are short term in nature.

The following table sets out the carrying amounts and fair value of financial assets and liabilities not carried at fair value:

	Group		Bank	
	30 Jun 2019	31 Dec 2018	**30 Jun 2019**	31 Dec 2018
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta and cash	**228,533**	80,421	**228,533**	80,421
Items in the course of collection from other banks	**16,309**	5,404	**16,309**	5,404
Loans and advance to banks	**728,873**	1,097,714	**722,362**	1,092,773
Loans and advance to customers	**3,183,467**	3,110,412	**3,183,467**	3,110,412
Accrued interest	**24,917**	24,710	**21,652**	21,277
Other assets	**3,467**	6,910	**3,467**	6,910
	4,185,566	4,325,571	**4,175,790**	4,317,197
Liabilities				
Deposits by banks	**467**	2,542	**467**	2,542
Customer accounts	**4,849,917**	4,887,473	**4,891,844**	4,940,980
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**3,576**	3,702	**3,348**	3,478
Other liabilities	**21,968**	22,130	**21,968**	22,130
	4,937,928	4,977,847	**4,979,627**	5,031,130

6 Asset encumbrance

The disclosure on asset encumbrance is a requirement in terms of Banking RULE 07 transposing the provisions of the EBA Guidelines on Disclosures of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Group		Bank	
	30 Jun 2019	31 Dec 2018	**30 Jun 2019**	31 Dec 2018
	€000	€000	**€000**	€000
Total assets	**6,353,757**	6,310,994	**5,470,377**	5,495,624
Less:				
Assets pledged against the provision of credit lines by Central Bank of Malta				
– debt securities	**61,301**	61,893	**61,301**	61,893
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	**24,049**	24,043	**24,049**	24,043
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**896**	710	**896**	710
Less:				
Other assets that cannot be pledged as collateral	**1,054,449**	979,868	**181,314**	173,993
Assets available to support funding and collateral needs	**5,213,062**	5,244,480	**5,202,817**	5,234,985

The local group does not encumber any of the collateral received or any of its own debt securities issued.

As at 30 June 2019, the local group did not have any outstanding liabilities associated with encumbered assets and collateral received.

The bank undertakes the following types of encumbrance:

- Pledging of debt securities against the provision of credit lines by the Central Bank of Malta;
- Pledging of debt securities in favour of the Depositor Compensation Scheme; and
- Pledging of cash in favour of the Recovery and Resolution Regulations.

7 Dividends

	Group			
	Half-year to			
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	cent per share	cent per share	**€000**	€000
Gross of income tax				
Per 30 cent share				
In respect of previous year:				
– final dividend	**1.8**	12.4	**6,485**	44,678
In respect of current year:				
– proposed interim	**1.7**	4.0	**6,125**	14,412
	3.5	16.4	**12,610**	59,090
Net of income tax				
Per 30 cent share				
In respect of previous year:				
– final dividend	**1.2**	8.1	**4,215**	29,040
In respect of current year:				
– proposed interim	**1.1**	2.6	**3,963**	9,369
	2.3	10.7	**8,178**	38,409

Additional regulatory disclosures

Regulatory framework for disclosures

HSBC Bank Malta p.l.c. falls under the direct supervision of the Joint Supervisory Team ('JST') and the Malta Financial Services Authority ('MFSA'). The JST consists of representatives from the European Central Bank ('ECB'). The two regulatory bodies receive information on the capital adequacy requirements for HSBC Bank Malta p.l.c. as an entity. At a consolidated level, we calculate capital for regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision (the 'Basel Committee') as implemented by the European Union ('EU') in the amended Capital Requirements Directive and Regulation ('CRD IV').

The Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements, Pillar 2 in relation to supervisory review process which is complemented by Pillar 3 that concerns market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, hence their capital adequacy. Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

These Additional Regulatory Disclosures ('ARDs') are aimed at providing the local group's stakeholders further insight to the local group's capital structure, adequacy and risk management practices. The disclosures outlined below have been prepared by the local group in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the MFSA. Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive – Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation – Pillar 2) of the European Parliament and of the Council of 26 June 2013.

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU.

Table 1: Own funds disclosure

Ref		Ref[2]	At 30 Jun 2019 €000
	Common equity tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts		**108,092**
	– *of which: ordinary shares*		***108,092***
2	Retained earnings	*1*	**258,318**
3	Accumulated other comprehensive income (and other reserves)		**37,604**
3a	Funds for general banking risk (related to BR09)		**6,209**
6	**Common equity tier 1 capital before regulatory adjustments**		**410,223**
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments		**(1,142)**
8	Intangible assets (net of related deferred tax liability)		**(7,192)**
9a	IFRS 9 transitional adjustments		**6,841**
9b	Other		**(896)**
26a	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR		**(23,618)**
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**		**(26,007)**
29	**Common equity tier 1 (CET1) capital**		**384,216**
51	**Tier 2 (T2) capital before regulatory adjustments**		**62,000**
57	**Total regulatory adjustments to tier 2 (T2) capital**		**–**
58	**Tier 2 (T2) capital**		**62,000**
59	**Total capital (TC = T1 + T2)**		**446,216**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment		
	– *of which: Items not deducted from CET1: direct holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*		***28,578***
	– *of which: Items not deducted from CET1: deferred tax assets arising from temporary differences*		***17,121***
60	**Total risk-weighted assets**		**2,378,974**
	Capital ratios and buffers		
61	Common equity tier 1		**16.2%**
62	Tier 1		**16.2%**
63	Total capital		**18.8%**
64	Institution specific buffer requirement		**8.5%**
65	– *of which: capital conservation buffer requirement*		***2.5%***
66	– *of which: counter cyclical buffer requirement*		***0.0%***
67	– *of which: systemic risk buffer requirement*	*2*	***0.0%***
67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*		***1.5%***
68	Common equity tier 1 available to meet buffers	*3*	**10.2%**
	Amounts below the threshold for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**17,121**

1 The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiary engaged in insurance activities from the regulatory consolidation and part of profit not eligible according to Article 26(2) of CRR (i.e. profits not audited and foreseeable charges or dividends).
2 The bank does not have any systemic risk buffer as at 30 June 2019.
3 Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total weighted on and off balance sheet exposures, and further netting possibilities on market instruments. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. Although there is currently no binding leverage ratio requirement on the Bank, the risk of excess leverage is managed as part of HSBC's appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC Bank Malta p.l.c. is willing to accept in its business activities in order to achieve its strategic business objectives.

The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

For HSBC Bank Malta p.l.c., the leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee every month.

The following is the local group's leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

The following tables show the difference on balance sheet exposures in relation to the calculation of the leverage ratio.

Table 2: Summary reconciliation of accounting assets and leverage ratio exposures

		At	
		30 Jun 2019	31 Dec 2018
		€000	€000
1	Total assets as per published financial statements	**6,353,757**	6,310,994
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(951,970)**	(824,662)
4	– derivative financial instruments	**4,790**	4,275
6	– off balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	**237,199**	283,164
7	– other	**13,755**	(35,034)
8	**Total leverage ratio exposure**	**5,657,531**	5,738,737

1 *We have restated the comparative period in accordance with current period presentation.*

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

Table 3: Leverage ratio common disclosure

		At	
		30 Jun 2019	31 Dec 2018
		€000	€000
	On balance sheet exposures (excluding derivatives)		
1	On balance sheet items (excluding derivatives)	**5,442,655**	5,477,526
2	Assets deducted in determining Tier 1 capital	**(32,731)**	(31,184)
3	**Total on balance sheet exposures (excluding derivatives and SFTs)**	**5,409,924**	5,446,342
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**5,618**	4,956
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**4,790**	4,275
11	**Total derivative exposures**	**10,408**	9,231
17	Off balance sheet exposures at gross notional amount	**1,074,050**	1,056,083
18	Adjustments for conversion to credit equivalent amounts	**(836,851)**	(772,919)
19	**Total other off balance sheet exposures**	**237,199**	283,164
	Capital and total exposures		
20	Tier 1 capital	**384,216**	377,346
21	Total leverage ratio exposure	**5,657,531**	5,738,737
	Leverage ratios		
22	Leverage ratio (%) – fully-loaded	**6.8**	6.6

1 *We have restated the comparative period in accordance with current period presentation.*

Table 4: Leverage ratio – Split of on balance sheet exposures (excluding derivatives and exempted exposures)

		At	
		30 Jun 2019	31 Dec 2018
		€000	€000
EU-5	exposures treated as sovereigns	**1,131,389**	874,730
EU-7	institutions	**722,389**	1,090,319
EU-8	secured by mortgages of immovable properties	**2,540,610**	2,498,459
EU-9	retail exposures	**128,649**	128,929
EU-10	corporate	**221,574**	199,439
EU-11	exposures in default	**108,063**	117,089
EU-12	other exposures (e.g. equity and other non-credit obligation assets)	**589,981**	568,561
	Total	**5,442,655**	5,477,526

1 *We have restated the comparative period in accordance with current period presentation.*

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Bank Malta p.l.c.
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	For consolidated Group reporting, we have adopted the standardised approach for our business in accordance with Article 317. Under the standardised approach the local group utilises risk weights determined by exposure class, credit risk mitigation and credit ratings as outlined in the CRR.
Counterparty credit risk	Four approaches to calculating CCR and determining exposure values are defined by the Basel Committee: mark-to-market, original exposure, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, foundation IRB or advanced IRB.	We use the mark-to-market approach to calculate to CCR exposure value as defined in Article 274 of the Capital Requirements Regulation.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For reporting purposes, all non-trading book equity exposures are treated under the standardised approach.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA').	The market risk capital requirement is measured using the standard rules.
Operational risk	The Basel Committee allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We currently use the standardised approach in determining our operational risk capital requirement.

Table 5: Net value of exposure

	Group		
	30 Jun 2019		
	Net value of exposure	Risk-weighted assets	Capital Required[1]
	€000	€000	€000
Central governments or central banks	**1,131,389**	**–**	**–**
Public sector entities	**191,618**	**1**	**–**
Multilateral development banks	**194,876**	**–**	**–**
Institutions	**759,739**	**153,547**	**12,284**
Corporates	**346,233**	**163,543**	**13,083**
Retail exposures	**333,595**	**95,294**	**7,624**
Secured by mortgages on immovable property	**3,255,013**	**1,321,153**	**105,692**
Exposures in default	**108,561**	**122,992**	**9,839**
Items associated with particularly high risk	**32,546**	**37,534**	**3,003**
Equity exposures	**3,721**	**3,721**	**298**
Other items	**213,953**	**223,328**	**17,866**
Credit risk	**6,571,244**	**2,121,113**	**169,689**
Operational risk		**256,893**	**20,551**
Foreign exchange risk		**968**	**77**
Total		**2,378,974**	**190,317**
Own funds			
Common Equity Tier 1			**384,216**
Tier 2			**62,000**
Total own funds			**446,216**
Total capital ratio			**18.8%**

1 *Capital requirements, here and in all tables where the term is used, represents the Pillar I capital charge at 8% of RWAs.*

Table 6: Overview of RWAs (OV1)[1]

		Risk-weighted assets	Risk-weighted assets	Minimum capital requirements
		30 Jun 2019	31 Dec 2018	30 Jun 2019
		€000	€000	€000
1	Credit risk (excluding CCR)	**1,996,865**	2,191,894	**159,749**
2	*– of which: the standardised approach*	***1,996,865***	*2,191,894*	***159,749***
6	CCR	**8,580**	6,749	**686**
7	*– of which: mark to market*	***8,580***	*6,749*	***686***
19	Market risk	**968**	592	**77**
20	*– of which: the standardised approach*	***968***	*592*	***77***
23	Operational risk	**256,893**	256,893	**20,551**
24	*– of which: standardised approach*	***256,893***	*256,893*	***20,551***
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**115,668**	125,218	**9,254**
29	**Total**	**2,378,974**	2,581,346	**190,317**

1 *'Capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

I confirm that to the best of my knowledge:

- the condensed interim financial statements give a true and fair view of the financial position of the local group and the bank as at 30 June 2019, as well as of their financial performance and cash flows for the period then ended, in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and
- the commentary includes a fair review of the information required under Listing Rule 5.81 to 5.84.

Andrew Beane
Chief Executive Officer

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