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.

Quote:

During a meeting held on 23 February 2021, the Board of Directors of HSBC Bank Malta p.l.c. approved the attached Annual Report and Accounts as at 31 December 2020.

Fundamentals remain strong despite Covid-19 challenges for HSBC Malta

Financial Performance

- Reported profit before tax of €10.4m, a decrease of €20.3m or 66% compared to prior year. The Covid-19 outbreak had a material impact on our performance in particular on the expected credit losses and other credit impairment charges ('ECL') of €25.6m and on the insurance subsidiary results.
- Fundamentals remain strong with revenues broadly flat year on year.
- Significant improvement in the cost base as a result of rigorous cost management and sustainable savings from the restructuring programme announced in 2019.
- Recommended gross final dividend of 1.16 cents per share (0.75 cents per share net of tax).
- Reported cost efficiency ratio of 73.0% compared with 80.2% for 2019.
- Reported profit attributable to shareholders of €7.6m for the year ended 31 December 2020 resulting in earnings per share of 2.1 cents compared with 5.6 cents in the same period in 2019.
- Strong capital base with a common equity tier 1 ('CET1') ratio of 18.0%, up from 16.4% at the end of 2019. Total capital ratio was 20.7% compared to 19.0% at 31 December 2019.
- Return on equity of 1.6% compared with 4.3% for 2019.
- Net loans and advances to customers were €3,265m, up €7.2m compared with 31 December 2019.
- Customer deposits increased by 6% to €5,273m at 31 December 2020.
- Strong Liquidity Position with advances to deposits ratio at 62%.

Strategy Execution

- Effective execution of the 2019 restructuring programme contributed to a 7% reduction in costs versus prior year.
- Design and launch of Safe Growth strategy.
- Rigorous focus on credit quality with €9.3m reduction (-16% versus prior year) in wholesale non-performing loans ('NPL'). Retail NPL increased by 34% due to extended moratoria measures.
- Supported our customers during the pandemic through payment moratoria and short-term credit facilities, as well as the development of a lending product aligned with the Malta Development Bank Covid-19 Guarantee Scheme.
- Enabled 90% our staff to work from home while our Corporate Real Estate team ensured that evolving Health Authority Guidelines were and remain respected in all our offices and branches.
- Launched digital enhancements such as online on boarding for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users to support the ongoing delivery of fair outcomes for our customers.
- Updated our footprint reflecting further accelerated trends in our customer behaviour with over 90% of basic retail transactions carried out digitally.
- Strengthened our capital ratios while continuing to build up capital reserves for non-performing loan requirements in line with prudential regulations.
- Proposed dividend of €2.7m based on 2019 and 2020 reported profits. This is in line with the recommendation of the European Central Bank.

HSBC Bank Malta p.l.c. informs the general public that the Annual Report and Accounts for the year ending 31 December 2020 can be viewed on the Bank's website – https://www.about.hsbc.com.mt/investor-relations.

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, Valletta VLT 1444, Malta
HSBC Bank Malta p.l.c. is licensed to conduct investment services business by the Malta Financial Services Authority
Listed on and is member of the Malta Stock Exchange

Directors' Report

Financial Performance

Reported profit before tax for the year ended 31 December 2020 was €10.4m. This represents a decrease of €20.3m or 66% compared to prior year. While there were no notable items in 2020, adjusted profit before tax for 2019 excluded the impact of a restructuring provision of €16.0m and a provision release relating to brokerage remediation of €1.4m. Adjusted profit before tax of €10.4m decreased by €34.9m, or 77% versus 2019.

Reported profit attributable to shareholders was €7.6m resulting in earnings per share of 2.1 cents compared with 5.6 cents in the same period in 2019.

Net interest income decreased by 4% to €105.9m compared with the prior year. Lower interest paid on customer deposits as a result of repricing exercises and changes in deposit composition towards the short term was offset by lower average yields on debt securities and money market placements as well as lower overdraft and credit card balances arising from the current economic environment. Despite the European Central Bank deposit rate declining further, the bank limited the losses incurred on placement of excess liquidity as a result of effective liquidity management.

Net fee income decreased by €1.8m compared to 2019 driven by a reduction in activity due to Covid-19 across cards, payments, insurance and credit facilities.

Net trading income increased by €1.3m mainly due to higher fair value gains on Visa shares.

Operating costs for the year amounted to €97.4m compared to €120.7m reported in 2019. 2019 operating expenses included a restructuring provision of €16.0m. Excluding the restructuring provision, we delivered cost reductions of €7.3m or 7% while absorbing inflationary costs and Covid-19 related expenses. The improvement in the cost base was a result of rigorous cost management and sustainable savings from the restructuring programme announced in 2019.

Expected credit losses and other credit impairment charges ('ECL') for the year ended 31 December 2020 were €25.6m, an increase of €25.2m compared with 2019. The increase in ECL was driven by expected rather than incurred losses. This reflects the benefit of support measures introduced by the government, policy guidance from regulators and the bank's conservative risk culture. During the year, a number of corporate names were deemed to have suffered a significant increase in credit risk as they operate in industries heavily impacted by the Covid-19 pandemic. We also considered the possibility of future defaults linked to extended moratoria measures.

The effective tax rate was 27.5%. This translated into a tax expense of €2.9m, €7.7m lower than the €10.5m expense for 2019.

HSBC Life Assurance (Malta) Limited reported a loss before tax of €9.1m compared to a profit before tax of €3.1m reported in 2019. The adverse variance of €12.2m is mainly attributable to a drop in the financial markets and further deterioration of the yield curve negatively impacting revenues by €3m; actuarial losses of €8.4m as modelled parameters such as lapses and interest rates were worse than those estimated in 2019; and lower new business of €1m.

Financial Position and Capital

Net loans and advances to customers increased by €7.2m to €3,265m with retail balances up 1% and commercial balances 1% lower than December 2019. The bank continued to improve the asset quality by reducing commercial NPL by 16% versus prior year. Retail NPL increased by 34% due to extended moratoria measures.

Customer deposits grew by 6% to €5,273m driven by retail deposits with commercial balances broadly flat. The bank maintained a healthy advances to deposits ratio of 62% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio decreased by 7% to €877m. The decrease relates to the investment of maturing debt securities in treasury bills. The risk appetite for investment quality remained unchanged. The portfolio is managed as a high-quality liquidity buffer and consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better.

The bank's capital ratios continued to improve with CET1 increasing from 16.4% to 18.0% and the total capital ratio improving from 19.0% to 20.7%. The bank continued to have a strong capital base and is fully compliant with the regulatory capital requirements. The bank continued in its effort to manage down risk weighted assets ('RWAs') across 2020, driven by placements of excess liquidity and more efficient collateral management.

Given our strong capital base and recognising the importance of dividends to our shareholders, the Board recommended a dividend pay-out ratio of 15% on the cumulated 2019 and 2020 reported profits for entities in scope of the Capital Requirements Regulation and after deducting any dividend paid in relation to the same period. This proposal is in line with the recommendation of the European Central Bank. The final gross dividend will be 1.16 cents per share (0.75 cents per share net of tax). The final dividend will be paid on 26 April 2021 to shareholders who are on the bank's register of shareholders at 23 March 2021.

Simon Vaughan Johnson, Chief Executive Officer at HSBC Bank Malta p.l.c., said:

"HSBC's financial performance in 2020 was materially impacted by the Covid-19 outbreak. The increase in ECL reflected the impact of Covid-19 on the forward economic outlook. Losses incurred by the insurance subsidiary arose from adverse market movements. Both these impacts overshadowed the strong progress made on cost reduction as a result of rigorous cost management sustained throughout the year. Despite the impact of Covid-19, the bank's fundamentals remain strong and underlying performance was resilient.

"Covid-19 posed significant challenges for our personal and commercial customers. Our immediate priority has been to provide proactive support and flexibility to our customers from the outset of the pandemic. We have partnered with customers through payment moratoria, restructuring payments, short-term credit facilities and access to cash. We are providing facilities to support our commercial banking customers through both Malta Development Bank backed schemes and HSBC relief initiatives, as well as helping businesses to navigate the current environment.

"2020 was a uniquely challenging year in which unprecedented events and an uncertain environment meant that we had to adapt quickly to new ways of working and deploy innovative practices to meet and exceed our customers' expectations. We developed and released a number of digital enhancements to support the ongoing delivery of fair outcomes for our customers. These included the launch of an online on boarding journey for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users, to ensure that our customers continued to receive products and services securely, safely and conveniently.

"In 2020 we have continued to focus on our digital banking services since launching our mobile banking app for personal customers towards the end of 2019. The trend in customer behaviour has shown that digital transactions have more than doubled since this launch. This investment will be complemented shortly by the opening of a new and modern branch which will offer our personal banking customers a one stop shop for advice on all major life events. Branch banking and our ATM network will remain a critical part of our service offering to customers.

'We are embarking on the execution of our Safe Growth strategy, focusing on three key pillars: growth, our customers and our people. We will strive to be an externally-focused, performance-led organisation and we remain committed to long-term measures of performance and risk management with zero appetite for financial crime risk. We will accelerate growth from our core businesses and we will be leveraging our international advantage. We will build and invest in a bank that is fit for the future and which puts the customer at the centre of what we do.

"We remain dedicated across the entity to operate in a sustainable, climate-aware fashion, aligning our activities to the Group's ambition to be net zero in operations and supply chain by 2030, and in financed emissions by 2050, in line with the goals of the Paris Agreement on climate. Looking ahead to 2021, we seek to embed our Climate Strategy, actively supporting the Maltese economy to achieve the Paris Agreement goal of net zero by 2050.

"Throughout the year, the well-being of our people and the safety of our customers has been our paramount concern. From the outset of the pandemic, we have taken steps to enable our front-line colleagues to do their jobs safely and effectively. The Covid-19 outbreak has taught us that many roles can be undertaken effectively outside the traditional workplace, accelerating our focus on enabling greater flexibility in how our people will work in the future. We will continue to invest in opportunities for our people, helping colleagues to develop skills, learn new capabilities and adapt to the future. I would like to express my sincere thanks and gratitude to my colleagues for their dedication and hard work in 2020.

"HSBC remains a strong bank in spite of the Covid-19 crisis and continues to maintain high standards through applying our core values and doing the right thing. We remain firmly committed to this ethos as we pivot the business towards Safe Growth in the years ahead."

Unquote

Dr George Brancaleone LL.D.

Company Secretary

HSBC Bank Malta p.l.c.

Annual Report and Accounts 2020

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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Contents

Chairman’s Statement

The conditions under which our bank has had to operate during most of 2020 were obviously dominated by the unforeseen global pandemic caused by the Covid-19 virus. This has had a seriously detrimental effect on all of the bank’s operations, as indeed it has had on the majority of businesses worldwide. Not surprisingly, the local economy has suffered too, with some sectors being particularly badly hit, but the various support measures put in place by the Government and the relevant institutions, including the banks, have thus far gone some way to soften the blow. Some encouraging signs emerged at the end of the year, thanks to the remarkable efforts of the international scientific community to develop vaccines in such a short period, but it is impossible to predict, with any certainty, a timeframe for any economic recovery.

The negative interest rate environment has continued to prevail and there is little evidence to suggest that this will change soon. This continues to have an effect on the results of our bank, over and above the effect of the pandemic.

The economic instability created by the pandemic has materially impacted the bank’s performance in 2020, as our CEO explains in his review that follows. The bank has been obliged to make increased provisions on its loan book, based on cautious and conservative economic forecasts and regulatory policy guidelines. In addition, the pandemic has resulted in a deterioration in the valuation of investments in our insurance business, with a negative impact on results. Nevertheless, I am pleased to note that, given our strong capital position, the bank is proposing the payment of a dividend to the extent that regulatory restrictions allow.

In terms of the recovery of the local economy, the immediate priority must be the quickest possible roll-out of our national inoculation programme to enable our economic operators to plan for that recovery and beyond, and to focus on the long term sustainability of their businesses. It remains essential, for long term sustainability, that all our economic operators, as well as our institutions, manage effectively their risk exposure to financial crime. It is essential that the work that has been done to address shortcomings on which our bank has been expressing concern for some time, results in a successful outcome to the much awaited Moneyval report. Whilst national efforts, both at country and enterprise levels, to combat financial crime must continue unabated, it should not stop there. If we are to build a sustainable economic model for our country, apart from effective governance, we have to recognise and embrace other global priorities, at the forefront of which, is the environment. HSBC has made a very strong commitment globally to encourage and support sustainable finance initiatives.

At HSBC, we continue to believe that the most important contribution we can make to the local economy is to continue to be a strong and safe bank. We aim to grow our business from the compliant platform of operations that we have built. We will continue to invest in a modern banking offering what we believe is most suited to our customers’ needs. We believe that the investment in our new branch at 80 Mill Street in Qormi will be the embodiment of this, as will our growing suite of digital solutions. We will continue to offer the unique support to the international trading activities of our customers enabled by our Global brand. In short, we will continue to pursue safe growth.

Results

Financial performance in 2020 was heavily impacted by the Covid-19 pandemic. The reported profit before tax for the year ended . 31 December 2020 was €10.4m. This represents a decrease of €20.3m or 66% compared with the prior year. The decrease in profits is mainly attributable to higher expected credit losses booked on our wholesale and retail portfolios as well as losses incurred by the insurance subsidiary.

End-of-Year Financial Results, 18 February 2020, Malta Chamber of Commerce, Enterprise and Industry

Whilst there were no notable items in 2020, the adjusted profit before tax for 2019 excluded a restructuring provision and a brokerage provision release. The adjusted profit before tax decreased by €34.9m, or 77% versus 2019. More details on the financial results can be found in the CEO's review.

The bank's capital ratios continued to improve with CET1 increasing from 16.4% to 18.0% and the total capital ratio improving from 19.0% to 20.7%. The bank continues to maintain a strong capital base and is fully compliant with the regulatory capital requirements.

Profit attributable to shareholders amounted to €7.6m, resulting in earnings per share of 2.1 cents compared with 5.6 cents in 2019.

Given our strong capital base and recognising the importance of dividends to our shareholders, the Board recommended a dividend of €2.7m. This proposal represents the maximum that can be distributed, in line with the recommendation of the European Central Bank.

The final gross dividend will be 1.16 cents per share (0.75 cents per share net of tax).

Our regulatory environment

During the course of 2020, regulatory and supervisory authorities have maintained a sharp focus on prudential risk management, aiming to consolidate the banks' capital and liquidity. This focus has become more pronounced in 2020 as a result of Covid-19 and its impact on the financial services industry. Notwithstanding these challenges, the bank has successfully managed its prudential risk in a market which has been significantly impacted by negative interest rates and enhanced cost pressures emanating from heightened compliance a nd risk management activities. During this time, the bank has effectively maintained its business model which is aligned to the principle of safe growth and strict but safer prudential risk buffers and high compliance standards.

From a regulatory engagement perspective, continuous and transparent engagement with the bank's principal regulators has continued on multiple risk themes and assessments and was further enhanced as a result of the onset of Covid-19. Engagement was mainly focused on ensuring that governance and prudential risk management structures, procedures, and internal controls are operating effectively, with an increased focus by the local regulators on the area of Financial Crime. This work continues to be pivotal to the regulators' supervisory evaluation process.

The Regulatory Change Programme of the bank has progressed on various new and enhanced investor and consumer protection regulations such as the Cross Border Payments Regulation II ('CBPR II'), Payment Services Directive II ('PSD II'), and the Shareholders Rights Directive II ('SRD II'). These regulatory requirements are aimed at facilitating an expanded digital footprint and financial inclusion in banking products and services, while providing more comprehensive disclosures to customers and shareholders. Additionally, the Directive on Moratoria on Credit Facilities in Exceptional Circumstances ('CBM Directive 18') has been implemented by the Central Bank of Malta in response to Covid-19. This Directive aims to provide the regulatory framework for Malta's credit and financial institutions to grant a moratorium on credit facilities to borrowers who have been materially impacted by the Covid-19 outbreak.

Interim Financial Results, 3 August, remote event

During this year, the bank was closely engaged with regulators and industry bodies during the consultation/ongoing implementation processes of other regulatory changes, such as the changes to the FIAU Implementing Procedures, Interbank Offered Rates ('IBORs') transition, and UK Brexit preparations. Additionally, an area which has continued to gain traction during 2020 has been the rise of Fintech and of digital business models, cyber-related risks and cyber-resilience, which have featured more prominently on the regulatory agenda and also remained a focal point in the bank's strategic and operational defences.

The bank shall continue to observe and track 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

Through our HSBC Malta Foundation, we focus on creating a sustainable future that leaves a positive impact on our society, environment and economy. The HSBC Group has been working relentlessly on shaping its Corporate Sustainability agenda for future generations to come. We strive to become a net zero bank. HSBC Group will achieve this by ensuring our operations are net zero by 2030 and align our financed emissions to achieve net zero by 2050 or sooner. HSBC Group will support its customers in this journey by dedicating up to $1 trillion of financing and investment globally in the next 10 years. With this ambition in mind, locally we have been very active during 2020 to drive initiatives aligned with this strategy.

In today's rapidly changing world, HSBC's Future Skills Programme is supporting young people across Malta and Gozo to acquire new capabilities that can enable them to thrive in their future careers. The HSBC Malta Foundation facilitated a number of projects including STEM Camps (Science, Technology, Engineering and Maths), in cooperation with the Science Centre in Pembroke, a social enterprise project in cooperation with Maria Regina College and the Dun Manuel Attard Young Adult Education Resource Centre in Wardija, a career skills project in cooperation with the Down Syndrome Association of Malta, The Prince's Trust International Achieve programme and various programmes of the JAYE Malta Foundation. These programs reached over 1,300 youths across Malta and Gozo.

Another focus area is financial literacy. The HSBC Malta Foundation is supporting the following initiatives: The Malta Business Bureau's Invest+ project where we organised a series of interactive training sessions in the use of digital banking channels; organised a number of Financial Literacy Talks to the community on financial wellbeing and knowledge, and supported the National Financial Literacy campaign GEMMA in a number of activities, reaching more than 500 citizens in our community.

The HSBC Centre of Sustainable Finance supports HSBC's ambition to facilitate a low-carbon transition by providing thought leadership about transforming the real economy and strengthening the financial system response to climate change. In 2020, the HSBC Foundation started discussions with various institutions to identify programs linked with our Climate Ambition which will be launched in 2021.

Every year, the HSBC Malta Foundation earmarks part of its funding for causes that are important to our community. This includes environmental protection and heritage conservation. During 2020, the Foundation proudly supported a number of local NGOs, including Nature Trust Malta, Dr Klown, OASI Foundation, MOVE, Malta Community Chest Fund Foundation, Fondazzjoni Patrimonju Malti, Malta Red Cross Society, and the Malta Hospice Movement. At the onset of the Covid-19 crisis, HSBC Malta Foundation supported Foodbank Lifeline Foundation, Caritas Malta, St Jeanne Antide Foundation, Richmond Foundation, and the Malta Trust Foundation in order to assist vulnerable people in our community who were hit by the pandemic.

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

HSBC Malta employees involved in tree planting

Our People

The challenges that our people have faced in this pandemic are considerable. I cannot praise highly enough the efforts made by management to place the safety and well-being of our people and customers ahead of all other considerations. Similarly, I cannot praise highly enough the serious and collaborative response of our people to the new protocols they were, and continue to be, faced with.

I would therefore like to express my gratitude, on your behalf, to our employees who work diligently every day to deliver HSBC's services to our customers. Our employees are obliged to work in compliance with the highest standards and their discipline and dedication is commendable.

Our people are led by a highly professional and multi-skilled management team that has worked extremely hard to lead the bank in these difficult times whilst at the same time setting forward looking strategies for safe growth to present to the Board.

HSBC Malta supports Malta Trust Foundation's Food Aid Project

Our Board of Directors

During 2020, there were some changes to the membership of the Board. On 9 March, the bank announced the appointment of Simon Vaughan Johnson as Chief Executive Officer and Executive Director of the bank. He took over from Andrew Beane who moved to a new senior role within the HSBC Group as Chief of Staff and Transformation, Europe. As Chief Executive Officer, Andrew Beane was responsible for the running of the bank during a period which was necessary to make a number of fundamental changes to the bank's operations. He always carried out his responsibilities with courage and professionalism in the interest of the bank as a whole. The bank remains grateful for his sterling service.

Simon Vaughan Johnson, an Associate of the Chartered Institute of Bankers ('ACIB') and a Member of the Chartered Institute of Linguists, brings to the Board a broad and deep international banking experience. A former Country Head, who worked 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 9 countries and 4 Regions. Prior to taking up his appointment in Malta, Mr Vaughan Johnson was Head of the Remediation Management Office, HSBC France. His appointment was approved by the Regulator on 6 July 2020.

On 8 April Gordon Cordina resigned from being a Director after three years on the Board. He was succeeded by Manfred Galdes, who is a lawyer by profession and practises 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, he headed the FIAU, Malta's financial intelligence unit and principal AML/CFT supervisory authority. He is presently a managing partner of the ARQ Group, a multi-disciplinary advisory firm.

The final change to the Board composition occurred on 11 November when Christopher Davies relinquished his directorship on the Board, after having been in the role since May 2014. During his tenure Christopher Davies, a Group General Manager, had provided the Board with an invaluable connection between the bank and the HSBC Group for which the bank remains indebted.

On 11 November the bank announced the proposed appointment of Matthew Colebrook to replace Christopher Davies as Non-Executive Director. Matthew Colebrook is an experienced banker with 34 years of distinguished service with the HSBC Group. He has held various senior managerial positions within HSBC Group across the globe. Presently, he holds the role of Regional Head Wealth and Personal Banking for Europe, the Middle East and North Africa and Turkey. This appointment is still subject to regulatory approval.

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

Looking ahead

Our bank is managed for the long term and decisions are taken in the best interest of all our stakeholders whilst staying true to our values.

The economic environment has been overwhelmed by the current pandemic and the banking sector, also characterised by low interest rates, continues to be challenging. This has had a negative impact on the results of the bank for 2020 but we will nevertheless continue to seek to invest in and improve our service and propositions.

We will continue to focus on sensible opportunities aligned to our values that will create long term benefits for all our stakeholders. Our unique ability to connect Maltese companies to the global economy remains a signature advantage.

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

John Bonello

Chairman

23 February 2021

Chief Executive Officer's review

As the Chairman stated, 2020 was a uniquely challenging year in which unprecedented events and an uncertain environment meant that we had to adapt quickly to new ways of working and deploy innovative practices to meet and exceed our customers' expectations. Covid-19 posed significant challenges for our personal and commercial customers and our immediate priority has been to provide proactive support and flexibility to our customers from the outset of the pandemic.

HSBC's financial performance in 2020 was materially impacted by the Covid-19 outbreak. The increase in expected credit losses and other credit impairment charges ('ECL') reflected the impact of the pandemic on the forward economic outlook. Losses incurred by the insurance subsidiary arose from adverse market movements. Both these impacts overshadowed the strong progress made on cost reduction as a result of rigorous cost management sustained throughout the year. Despite the impact of Covid-19, the bank's fundamentals remain strong and underlying performance was resilient.

In 2020 we have continued to focus on our digital banking services since launching our mobile banking App for personal customers towards the end of 2019. The trend in customer behaviour has shown that digital transactions have more than doubled since this launch. This investment will be complemented shortly by the opening of a new and modern branch which will offer our personal banking customers a one stop shop for advice on all major life events. Branch banking and our ATM network will remain a critical part of our service offering to customers.

We developed and released a number of digital enhancements to support the ongoing delivery of fair outcomes for our customers. These included the launch of an online on boarding journey for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users, to ensure that our customers continued to receive products and services securely, safely and conveniently.

We have partnered with customers through payment moratoria, restructuring payments, offering short-term credit facilities and access to cash. We are providing facilities to support our commercial banking customers through both Malta Development Bank backed schemes and HSBC relief initiatives, as well as helping businesses to navigate the current environment through briefings and seminars by local and Group experts.

We are embarking on the execution of our Safe Growth strategy, focusing on three key pillars: growth, our customers and our people. We will strive to be an externally-focused, performance-led organisation and we remain committed to long-term measures of performance and risk management with zero appetite for financial crime risk. We will accelerate growth from our core businesses and we will be leveraging our international advantage. We will build and invest in a bank that is fit for the future and which puts the customer at the centre of what we do.

We remain dedicated across the entity to operate in a sustainable, climate-aware fashion, aligning our activities to the Group's ambition to be net zero in operations and supply chain by 2030, and in financed emissions by 2050, in line with the goals of the Paris Agreement on climate. Looking ahead to 2021, we seek to embed our Climate Strategy, actively supporting the Maltese economy to achieve the Paris Agreement goal of net zero by 2050.

Throughout the year, the well-being of our people and the safety of our customers has been our paramount concern. From the outset of the pandemic, we have taken steps to enable our front-line colleagues to do their jobs safely and effectively. The Covid-19 outbreak has taught us that many roles can be undertaken effectively outside the traditional workplace, accelerating our focus on enabling greater flexibility in how our people will work in the future. We will continue to invest in opportunities for our people, helping colleagues to develop skills, learn new capabilities and adapt to the future.

I would like to express my sincere thanks and gratitude to our Board and my colleagues for their dedication, hard work and support in 2020.

HSBC remains a strong bank in spite of the Covid-19 crisis and continues to maintain high standards through applying our core values and doing the right thing. We remain firmly committed to this ethos as we pivot the business towards Safe Growth in the years ahead.

Performance

The reported profit before tax for the year ended 31 December 2020 was €10.4m. This represents a decrease of €20.3m or 66% compared to prior year. Whilst there were no notable items in 2020, the adjusted profit before tax for 2019 excluded the impact of a restructuring provision of €16.0m in 2019 and a provision release relating to brokerage remediation of €1.4m. The adjusted profit before tax of €10.4m decreased by €34.9m, or 77% versus 2019.

Reported profit attributable to shareholders was €7.6m resulting in earnings per share of 2.1 cents compared with 5.6 cents in the same period in 2019.

Net interest income decreased by 4% to €105.9m compared with the prior year. Lower interest paid on customer deposits as a result of repricing exercises and changes in deposit composition towards the short term were offset by lower average yields on debt securities and money market placements as well as lower overdraft and credit card balances arising from the current economic environment. Despite the European Central Bank deposit rate declining further, the bank limited the losses incurred on placement of excess liquidity as a result of effective liquidity management.

Net fee income decreased by €1.8m compared to 2019 driven by a reduction in activity due to Covid-19 across cards, payments, insurance and credit facilities.

Net trading income increased by €1.3m mainly due to higher fair value gains on Visa shares.

Operating costs for the year amounted to €97.4m compared to €120.7m reported in 2019. 2019 operating expenses included a restructuring provision of €16.0m. Excluding the restructuring provision, we delivered cost reductions of €7.3m or 7% whilst absorbing inflationary costs and Covid-19 related expenses. The improvement in the cost base was a result of rigorous cost management and sustainable savings from the restructuring programme announced in 2019.

ECL for the year ended 31 December 2020 were €25.6m, an increase of €25.2m compared with 2019. The increase in ECL was driven by expected rather than incurred losses. This reflects the benefit of support measures introduced by the government, policy guidance from regulators and the bank's conservative risk culture. During the year, a number of corporate names were deemed to have suffered a significant increase in credit risk as they operate in industries heavily impacted by the Covid-19 pandemic. As a result, the ECL for CMB amounted to €12.3m compared with a release of €0.9m in 2019. WPB ECL amounted to €13.3m compared with €1.3m in 2019 as we took into consideration the possibility of future defaults linked to extended moratoria measures.

The effective tax rate was 27.5%. This translated into a tax expense of €2.9m, €7.7m lower than the €10.5m expense for 2019. During 2020, the bank benefited from tax relief on the sale of Visa shares to HSBC Bank plc.

HSBC Life Assurance (Malta) Limited reported a loss before tax of €9.1m compared to a profit of €3.1m reported in 2019. The adverse variance of €12.2m is mainly attributable to a drop in the financial markets and further deterioration of the yield curve negatively impacting revenues by €3m; actuarial losses of €8.4m as modelled parameters such as lapses and interest rates were worse than those estimated in 2019; and lower new business of €1m. This negative variance is mainly reflected in the following income statement captions: (i) Net income from financial instruments of insurance operations measured at fair value through profit or loss; (ii) Net insurance premium income; (iii) Movement in present value of in-force-long term insurance business; (iv) Net insurance claims, benefits paid and movement in liabilities to policyholders; and (v) General and administrative expenses.

Net loans and advances to customers increased by €7.2m to €3,265m with retail balances up 1% and commercial balances 1% lower than December 2019. The bank continued to improve the asset quality by reducing commercial non-performing loans ('NPL') by 16% versus prior year. Retail NPL increased by 34% due to extended moratoria measures.

Customer deposits grew by 6% to €5,273m driven by retail deposits with commercial balances broadly flat. The bank maintained a healthy advances to deposits ratio of 62% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio decreased by 7% to €877m. The decrease relates to the investment of maturing debt securities in Treasury Bills. The risk appetite for investment quality remained unchanged. The portfolio is managed as a high-quality liquidity buffer and consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better.

The bank's capital ratios continued to improve with CET1 increasing from 16.4% to 18.0% and the total capital ratio improving from 19.0% to 20.7%. The bank continued to have a strong capital base and is fully compliant with the regulatory capital requirements. The bank continued in its effort to manage down Risk Weighted Assets ('RWAs') across 2020, driven by placements of excess liquidity and more efficient collateral management.

Given our strong capital base and recognising the importance of dividends to our shareholders, the Board recommended a dividend pay-out ratio of 15% on the cumulated 2019 and 2020 reported profits for entities in scope for Capital Requirements Regulation and after deducting any dividend paid in relation to same period. This proposal is in line with the recommendation of the European Central Bank. The final gross dividend will be 1.16 cents per share (0.75 cents per share net of tax). The final dividend will be paid on 26 April 2021 to shareholders who are on the bank's register of shareholders at 23 March 2021.

Wealth and Personal Banking ('WPB') (formerly Retail Banking and Wealth Management ('RBWM'))

2020 was a uniquely challenging year in which unprecedented events required us to adapt quickly in order to continue operating and providing our customers with appropriate support. Following the initial Covid-19 lockdown, for the first time in our history, we pivoted our Contact Centre to a fully remote status, ensuring that our employees were able to continue supporting our customers from the safety of their homes.

We pioneered a number of Health & Safety measures in our branches and offices, with public campaigns launched to increase awareness around self-service machines, cards usage and internet banking.

Marketing advert on the HSBC Mobile Banking App

We also launched a number of initiatives to reduce the need for customers to physically visit branches by offering alternative secure digital channels. A remote account opening journey was introduced as well as a fully remote mortgage drawdown facility and a streamlined special guarantees application process.

HSBC also acted quickly to announce measures to support our customers experiencing financial difficulties, and throughout the year, we approved over 3,300 moratoria requests for a total value of €250 million in loans for payment moratoria. In addition, we spoke with over 10,000 Wealth Management customers to ensure they had the opportunity to undertake a review with one of our qualified Wealth advisors.

In 2020, we updated our branch footprint reflecting further accelerated trends in customer behaviour towards digital banking channels. Over 90% of basic transactions are now carried out digitally and customer adoption of HSBC Malta's Mobile Banking App has now more than doubled since the launch in late 2019, with 2020 seeing monthly mobile logons increasing by over four times.

Our branches in Rabat and Gzira have reopened over the past few weeks, and we look forward to the opening of our largest branch at 80 Mill Street, Qormi, which will offer our customers the advantage of unrivalled opening hours until 7pm on weekdays, as well as the convenience of over 20 onsite parking spaces including two charging bays for electric vehicles. This will also be the first branch in the HSBC Group to have the Group's new "look and feel" branch branding.

The pandemic also had a material adverse impact on our Insurance business, which contributed to greater challenges on our revenues. In addition, we saw a significant increase in expected credit losses to reflect the increased risk brought about by the negative effect of Covid-19 on the labour market.

HSBC Malta acts to mitigate effect of socially distanced queues

In the last quarter of 2020 we announced the introduction of the Universal Banker ('UB') role within our branch network. 70 front facing employees are being trained to become a one-stop contact point for our customers, with broader capabilities to enhance our overall customer experience as well as increasing employee engagement with a clear path for career progression.

During 2020 we also relaunched our Premier proposition extending the opportunities of Premier status to the children of our Premier customers through our Next Generation benefits. Our Credit Card Loyalty programme for Premier and Advance customers was also enhanced ensuring automatic points redemption and cashback.

In 2021, we will continue to focus on further improving our customer experience and executing our Safe Growth agenda. In addition, we will continue to develop sustainability initiatives such as our Green loans and the recent introduction of our Socially Responsible Investment Fund range.

Commercial Banking ('CMB')

In 2020, we continued pursuing our strategic objective of being Malta's Leading International Bank. During the year, we completed the portfolio review that had been ongoing for a number of years, and embedded our related activities into our business as usual operations. This enabled us to focus on deepening relationships with our customers who meet our risk appetite. We did this by providing products that meet their needs and support their growth. In this way, we are ensuring that we pursue sustainable growth in economic areas which are compliant, in line with our values, and which are beneficial to the economy. This will ultimately enable us to build a safer and stronger bank.

Following the launch of the €250 million HSBC International Business Fund in July 2019, we remain in a strong position to support local companies that are aiming to grow and trade internationally. €130 million of this Fund has been distributed to date and the Fund remains available to eligible customers. Throughout the year, we also continued supporting our customers with their borrowing requirements and other products including Trade Finance and Liquidity and Cash Management solutions. The balance sheet has remained stable in size as new lending was absorbed by agreed repayments on other facilities, including a further reduction in non-performing loans.

This year was heavily characterised by the impact of Covid-19, which resulted in hardship and severe repercussions across the globe, with governments and the private sector doing their utmost to cope with the unprecedented challenges within the economic and business environment. We responded quickly to the situation and were the first bank to announce measures to support our customers as they faced the crisis. These measures included allowing short-term moratoria on loan capital repayments, providing temporary working capital funding and extending repayment trade loan periods.

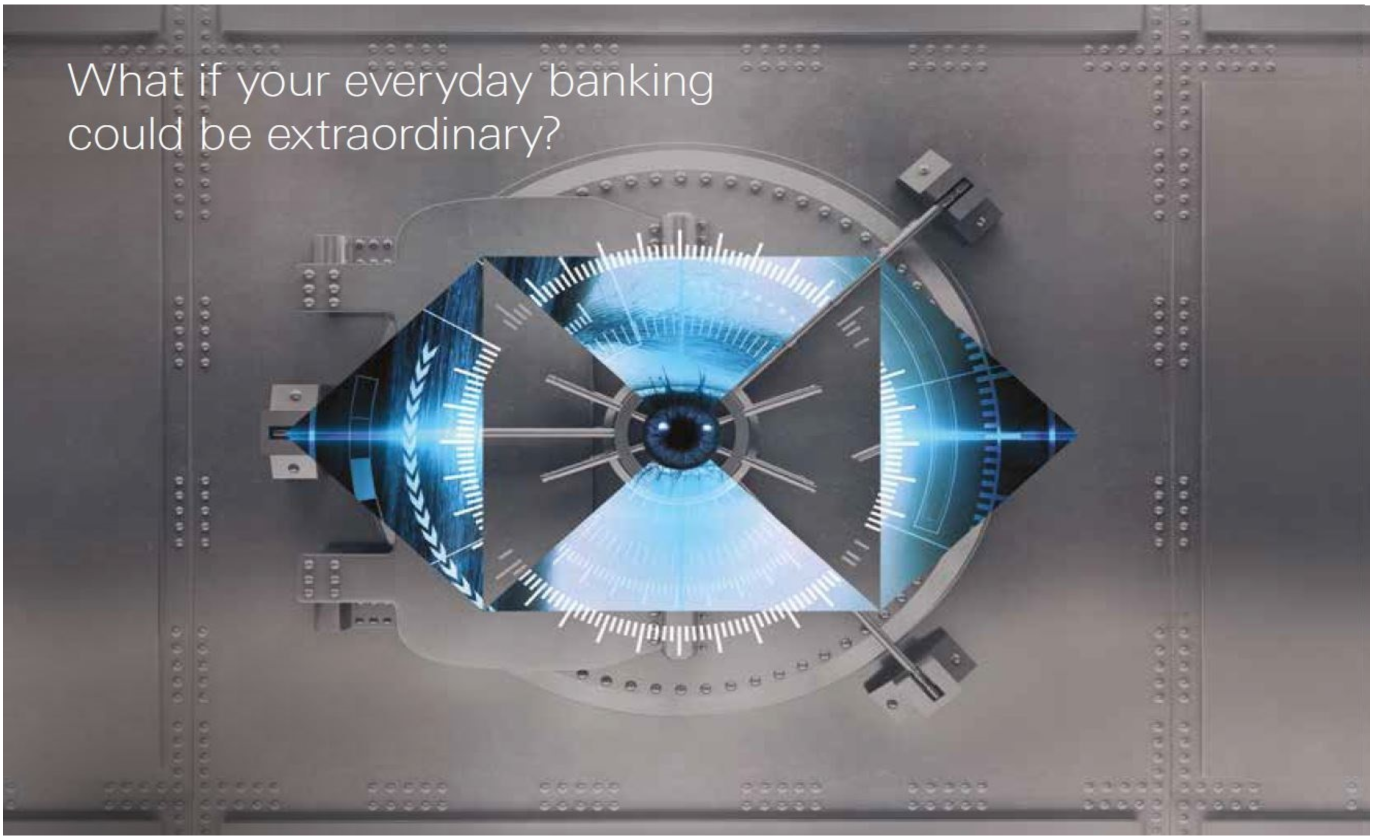
As the pandemic progressed, CMB developed a lending product within the Malta Development Bank Covid-19 Guarantee Scheme to support businesses experiencing cash flow challenges due to the pandemic. Demand for such loans has been seen from customers engaged in various sectors of the economy and we have worked with each of them to provide funding under the scheme. We have also provided various loan moratoria, both under Central Bank of Malta Directive 18, as well as to customers that did not meet the relative criteria. We continue supporting our customers as the situation unfolds and develops in 2021. During the pandemic, we also tapped into HSBC Group capabilities to provide our customers and other interested local companies with information that would support them throughout this period. This was achieved through a series of webinars organised on a wide variety of subjects, some of which were held jointly with local business organisations. Through these webinars, we were able to provide our customers with the opportunity of hearing from international subject matter experts and discovering new perspectives.

The Covid-19 pandemic also had a material adverse impact on markets which contributed to greater challenges on our revenues. The main factors related to negative Euro interest rates and reduced rates in other currencies. Despite these negative factors, total revenue remained on a par with 2019 and we absorbed a reduction in revenue from Payments and Cash Management arising from the negative interest rate environment. We achieved revenue growth from our trade and foreign exchange activities by focusing on our target market and capitalising on our key strength in the facilitation of international trade.

During the pandemic, aside from supporting our customers directly as mentioned above, we made a number of changes to the way we operate, giving customers more ability to communicate with us electronically including signing of certain bank documentation digitally, reducing bureaucracy and turnaround times, improving efficiency and processes. In addition, we continued investing in our market leading online banking platform, HSBCnet, which has become an essential tool for our customers as they seek to manage working capital in new, more efficient ways.

In the first quarter of 2020 we implemented a number of changes to the team structures in CMB, as part of the bank's restructuring programme that was announced in the prior year. Following these changes, which enhanced our customer facing teams, our structure is aligned with our strategy and we can deliver the best quality service to our customers. The various unexpected challenges brought about by Covid-19 required our people to adapt to a continuously changing environment, with many colleagues working from home for long periods. This did not detract them from providing customers with the service that they required. Thanks to investment in technology that allows seamless remote interaction with customers our people were able to provide uninterrupted service to our customers. Despite the challenges, we continued investing in people throughout the year and we rolled out various technical training and continuous professional development training programs.

As we enter 2021, we look forward to continuing to support the local business community in this highly challenging period, enabling businesses to navigate the ever-changing environment and to thrive both locally and internationally.



HSBCnet offers a fast, simple and secure way to run your business remotely

Global Markets ('GM')

GM covers foreign exchange and rates business. Underlying foreign exchange sales were strong, notwithstanding increased competition and challenging market conditions. Revenues were marginally up on 2019 with collaboration with CMB remaining the main source of revenue growth. CMB clients continue to benefit from the technical expertise and digital solutions of HSBC Group and during the year, we continued to see growth in the value of transactions processed online.

Corporate Centre ('CC')

CC (Markets Treasury), which manages cash, liquidity, funding and interest rate risk for the bank, delivered satisfactory results despite unstable and challenging external market factors. We generated satisfactory revenues as a result of proactive management of excess liquidity within the bank's conservative risk appetite. Our Hold to Collect and Sell portfolio is mainly invested in very high quality liquid assets rated A- or higher.

Digital Business Service ('DBS') (formerly HSBC Operations, Services & Technology ('HOST'))

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

In 2020, various teams in DBS were pivotal in maintaining customer service and business continuity during the Covid-19 pandemic. The IT team enabled over 90% of our colleagues to work from home while our Corporate Real Estate team ensured that evolving Health Authority Guidelines continued to be respected in our work places. This involved a number of new initiatives such as installing protective screens and sanitisers in our branches, distributing face masks to our employees and introducing signage in all buildings to promote social distancing. To protect our people and our customers during the hot summer months, we also erected gazebos outside our branches. In response to these new measures, we take pride in the positive feedback received from customers, employees and the Unions on the way that HSBC Malta managed the Covid-19 challenge.

We continued to deliver on key strategic projects in 2020. These included a software upgrade on our entire ATM estate and we started the rollout of new merchant deposit machines, which have been welcomed by customers. We also upgraded and modernised our network infrastructure without service disruption to customers and colleagues.

In response to changes in regulation, we also upgraded our online transaction authentication infrastructure to provide increased protection and resilience to our customers when transacting online. We have also implemented changes to our Internet Banking and HSBCnet platforms to provide more transparency to customers on cross currency charges and exchange mark up.

Our people

Our people and the community we serve are at the heart of our business. As an organisation, we want our employees to grow and thrive so that in turn they can provide excellent customer service. We want our people to realise their career aspirations and ensure their well-being. We want to drive a sustainable business so that the community in which we operate prospers, leaving a positive legacy for generations to come.

HSBC Malta and MUBE launch Remote Working Policy

During 2020, we have had an incredible year as Covid-19 hit our people and community. We quickly had to change the way we work and converted all our People and Community initiatives online using different virtual tools to continue driving our People Plan 2018-2020. We completed another Future Leaders Programme online aimed at building the next generation of Leaders for HSBC Malta. We have launched a myriad of well-being activities for our people and their families as we navigated through the Covid-19 pandemic. We have provided employees with more flexibility and given them all the tools needed to be able to work from home. We have provided training programmes on how we work remotely, ensuring that we continue to be effective and connected during these challenging times. We launched a new Remote Working Policy in partnership with the Malta Union of Bank Employees, which enables employees at HSBC Malta, to work remotely with clearly defined guidelines. We continued leading our HSBC HR roundtable sessions where we brought together Heads of Human Resources from other leading organisations in Malta to discuss best practices and share challenges to identify common solutions.

Trailblazing entrepreneurs recognised at the Malta Businesswoman of the Year Awards

Our HSBC University launched numerous development programs and self-learning resources for all our employees. In the second half of the year we launched the Future Skills Festival. This programme aims to provide all employees with the skills of the future to thrive at HSBC. These tailor-made programs are aimed at developing the future skills of our employees to ensure that they are prepared and ready to meet and exceed the expectations of future roles driven by digitalisation and innovation at HSBC.

2020 ended with the second edition of the Business Woman of the Year Awards held under the patronage of His Excellency the President of Malta in collaboration with Nestle and Farsons Group to celebrate business women leaders across Malta. This award aims to promote and encourage more participation of women in the local business arena in line with HSBC's Diversity and Inclusion strategy.

Financial Crime Compliance ('FCC')

HSBC continued to demonstrate its commitment to the highest standards of financial crime risk management in 2020. The bank appreciates that our high standards have at times caused inconvenience for clients as we seek to know our customers and we take this opportunity to thank our customers for their patience and understanding. We believe that this important work provides security to the financial system and to all those who use it. High compliance standards in the banking system continue to be a source of strength and competitive advantage, as we work diligently to support growth in Malta's economy by facilitating new business and cross-border trade.

Outlook

The market outlook remains challenging as the Covid-19 pandemic continues to impact economic growth, both locally and globally. Interest rates will remain negative for the medium to long-term and compliance risks continue to determine the bank's appetite for parts of the economy.

We continue to transform our business to enable us to navigate the future and mitigate any perceived risks. I am immensely proud of the dedication and resilience that my colleagues have demonstrated and are demonstrating during the Covid-19 pandemic. They have made significant efforts to support each other, look after our customers and enable business continuity. Despite the challenges, we have continued to innovate to make it easier for our customers to do business with us, particularly in the area of remote banking. We have adjusted our cost structure to reduce the impact of negative interest rates and we have re-structured our Commercial Banking (CMB) and Insurance businesses. We have re-aligned our branch network to respond to changing customer preferences and have reshaped and remediated our client portfolio to align with our risk appetite.

We are now focused on achieving Safe Growth, focusing on three key pillars: Growth, our customers and our people. We will strive to be an externally-focused, performance-led organisation and we remain committed to long-term measures of performance and risk management with zero appetite for financial crime risk.

We will accelerate growth from our core businesses of WPB and CMB and we will be leveraging our international advantage. We will build and invest in a bank that is fit for the future and which puts the customer at the centre of what we do. We will connect our personal banking customers to the highest growth potential, further leveraging digital platforms to provide personal banking customers with a "bank in your pocket", whilst continuing to offer more traditional banking channels to our customers via our extensive branch and ATM network. We will continue to deliver world class transaction banking services to our commercial customers, making our international connectivity at their disposal via our market leading online delivery channel HSBCnet. We will continue to support our valued local customers as they continue to grow locally and internationally and we will continue to support the broader local economy to connect to international markets through our expansive global network.

We will continue to invest in opportunities for our people, helping them to develop skills, learn new capabilities and adapt to the future. We will strive to reduce complexity, adopting quicker decisions so that it becomes easier for us to serve our customers and for our customers to do business with us. We will also continue to focus on the well-being of our people as we have done throughout the Covid-19 pandemic.

We remain dedicated across the entity to operating in a sustainable, climate-aware fashion, aligning our activities to the Group's ambitious net zero plan that was announced in October last year.

Our Safe Growth strategy is, I believe, in the best interest of all our stakeholders and remains central to HSBC's track record in generating dividends.

HSBC remains a strong bank in spite of the Covid-19 crisis and continues to maintain high standards through applying our core values and doing the right thing. We remain firmly committed to this ethos as we pivot the business towards Safe Growth.

Simon Vaughan Johnson

Chief Executive Officer

23 February 2021

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 and Chairman of the Disciplinary Committee of the Institute and a Member of the Joint Disciplinary Board of the Accountancy Board.

Simon Vaughan Johnson, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed Chief Executive Officer and Executive Director in July 2020. Chairman of HSBC Life Assurance (Malta) Limited 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 9 countries and 4 regions. Prior to taking up his appointment in Malta, Mr Vaughan Johnson was Head of the Remediation Management Office, HSBC France. He graduated with Honours from the University of Stirling, majoring in English and French. He is an Associate of the Chartered Institute of Bankers (ACIB) and a Member of the Chartered Institute of Linguists. He is a Certified Anti-Money Laundering Specialist.

Michel Cordina, EXECUTIVE DIRECTOR

Appointed Executive Director in April 2019. Mr Cordina, formerly Head of Commercial Banking, is presently Head of Business Development. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 39 years ago. He has worked in various areas of banking in both Personal Banking and Commercial Banking. He has also led a number of operational and support functions of the bank. He has occupied various executive roles within HSBC Bank Malta including Deputy Head of Operations and Head of Business Transformation. He was also the Programme Manager responsible for bringing the HSBC Contact Centre to Malta. In 2010, he was seconded to HSBC Commercial Banking in London where he performed the role of Head of Sales Performance. He is an Associate of the Chartered Institute of Bankers (ACIB).

Andrew Muscat, NON-EXECUTIVE DIRECTOR

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

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 the Chairperson of the bank's Audit Committee and Member of the bank's Risk Committee. A former Director of HSBC Life Assurance (Malta) Limited and former Chairperson of the Audit and Risk Committee of said company. Ingrid Azzopardi is presently the Group Internal Auditor of GO 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 Institute of Accountants and also a Member of the Institute of Internal Auditors. She holds a Certificate in Company Direction awarded by the UK Institute of Directors.

Sue Vella, NON-EXECUTIVE DIRECTOR

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

Manfred Galdes, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in January 2021. Manfred Galdes is the managing partner of the ARQ Group, a multi-disciplinary advisory firm. After graduating as a lawyer (LL.D.) from the University of Malta, he obtained a Masters Degree (LL.M.) in European (Commercial) Law at the University of Leicester. Dr Galdes has spent the last 21 years practising in the area of regulatory and financial crime compliance having held various leading roles both in the private and public sector. Between 2008 and 2016, Dr Galdes headed the FIAU, Malta's financial intelligence unit and principal AML/CFT supervisory authority.

Matthew Colebrook, NON-EXECUTIVE DIRECTOR DESIGNATE

Appointed as Director Designate in November 2020. Mr Colebrook is an experienced banker with 34 years of distinguished service with the HSBC Group. He has held various senior managerial positions within HSBC Group in the UK, the USA, Asia, the Middle East and Europe. He also occupied the roles of Executive Director of HSBC Bank Singapore Ltd, Chairman and Non-Executive Director of HSBC Global Asset Management (Singapore) Ltd and Non-Executive Director of HSBC Insurance (Singapore) Ltd. Presently, Mr Colebrook holds the role of Regional Head Wealth and Personal Banking for Europe, the Middle East and North Africa and Turkey. Mr Colebrook's appointment is still subject to regulatory approval.

George Brancaleone, COMPANY SECRETARY

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

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) Limited 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 9 countries and 4 Regions. Prior to taking up his appointment in Malta, Mr. Vaughan Johnson was Head of the Remediation Management Office, HSBC France. He graduated with Honours from the University of Stirling, majoring in English and French. He is an Associate of the Chartered Institute of Bankers (ACIB) and a Member of the Chartered Institute of Linguists. He is a Certified Anti-Money Laundering Specialist.

Elizabeth Hardy, CHIEF OPERATING OFFICER

Appointed Chief Operating Officer in February 2021. Mrs Hardy has over 38 years of international experience within the HSBC Group. She joined Midland Bank in the UK in 1982 and held a variety of 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. She holds a Graduate Diploma in Management from the University of East Anglia.

Charlotte Cilia, CHIEF FINANCIAL OFFICER

Appointed Chief Financial Officer in December 2020. Mrs Cilia is a certified public accountant and auditor with 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 4 years and re-joined the Bank in 2018 as Chief Accounting Officer and Deputy Chief Financial Officer. She served as Deputy Chief Financial Officer at MeDirect Group for four years until 2018. Previously an auditor at KPMG in Malta and the UK where she performed key roles on various international engagements.

Crawford Prentice, HEAD OF WEALTH AND PERSONAL BANKING (formerly RETAIL BANKING AND WEALTH MANAGEMENT)

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

Michel Cordina, EXECUTIVE DIRECTOR AND HEAD OF BUSINESS DEVELOPMENT

Appointed Executive Director in April 2019. Mr. Cordina, formerly Head of Commercial Banking, is presently Head of Business Development. Mr. Cordina is a seasoned banker and has a wealth of experience having started his banking career 39 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 p.l.c including Deputy Head of Operations and Head of Business Transformation. He was also the Programme Manager responsible for bringing the HSBC Contact Centre to Malta. In 2010, he was seconded to HSBC Commercial Banking in London where he performed the role of Head of Sales Performance. He is an Associate of the Chartered Institute of Bankers (ACIB).

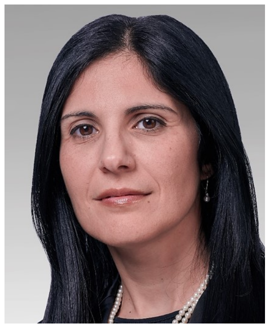
Executive Committee

Jesmond Apap, HEAD OF GLOBAL MARKETS

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

Caroline Buhagiar-Klass, HEAD OF HUMAN RESOURCES

Appointed Head of Human Resources in April 2018, and in 2019, in addition to her HR responsibilities, she took over the responsibility for Corporate Sustainability. Ms Buhagiar Klass began her HR career with ST Microelectronics in Malta in the 1990s before moving overseas in 2004 to work for ST in Italy and then France. In 2010 she moved to Singapore, initially with ST before becoming the Head of Talent and Leadership Development for AXA Insurance. Towards the end of 2015 she returned to Malta and established her own HR consultancy working with a range of local businesses before joining HSBC Bank Malta p.l.c.



Joyce Grech, HEAD OF COMMERCIAL BANKING

Appointed Head of Commercial Banking in September 2019. Ms. Grech has undertaken a number of roles in her 24 year career with HSBC, principally in Malta. Ms Grech started her career in Trade Finance and Commercial Banking before moving to the bank's Credit department where she spent over five years, the last three of which she was the Deputy Head of Credit. She also headed Customer Value Management within the bank's Personal Banking area. Before taking up her current role, she occupied the role of Chief Risk Officer for over six years. An avid supporter of diversity and inclusion in its various forms, she chairs the bank's Diversity and Inclusion Committee and sponsors internal initiatives to ensure that the bank embraces diversity in a meritocratic manner, particularly in its recruitment and promotion processes, and throughout the employee life cycle.

Gerard Walsh, CHIEF RISK OFFICER

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

Joseph Sammut, GENERAL COUNSEL

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

Anthony P. Abela, HEAD OF REGULATORY COMPLIANCE (retired as at 4 January 2021)

Appointed as Head of Regulatory Compliance for HSBC Bank Malta p.l.c. in March 2014. With 24 years’ experience in banking and financial services at HSBC, Mr Abela held senior management positions in fund management, securities services, internal audit and compliance. He holds a Bachelor’s Degree in Economics and Psychology, and a Master’s Degree in Business Administration.

Jane E. Estey, HEAD OF FINANCIAL CRIME COMPLIANCE

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

Carine Arpa, HEAD OF COMMUNICATIONS

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

George Brancaleone, COMPANY SECRETARY

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

Anna Camilleri, HEAD OF INTERNAL AUDIT

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

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 2020 the bank had 11 branches in Malta, one of which is located in Gozo.

The local group comprised the following subsidiaries at . 31 December 2020: HSBC Life Assurance (Malta) Limited and HSBC Global Asset Management (Malta) Limited.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Limited is authorised by the Malta Financial Services Authority to carry on business of insurance in Malta under the Insurance Business Act (chapter 403, Laws of Malta). It offers a range of protection and investment life assurance products distributed mainly through HSBC Bank Malta p.l.c. which is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Limited under the Insurance Intermediaries Act, 2006.

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

Business and strategy

HSBC Malta is part of HSBC Group, which has an unrivalled global position with around 226,000 employees working across the world to provide a broad range of banking products and services to around 40 million customers. HSBC Malta is Malta's leading international bank. No international bank has our presence in Malta and no domestic bank has our international reach.

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

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 2020 we have continued to focus on our digital banking services and launched our latest mobile banking App for personal customers. The trend in customer behaviour has shown that digital transactions have more than doubled since this launch. This investment will be complemented shortly by the opening of a new and modern branch which will offer our customers a one stop shop for advice on all major life events. Branch banking will continue to be a critical part to our service offering for the long term. Looking ahead to 2021, we seek to embed our Climate Strategy, actively supporting the local economy to achieve the Paris Agreement goal of net zero by 2050.

This banking model is designed to enable the local group to effectively meet clients' diverse financial needs, support a strong capital and funding base and further reduce the risk profile and volatility.

Research and development

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

Events occurring after the end of the accounting period

There were no significant events affecting the bank or any of its subsidiary undertakings which have occurred after 31 December 2020.

Conduct

Throughout the course of 2020, focus continued on the responsibility and accountability that each employee has to perform their duties in line with the HSBC Conduct framework, which is aimed at the delivery of fair outcomes for customers and the support of the orderly and transparent operation of financial markets. In this respect, as the local group's safe growth strategy evolves, conduct-related matters have retained a pivotal position on the agenda with relevant discussions and oversight being exercised in the appropriate risk governance fora.

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

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

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

Results for 2020

HSBC Bank Malta p.l.c. ('the bank') and its subsidiaries (collectively referred to as the local group) reported a profit before tax of €10.4m for the year under review. The local group's profit attributable to shareholders was €7.6m.

The Directors have proposed a gross final dividend of 1.16 cents per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 23 March 2021.

Further information about the results of the local group is provided in the Income Statements and the Statements of Comprehensive Income on pages 53 and 54 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.

	2020	2019
Profit before tax (reported) (€m)	**10.4**	30.7
Profit before tax (adjusted) (€m)	**10.4**	45.3
Cost efficiency ratio (reported) (%)	**73.0**	80.2
Cost efficiency ratio (adjusted) (%)	**73.0**	69.6
Post-tax return on equity (reported) (%)	**1.6**	4.3
Post-tax return on equity (adjusted) (%)	**1.6**	6.4
Common Equity Tier 1 ratio (%)	**18.0**	16.4

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 lower year-on-year as a result of the Covid-19 impact on ECL and the insurance business, whilst 2019 profit included a one-off restructuring provision to deliver future cost savings.

Outcome (adjusted): The adjusted profit before tax is lower than 2019 due to the increase in expected losses triggered by higher credit risk for certain wholesale customers and possible future defaults in relation to Covid-19.

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

Outcome: The adjusted cost efficiency ratio increased from 70% in 2019 to 73% in 2020. Adjusted costs decreased by 7% year on year as a result of a number of cost initiatives including the restructuring programme. This improvement in cost was offset by lower income as highlighted above.

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

Outcome (reported): The reported return on equity was below the target range and prior year primarily due to the impact of Covid-19 which exceeded the impact of the restructuring provision booked in 2019 results.

Outcome (adjusted): The adjusted return on equity excludes the notable items. It deteriorated versus prior year and is below target range due to higher expected credit losses, losses incurred by the insurance subsidiary and the ongoing impact of negative interest rates.

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 increased compared to 2019 due to retained profits, introduction of Covid-19 regulatory measures and a reduction in RWAs driven by more effective placements of excess liquidity and more efficient collateral management. During 2020, we also implemented the new capital requirements in relation to NPL.

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

Employee Matters

We are in the business of serving others and helping them to realise opportunities locally and internationally. The same philosophy applies to our People. Through our people strategy we want to ensure they achieve their full potential and equip them with skills fit for the future. Our goal is to offer a strong employee value proposition that attracts the best talent. The aim is to bring together different people of different generations, gender, ethnic backgrounds and beliefs so that in turn we create a diversity of thought which drives creativity and innovation. A focus on gender balance in leadership roles is at the heart of our Diversity and Inclusion strategy. Our flexible working policies enable all employees to achieve a balance between work and personal life. We offer several programmes to ensure people perform at their best such as, Mentoring and Coaching, and Future Skills which help our employees to prepare for their next role and be future ready.

A key focus on performance management has been one of the pillars in our development journeys. Each employee has clear objectives and ongoing development discussions so that they can achieve high levels of performance across the organization. Our continued focus on customer service and financial crime compliance is a key component of our learning agenda. We have launched a new program focused on our customers to support our front line employees. During the last quarter we have developed another program on Financial Crime Risk for all employees across the bank. This is to ensure we continue to grow our bank safely and protect our customers. These programmes are supported by a strong infrastructure in place thanks to our HSBC University. The University is a testament of our commitment to help our people grow and succeed.

Our Diversity and Inclusion ('D&I') Committee continued to meet regularly throughout the year, mainly remotely. The aim of the committee is to ensure that our D&I policies and principles are embedded in our values and ways of working. The committee is led and sponsored by one of the Senior Executives of the bank and several employees participate from different functions across all levels to ensure that the practices and initiatives are cascaded across the bank. The number of events organised in 2020 was adversely impacted by Covid-19 – early in the year we organised once again a half-day event for mothers returning to work which was well attended. While the annual Pride Parade was not held, we continued supporting LGBTI+ initiatives by taking part in an HSBC wide 24 hour online event.

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

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

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

Suppliers: We expect our suppliers to uphold human rights in carrying out their business, reflecting the UDHR and ILO Declaration principles. Our ethical and environmental code of conduct for suppliers requires them to respect the human rights of their employees and the communities in which they operate and comply with all relevant legislation, regulations and directives. During 2020 we delivered our annual 'vendor meeting' with suppliers. This focused on the importance of maintaining high ethical standards to provide the best service to our customers and drive our business in a sustainable manner.

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

Whistleblowing

HSBC encourages a speak up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels. However, in certain circumstances it may be necessary for individuals to raise concerns through more targeted and confidential channels. For this purpose, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing. 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 behaviours.

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.

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

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

Sustainability

The HSBC Malta Foundation, has supported various communities throughout 2020 via a number of projects and initiatives. We continue to play an active role in the community we serve in line with our four strategic pillars of our foundation.

The first pillar focuses on improving the quality of life and education for children; especially those disadvantaged, and to preserve Malta's rich and unique historical heritage. Secondly, in line with the Group's strategy, the Foundation works on projects to help people develop their employability and future skills in order to thrive in the modern world. Third, we continue to drive our initiatives on Sustainable Finance to create a more sustainable economy and finally we work with various NGOs to impact positively the environment and reduce our eco-footprint. We continue to support our employees to take an active role in initiatives supported by the HSBC Malta Foundation with an extra day's leave granted for voluntary work to support our community.

The bank continued to take several measures to raise its commitment to support a sustainable environment for Malta and Gozo. In 2020 the bank's fleet of electric vehicles was renewed with more efficient models. Works were also completed with the connection of the new PV panel installation at the bank's Operations Centre. The total 837 PV panels now have a potential to generate 325,000 kWh of green energy per annum, avoiding the emission of 124 tonnes of carbon dioxide. During 2020 the bank focused on the installation of a new interlinked building management system across all its estate. This system allows the control of all lighting, ventilation and air conditioning and further ensures all devices are operating correctly. This new system has the potential the save up to 10% of energy consumption by ensuring devices are switched on and off correctly and are used efficiently.

Financial Crime Compliance

In 2020 the bank continued to focus on embedding its financial crime risk management control framework, and sustain its capability through ongoing training, oversight and governance. Additionally, through a program of monitoring and analytics, the bank sought to proactively identify risks to safeguard both the bank and the financial system. We believe that the enforcement of high compliance standards is a competitive advantage, and essential to our success and that of the jurisdiction.

Anti-bribery and corruption

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

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

All HSBC entities and individuals are required by Group Policy to apply controls in order to protect against bribery and corruption risks. All HSBC staff undergo mandatory 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

The local group is exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on the financial performance and position of the local group. An established risk governance framework and ownership structure ensures oversight of accountability for the effective management of risk. The local group's risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. The local group's risk management framework is designed to provide appropriate risk monitoring and assessment. The Board sets the local group's strategy risk appetite, operating plans and performance targets, thereby playing an essential role in embedding a risk culture within the organisation. The Board delegates the day-to-day risk management responsibilities to individuals within the senior management team. These individuals are accountable for their assigned risks, and report and escalate as necessary through the risk governance structures.

The Risk Committee is a committee of the Board, focused on risk governance, and has responsibility for oversight and advice to the Board on, inter alia, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance, as well as providing a forward-looking view of risks and their mitigation. The Risk Committee maintains and develops a supportive culture in relation to the management of risk, appropriately embedded by executive management through procedures, training and leadership actions.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the 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. The most important types of financial risk comprise credit risk, market risk and liquidity risk. Owing to the group's insurance operation in Malta, the local group is also exposed to insurance risk. A key emerging risk is that of climate change, and how this will shape risk management in the coming years.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance and treasury business, mainly through the holdings of debt securities, but also from off-balance sheet products such as guarantees. The local group has standards, policies and procedures dedicated to control and monitor the risk arising from all such activities. Within the overall framework of the local group policy, an established risk management process is in place, encompassing credit approvals, the control of exposures, credit policy direction to business units, and the monitoring and reporting of exposures both on an individual and a portfolio basis (which includes the management of adverse trends). Management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentrations by market sector and product.

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

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

Liquidity risk

Liquidity risk is the risk that the local group does not have sufficient financial resources to meet its financial obligations when they fall due or will have to do so at excessive cost. This risk principally arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required. The objective of the local group's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To this end, the local group maintains a diversified and stable funding base. The funding base comprises core personal and corporate customer deposits, wholesale funding and portfolios of highly liquid assets with the objective of enabling the local group to respond quickly and smoothly to unforeseen liquidity requirements.

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

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and market prices will impact the local group's income or the value of its portfolios. Exposure to market risk arises from positions that primarily emanate from the interest rate management of the local group's retail and commercial banking assets and liabilities and financial investments. The objective of the local group's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the local group's status as a premier provider of financial products and services. Market risk is managed and controlled through risk appetite setting and limits approved by HSBC Holdings and the global businesses. These limits are allocated across business lines and are for portfolios, products and risk types, with market liquidity being a principal factor in determining the level of limits set. The bank has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with policies, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Insurance risk

The local group operates an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom the local group has a banking relationship. Insurance products are sold predominantly by WPB. The subsidiary also holds a portfolio of unit-linked investment products and non-linked insurance products that were transferred from HSBC Life (Europe) Limited during 2014. The majority of the risk in the local group's insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer, the local group's insurance subsidiary company.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the local group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year and from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. The local group uses reinsurance appropriately to reduce variability of the expected outcome.

Climate risk

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

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for the bank. Financial impacts could materialise, for example, through higher risk-weighted assets over the longer term, greater transactional losses and/or increased capital requirements, or increased credit losses.

Non-financial impacts could materialise, for example, if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns.

We are increasingly incorporating climate-related risk, both physical and transition, into how we manage and oversee risks internally and with our customers.

In 2020, the Group formalised its overall approach to climate risk management and started to integrate climate risk into the Group-wide Risk Management Framework through policies, process and controls. At Group level, the Bank have established a Transition Risk Framework to better understand exposure to the highest transition risk sectors, with increased customer engagement to understand and support their low-carbon strategies. These policies, processes and controls will be rolled out to the bank over the coming years.

In addition, the Group has started to review the sustainability risk, resilience risk and regulatory compliance policies to understand any gaps and help improve understanding of how climate change is likely to impact these risks.

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

HSBC Holdings have been awarded a leadership score of A- from CDP (Carbon Disclosure Project), in line with the previous year. This is higher than the financial services sector average of B.

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

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

Following from the November 2020 issuance of the ECB "Guide on Climate-Related and Environmental Risks", a project at Group level is underway to enhance disclosures in line with Expectations 13.1 – 13.3.

As a result, future Annual Reports will contain expansionary comments.

Non-Financial risks

We use a range of tools to monitor and manage our non-financial risks ('NFR'), including risk appetite and tolerance metrics, a Risk Map outlining the key risks and mitigants relating to each of the Bank's NFR taxonomies, a Top and Emerging Risks assessment, as well as stress testing policies and processes. NFR covers a wide spectrum of issues, such as resilience risk, financial crime and fraud, regulatory compliance, reporting and tax risk, legal risk, model risk, and people risk. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk.

External events can include fraud risk, non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence.

Historically, the largest operational losses have been experienced in external fraud and transaction processing.

During 2020, we continued to strengthen our approach to managing NFR as set out in the risk management framework. The approach sets out governance, appetite and provides a single view of non-financial risks that matter the most and associated controls. It incorporates a risk management system to enable active risk management. The enhancement and embedding of the risk appetite framework for non-financial risk and improving the consistency of the adoption of the end-to-end risk and control assessment processes has been a particular focus and while there remains more to do, progress has been made in 2020 to strengthen the control environment and the management of non-financial risk.

Risk appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Our risk appetite also provides an anchor between our global businesses 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.

Our risk appetite is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- 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; and

- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been appropriately considered.

In 2020, we continued to evolve our risk appetite by reallocating both financial and non-financial resources and adapting aspects of our risk appetite statement to ensure we remained able to support our customers and strategic goals against the backdrop of the Covid-19 outbreak. A specific emphasis was placed on capital and liquidity to ensure the Bank could withstand extreme but plausible stress, and had adequate capacity to provide increasing levels of financial support to customers. Associated non-financial risks were reviewed and, where applicable, processes and controls were enhanced to accommodate increases in lending volumes and help our people manage the lending process from a home environment. Additional reporting is under development to provide a more holistic view of the Group's resilience capabilities.

The financial impact of Covid-19 is apparent, with materially increased ECL charges. These are subject to close monitoring and management actions.

Stress tests

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

In 2020, the European Banking Authority ('EBA') cancelled the requirement for all participating banks to conduct their respective 2020 stress test exercises in light of the emerging impacts of the Covid-19 outbreak, with this deferred to 2021.

Notwithstanding this, we conducted a range of internal stress tests during 2020. These included stress tests to assess the potential future impacts of the Covid-19 crisis and assess the resilience of key balance sheet metrics including our capital adequacy. To date, we have conducted stress tests covering several potential Covid-19-related outcomes, incorporating assessments from credit experts. We are regularly reviewing the economic impacts for key economies and sectors to understand potential vulnerabilities in our balance sheet and to identify appropriate mitigating actions. We continue to monitor emerging geopolitical, economic and environmental risks impacting the bank's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on internal stress test outcomes.

Covid-19

The Covid-19 outbreak and its effect on the global economy has in turn affected our customers and our performance, and the future effects of the outbreak are uncertain. The outbreak necessitated governments to respond at unprecedented levels to protect public health, local economies and livelihoods.

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

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

We have initiated market-specific measures to support our personal and business customers through these challenging times, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. These measures have been well received and we remain responsive to our customers' changing needs. For details of our customer relief programmes see tables on pages 171 to 172.

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

There is a high degree of uncertainty associated with economic forecasts in the current environment and significant risks remain, especially when the government support schemes are unwound. There is also a material risk of a renewed drop in economic activity.

The Covid-19 outbreak has led to a weakening in GDP, a key input used for calculating ECL, and there remains the risk of more adverse economic scenarios given its ongoing impact. The impact varies by sectors of the economy, with retail, hospitality and commercial real estate among those facing distress. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges or operational losses. The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models. IFRS 9 model performance has been dramatically impacted over the course of 2020 which has increased reliance on management judgment in determining the appropriate level of ECL estimates. These models are driven by forecasts of economic factors such as GDP and unemployment. Many of these models were not able to deliver reliable outputs given the dramatic volatility in these forecasts, many of which significantly exceeded observed historic extremes, as a consequence of the global economic crisis. There has also been an unprecedented response from the Maltese government to provide a variety of economic stimulus packages to support impacted business sectors which could not be predicted by models. In order to address some model limitations and performance issues, there has been redevelopment of some key models used to calculate ECL estimates. These models have been independently validated by the Model Risk Management team and have been assessed as having the ability to deliver reliable credit loss estimates. This has reduced the reliance on management judgement, but the uncertain economic outlook persists with further indefinite lockdowns and the expected end to government support schemes driving post model adjustments.

The Model Risk Management team is reviewing IFRS 9 model performance on a quarterly basis to assess whether or not the models in place can deliver reliable outputs. The assessments of the team on the performance of the models provide the credit teams with a view of model reliability. IFRS 9 model redevelopment will continue as the economic consequences of the pandemic become clearer over time as economic conditions normalise and actual credit losses occur.

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

Supporting our stakeholders in response to Covid-19

The Covid-19 pandemic has significantly impacted our lives and disrupted business operations. We have had to adapt quickly to new ways of working and adopt innovative practices to operate in an evolving and uncertain environment to meet and exceed our customers' expectations.

We developed a number of digital enhancements to support the ongoing delivery of fair outcomes for our customers in different markets.

This included the launch of an online on boarding journey for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users, to ensure we continue to provide services and products to our customers securely.

As part of our corporate social responsibility we supported NGOs that were on the front line helping those hit by Covid-19.

The Covid-19 pandemic has created a great deal of uncertainty and disruption for the people, businesses and communities we serve. It is affecting everyone in different ways, with markets at different stages of the crisis.

We have set out below further ways that we have supported all of our stakeholders, including our communities, customers, employees, investors, regulators and governments.

Our stakeholders	How we have engaged
Communities	From the start of the pandemic HSBC Group has focused on three main challenges: providing immediate medical relief, access to food, and care for the most vulnerable people. Locally the HSBC Malta Foundation donated €43,000 to four NGOs (Caritas, Food Bank Lifeline Foundation, Malta Trust Foundation and Richmond Foundation) that are aiding the most vulnerable in society and whose lives have been negatively impacted by Covid-19. Other initiatives included online financial literacy talks to support our future generations as well as participation by our corporate customers during a webinar organised by the Group on Sustainable Finance post Covid-19 economic recovery. A number of Covid-19 related activities were also organised for our people ranging from monthly support sessions with the Richmond Foundation and the launch of the Remote Working Policy in partnership with the Malta Union of Bank Employees, which was formulated in response to the Covid-19 pandemic. We enabled over 90% of our staff members to work from home within a matter of weeks after the outbreak to ensure the well-being of our people and their families.
Customers	The Covid-19 outbreak has posed significant challenges for our customers worldwide. Throughout the past few months, our priority was and remains to do what we can to provide customers with support and flexibility. This has included offering payment relief and restructuring loan repayments, as well as extending relief loans or temporary credit limit increases for commercial borrowing customers. We developed a lending product for commercial customers within the Malta Development Bank Covid-19 Guarantee Scheme to support businesses experiencing cash flow problems due to the disruption. We also provided our customers and other interested local companies with information that would help them throughout this period. We improved our digital capabilities, allowing customers to communicate with us electronically including signing of certain bank documentation digitally, whilst continuing with investing in our market leading payments and cash management platform, HSBCnet. We also launched a payment relief programme for personal customers employed in economic sectors impacted by the pandemic. This was delivered through the implementation of a seamless journey which provided the ability to submit online applications for moratoria on both mortgages and personal loans. All the requests were followed through with personalised guidance and information provided by specialised lending managers to customers telephonically. Customers were given a choice of availing themselves of either a full repayment moratorium or a capital repayment moratorium. The Bank continued to invest in its core lending platforms to ensure compliance with the new accrued interest repayment requirements of the Central Bank Directive 18. Other services that were previously offered exclusively through our branch channel, such as processing of mortgage loan requests, were migrated online.
Employees	Covid-19 continued to test our resilience as cases started to spike up after the reopening of the Malta International Airport. We continued to adhere to health and safety protocols, helped employees to adapt by practising social distancing, the wearing of masks and enhanced hygiene. Our return to office ('RTO') plans remained on hold in view of the prevailing situation and we maintained a small presence of people on a rotation and segregated basis. This approach was successful as we registered very few positive cases and did not impact our business continuity. We continued offering virtual workshops for our employees on how to cope with Covid-19 and how to work remotely. Our Major Incident Group continued to meet regularly throughout 2020 to monitor national developments and provide internal direction on any Covid-19 related operational or people matters. We have continued to deliver technical, leadership and personal development programs online for all our employees. Our Financial Crime Compliance training continued to be delivered and by end of year we have covered 50% of our employees on this program with the target to cover all employees by March 2021.
Investors	We are grateful for the constructive engagement that we have with our shareholders. The Board particularly values its face-to-face interactions with shareholders at the Annual General Meeting ('AGM'). However, following the introduction of social distancing measures and restrictions on public gatherings, the 2020 AGM was held remotely. In line with a recommendation by the European Central Bank, the bank will paying a dividend of €2,717,000. This represents the maximum that can be distributed, in line with the recommendation of the European Central Bank.
Regulators and Governments	We have proactively engaged with regulators and standard setters locally regarding the numerous policy changes issued in response to the pandemic to help our customers to contribute to normalisation and recovery, and to manage operational capacity. We have continued to uphold our standards, track and document any changes and maintain our transparency with regulators. We have also engaged extensively with our European and local regulators in pursuit of their supervisory objectives and other activities aimed at maintaining the health of the economy, the stability of the financial system and the safety and soundness of individual financial institutions.

Branches and offices

A list of branches and offices is found on page 187.

Additional regulatory disclosures

Banking Rule 07 (Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994) partly repealed by certain provisions in the Capital Requirements Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms ('CRR') is related to market discipline and aims to make credit institutions more transparent by requiring them to publish specific disclosures on the credit institution's risk and capital management under the Basel III framework. However the local group is considered as a significant subsidiary of HSBC Holdings plc and 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 such disclosures are required 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 Listing Rule 5.64

The bank's authorised share capital is €141,000,000. The issued and fully paid up capital is €108,091,830 divided into 360,306,099 ordinary shares of a nominal value of 30 cents each. The issued share capital consists of one class of ordinary shares with equal voting rights attached and are freely transferable.

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

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

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

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

During 2020 the Memorandum and Articles of Association were amended and duly approved at the Annual General Meeting held on 27 November 2020. One amendment related to Article 82 which regulates attendance and participation at Board meetings. The objective of this amendment is to take into account developments in technology which now make it possible to use electronic means of communication. This includes links from various locations and countries by using secure encrypted audio or audio-visual links which enable the holding of Board meetings by electronic means. In terms of the new Article 82:

"The quorum necessary for the transaction of business of the Directors shall be four (4) whether present in person or by their alternate.

PROVIDED that any Director or his alternate may validly participate in a meeting of the Board or a committee of the Board by means of conference telephone, video conferencing or any other form of communication equipment, provided that all persons participating in the meeting are able to hear and speak to each other throughout such meeting.

PROVIDED that a person so participating by being present or being in telephone communication with or by exchanging communication in electronic form with those in the meeting or with the Chairman shall be deemed to be present in person at the meeting and shall accordingly be counted in a quorum and be entitled to vote. Such a meeting shall be deemed to take place where the largest group of those participating is assembled or, if there is no group which is larger than any other group, where the Chairman then is.

PROVIDED that a resolution passed at any meeting held in the above manner, and authenticated by the Chairman or the Secretary, shall be as valid and effectual as if it had been passed at a meeting of the Board (or committee, as the case may be) duly convened and held".

Another amendment related to substitution of the third proviso of Article 98 with the following Proviso:

"Provided further that, nothing in this article shall preclude the Company from offering to pay dividends to its Shareholders by any other means, including scrip dividend options, subject to the competent authority's prior permission in accordance with Article 73(1) and to the conditions of Article 73(2) of the Capital Requirements Regulation".

The reason behind this amendment is that paragraph 122 of the European Banking Authority's Report on the monitoring of CET1 instruments issues published on 22 July 2019 recommends that where provisions are included in the Articles of Association recognising the possibility of distributions being made in form other than cash or own funds instruments, clear reference should be made in the Articles of Association that such distributions are subject to the prior permission of the competent authority and to the conditions of Article 73(2) of the Capital Requirements Regulation.

Approval of this amendment aligned the Bank's Articles of Association to a regulatory requirement.

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

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

It is hereby declared that the requirements pursuant to Listing Rules 5.64.7 and 5.64.10 that deal with agreements pertaining to changes in control of the bank did not apply to the bank as at . 31 December 2020.

Shareholder register information pursuant to Banking rule 7 – Appendix 1

Directors' interest in the share capital of the bank

	At 31 Dec 2020
	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 2020 to 31 January 2021.

Shareholders holding five per cent (5%) or more of the equity capital at 31 January 2021:

HSBC Europe B.V. 70.03%

Number of shareholders at 31 January 2021:

One class of shares 9,278 shareholders (All shares have equal voting rights)

Number of shareholders analysed by range

	At 31 Jan 2021	
	Total shareholders	Shares
Range of shareholding		
1 – 500	**1,462**	**442,667**
501 – 1,000	**1,169**	**882,837**
1,001 – 5,000	**3,909**	**10,010,421**
5,001 and over	**2,738**	**348,970,174**
Total shareholding	**9,278**	**360,306,099**

Standard licence conditions applicable under the Investment Services Act, 1994

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

Board of Directors

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

John Bonello
Andrew Beane (resigned on 6 July 2020)
Simon Vaughan Johnson (appointed on 6 July 2020)
Andrew Muscat
Christopher Davies (resigned on 11 November 2020)
Gordon Cordina (resigned on 8 April 2020)
Sue Vella
Yiannos Michaelides
Michel Cordina
Ingrid Azzopardi
Manfred Galdes (appointed 4 January 2021)
Matthew Colebrook (appointed 11 November 2020 – subject to regulatory approval)

Executive Committee and Head of Internal Audit

As at 31 December 2020, the bank's Executive Committee of the local group was composed of the following:

Simon Vaughan Johnson	Chief Executive Officer
Nikolaos Fertakis	Chief Executive Office (resigned in February 2021)
Elizabeth Hardy	Chief Operating Officer, Designate (approved in February 2021)
Charlotte Cilia	Chief Financial Officer
Crawford Prentice	Head of Wealth and Personal Banking (formerly RBWM)
Michel Cordina	Head of Business Development
Jesmond Apap	Head of Global Markets
Caroline Buhagiar Klass	Head of Human Resources
Joyce Grech	Head of Commercial Banking
Joseph Sammut	General Counsel
Gerard Walsh	Chief Risk Officer
Jane E. Estey	Head of Financial Crime Compliance
Anthony P. Abela	Head of Regulatory Compliance (retired in January 2021)
Carine Arpa	Head of Communications
George Brancaleone	Company Secretary
Anna Camilleri	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 Listing Rule 5.62, upon due consideration of the bank's profitability and statement of financial position, capital adequacy and solvency, the Directors confirm the bank's ability to continue operating as a going concern for the foreseeable future.

Statement by the Directors Pursuant to Listing Rule 5.70.1

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

Statement by the Directors Pursuant to Listing Rule 5.68

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

Signed on behalf of the Board on 23 February 2021 by:

John Bonello
Chairman

Simon Vaughan Johnson
Chief Executive Officer

Directors’ Responsibilities Statement

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

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

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

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

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

The financial statements of HSBC Bank Malta p.l.c. for the year ended 31 December 2020 are included in the Annual Report 2020, which is being published in printed form and made available on the bank’s website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the bank’s website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Signed on behalf of the Board on 23 February 2021 by:

John Bonello
Chairman

Simon Vaughan Johnson
Chief Executive Officer

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

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

The Board is proud of the fact that it has a solid corporate governance framework that is built around the principles of control and accountability. This culture stems from a philosophy that puts the protection of investors and the interest of customers at the forefront. The Board further believes that good corporate governance has a positive impact on the bank's performance.

Corporate governance is subject to regulation by the Listing Authority. As a company whose equity securities are listed on a regulated market, the bank endeavours to adopt the Code of Principles of Good Corporate Governance (the 'Code' or 'Principles') embodied in Appendix 5.1 of the Listing Rules. In terms of Listing Rule 5.94 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.

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

Board Members are accountable for their performance and that of their delegates to shareholders and other relevant stakeholders. Besides having a broad knowledge of the bank's business, they are also conversant with the statutory and regulatory requirements regulating this business. Directors regularly attend Board meetings and allocate sufficient time to perform their duties.

The Board determines the bank's strategic aims and organisational structures and regularly reviews management performance. It ensures that the bank has the appropriate financial and human resources to meet its objectives. Moreover, it exercises prudent and effective controls, which enable risk to be appropriately assessed and managed in order to achieve the short and long-term sustainability of the business. As part of a larger international Group the Board assesses the compatibility of Group policy with local legal and regulatory requirements, and where appropriate, adapts those policies.

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

The process of appointment of Directors is conducted in terms of the company's Memorandum and Articles of Association. It states that the Board is to consist of not more than nine Directors who are appointed/elected by the shareholders. Every shareholder owning 11 per cent of the Ordinary Share Capital is entitled to appoint one Director for each 11 per cent shareholding. The majority shareholder therefore has the right to appoint six Directors. Furthermore, any excess fractional shareholding not so utilised may be used to participate in the voting for the election of further Directors. Shareholders who own less than 11 per cent of the ordinary share capital participate in the election of the remaining three Directors. The largest single shareholder (subject to a minimum 33 per cent holding of the ordinary issued share capital of the bank) is entitled to appoint a Chairman from among the Directors appointed or elected to the Board.

Principle 2: Chairman and Chief Executive Officer

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

The Chairman and the CEO acknowledge that it is imperative to have a constructive relationship with each other and that a certain level of independence is maintained.

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

The Chairman, who was independent on appointment and still meets the independence criteria, leads the Board. He sets the agenda and ensures that the Directors receive precise, timely and objective information and at the same time ensures effective communication with shareholders. During Board meetings, he encourages active engagement by all Board Members and ensures that Directors constructively challenge senior management. The Chairman also facilitates the effective contribution of Non-Executive Directors thus ensuring constructive relations between executive and Non-Executive Directors.

The Chairman encourages and promotes open and critical discussion, ensuring that any dissenting views are expressed and discussed within the decision-making process. Moreover, the Chairman contributes to the efficient flow of information within the Board, 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 the effective oversight over the bank's operations. Each of the Directors is skillful, competent, knowledgeable and experienced to fulfil one's role diligently. The Directors who held office during the year, possess the requisite ability to assess business risk, to identify key performance indicators and participate in critical debate in the decision-making process.

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

As at 4 January 2021 the Board was composed of a Non-Executive Chairman, two Executive Directors, five Non-Executive Directors and one designate Director, still subject to regulatory approval. 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 given to all the bank's Directors. Matthew Colebrook is awaiting the European Central Bank's 'non-objection'. The letter of appointment issued to Non-Executive Directors stipulates the minimum time commitment expected to be dedicated to the bank. Non-Executive Directors undertake to have sufficient time to meet what is expected of them. Any other significant commitments are disclosed to the Board before their appointment and subsequent changes are notified as they arise.

In accordance with the Code Provision 3.2, the independent Non-Executive Directors as at 31 December 2020 were the following:

Ingrid Azzopardi, Yiannos Michaelides, Andrew Muscat, Sue Vella and Manfred Galdes (the latter was confirmed as Director on. 4 January 2021).

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

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

Furthermore, the Board had determined that the fact that an economic consultancy firm in which Gordon Cordina is an Executive Director, used to provide consultancy services to the bank, did not influence the Director's objective and balanced judgement or in any way reduce his ability to take decisions independently.

On the other hand, in accordance with Code Provision 3.2.1, the Board had decided that the employment of Christopher Davies with the Group rendered him non-independent from the bank. This did not however, in any manner, detract from the non-independent Director's ability to maintain independence of free judgement and character at all times. He was deemed able to make his own sound, objective judgement and independent decisions when performing his functions and responsibilities. Christopher Davies resigned from Director of the bank with effect from 11 November 2020.

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

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

Principle 4: The Responsibilities of the Board

The Board sets the bank's strategy, policies and business plans and strategy is discussed on a regular basis at Board meetings. The Board of Directors monitors the implementation by management of strategy and policy within the parameters of all relevant laws, regulations and codes of best practice. The Board ensures that a balance is maintained between enterprise and control. The Board recognises and supports innovation within the management of the bank and it remains accountable to the shareholders for its performance and also ensures effective communication with the different groups of stakeholders.

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

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

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

The Board has approved a Management Body and Key Function Holders Suitability Assessment Policy ('Board Suitability Policy') and has also developed a succession policy for the future composition of the Board, including its executive part.

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 Listing Rules and Banking Rule 12, the European Banking Authority Guidelines on Internal Governance and are modelled on the recommendations in the Cadbury Report and the UK Walker Review.

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

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

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

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

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

This Committee scrutinises and approves related party transactions. It considers the materiality and the nature of the related party transactions carried out by the bank to ensure that the arms' length principle is adhered to at all times and that business resources are not misapplied.

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

The Committee met six times during 2020 and was composed of Ingrid Azzopardi as Chairperson, and Gordon Cordina and Andrew Muscat as Members until 8 April 2020. On 8 April 2020, Gordon Cordina resigned from Director of the Bank and was replaced by Sue Vella as Member of the Committee.

Attendance at Audit Committee meetings

	Attended
Ingrid Azzopardi	**6 out of 6**
Gordon Cordina	**2 out of 2**
Andrew Muscat	**5 out of 6**
Sue Vella	**4 out of 4**

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

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

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

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

In terms of Listing Rule 5.127.7, the Audit Committee is responsible for developing and implementing policy on the engagement of the external auditor to supply non-audit services. The provision of non-audit services to EU Public Interest Entities ('PIEs') and to parent and controlled undertakings in the EU are regulated in terms of EU rules. Under the regulations there are also certain prohibitions to controlled entities outside the EU.

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

Risk Committee

This Committee is responsible for advising the Board on high-level risk-related matters, including both financial and non-financial risks, impacting the bank and its subsidiaries. In providing such oversight and advice to the Board, the Committee oversees: current and forward-looking risk exposures, the bank's risk appetite profile and future risk strategy. The Committee has to satisfy itself that the risk appetite 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 Regulatory Compliance Function and receives regular reports on progress against the plan and other matters relating to regulatory compliance risk and the bank's relationship with Regulators.

The Committee is empowered to review whether prices of liabilities and assets offered to clients take full account of the bank's business model and risk strategy. Moreover, it reviews how effectively management is embedding and 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 seven times during 2020 and until 8 April 2020 it was composed of Gordon Cordina as Chairman, and Ingrid Azzopardi and Yiannos Michaelides as Members. Upon the resignation of Gordon Cordina from Director of the bank, Yiannos Michaelides was appointed Interim Chairman and Sue Vella was appointed as Interim Member until the approval by the Regulator of Manfred Galdes as Chairman of said Committee, which became effective on 4 January 2021. Since said date, the Committee is now composed of Manfred Galdes as Chairman and Ingrid Azzopardi and Yiannos Michaelides as Members.

Attendance at Risk Committee meetings

	Attended
Gordon Cordina	2 out of 2
Yiannos Michaelides (Interim Chairman/Member)	7 out of 7
Ingrid Azzopardi	7 out of 7
Manfred Galdes (Designate Chairman)	5 out of 5
Sue Vella (Interim Member)	5 out of 5

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 Head of Financial Crime Compliance, the Head of Regulatory Compliance 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 2020 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 Listing Rules.

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

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

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

Executive Committee ('ExCo')

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

In terms of its new Terms of Reference, which were approved in November 2020, 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 Head of Regulatory Compliance / Chief Compliance Officer, the Head of Financial Crime Compliance, the Head of Human Resources, the Head of Communications and the Company Secretary. As the Head of Internal Audit should be seen as independent from management, the holder of said role is not a member of the Committee but is a standing attendee. Meetings are held with such frequency and at such times as the Chair may determine. However, it is expected that the Committee meets at least ten times per annum.

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

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

The Risk Management Meeting ('RMM')

The RMM met ten times during the year. It is chaired by the Chief Risk Officer, with the Chief Executive Officer, or any member appointed by the Chief Risk Officer as alternate chairman, in his/her absence. The objective of the RMM is to exercise oversight of the risk/reward framework for the bank and its subsidiaries.

This governance forum is responsible for all risks in all businesses, functions and subsidiaries under the ownership of the bank, including inter alia Credit Risk, Market Risk, Operational Risk, Concentration Risk, Legal and Regulatory Risk, Resilience Risk, Security and Fraud Risk and Reputational Risk. The RMM is also responsible for the setting and monitoring of a Risk Appetite Framework for ExCo and Board approval, signing off on material credit risk models, and consideration of top and emerging risks and scenario / stress test analysis. Individual risk acceptance and approval is not within the Terms of Reference of the RMM, and continues to be approved under existing delegated authorities within the management structure of the bank.

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

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

The Chief Executive Officer has primary responsibility for ensuring efficient development of Asset and Liability Management. Membership consists of senior executives with responsibility for the following functions: Commercial Banking, Wealth and Personal Banking, Global Markets, Finance, Asset and Liability Capital Management, Customer Value Management and Payments and Cash Management. ALCO, which is chaired by the Chief Financial Officer and deputised by the Chief Executive Officer, meets once a month.

Financial Crime Risk Management Committee ('FCRMC')

This Committee provides on-going oversight, management and communication of Financial Crime Compliance ('FCC') risks, issues and changes impacting the business lines. FCC includes Anti-Money Laundering ('AML'), Sanctions, Anti-Bribery and Corruption, Fraud and Tax evasion. The membership of this Committee, which is chaired by the bank's Chief Executive Officer, is composed of most of the bank's ExCo team and the Money Laundering Reporting Officer.

Principle 5: Board meetings

The Board meets as often and as frequently required to discharge its duties effectively. During the period under review, the Board met sixteen times: thirteen were formal Board meetings and three were thematic deep dives.

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

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

Minutes are taken during Board meetings that record faithfully 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	13 out of 13
Andrew Beane	8 out of 9
Simon Vaughan Johnson	4 out of 4
Gordon Cordina	5 out of 6
Michel Cordina	13 out of 13
Christopher Davies	5 out of 12
Yiannos Michaelides	13 out of 13
Andrew Muscat	12 out of 13
Sue Vella	13 out of 13
Ingrid Azzopardi	13 out of 13

For the period during which, proposed Directors were still awaiting regulatory approval, they attended the following meetings:

	Attended
Simon Vaughan Johnson	6 out of 6
Manfred Galdes	6 out of 6
Matthew Colebrook	1 out of 1

Principle 6: Information and professional development

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

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

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

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

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

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

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

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

Principle 7: Evaluation of the Board performance

During the year the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees through a Board Effectiveness Questionnaire modelled on a questionnaire adopted by Group. This process was conducted by the RemNom Committee through the support of the Company Secretary. No material changes in the governance structures and organisation resulted from this Board evaluation exercise.

Principle 8: Committees

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

Principles 9 and 10: Relations with the shareholders, with the market and with institutional shareholders

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

The bank communicates with shareholders in the following ways:

- through the '*Annual Report and Accounts*' which is 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 Chairmen of the Audit Committee, of the Risk Committee and of the RemNom Committee are available to answer questions during the Annual General Meeting. The conduct of the meeting is conducive to valid discussion and appropriate decision making.

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

Principle 11: Conflicts of interests

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

In line with HSBC Group best practice, the Board operates a 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 Listing Rules. A proper procedure of reporting advance notices to the Chairman by a Director who intends to deal in the bank's shares has been endorsed by the Board in line with the Principles, the Listing Rules and the internal Code of Dealing.

Principle 12: Corporate Sustainability

The bank's Corporate Sustainability ('CS') activities take place within the context of the Group-wide strategy. The Board continues to recognise that the bank has a role within, and responsibility towards, the community it serves. To discharge these roles and responsibilities, during 2020, the bank continued to utilise its resources in order to carry out a series of initiatives and projects designed to provide value to various sectors within the community. In Malta, the bank fulfils the Group's CS strategy primarily through the HSBC Malta Foundation (the 'Foundation'). The HSBC Malta Foundation seeks to unlock the full potential of individuals and the community to shape a sustainable future. Drawing from the HSBC Group resources and a network of partners, the bank works to tackle critical problems in sustainable finance, climate ambition and future skills. Locally, the bank remains committed to making a difference in the areas of child welfare, the environment, medical research and heritage.

The bank has pledged long-term support to help people access education and training, so as to acquire the skills needed to succeed in today's workplace. 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 ('NGO's'). 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, with an extra day's leave granted for voluntary work.

Through the HSBC Malta Foundation, focus is placed on creating a sustainable future that leaves a positive impact on society, environment and 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. 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, locally the bank has been very active during 2020 to drive initiatives aligned with this strategy.

From an environmental perspective, the bank continued to take several measures to raise its commitment to support a sustainable environment for Malta and Gozo. The bank continued to make use of a number of electric vehicles and to further invest in the installation of more PV panels. Additionally, the bank, through the HSBC Malta Foundation continued to pursue an active schedule of community activities to support environmental issues.

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 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 Listing 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 and delivering good conduct outcomes. Risk Owners are also responsible for assessing, identifying and understanding the conduct impacts across the risk types and identifying and understanding the controls they rely on to support the delivery of these outcomes.

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

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

The local group's key risk management and internal control procedures include the following:

- Global standards: Functional, operating, financial reporting and certain management reporting standards are established by global function management Committees, for application throughout HSBC globally. These are supplemented by operating standards set by functional and local management as required for the type of business and geographical location of each subsidiary.
- Delegation of authority within limits set by the Board: The Board has delegated specific, clear and unequivocal authority to the Chief Executive Officer to manage the day-to-day affairs of the business for which they are accountable within limits set by the Board. Delegation of authority from the Board requires the CEO to maintain appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to the business.
- Risk identification and monitoring: Systems and procedures are in place to identify, control and report on the major risks facing the bank including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability and operational (including accounting, tax, legal, compliance, fiduciary, information, external fraud, internal fraud, political, physical, business continuity, systems operations, project and people risk). Exposure to these risks is monitored by the Risk Management Meeting, Asset and Liability Committee and Executive Committee.
- Changes in market conditions/practices: Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the bank to heightened risk of loss or reputational damage. Further improvements have been, and will continue to be, implemented to combat the inherent challenges posed by financial crime. In addition, the focus has remained on regulatory developments and engagement, including the ongoing supervisory review and evaluation process under the ECB's Single Supervisory Mechanism; challenges to balance business growth and risk management imperatives; internet crime and fraud; level of change creating operational complexity and heightened execution risk; and information security risk.
- IT operations: Centralised functional control is exercised over all IT developments and operations.
- In order to ensure consistency and benefit from economies of scale, common Group systems are employed for similar business processes, wherever practicable.
- Comprehensive annual financial plans are prepared, reviewed and approved by the Board. Results are monitored and progress reports are prepared on a monthly basis to enable comparisons with plan. Financial accounting and management reporting standards have been established.
- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to executive management. In addition, functional management in the bank has been given the responsibility to implement HSBC policies, procedures and standards for business and product lines and functions including: legal, financial crime and regulatory compliance, internal audit, human resources, credit risk, market risk, operational risk, computer systems and operations and property management.
- The Chief Risk Officer is responsible for the management of specific risks within the bank including credit risk in the wholesale and retail portfolios, markets risk and operational risk. Risks are monitored via the Risk Management Meeting which meets regularly and via reporting to the Executive Committee, the Risk Committee and the Board.
- Internal Audit: The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Internal Audit function reports to the Board. It provides independent and objective assurance in respect of adequacy of the design and operating effectiveness of the bank's framework of risk management, control and governance processes focusing on the areas of greatest risk to the bank using a risk-based approach. The Head of Internal Audit also reports to the Board on matters concerning the operation of the Function, including independence and resourcing.
- Internal Audit issues: Executive management is responsible for ensuring that any issues raised by the Internal Audit function are remediated within an appropriate and agreed timeframe. Confirmation to this effect must be provided to Internal Audit which subsequently validates the remediation.
- The bank's Regulatory Compliance Department 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.
- The bank's Financial Crime Compliance Department is responsible for the oversight of Anti-Money Laundering and Terrorist Financing, Sanctions, Anti-Bribery and Corruption, Fraud and Tax Evasion risks. Particular attention is given to the proactive management of identified Financial Crime Compliance risk issues. Routine governance is managed via the entity-wide Financial Crime Risk Management Committee, and material matters reported to the Executive Committee, the Risk Committee and to the Board.
- Through the Audit Committee and 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 Third Line of Defence review by Internal Audit.

Listing Rule 5.97.5

The information relating to the Shareholder register required by this Listing rule is found in the Directors' Report.

General meetings

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

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

All shareholders registered in the shareholders' Register on the record date as defined in the Listing Rules, have the right to attend, participate and vote in the General Meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the General Meeting may request the bank to include items on the agenda of a General Meeting and/or table draft resolutions for items included in the agenda of a General Meeting. Such requests are to be received by the bank at least forty-six 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 2020, the Annual General Meeting was held remotely and live streamed on 27 November 2020 in accordance with Legal Notice 288 of 2020.

Remuneration Report

Governance

Role of the Remuneration Committee

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

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

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

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

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

Membership and meetings

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

Attendance at Remuneration and Nomination Committee meetings

	Attended
Sue Vella	8 out of 8
John Bonello	8 out of 8
Andrew Muscat	7 out of 8

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 2020, the Committee did not engage any external adviser. It only seeks specific legal and/or remuneration advice independently as and when it considers this to be necessary.

Remuneration Statement

HSBC Bank Malta p.l.c. Remuneration Policy

The bank's remuneration strategy is designed to competitively reward the achievement of sustainable performance and to attract, retain and motivate the very best people who are committed to a long-term career with the HSBC Group in the long-term interests of our shareholders. It is also aligned with the EU's Capital Requirements Directive ('CRD') IV, particularly with respect to those employees identified as having a material impact on the bank's risk profile, being termed as Material Risk Takers ('MRTs') in accordance with Regulatory Technical Standard EU 604/2014. The bank is conscious that EBA/RTS/2020/05 Directive is expected to come into effect during 2021 following its publication in the Official Journal of the European Union. This will supersede the current Regulatory Technical Standard in force and may have an impact on the identification process for MRTs within the bank.

During 2020 there has been one change to the bank's Remuneration Policy. This change was related to the bank's policy in respect of Performance Management, which was amended to reflect the bank's revised performance management process which has moved from an annual process to an ongoing everyday performance management process. As a result, it highlights the need for line managers and employees to have ongoing performance discussions and gather stakeholder feedback on performance on an ongoing basis.This ensures that business objectives are reviewed and discussed in a timely manner, with a focused annual review involving the assessment of performance for that year. The bank's policy has also been updated to reinforce the key principles of the remuneration framework and to align further variable pay between objectives achieved, conduct and behaviours demonstrated during the performance year which are listed below. In addition, as outlined hereunder in this report, the other significant change regarding remuneration was the approval of a separate Directors' Remuneration Policy which aligns with the Listing Rules.

With respect to forthcoming changes in the Remuneration Policy, the bank considered the Sustainable Finance Disclosure Regulation ('SFDR') - Regulation (EU) 2019/2088 coming into effect on 10 March 2021. To this effect the bank will be updating the Remuneration Policy with respect to variable pay funding for senior management to take account of appropriate measures linked to the bank's sustainable finance measures. The introduction of EBA/RTS/2020/05 on criteria to define MRTs may also require updates to the bank's Remuneration Policy.

In determining remuneration levels for 2020, the Committee applied the bank's Remuneration Policy, which takes into account the interests of shareholders, HSBC Group and the broader external context.

Key principles of the remuneration framework include:

- Assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
- The use of behaviour and performance ratings for all employees which directly influence pay outcomes;
- Positive adjustments to variable pay for individuals who have exhibited exemplary conduct who went the extra mile to courageously do the right thing;
- Our global recognition program, where our employees can recognise peers and reward positive behaviour in real-time;
- A focus on total compensation (fixed plus variable pay) with variable pay (namely annual bonus) differentiated by performance and adherence to HSBC values;
- The use of discretion to assess the extent to which performance has been achieved; and
- Deferral of a significant proportion of variable pay (where appropriate) to tie recipients to the future performance of the Bank and align the relationship between risk and reward.

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

- Assessment of risk and compliance is a critical part of the process to determine the performance of all employees, especially senior executives and material risk takers.
- Adherence to HSBC values is a prerequisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC Values rating which directly influences their overall performance rating, and is therefore considered for their variable pay determinations.
- For senior executives and certain MRTs, part of their variable pay is deferred (where appropriate) and thereby subject to malus, which allows unvested/unpaid deferred awards to be

reduced or cancelled if warranted. Similarly, for paid/vested awards, these are subject to clawback for a minimum period of 7 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 MRTs, the Committee and the Board have oversight of such decisions and can make recommendations to the HSBC Group Remuneration Committee to reduce or cancel all or part of any unpaid deferred award.

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

The bank's reward strategy

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

a. Fixed Remuneration,

b. Benefits, and

c. Variable Remuneration.

These elements are designed to ensure that the bank attains its targets by including both short-term and long-term incentives in the reward package. This strategy promotes the employees' remuneration with the bank's risk alignment of framework, risk outcomes and values. The personal conduct of the bank's people is critical to the bank's ability to live up to these commitments. The bank recognises and rewards exceptional conduct demonstrated by its employees. Poor conduct and inappropriate behaviour not in line with HSBC values, or which exposes the bank to financial, regulatory or reputational risk, is 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 of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is therefore judged not only on what is achieved over the short and long term but also importantly on how it is achieved, as the bank believes the latter contributes to the soundness and sustainability of the business.

Structure of remuneration

The following table shows the purpose and relevant features of each of the three key elements of HSBC's reward package. The following structure applies to all employees including Executive Directors and Senior Management (i.e. members of the Executive Committee).

Description	Purpose, relevant features and link to strategy
Fixed Pay	Fixed pay reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a fixed pay allowance and/or a pension.
	Base salary Base salaries are paid in cash on a monthly basis and are benchmarked on an annual basis against relevant comparator groups.
	Fixed pay allowance This is typically paid in cash on a monthly basis.
	Pensions These consist of cash allowances in lieu of personal/occupational pension arrangements of international assignees appointed to Senior Executive position. An employee pension plan scheme is offered to all local employees subject to the terms and conditions of the scheme.
Benefits	Benefits take account of local market practices and include the provision of medical insurance, health assessment, life assurance, and tax assistance where appropriate.
Variable Pay – annual incentive	Variable pay award is discretionary, and is determined and paid in line with internal bank policies and procedures. Variable pay awards are made to drive and reward performance against annual financial and non-financial measures and adherence to HSBC Values which are consistent with the medium to long-term strategy and aligns to shareholder interests.
	Performance targets are set taking into account the economic environment, strategic priorities and risk appetite. The bank has two rating scales to measure performance of employees: a four rating scale measuring performance targets achieved and another four rating scale measuring and assessing the behaviour of employees in line with the HSBC values. All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also how it is achieved. Each department comes together every year to calibrate the ratings given to employees to ensure a fair, consistent and bias free assessment. This exercise ensures that the process is transparent and fair across the bank. Performance reporting tools are available to all line managers for the purpose of undertaking an analytical review of the variable pay decisions for them. Variable pay is delivered in the form of cash and shares.
	Individuals in control functions are assessed according to the objectives specific to the functional role they undertake, to ensure their remuneration is determined independent of the performance of the business areas they control.
	Where variable pay for Material Risk Takers is more than €100,000 or for lower values 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.
	Total awards are subject to deferral and vest over a period of three years or five years in case of Senior Management or such other period as determined by the Committee, and hence subject to malus or claw back provisions. The award is non-pensionable.

Variable pay funding

Funding of the bank's annual variable pay pool is determined in the context of profitability and affordability. The Committee considers many factors in approving the overall variable pay pool. These include, but are not limited to, individual performance, the performance of the bank and the performance of the HSBC Group. These are all considered within the context of the bank's risk appetite. The variable pay pool is also shaped by risk considerations and factors that may arise from any local or Group-wide notable events. The commercial requirement to remain competitive in the market is also taken into account in line with the bank's annual operating plan. Through the variable pay, the bank aims to attract, retain and motivate the very best people in a competitive market while at the same time acting in the best interest of customers and stakeholders.

Performance measurement and risk adjustment

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

In order to reward genuine performance, individual awards are made on the basis of a risk-adjusted view of both financial and non-financial performance. In light of this, the bank has discretion to adjust an employee's current year variable pay in such cases as set out in the table below.

The Committee can also seek advice from the Group Remuneration Committee, at the level of HSBC Holdings plc, to reduce or cancel all or part of any unvested deferred award under the applicable malus and clawback provision. 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 AML and sanctions compliance programme or non-compliance with the DPA and other relevant orders. • Failure to complete mandatory learning.
Malus	Unvested deferred awards granted in prior years	• Detrimental conduct or conduct which brings the business into disrepute. • Past performance being materially worse than originally reported. • Restatement, correction or amendment of any financial statements. • Improper or inadequate risk management.
Clawback	Vested or paid awards	• Participation in or responsibility for conduct which results in significant losses. • Failing to meet appropriate standards of fitness and propriety. • Reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment. • HSBC or a business unit suffers a material failure of risk management within the context of Group risk management standards, policies and procedures.

Directors' Remuneration Report in terms of Chapter 12 of the Listing Rules

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

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

As this Resolution was passed by the required majority of shareholders, and no questions or comments were raised prior to the General Meeting in terms of Legal Notice 288 of 2020, the Directors' Remuneration Policy was considered approved as presented and duly implemented during 2020.

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 Listing 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 banks'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 discouraged.

Total awards of Executive Directors are subject to deferral and vest over a period of three years or five years or such other period as determined by the Committee, and hence subject to malus or claw back provisions as outlined earlier.

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

Remuneration of Executive Directors for the year ended .
31 December 2020:

	Andrew Beane	Simon Vaughan Johnson	Michel Cordina
	€	€	€
Fixed pay	**94,799**	**325,326**	**133,282**
Variable pay:			
– Immediate Cash	**16,084**	**41,472**	**29,011**
– Immediate Shares*	**16,084**	**41,472**	**-**
– Deferred Cash	**10,723**	**27,648**	**-**
– Deferred Shares*	**10,723**	**27,648**	**-**
Benefits	**43,697**	**118,996**	**12,394**
Aggregate**	**192,110**	**582,562**	**174,687**
Effective period	**01/01/20 - 31/03/20**	**01/04/20 - 31/12/20**	**01/01/20 - 31/12/20**

* *The value of the shares awarded to Andrew Beane and Simon Vaughan Johnson amounting to €26,807 and €69,120 respectively relate to performance year 2020. The number of shares to be awarded in this respect will be formally communicated on 1 March 2021 and determined on the share price as at that date. The number of shares awarded during 2020 in relation to performance year 2019 are disclosed in a subsequent table 'Share Awards and Share Options awarded in 2020' below.*

** *The remuneration of Andrew Beane and Simon Vaughan Johnson is proportionate to the time they worked in Malta during 2020 (the "effective period").*

Shares and Share Options awarded in 2020

	Grant Date	Share Value €	Number of Shares	Performance Period
Andrew Beane				
Immediate Shares	**24/02/2020**	**63,767**	**10,279**	**2019**
Deferred Shares*****	**24/02/2020**	**42,512**	**7,933**	**2019**

***** *The 7,933 deferred shares will vest in 10/03/2025.*

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 Europe Chief Executive Officer.

The performance assessment of the Chief Executive Officer involved the evaluation of the targets achieved against the pre-set objectives disclosed in the table below. These objectives align with the bank's commitments (such as diversity and carbon emission targets) and are all measurable (for example in the case of customer satisfaction and employee experience, performance is measured through survey results), and are allocated the weighting disclosed in the table below.

Objectives	Weighting
	%
Drive safe business growth	40
Customer satisfaction: Re-engineer the Business to improve customer service	5
Employee experience: Improve engagement, diversity & succession	5
Environment: Sustainable operations and sustainable finance	5
Risk and Compliance: Achieve effective management of non-financial risks and fulfilment of regulatory obligations, and drive the Conduct framework and effective financial crime risk management	10
Personal Objective: Implement 'Transform to Win' by driving innovation in line with our digital strategy	35

As referred to above, 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 Andrew Beane and 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. It is 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 Andrew Beane and Simon Vaughan Johnson, which amounts to 57% and 42% of their fixed pay (excluding benefits) respectively, is lower than the 100% of fixed pay threshold. In addition, as illustrated in the tables above, 50% of the variable remuneration is subject to deferral in line with the bank's policy and the HSBC Group deferral requirements applied for all variable pay awards as explained in the below table.

Value of Total Variable Pay	Deferral % of variable pay is subject to variance and is split between cash and shares
Up to €100,000, provided that total variable pay does not exceed total fixed pay.	0%
Above €100,000 up to GBP500,000 [1] or amounts below €100,000 where variable pay is greater than 33% of Total Compensation.	40%
Above GBP500,000	60%

1 *Local currency equivalent values will be determined in accordance with Group Policy.*

The deferred remuneration of both Andrew Beane and Simon Vaughan Johnson vests over a period between three to 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 2020. This mechanism ensures that the remuneration of the bank's senior executives aligns with achieving the long-term objectives of the bank.

On the other hand, Michel Cordina's objectives and performance pay structure are not based on the mechanism described above in respect of Andrew Beane and Simon Vaughan Johnson. Michel Cordina's variable pay is reviewed and approved by the bank's RemNom following feedback from the Chief Executive Officer on an annual basis. It is based on the achievement of set objectives and behaviours demonstrated during the performance year. These objectives are linked to business growth, customer engagement, retention and strengthening of key customer relationships, mainly in the corporate segment, and engagement with other key stakeholders and regulators, and ensuring adherence to risk management and compliance measures. In line with the bank's Remuneration Policy the percentage of variable pay received by Michel Cordina, which amounts to approximately 20% 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 2020.

Non-Executive Directors

Non-Executive Directors are not employees of the bank and are not eligible to receive a base salary, fixed pay allowance, benefits, pension or any variable pay. Non-Executive Directors receive a fee for their services and may be reimbursed expenses incurred in performing their role and any related tax. The appointment of

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

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

The Non-Executive Directors' fees are approved in aggregate by the shareholders at the Annual General Meeting. None of the said Directors received any remuneration from HSBC Life (Assurance) Malta Ltd, HSBC Global Asset Management (Malta) Ltd, or HSBC Group.

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

Details of Non-Executive Directors' Committee and Board fees for the financial year under review were as follows:

	2020 Fees	2019 Fees
	€	€
John Bonello	**74,400**	65,825
Andrew Muscat	**45,600**	45,600
Sue Vella	**51,423**	36,800
Gordon Cordina	**16,298**	59,700
Yiannos Michaelides	**47,700**	39,600
Ingrid Azzopardi	**59,700**	24,875
Sonny Portelli	**–**	44,100
Manfred Galdes	**29,149**	–
Total	**324,270**	316,500

Christopher Davies who is employed in the role of Group General Manager, Deputy Chief Executive HSBC Continental Europe within the HSBC Group, served as a Non-Executive Director of the bank till 11 November 2020. Christopher Davies was not paid any fees for holding the office of director neither by the bank nor by the HSBC Group. In this respect, the Directors believe that the requirements emanating from paragraph (c) of Appendix 12.1 of the Listing 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 the HSBC Bank Malta p.l.c., the parent bank, and its subsidiary undertaking respectively, taking cognisance of his role as Non-Executive Director of the bank. Accordingly, no disclosure in respect of Christopher Davies' remuneration for his services at HSBC Group level is being made within this report.

The bank has complied in full with the procedure for the implementation of the Directors' Remuneration Policy as defined in Chapter 12 of the Listing Rules.

This Directors' Remuneration Report in terms of Chapter 12 of the Listing Rules is being put forward to an advisory vote of the 2021 Annual General Meeting in accordance with the requirements of the Listing Rule 12.26 L.

In accordance with the requirements emanating from Appendix 12.1 of the Listing 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 Listing Rules issued by the Malta Listing Authority;
- Banking Rule 21 (BR21/2019) – Remuneration Policies and Practices – issued by the Malta Financial Services Authority; and
- The Pillar 3 remuneration disclosure requirements specified in the EBA Guidelines on Sound Remuneration Policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Articles 450 of the Regulation (EU) No 575/2013 (EBA/GL/2015/22).

The bank's Remuneration Policy – Material Risk Takers including Executive Directors and Senior Management

Individuals have been identified as MRTs based on qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 that came into force in June 2014. Amongst others, MRTs include all Executive Directors and Senior Management (who make up the Executive Committee and are hereafter referred to collectively as Senior Executives). Accordingly, the figures disclosed in the tables on the following page relating to Senior Executives also include the remuneration relating to the Executive Directors disclosed in the 'Information on Directors' Remuneration in terms of Appendix 12.1 of the Listing Rules' within the Remuneration Report. In addition members of the Asset and Liabilities Management Meeting and the Risk Management Meeting; and staff that have the authority to approve or veto a decision on any credit transaction representing 0.5% of the bank's CET1 capital are also identified as MRTs. The bank has taken regard of EBA/RTS/2020/05 which is expected to become effective in 2021 following its publication in the Official Journal of the European Union and that this may have an impact on its definition of identified staff/material risk takers going forward.

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

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

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

Remuneration amounts – MRTs

Remuneration – fixed and variable amounts

	2020				2019
	Non-Executive Directors	Senior executives	MRTs (non-senior executives)	Total	Total
Number of MRTs (FTEs)	6	14	33	53	54
	€000	€000	€000	€000	€000
Fixed pay					
Cash-based remuneration	324	1,906	2,165	4,395	4,267
Other remuneration					
– pensions	–	55	104	159	120
– benefits	–	515	243	758	710
Total fixed pay	324	2,476	2,512	5,312	5,097
Variable pay					
Cash	–	391	250	641	871
Non–deferred shares	–	93	–	93	82
Deferred cash	–	62	–	62	55
Deferred shares	–	65	–	65	63
Total variable pay	–	611	250	861	1,071
Total remuneration	324	3,087	2,762	6,173	6,168

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

The bank has continued to invest in its people to sharpen their skills and increase their capabilities. Specific programs on Future Skills have been launched in HSBC in November 2020 to cascade new capabilities to employees in line with the requirements of the banking sector and the landscape in which it operates.

The regulatory environment continues to change and the requirements to manage the associated risk have increased in complexity together with the focus of the remediation of the business. The focus of the bank still remains on ensuring the creation of the right 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 the last quarter of 2020 the bank launched another program on financial crime compliance and is planned to cover all employees by first quarter of 2021. This will ensure continued protection of the bank and its customers for ongoing sustainability in the future as regulation continues to grow and evolve.

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

Deferred remuneration

	2020			2019
	Senior executives	MRTs (non-senior executives)	Total	Total
	€000	€000	€000	€000
Cash				
Total outstanding deferred remuneration	214	–	214	103
– *of which:*				
Movements during the year				
total amount of deferred remuneration paid out in the financial year	*89*	–	*89*	*49*
Shares				
Total outstanding deferred remuneration	255	–	255	167
– *of which:*				
Vested	*77*	–	*77*	*N/A*
Unvested	*178*	–	*178*	*N/A*
Movements of shares during year				
total amount of amendment during the year due to ex-post implicit adjustment	*(123)*	–	*(123)*	*(11)*
total amount of deferred remuneration paid out in the financial year	*215*	–	*215*	*57*

Sign-on and severance payments

During 2020 and 2019, no severance payments or sign-on payments were made.

Payments to past Directors

During 2020 and 2019, no payments were made to past Directors.

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 2020, 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 Maltese Companies Act (Cap. 386).

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

What we have audited

HSBC Bank Malta p.l.c.'s financial statements, set out on pages 53 to 145, comprise:

- the Consolidated and Parent Company income statements and statements of comprehensive income for the year ended 31 December 2020;
- the Consolidated and Parent Company statements of financial position as at 31 December 2020;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

The non-audit services that we have provided to the bank and its subsidiaries, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 18 to the financial statements.

Our audit approach

Overview

- Overall group materiality: €1.3 million, which represents 5% of the three-year average profit before tax.

- 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 2020 comprising HSBC Bank Malta p.l.c. and its subsidiaries HSBC Life Assurance (Malta) Limited and HSBC Global Asset Management (Malta) Limited, which are all based in Malta.

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

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

Materiality

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

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

Overall group materiality	€1,320,000
How we determined it	5% of the three-year average profit before tax
Rationale for the materiality benchmark applied	We chose the profit before tax 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. Average profit before tax over the past three financial years was chosen due to the significant movements in insurance liabilities, the present value of in-force insurance business, as well as in expected credit losses experienced during the financial year ended 31 December 2020 as a result of the Covid-19 pandemic. We considered the three-year average profit before tax to be more reflective of the financial position and performance of the local group and bank. We chose 5% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €66,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the local group and bank	
Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. The development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. The outbreak of the Covid-19 pandemic has exacerbated the level of uncertainty around the calculation of ECLs, giving rise to heightened subjectivity in the determination of model assumptions used to estimate key model risk parameters and hence necessitating a higher level of expert judgement. In general, the local group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the local group is exposed to credit risk. The bank also applies overlays where management's view is that the calculated ECLs based on these key inputs do not fully capture the risks within the local group's portfolios. Credit loss allowances relating to all loans and advances within the Wholesale portfolio are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, the bank uses an ECL model that relies on risk parameters, specifically proxy PDs, determined at Group level. Through-The-Cycle (TTC) PDs are determined by reference to a Global Master Scale which captures historical default rates at credit rating level observed in respect of similar portfolios held by the HSBC Group across a number of countries. TTC PDs are converted to Point-in-Time (PiT) PDs on the basis of correlations attributable to the proxy country/ portfolio within the HSBC Group that has the credit risk characteristics which are most similar to those of the local group's portfolio. In addition, the output proxy PD is further adjusted using a scalar to reflect local macroeconomic conditions. The LGD used for the Wholesale portfolio is driven by the loan-to-value ratio of the individual facilities and takes into account other assumptions, including market value haircut (which includes costs to sell), time to sell and the impact of discounting the collateral from the date of realisation back to the date of default. The LGD modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by unprecedented economic conditions such as those currently experienced as a result of the Covid-19 pandemic.	During our audit of the financial statements for the year ended . 31 December 2020, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continuing appropriateness of management assumptions, updates to key parameters and new assumptions and enhancements, largely driven by the outbreak of the Covid-19 pandemic, were evaluated and tested. Discussions with the Audit Committee included: • inputs, assumptions and adjustments to ECL, in particular changes to risk factors and other inputs within the bank's models, for which we provided updates on the results of our testing procedures; • the application of forward economic guidance, including the severity and magnitude of modelled scenarios, particularly in the context of the potential future impacts of the Covid-19 pandemic; • considerations around post model adjustments, mainly in response to the impact of Covid-19 and the estimation uncertainty involved in determining ECLs on the basis of historical experience; and • individually significant loan impairments. *ECL calculation for non-defaulted Wholesale exposures and for all Retail exposures* We understood and critically assessed the models used for ECL estimation in both Wholesale and Retail portfolios. Since modelling assumptions and parameters are based on historic data, we assessed the impact of the unprecedented circumstances we are currently experiencing on the adequacy of key model parameters, since these are based on historical experience that is not necessarily reflective of the current level of credit risk within the portfolios. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, calibration of PDs/loss rates and LGDs, segmentation, selection of macroeconomic variables and post-model overlays. Model calculations were also tested independently. The design and operating effectiveness of key controls management has established across the processes relevant to the ECL models were tested as follows: • Model performance monitoring, including reconciliation of model parameters against approved models, and approval of model changes. • Review and challenge of multiple economic scenarios by an expert panel and internal governance committee. • Inputs of critical data into source systems, and the flow and transformation of data between source systems to the impairment calculation engine. • User acceptance testing over the automated calculation of ECLs, in case of amendments or changes to the model, to ensure it is performed in line with business requirements. • Review and challenge to assess ECL output and approval of overlays.

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	

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 default has occurred and then to estimate the expected future cash flows related to that loan which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows. The bank is also required to assess multiple scenarios in this respect, which scenarios will have probabilities attached.

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

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

The local impact of the pandemic has been mitigated by a number of government programmes and measures, including general payment moratoria which have given rise to the deferral of payments of capital and/or interest over time periods that extend beyond the end of the current financial reporting period. This factor has increased the level of uncertainty around judgements made in determining the timing of defaults and in respect of staging, particularly within the mortgage portfolio. For the purposes of avoiding the cliff edge effect on ECLs upon expiry of the moratoria, an overlay was applied by the bank determined on the basis of qualitative characteristics 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 the use of significant judgements. The bank utilises a methodology to generate the economic inputs applied within the ECL models.

The outbreak of Covid-19 and the government support and relief measures adopted to mitigate it have significantly impacted macroeconomic factors such as GDP and unemployment, increasing the uncertainty around judgements made in determining the severity and likelihood of macroeconomic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience.

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.

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

Substantive procedures were performed as follows:

- Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment.
- Tested a sample of loans within the Wholesale portfolio to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management, taking into consideration the impact of Covid-19 on the repayment capabilities of the sampled borrowers.
- Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.
- Tested the completeness and accuracy of the critical data, extracted from the underlying systems, that is utilised within the models for the purposes of the year end ECL calculation.
- Reviewed the SAS script codes for the impairment engine against business requirements and our expectations of how the calculation should operate.
- Risk based testing of models, including changes to model assumptions. We tested the assumptions, inputs and formulas used in ECL models on a sample basis. This included assessing the appropriateness of model design and formulas used, and recalculating PDs, LGDs and EADs on a sample basis.
- For the Wholesale portfolio, assessed the reasonableness of modelled PDs through a comparison of historically predicted and observed default rates, taking into consideration the potential postponement in timing of defaults due to government support programmes and measures, and the adequacy of modelled LGDs in light of the potential impact of the pandemic on local property prices.
- For the mortgage portfolio, assessed the reasonableness of market value haircuts and time to sell assumptions used as inputs to modelled LGDs, in light of the potential impact of the pandemic on local property prices. Additionally, we assessed the appropriateness of the post–model overlay intended to address early identification of SICR or UTP events in respect of those exposures to which the bank extended general payment moratoria.
- Independent testing of model calculations.
- Tested the multiple macroeconomic scenarios and variables using our experts to assess their reasonableness. We assessed the appropriateness of changes effected during the year to factor the impact of the pandemic, including the addition of a second downside scenario and the recalibration of probability weights. We assessed whether the severity of the forecasted macroeconomic variables was appropriate in view of the pandemic and the high level of uncertainty surrounding the economic conditions. We challenged the correlation and impact of the macroeconomic factors on the ECL.

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

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

ECL calculation for defaulted Wholesale exposures

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

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	
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 Covid-19, which has an unprecedented impact on the economy and has significantly increased the level of estimation uncertainty around the calculation of credit loss allowances. We focused on credit loss allowances due to the subjective nature of specific data inputs into the calculation and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Accordingly, summarising the key areas relevant to the bank's measurement of ECLs would include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; and • Measurements of individually assessed provisions including the assessment of multiple scenarios. Relevant references in the Annual Report and Accounts: • Accounting policy: 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 25; and • Critical accounting estimates and judgements: Note 58(a).	In respect of defaulted exposures, the design and operating effectiveness of key controls management has established 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 expected to be particularly impacted by Covid-19 and for determining whether a UTP/default event had occurred by testing a sample of loans with characteristics that might imply a default event had occurred (for example a customer experiencing financial difficulty or material sector disruption) to challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner. • Selected a sample of performing loans, including from within those sectors that we consider to have been significantly impacted by the pandemic, which had not been identified by management as potentially defaulted, to form our own judgement as to whether that was appropriate and to further challenge whether all relevant events had been identified by management. Substantive procedures were performed on defaulted exposures in respect of the estimation of the size of the respective ECL provisions, as follows: • Reviewed the credit files of a selected sample of corporate loans to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements (such as market value haircuts and time to sell taking cognisance of the pandemic) were appropriate given the borrowers' circumstances. • Challenged the appropriateness of the scenarios being applied for these exposures, particularly in respect of the extent to which they consider the potential impact of the pandemic on the local property market, together with their respective probability weights, by forming an independent view of the market value haircuts and time to sell assumptions used by the bank under different scenarios in determining the recoverability of the selected corporate loans. • Tested key inputs to and reperformed the impairment calculation used to derive expected cash flows under different scenarios. • Assessed the appropriateness of a sample of property valuations securing impaired loans through the use of our experts. • 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.

Key audit matter	How our audit addressed the Key audit matter
Measurement of non-linked life insurance contract liabilities and of the present value of in-force business ('PVIF')	
Management's valuation of the provisions for the settlement of future non-linked claims attributable to life insurance contracts and of the PVIF involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these items. We focused on this area due to the materiality and subjectivity of the judgements made. Economic assumptions (investment return and associated discount rates) and non-economic assumptions (mortality, lapse rates and expenses associated with servicing policies), including the respective margins applied, are the key inputs to which the carrying amounts of these long-term liabilities and intangible asset are highly sensitive. Changes to assumptions can materially impact the local group's estimates. Future estimation uncertainty is heightened as a result of the ongoing Covid-19 pandemic. Relevant references in the financial statements are: • Significant accounting policies: Notes 3(h) and 3(m); • Note on Intangible assets: Note 33; • Note on Liabilities under insurance contracts: Note 41; and • Critical accounting estimates and judgements: Note 58(c).	Our audit procedures addressing the valuation of the local group's non-linked life insurance contract liabilities and of the PVIF included the following procedures using our actuarial expert team members: • we tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source; • we applied our industry knowledge and experience in comparing the methodology, models and assumptions used to recognised actuarial practices; and • we tested management's controls in respect of the valuation and assumption setting processes, and we assessed management's key judgements throughout the processes. In respect of the assumptions underlying the measurement of the non-linked life insurance contract liabilities, we performed the following procedures using our actuarial expert team members: • we assessed the assumptions for investment mix and projected investment returns by reference to local group-specific and market observable data (2020: EIOPA curve; 2019: Euro swap curve); • we considered the appropriateness of the mortality assumptions by reference to local group and industry data on historical mortality experience and expectations of future mortality; and • we tested the future expense assumption by understanding and challenging the basis on which expenses are allocated between new business and renewals and by reference to market observable data (inflation curve). The following procedures in relation to the assumptions underlying the valuation of the PVIF were performed, also through the involvement of our actuarial expert team members: • we leveraged the testing performed in relation to those assumptions that are aligned with the insurance contract liability valuation, reviewing the differences in margins applied between the two; and • we considered the appropriateness of the lapse rate assumptions by reference to the local group's data, considering the results of management's analysis of recent lapse experience. In respect of all the assumptions referred to above, we have reviewed management's approach to setting the assumptions, assessed the assumptions' appropriateness based on internal and external data, and tested management's governance and controls over the assumption basis review. We also reviewed the modelled results and manual adjustments, and we assessed the reasonableness of management's analysis of the changes in the carrying amounts. We also assessed the appropriateness of the disclosures within the financial statements, including reference to related uncertainties brought about by the ongoing Covid-19 pandemic, and sensitivity analysis around the key assumptions. Based on the work performed, we found the valuation of the non-linked life insurance contract liabilities and the present value of in-force business to be consistent with the explanations and evidence obtained.

How we tailored our group audit scope

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

We tailored the scope of our audit in order to perform sufficient work 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 in the Annual Report (but does not include the financial statements and our auditors' 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 bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the local group's or the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the local group's or the bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that Covid-19 will have on the local group's and the bank's trade, customers and suppliers, and the disruption to their business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the local group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

The *Annual Report and Accounts 2020* 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 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 2020 and the related Directors' responsibilities	Our responsibilities	Our reporting
Report of the Directors (on pages 20 to 29) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Report of the Directors, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Report of the Directors has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Report of the Directors, and if so to give an indication of the nature of any such misstatements. With respect to the information required by paragraphs 8 and 11 of the Sixth Schedule to the Act, our responsibility is limited to ensuring that such information has been provided.	In our opinion: • the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Report of the Directors has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
Statement of Compliance with the Code of Principles of Good Corporate Governance (on pages 31 to 38) The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in the Annual Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Listing Rules. The Statement's required minimum contents are determined by reference to Listing 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 Listing 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 Listing 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 Listing Rules issued by the Malta Listing Authority. We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
Remuneration Report (on pages 39 to 44) The Listing Rules issued by the Malta Listing Authority require the directors to prepare a Remuneration report, including the contents listed in Appendix 12.1 to Chapter 12 of the Listing 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 Listing Rules, has been included.	In our opinion, the Report has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing 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; and • 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.

Area of the Annual Report and Accounts 2020 and the related Directors' responsibilities	Our responsibilities	Our reporting
	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 Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Appointment

We were first appointed as auditors of the local group and the bank on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.

Fabio Axisa (Partner) for and on behalf of

PricewaterhouseCoopers
Registered Auditors
78 Mill Street,
Zone 5, Central Business District
Qormi, Malta
23 February 2021

Financial statements

Income statements

for the year ended 31 December

		Group		Bank	
		2020	2019	**2020**	2019
	Notes	**€000**	€000	**€000**	€000
Interest and similar income					
– on loans and advances to banks and customers and other assets	7	**109,055**	112,671	**109,055**	112,547
– on debt and other fixed income instruments	7	**4,543**	7,902	**4,543**	7,902
Interest expense	8	**(7,696)**	(10,462)	**(7,696)**	(10,462)
Net interest income		**105,902**	110,111	**105,902**	109,987
Fee income		**22,832**	24,759	**19,588**	21,443
Fee expense		**(1,872)**	(2,009)	**(1,390)**	(1,728)
Net fee income	9	**20,960**	22,750	**18,198**	19,715
Net trading income	10	**8,515**	7,188	**8,515**	7,188
Net income from financial instruments of insurance operations measured at fair value through profit or loss		**(2,042)**	52,644	**–**	–
Dividend income	11	**33**	29	**2,033**	22,383
Net insurance premium income	12	**51,380**	57,708	**–**	–
Movement in present value of in-force long-term insurance business		**(10,319)**	(1,865)	**–**	–
Other operating income	13	**(69)**	1,948	**515**	1,817
Total operating income		**174,360**	250,513	**135,163**	161,090
Net insurance claims, benefits paid and movement in liabilities to policyholders	14	**(40,937)**	(100,101)	**–**	–
Net operating income before changes in expected credit losses and provisions		**133,423**	150,412	**135,163**	161,090
Change in expected credit losses and other credit impairment charges	15	**(25,589)**	(389)	**(25,589)**	(389)
Movement in provision for brokerage remediation costs	16	**–**	1,371	**–**	1,371
Net operating income		**107,834**	151,394	**109,574**	162,072
Employee compensation and benefits	17	**(43,805)**	(64,462)	**(41,068)**	(61,427)
General and administrative expenses	18	**(46,984)**	(50,294)	**(41,709)**	(46,330)
Depreciation of property, plant and equipment and right-of-use assets	32,34	**(3,851)**	(4,150)	**(3,851)**	(4,150)
Amortisation of intangible assets	33	**(2,751)**	(1,779)	**(2,652)**	(1,668)
Total operating expenses		**(97,391)**	(120,685)	**(89,280)**	(113,575)
Profit before tax	18	**10,443**	30,709	**20,294**	48,497
Tax expense	19	**(2,871)**	(10,541)	**(6,173)**	(16,664)
Profit for the year		**7,572**	20,168	**14,121**	31,833
Earnings per share	20	**2.1c**	5.6c		

The notes on pages 59 to 145 are an integral part of these financial statements.

Statements of comprehensive income

for the year ended 31 December

		Group		Bank	
		2020	2019	**2020**	2019
	Notes	**€000**	€000	**€000**	€000
Profit for the year		**7,572**	20,168	**14,121**	31,833
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:		**753**	311	**753**	311
– fair value gains	46	**1,159**	478	**1,159**	478
– income taxes	46	**(406)**	(167)	**(406)**	(167)
Items that will not be reclassified subsequently to profit or loss:					
Properties:		**304**	(475)	**304**	(475)
– surplus/(loss) arising on revaluation	46	**338**	(528)	**338**	(528)
– income taxes	46	**(34)**	53	**(34)**	53
Defined benefit obligation:		**(446)**	(619)	**(446)**	(619)
– remeasurement of defined benefit obligation	42	**(686)**	(952)	**(686)**	(952)
– income taxes		**240**	333	**240**	333
Equity instruments designated at fair value through other comprehensive income:		**2**	—	**2**	—
– fair value gains	46	**3**	—	**3**	—
– income taxes	46	**(1)**	—	**(1)**	—
Other comprehensive income for the year, net of tax		**613**	(783)	**613**	(783)
Total comprehensive income for the year		**8,185**	19,385	**14,734**	31,050

The notes on pages 59 to 145 are an integral part of these financial statements.

Statements of financial position

for the year ended 31 December

		Group		Bank	
		2020	2019	**2020**	2019
	Notes	**€000**	€000	**€000**	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	*21*	**996,679**	586,072	**996,679**	586,072
Items in the course of collection from other banks		**4,959**	3,436	**4,959**	3,436
Financial assets mandatorily measured at fair value through profit or loss	*22*	**733,670**	754,020	**–**	4,507
Held for trading derivatives	*23*	**6,574**	5,320	**6,574**	5,320
Loans and advances to banks	*24*	**589,259**	676,031	**583,439**	672,952
Loans and advances to customers	*25*	**3,264,664**	3,257,433	**3,264,664**	3,257,433
Financial investments	*26*	**877,485**	943,603	**877,483**	943,601
Prepayments and accrued income	*27*	**24,148**	23,578	**21,236**	20,715
Current tax assets		**1,813**	1,719	**505**	256
Reinsurance assets	*28*	**80,083**	78,945	**–**	–
Other non-current assets held for sale	*29*	**8,919**	8,422	**8,919**	8,422
Investments in subsidiaries	*30*	**–**	–	**30,859**	30,859
Investment property	*31*	**1,600**	9,788	**–**	7,589
Property, plant and equipment	*32*	**44,206**	47,403	**44,206**	47,403
Intangible assets	*33*	**54,342**	61,518	**13,152**	10,193
Right-of-use assets	*34*	**4,200**	4,685	**4,200**	4,685
Deferred tax assets	*35*	**27,130**	22,427	**27,130**	22,427
Other assets	*36*	**10,728**	13,217	**9,600**	11,064
Total assets		**6,730,459**	6,497,617	**5,893,605**	5,636,934
Liabilities					
Deposits by banks	*37*	**3,754**	840	**3,754**	840
Customer accounts	*38*	**5,272,961**	4,976,580	**5,313,754**	5,026,066
Held for trading derivatives	*23*	**6,551**	5,190	**6,551**	5,190
Accruals and deferred income	*39*	**14,843**	20,335	**11,202**	17,844
Current tax liabilities		**88**	2,489	**88**	2,489
Liabilities under investment contracts	*40*	**170,865**	183,706	**–**	–
Liabilities under insurance contracts	*41*	**648,028**	658,470	**–**	–
Provisions for liabilities and other charges	*42*	**21,031**	33,271	**19,341**	32,214
Deferred tax liabilities	*35*	**17,562**	22,443	**4,036**	4,899
Subordinated liabilities	*43*	**62,000**	62,000	**62,000**	62,000
Other liabilities	*44*	**34,362**	62,327	**31,251**	58,757
Total liabilities		**6,252,045**	6,027,651	**5,451,977**	5,210,299
Equity					
Called up share capital	*45*	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	*46*	**32,718**	32,202	**32,718**	32,202
Retained earnings	*46*	**337,604**	329,672	**300,818**	286,341
Total equity		**478,414**	469,966	**441,628**	426,635
Total liabilities and equity		**6,730,459**	6,497,617	**5,893,605**	5,636,934
Memorandum items					
Contingent liabilities	*47*	**152,296**	158,654	**152,298**	158,656
Commitments	*48*	**1,071,319**	1,075,524	**1,071,319**	1,075,524

The notes on pages 59 to 145 are an integral part of these financial statements.

The financial statements on pages 53 to 145 were approved and authorised for issue by the Board of Directors on 23 February 2021 and signed on its behalf by:

John Bonello
Chairman

Simon Vaughan-Johnson
Chief Executive Officer

Statements of changes in equity

for the year ended 31 December

		Group			
		Share capital	Revaluation reserve	Retained earnings	Total equity
	Notes	€000	€000	€000	€000
At 1 January 2020		**108,092**	**32,202**	**329,672**	**469,966**
Profit for the year		**–**	**–**	**7,572**	**7,572**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	46	**–**	**755**	**–**	**755**
Properties:					
– surplus arising on revaluation, net of tax	46	**–**	**304**	**–**	**304**
– transfer to retained earnings, net of tax	46	**–**	**(543)**	**543**	**–**
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		**–**	**–**	**(446)**	**(446)**
Total other comprehensive income		**–**	**516**	**97**	**613**
Total comprehensive income for the year		**–**	**516**	**7,669**	**8,185**
Transactions with owners, recognised directly in equity					
Contributions by owners:					
Share-based payment arrangements, net of tax		**–**	**–**	**263**	**263**
Total contributions by and distributions to owners		**–**	**–**	**263**	**263**
At 31 December 2020		**108,092**	**32,718**	**337,604**	**478,414**
At 1 January 2019		108,092	34,265	316,421	458,778
Profit for the year		–	–	20,168	20,168
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	46	–	311	–	311
– reclassification to retained earnings, net of tax		–	(1,268)	1,268	–
Properties:					
– loss arising on revaluation, net of tax	46	–	(475)	–	(475)
– transfer to retained earnings, net of tax	46	–	(631)	631	–
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		–	–	(619)	(619)
Total other comprehensive income		–	(2,063)	1,280	(783)
Total comprehensive income for the year		–	(2,063)	21,448	19,385
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– dividends	50	–	–	(8,197)	(8,197)
Total contributions by and distributions to owners		–	–	(8,197)	(8,197)
At 31 December 2019		108,092	32,202	329,672	469,966

The notes on pages 59 to 145 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 2020		**108,092**	**32,202**	**286,341**	**426,635**
Profit for the year		**–**	**–**	**14,121**	**14,121**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	*46*	**–**	**755**	**–**	**755**
Properties:					
– surplus arising on revaluation, net of tax	*46*	**–**	**304**	**–**	**304**
– transfer to retained earnings, net of tax	*46*	**–**	**(543)**	**543**	**–**
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		**–**	**–**	**(446)**	**(446)**
Total other comprehensive income		**–**	**516**	**97**	**613**
Total comprehensive income for the year		**–**	**516**	**14,218**	**14,734**
Transactions with owners, recognised directly in equity					
Contributions by owners:					
Share-based payment arrangements, net of tax		**–**	**–**	**259**	**259**
Total contributions by and distributions to owners		**–**	**–**	**259**	**259**
At 31 December 2020		**108,092**	**32,718**	**300,818**	**441,628**
At 1 January 2019		108,092	34,265	261,425	403,782
Profit for the year		–	–	31,833	31,833
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	*46*	–	311	–	311
– reclassification to retained earnings, net of tax			(1,268)	1,268	–
Properties:					
– loss arising on revaluation, net of tax	*46*	–	(475)	–	(475)
– transfer to retained earnings, net of tax	*46*	–	(631)	631	–
Defined benefit obligation:					
– remeasurement of defined benefit obligation, net of tax		–	–	(619)	(619)
Total other comprehensive income		–	(2,063)	1,280	(783)
Total comprehensive income for the year		–	(2,063)	33,113	31,050
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– dividends	*50*	–	–	(8,197)	(8,197)
Total contributions by and distributions to owners		–	–	(8,197)	(8,197)
At 31 December 2019		108,092	32,202	286,341	426,635

The notes on pages 59 to 145 are an integral part of these financial statements.

Statements of cash flows

for the year ended 31 December

		Group		Bank	
		2020	2019	**2020**	2019
	Notes	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Interest, fees, loan recoveries and premium receipts		**210,252**	230,002	**133,959**	142,598
Interest, fees and claims payments		**(76,608)**	(87,499)	**(9,386)**	(12,086)
Payments to employees and suppliers		**(94,446)**	(100,759)	**(86,136)**	(91,071)
Cash flows from operating activities before changes in operating assets/liabilities		**39,198**	41,744	**38,437**	39,441
(Increase)/decrease in operating assets:					
– financial assets mandatorily measured at fair value through profit or loss		**(3,146)**	8,737	**–**	–
– reserve deposit with Central Bank of Malta		**(2,080)**	(329)	**(2,080)**	(329)
– loans and advances to customers and banks		**23,841**	(301,045)	**23,841**	(301,045)
– Treasury Bills		**(160,019)**	(31,518)	**(160,019)**	(31,518)
– other receivables		**2,848**	4,253	**3,085**	4,253
(Decrease)/increase in operating liabilities:					
– customer accounts and deposits by banks		**315,160**	83,379	**307,031**	78,290
– other payables		**(42,033)**	(14,115)	**(42,033)**	(14,137)
Net cash from/(used in) operating activities before tax		**173,769**	(208,894)	**168,262**	(225,045)
– tax (paid)/refunded		**(15,289)**	4,838	**(14,029)**	7,678
Net cash from/(used in) operating activities		**158,480**	(204,056)	**154,233**	(217,367)
Cash flows from investing activities					
Dividends received		**33**	29	**1,333**	14,829
Interest received from financial investments		**14,746**	16,229	**14,746**	16,229
Purchase of financial investments		**(214,787)**	(315,277)	**(214,787)**	(315,277)
Proceeds from sale and maturity of financial investments		**263,519**	270,965	**263,519**	270,965
Purchase of property, plant and equipment, investment property and intangible assets		**(7,677)**	(6,980)	**(7,393)**	(6,643)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		**7,903**	1,865	**7,903**	1,766
Net cash from/(used in) investing activities		**63,737**	(33,169)	**65,321**	(18,131)
Cash flows from financing activities					
Dividends paid		**–**	(8,197)	**–**	(8,197)
Net cash used in financing activities		**–**	(8,197)	**–**	(8,197)
Net increase/(decrease) in cash and cash equivalents		**222,217**	(245,422)	**219,554**	(243,695)
Cash and cash equivalents at beginning of year		**554,648**	801,882	**551,493**	796,941
Effect of exchange rate changes on cash and cash equivalents		**5,839**	(1,812)	**5,837**	(1,753)
Cash and cash equivalents at end of year	*51*	**782,704**	554,648	**776,884**	551,493

The notes on pages 59 to 145 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 2020 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 2020, there were no unendorsed standards effective for the year ended 31 December 2020 affecting these consolidated and separate financial statements, and local group's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

These financial statements have also been drawn up in accordance with the provisions of the Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), enacted in Malta.

(b) Historical cost convention

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

- Held for trading derivatives;
- Treasury Bills;
- Financial assets mandatorily measured at fair value through profit or loss;
- Financial investments;
- Property within 'Property, plant and equipment' and 'Investment property'; and
- Liabilities under investment contracts.

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

During 2020, 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 2020

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 2021, some of which have not been endorsed for use by the EU. The IASB has also published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023 which have not yet been endorsed by the EU. The local group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the local group and the separate financial statements of the bank.

New IFRSs

Interest Rate Benchmark Reform

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

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. As a result of the limited exposure to IBOR related financial instruments, the local group expects that these amendments will have an insignificant effect on its financial statements.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The local group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely numerical impact of its implementation remains uncertain. However, the impact compared with the local group's current accounting policy for insurance contracts, which is set out in policy 3(m) below is expected to be as follows:

- Under IFRS 17, there will be no asset recognised in respect of the present value of in-force ('PVIF') long-term insurance business; rather the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM') and gradually recognised in revenue as services are provided over the duration of the insurance contract. The PVIF asset will be eliminated against a reduction in equity on transition, together with other adjustments to assets and liabilities to reflect IFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of IFRS 9.

- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Depending on the measurement model, changes in market conditions for certain products (measured under the General Measurement Approach) are immediately recognised in profit or loss, while for other products (measured under the Variable Fee Approach) they will be included in the measurement of CSM.
- In accordance with IFRS 17, directly attributable costs will be included in the results of insurance services as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable remain in operating expenses. This will result in a reduction in operating expenses compared with the current accounting policy.

(e) Functional and presentation currency

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

(f) Critical accounting estimates and judgements

The preparation of financial information in accordance with the requirements of IFRSs as adopted by the EU requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2020 Financial Statements. Management's selection of the local group's accounting policies which contain critical estimates and judgements (listed below) reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation of uncertainty involved:

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

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

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

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group 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 increasing uncertainty that the global Covid-19 pandemic has had on the local group's and bank's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

3 Significant accounting policies

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

(a) Basis of consolidation

i Consolidation

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

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

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

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

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

ii Structured entities

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

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

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

iii Transactions eliminated on consolidation

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

(b) Financial assets

i Initial recognition

The local group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the local group commits to purchase or sell the asset. Accordingly, the local group uses trade date accounting for regular way contracts when recording financial asset transactions. All financial assets are initially recognised at fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the financial asset.

ii Classification and measurement

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

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities and other fixed income securities classified within 'Financial Investments' and Treasury Bills classified within 'Balances with Central Bank of Malta, Treasury Bills and cash'.

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

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

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

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

Financial assets mandatorily measured at fair value through profit or loss

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

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

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so irrevocably designated at inception:

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

Under this criterion, the financial instruments designated by the local group comprise financial liabilities under unit-linked investment contracts.

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

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

iii Derecognition of financial assets

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

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

iv Impairment of amortised cost and FVOCI financial assets

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

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

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

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

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

Significant increase in credit risk (SICR or stage 2)

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

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

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

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

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

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

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

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

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

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

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

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

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

Utilisation of the retail methodology to determine whether a SICR has occurred is based on meeting the following three criteria:

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

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

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

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

Credit impaired (stage 3)

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

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

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

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

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

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

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

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

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

Write-off

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

Renegotiated loans

A 'renegotiated loan' is a loan where the contractual payment terms have been renegotiated or otherwise modified because the local group has significant concerns about the borrower's ability to meet contractual payments when due. In general, renegotiated loans are regarded as credit impaired upon renegotiation unless the concession is insignificant and there are no other indicators of impairment. Moreover, loans are considered renegotiated irrespective of whether the modification is significant or not. Thus, de-recognition or otherwise of the financial asset would not have a bearing on whether the financial asset remains classified in the respective stage allocation. A range of forbearance strategies are employed upon the renegotiation of a loan in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and other forms of loan modifications and re-ageing (re-ageing is an account action where the customer account is reclassified as being up to date without the customer having paid the arrears in full).

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

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

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

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

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

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

Purchased or originated credit impaired ('POCI')

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

Movement between stages

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

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the local group calculates ECL using three main components: PD, loss given default ('LGD'), and exposure at default ('EAD'). The local group calculates the ECL for the wholesale portfolio at an instrument level, whilst the ECL for retail portfolios is calculated at portfolio segment level.

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

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

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

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

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

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

Period over which ECL is measured

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

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

Forward-looking economic inputs

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

The local group will in general apply three forward-looking economic scenarios determined with reference to external forecast distributions representative of the group's view of forecast economic conditions. Three scenarios are considered to capture non-linearity across credit portfolios. If the economic environment is considered to be particularly adverse and results in a more pronounced non-linearity impact, senior management will exercise judgement, request additional analysis, recommend overlays and/or commission the production of additional scenarios. This approach on the whole is operationally feasible and will result in transparent outcomes. If conditions warrant, this could result in alternative scenarios and probability weightings being applied in arriving at the ECL, as was the case during the financial year ended 31 December 2020 where an additional downside scenario was modelled and used in the ECL calculation in response to the unprecedented macroeconomical impact and heightened level of uncertainty brought about by the outbreak of Covid-19.

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

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

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

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

Presentation of ECL in statement of financial position

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

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

(c) Derivative financial instruments

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

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

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

(d) Financial liabilities

The local group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The local group's financial liabilities are classified into two categories: i) financial liabilities which are designated at fair value through profit or loss and ii) financial liabilities measured at amortised cost. The criteria for designating financial liabilities at fair value and their measurement are described in Note 3(b)(ii).

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

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

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

(e) Reverse repurchase and repurchase agreements

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

(f) Offsetting financial assets and financial liabilities

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

(g) Investments in subsidiaries

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

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

(h) Intangible assets

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

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

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

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

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

Deferred acquisition costs

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

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

(i) Property, plant and equipment

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

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

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

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

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

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

- long leaseholds, freehold buildings and improvements 50 years;
- short leaseholds and improvements to rented property over term of lease; and
- equipment, furniture and fittings 3-10 years.

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

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

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

(j) Investment property

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

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

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

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

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

(k) Impairment of non-financial assets

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

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

The recoverable amount of non-financial assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

An impairment loss on non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Non-current assets (or disposal groups i.e. assets and liabilities forming part of disposal groups) are classified as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use, they are available for sale in their present condition and their sale is highly probable. Immediately before the initial classification as held for sale, the carrying amount of the assets and liabilities is measured in accordance with the local group's accounting policies. Non-current assets (or disposal groups) classified as held for sale are generally measured at the lower of their carrying amount and fair value less cost to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', such as those measured in accordance with IFRS 9.

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

(m) Insurance and investment contracts

Through its insurance subsidiary, the local group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the local group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

i Net insurance premium income

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

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

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

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

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

iii Liabilities under insurance contracts

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

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

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

iv Present value of in-force (PVIF) long-term insurance business

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

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

v Investment contracts

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

Customer liabilities under unit-linked investment contracts are designated at fair value through profit or loss, and the movements in fair value are recognised in profit or loss in 'Net income from financial instruments of insurance operations measured at fair value through profit 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'.

(n) Provisions for legal proceedings and regulatory matters

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

(o) Contingent liabilities

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

(p) Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the local group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Financial guarantee contracts are subsequently measured at the higher of:

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

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

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

(q) Interest income and expense

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

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

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

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

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

(r) Non-interest income

i Net fee income

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

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

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

ii Dividend income

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

iii Net income from financial instruments of insurance operations measured at fair value through profit or loss

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

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

(s) Employee benefits

i Contributions to defined contribution pension plan

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

ii Long-term employee benefit obligations

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

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

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

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

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

iii Termination benefits

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

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

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

- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and the expected completion date; and
- the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

iv Share-based payments

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

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

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

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

(t) Foreign currencies

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

(u) Income tax

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

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

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

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

(v) Cash and cash equivalents

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

(w) Segment analysis

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

(x) Equity instruments

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

4 Financial risk management

(a) Introduction

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

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

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

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

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

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

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

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

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

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

i Credit risk management

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

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

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

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

- to maintain a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge global businesses in defining, implementing, and continually re-evaluating risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks.

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

- formulating credit policy;
- guiding business on appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- undertaking an independent review and objective assessment of risk and exposures over designated limits, prior to the facilities being committed to customers or transactions being undertaken;
- monitoring the performance and management of portfolios;
- controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities;
- setting policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the capital base, and remain within internal and regulatory limits;
- maintaining and developing the risk rating framework and systems and overseeing risk rating system governance for both wholesale and retail businesses; and
- reporting on retail portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results.

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

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

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

The current financial year has been characterised by unprecedented economic conditions as a result of the Covid-19 outbreak, which have impacted a significant number of the local group's customers' business models, income levels or cash flow generation.

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

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

The bank has adapted its credit risk management processes for the purposes of identifying deterioration in credit risk within its portfolios as early as possible and estimating expected credit loss allowances using the best possible judgement. In this respect, the bank increased the frequency and depth of monitoring activities on its loan portfolios. In relation to those customers that requested moratoria, the bank carried out assessments to determine whether the immediate Covid-19 induced shock may transform into long-term financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to stage 2 or stage 3 to reflect the change in the level of credit risk as appropriate.

Stress tests and other sectorial reviews were performed to identify customers or groups of customers who were experiencing, or were likely to experience, financial difficulty as a result of the Covid-19 outbreak. With respect to wholesale exposures, during 2020, the bank assessed and individually rated those borrowers deemed mostly impacted by the pandemic through individual, ad-hoc credit assessments, on the basis of recently obtained management information, including forecasts. Exposures deemed mostly impacted and in respect of which a SICR has been observed, 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). In relation to retail exposures, the bank resorted more to portfolio measures or reviews in respect of groups of exposures exhibiting shared risk characteristics.

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

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

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

Maximum exposure to credit risk

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

	2020	2019
	€000	€000
Balances with Central Bank of Malta and Treasury Bills	**967,789**	553,797
Items in course of collection from other banks	**4,959**	3,436
Loans and advances to banks	**583,439**	672,952
Loans and advances to customers	**3,264,664**	3,257,433
Debt instruments measured at fair value through other comprehensive income	**877,452**	943,573
Accrued income and other assets	**21,662**	21,195
Off-balance sheet		
– financial guarantee and similar contracts	**150,022**	156,636
– loan and other credit related commitments	**1,071,319**	1,075,524
At 31 December	**6,941,306**	6,684,546

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

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

Wholesale lending includes both small business owners served through Personal Banking as well as the financing of corporate and non-bank financial institutions both from a working capital perspective and investing primarily in income producing assets and, to a lesser extent, construction and development of the same. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects. In the table below, these wholesale lending exposures are presented as exposures to corporate and commercial entities as well as exposures to non-bank financial institutions. Non-bank financial institutions are mainly financial corporations other than banks and entities within group 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 2020		At 31 December 2019	
	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	3,324,573	(59,909)	3,294,294	(36,861)
– personal	2,294,363	(23,386)	2,269,855	(11,720)
– corporate and commercial	835,494	(32,153)	850,303	(23,669)
– non-bank financial institutions	194,716	(4,370)	174,136	(1,472)
Loans and advances to banks at amortised cost	583,447	(8)	672,953	(1)
Other financial assets measured at amortised cost	747,951	(9,843)	460,469	(9,116)
– balances at central banks	711,497	(10)	426,741	(19)
– items in the course of collection from other banks	4,959	—	3,436	—
– accrued income and other assets	31,495	(9,833)	30,292	(9,097)
Total gross carrying amount on balance sheet	**4,655,971**	**(69,760)**	4,427,716	(45,978)
Loan and other credit-related commitments	1,071,319	(1,693)	1,075,524	(796)
– personal	459,898	(31)	541,971	(16)
– corporate and commercial (including non-bank financial institutions)	591,421	(1,662)	499,031	(780)
– banks	20,000	—	34,522	—
Financial guarantee and similar contracts	150,022	(727)	156,636	(521)
– personal	5,579	(31)	5,059	(146)
– corporate and commercial (including non-bank financial institutions)	144,443	(696)	151,577	(375)
Total nominal amount off balance sheet	**1,221,341**	**(2,420)**	1,232,160	(1,317)
Total	**5,877,312**	**(72,180)**	5,659,876	(47,295)

	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	877,452	(340)	943,573	(31)
Treasury Bills measured at fair value through other comprehensive income	256,302	(30)	127,075	(1)
Total	**1,133,754**	**(370)**	1,070,648	(32)

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

	2020	2019
	€000	€000
Held for trading derivatives	6,574	5,320

ii Concentration of credit risk exposure

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

Financial investments measured at FVOCI

The bank's holdings of debt securities are spread across a range of issuers in both 2020 and 2019, with the exception of 49% (2019: 49%) invested in local government debt securities.

Derivatives

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

Derivative assets were €6,574,000 at 31 December 2020 (2019: €5,320,000), with €5,947,000 (2019: €4,466,000) transacted with HSBC Group and €627,000 (2019: €854,000) 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, 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 2020				
Personal lending				
– first lien residential mortgages	**2,069,901**	**62.3**	**69,707**	**3.4**
– other personal lending	**224,462**	**6.8**	**13,907**	**6.2**
Wholesale lending				
– commercial real estate and other property related	**226,943**	**6.8**	**27,799**	**12.2**
– state-owned entities	**270,077**	**8.1**	**—**	**—**
– other commercial	**533,190**	**16.0**	**19,583**	**3.7**
Total	**3,324,573**	**100**	**130,996**	**3.9**
At 31 December 2019				
Personal lending				
– first lien residential mortgages	2,014,736	61.2	51,325	2.5
– other personal lending	255,119	7.7	10,960	4.3
Wholesale lending				
– commercial real estate and other property related	225,624	6.8	30,889	13.7
– state-owned entities	243,094	7.4	—	—
– other commercial	555,721	16.9	25,760	4.6
Total	3,294,294	100	118,934	3.6

The amount of gross loans and advances to customers of the bank stood at €3,324,573,000 at 31 December 2020 (2019: €3,294,294,000). As at 31 December 2020, there were no loans and advances payable to the bank by any of its subsidiaries (2019: Nil).

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

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

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

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

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

	Gross on-balance sheet exposure	Collateral: Residential property	Commercial property	Securities/ cash	Other	Net maximum exposure
	€000	€000	€000	€000	€000	€000
As at 31 December 2020						
Electricity, gas, water supply and waste management	**117,200**	**233**	**1,765**	**1,735**	**53,150**	**60,317**
Accommodation and food service	**86,907**	**2,298**	**42,870**	**115**	**15**	**41,609**
Construction, real estate activities	**150,533**	**13,885**	**73,835**	**2,250**	**121**	**60,442**
Wholesale and retail trade and repairs	**131,004**	**6,527**	**42,653**	**4,091**	**802**	**76,931**
Services	**514,219**	**9,078**	**132,564**	**13,903**	**230,038**	**128,636**
Manufacturing, agriculture and fishing	**50,536**	**2,892**	**19,582**	**516**	**347**	**27,199**
Households and individuals	**2,274,174**	**2,077,393**	**667**	**13,540**	**6,009**	**176,565**
	3,324,573	**2,112,306**	**313,936**	**36,150**	**290,482**	**571,699**
As at 31 December 2019						
Electricity, gas, water supply and waste management	112,621	145	1,659	1,736	36,925	72,156
Accommodation and food service	84,200	1,731	30,886	170	21	51,392
Construction, real estate activities	158,424	18,692	68,852	1,773	130	68,977
Wholesale and retail trade and repairs	152,429	9,560	45,844	7,568	1,184	88,273
Services	488,707	14,083	81,515	16,407	192,342	184,360
Manufacturing, agriculture and fishing	56,045	2,722	28,960	556	286	23,521
Households and individuals	2,241,868	2,074,238	723	4,479	2,109	160,319
	3,294,294	2,121,171	258,439	32,689	232,997	648,998

iii Credit quality of financial assets

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

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

Quality classification definitions

'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Personal accounts operate within product parameters.

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

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

'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods of generally up to 89 days past due.

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

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

There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

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

Distribution of financial instruments by credit quality

	As at 31 December 2020							
	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€000	€000	€000	€000	€000	€000	€000	€000
In scope for IFRS 9 impairments								
Loans and advances to customers held at amortised cost:	951,506	1,289,538	727,317	225,216	130,996	3,324,573	(59,909)	3,264,664
– personal	667,702	1,286,198	209,222	47,627	83,614	2,294,363	(23,386)	2,270,977
– corporate and commercial	283,804	120	351,587	153,060	46,923	835,494	(32,153)	803,341
– non-bank financial institutions	–	3,220	166,508	24,529	459	194,716	(4,370)	190,346
Loans and advances to banks held at amortised cost	583,447	–	–	–	–	583,447	(8)	583,439
Other financial assets held at amortised cost:								
Balances at central banks	711,497	–	–	–	–	711,497	(10)	711,487
Items in the course of collection from other banks	4,959	–	–	–	–	4,959	–	4,959
Other assets	7,607	2,800	3,336	3,147	14,605	31,495	(9,833)	21,662
– endorsements and acceptances	–	–	851	270	–	1,121	(7)	1,114
– accrued income	7,607	2,800	2,485	2,877	14,605	30,374	(9,826)	20,548
Total gross carrying amount on balance sheet	2,259,016	1,292,338	730,653	228,363	145,601	4,655,971	(69,760)	4,586,211
Percentage of total credit quality	48.4%	27.8%	15.7%	4.9%	3.2%	100%		
Loan and other credit-related commitments	494,823	142,784	377,579	54,499	1,634	1,071,319	(1,693)	1,069,626
Financial guarantees and similar contracts	15,635	7,302	111,239	14,604	1,242	150,022	(727)	149,295
Total nominal amount off balance sheet	510,458	150,086	488,818	69,103	2,876	1,221,341	(2,420)	1,218,921
At 31 December 2020	2,769,474	1,442,424	1,219,471	297,466	148,477	5,877,312	(72,180)	5,805,132

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	877,452	–	–	–	–	877,452	(340)
Treasury Bills measured at fair value through other comprehensive income	256,302	–	–	–	–	256,302	(30)
At 31 December 2020	1,133,754	–	–	–	–	1,133,754	(370)

Distribution of financial instruments by credit quality (continued)

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

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

Summary of credit quality of loans and advances to customers

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

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

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

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

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

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

Impaired loans and advances also include renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the bank would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

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

This is also attributable to limitations in credit information available on customers, particularly where these customers were granted a general payment moratorium.

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

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

In respect of its retail mortgage portfolio, the bank introduced a mechanism designed to estimate the impact of the delayed emergence of defaults resulting from the extension of public moratoria by reference to factors such as employment status of the borrower, the sector within which the borrower is employed, as well as reductions in the base salaries of borrowers.

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

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

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 sta 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 2020

	Gross exposure			**Allowance for ECL**			**ECL coverage %**		
	Stage 2	***Of which: <30 DPD***	***Of which: >30 DPD***	**Stage 2**	***Of which: <30 DPD***	***Of which: >30 DPD***	**Stage 2**	***Of which: <30 DPD***	***Of which: >30 DPD***
	€000	***€000***	***€000***	**€000**	***€000***	***€000***	**%**	***%***	***%***
Loans and advances to customers at amortised cost:	**330,087**	***323,474***	***6,613***	**(19,136)**	***(18,468)***	***(668)***	**5.8**	***5.7***	***10.1***
– personal	**55,074**	***48,517***	***6,557***	**(5,421)**	***(4,754)***	***(667)***	**9.8**	***9.8***	***10.2***
– corporate and commercial	**164,471**	***164,415***	***56***	**(10,289)**	***(10,288)***	***(1)***	**6.3**	***6.3***	***1.8***
– non-bank financial institutions	**110,542**	***110,542***	**—**	**(3,426)**	***(3,426)***	**—**	**3.1**	***3.1***	**—**
Other financial assets measured at amortised cost	**3,798**	***3,746***	***52***	**(6)**	***(6)***	**—**	**0.2**	***0.2***	**—**

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	3,093,194	82,166	118,934	3,294,294	(7,551)	(6,013)	(23,297)	(36,861)	0.2	7.3	19.6	1.1
– personal	2,158,870	48,700	62,285	2,269,855	(1,672)	(3,550)	(6,498)	(11,720)	0.1	7.3	10.4	0.5
– corporate and commercial	762,084	32,204	56,015	850,303	(4,601)	(2,412)	(16,656)	(23,669)	0.6	7.5	29.7	2.8
– non-bank financial institutions	172,240	1,262	634	174,136	(1,278)	(51)	(143)	(1,472)	0.7	4.0	22.6	0.8
Loans and advances to banks at amortised cost	672,953	—	—	672,953	(1)	—	—	(1)	—	—	—	—
Other financial assets measured at amortised cost	444,479	420	15,570	460,469	(21)	—	(9,095)	(9,116)	—	—	58.4	2.0
Loan and other credit-related commitments	1,053,365	20,793	1,366	1,075,524	(748)	(41)	(7)	(796)	0.1	0.2	0.5	0.1
– personal	537,501	4,394	76	541,971	(16)	—	—	(16)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	481,342	16,399	1,290	499,031	(732)	(41)	(7)	(780)	0.1	0.3	0.5	0.1
– banks	34,522	—	—	34,522	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	149,461	6,537	638	156,636	(274)	(243)	(4)	(521)	0.2	3.7	0.6	0.3
– personal	4,714	340	5	5,059	—	(146)	—	(146)	—	42.9	—	2.9
– corporate and commercial (including non-bank financial institutions)	144,747	6,197	633	151,577	(274)	(97)	(4)	(375)	0.2	1.6	0.6	0.2
At 31 December 2019	5,413,452	109,916	136,508	5,659,876	(8,595)	(6,297)	(32,403)	(47,295)	0.2	5.7	23.7	0.8

Stage 2 days past due analysis at 31 December 2019 (continued)

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

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

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	**877,452**	**—**	**—**	**—**	**—**	**877,452**	**(340)**
– stage 1	**877,452**	**—**	**—**	**—**	**—**	**877,452**	**(340)**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Treasury Bills measured at fair value through other comprehensive income	**256,302**	**—**	**—**	**—**	**—**	**256,302**	**(30)**
– stage 1	**256,302**	**—**	**—**	**—**	**—**	**256,302**	**(30)**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2020	**1,133,754**	**—**	**—**	**—**	**—**	**1,133,754**	**(370)**

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

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

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	943,573	—	—	—	—	943,573	(31)
– stage 1	943,573	—	—	—	—	943,573	(31)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	127,075	—	—	—	—	127,075	(1)
– stage 1	127,075	—	—	—	—	127,075	(1)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
At 31 December 2019	1,070,648	—	—	—	—	1,070,648	(32)

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

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

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis, including the underlying CRR movements of the financial instruments transferring stage. Movements in ECL arising as a result of changes to the underlying PDs and LGDs, including as a result of changes in macroeconomic scenarios, are captured in the 'changes in risk parameters' line item.

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

The ECL charge for the financial year ended 31 December 2020 was significantly higher compared to the prior financial year charge, driven by charges relating to the impact of the outbreak of the Covid-19 pandemic on economic conditions. The notable increase in credit loss allowances estimated in respect of exposures classified within stage 1 and stage 2 reflects the general deterioration of economic conditions, as well as a significant deterioration in the forward economic outlook as a result of the pandemic.

In this respect, the increase in expected credit losses during the financial year ended 31 December 2020 is primarily driven by substantial downward migrations of exposures from stage 1 to stage 2 or 3 as well as significant increases in forward-looking risk parameters (PDs and LGDs) reflecting more pessimistic macroeconomic scenarios being forecasted in the modelling of credit loss allowances. This is described in more detail in Note 4(b)(iii) – Forward-looking information incorporated in the ECL model.

	Non-credit impaired				**Credit impaired**		**Total**	
	Stage 1		**Stage 2**		**Stage 3**			
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 1 January 2020	**4,270,104**	**(8,575)**	**109,916**	**(6,297)**	**136,508**	**(32,403)**	**4,516,528**	**(47,275)**
Transfers of financial instruments	**(368,156)**	**521**	**336,436**	**(992)**	**31,720**	**471**	**—**	**—**
– transfers from stage 1 to stage 2	**(367,637)**	**2,098**	**367,637**	**(2,098)**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**25,431**	**(1,116)**	**(25,431)**	**1,116**	**—**	**—**	**—**	**—**
– transfers from stage 3	**4,368**	**(492)**	**4,725**	**(602)**	**(9,093)**	**1,094**	**—**	**—**
– transfers to stage 3	**(30,318)**	**31**	**(10,495)**	**592**	**40,813**	**(623)**	**—**	**—**
Net remeasurement of ECL arising from stage transfers	**—**	**1,380**	**—**	**(11,820)**	**—**	**(4,216)**	**—**	**(14,656)**
Changes in risk parameters	**—**	**(8,477)**	**—**	**(2,833)**	**—**	**(5,191)**	**—**	**(16,501)**
Net new and further lending/repayments	**10,489**	**857**	**45,057**	**1,615**	**(17,728)**	**1,775**	**37,818**	**4,247**
Assets written off	**—**	**—**	**—**	**—**	**(2,023)**	**2,023**	**(2,023)**	**2,023**
As at 31 December 2020	**3,912,437**	**(14,294)**	**491,409**	**(20,327)**	**148,477**	**(37,541)**	**4,552,323**	**(72,162)**
ECL charge for the year								**(24,887)**
Recoveries								**755**
Other								**902**
Change in expected credit losses for the year								**(23,230)**
Assets written off								**(2,023)**
Change in expected credit losses and other credit impairment charges								**(25,253)**

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1.1m for the year ended 31 December 2020 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

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

	At 31 December 2020		12 months ended 31 December 2020
	Gross carrying/ nominal amount	**Allowance for ECL**	**ECL (charge)/ release**
	€000	**€000**	**€000**
As above	**4,552,323**	**(72,162)**	**(25,253)**
Balances at central banks	**711,497**	**(10)**	**9**
Loans and advances to banks measured at amortised cost	**583,447**	**(8)**	**(7)**
Items in course of collection	**4,959**	**—**	**—**
Accrued interest on debt instruments and other accrued income	**5,086**	**—**	**—**
Loan and other credit related commitments - banks	**20,000**	**—**	**—**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	**5,877,312**	**(72,180)**	**(25,251)**
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	**1,133,754**	**(370)**	**(338)**
Total allowance for ECL/total income statement ECL charge for the year	**N/A**	**(72,550)**	**(25,589)**

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

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

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

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') (formerly Retail Banking and Wealth Management ('RBWM')) 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 2020 and 31 December 2019.

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

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
Loans and advances to customers				
WPB	**9,631**	**5,417**	**8,329**	**23,377**
CMB	**3,969**	**13,719**	**18,844**	**36,532**
At 31 December 2020	**13,600**	**19,136**	**27,173**	**59,909**
Loan and other credit-related commitments and financial guarantee and similar contracts				
WPB	**31**	**31**	**–**	**62**
CMB	**662**	**1,154**	**542**	**2,358**
At 31 December 2020	**693**	**1,185**	**542**	**2,420**
Loans and advances to customers				
WPB	1,685	3,496	6,496	11,677
CMB	5,866	2,517	16,801	25,184
At 31 December 2019	7,551	6,013	23,297	36,861
Loan and other credit-related commitments and financial guarantee and similar contracts				
WPB	16	146	–	162
CMB	1,006	138	11	1,155
At 31 December 2019	1,022	284	11	1,317

The measurement of allowances for ECL and the ECL charge for 2020 and 2019 are analysed in detail in the tables presented in the previous section. In addition, these movements are further analysed by business segment in the tables presented within the sections entitled 'Wholesale lending to customers' and 'Personal lending to customers' respectively.

Renegotiated loans and advances to customers and forbearance

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table shows the gross carrying amounts of the bank’s holdings of renegotiated loans and advances to customers by industry sector and by stage. Renegotiated loans are classified as stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Exposures eligible for a general payment moratoria are not considered to be renegotiated loans and are therefore not included in the table below.

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

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
Gross carrying amount				
Personal				
– first lien residential mortgages	**—**	**15,482**	**34,880**	**50,362**
– other personal lending	**—**	**1,580**	**5,922**	**7,502**
Wholesale				
– corporate and commercial	**86**	**5,657**	**39,741**	**45,484**
– non-bank financial institutions	**—**	**—**	**451**	**451**
At 31 December 2020	**86**	**22,719**	**80,994**	**103,799**
Allowance for ECL				
Personal				
– first lien residential mortgages	**—**	**(1,385)**	**(3,652)**	**(5,037)**
– other personal lending	**—**	**(46)**	**(716)**	**(762)**
Wholesale				
– corporate and commercial	**(2)**	**(1,453)**	**(16,054)**	**(17,509)**
– non-bank financial institutions	**—**	**—**	**(80)**	**(80)**
At 31 December 2020	**(2)**	**(2,884)**	**(20,502)**	**(23,388)**
Gross carrying amount				
Personal				
– first lien residential mortgages	—	15,066	12,187	27,253
– other personal lending	—	1,594	3,072	4,666
Wholesale				
– corporate and commercial	—	6,182	48,613	54,795
– non-bank financial institutions	—	—	633	633
At 31 December 2019	—	22,842	64,505	87,347
Allowance for ECL				
Personal				
– first lien residential mortgages	—	(1,156)	(1,172)	(2,328)
– other personal lending	—	(61)	(785)	(846)
Wholesale				
– corporate and commercial	—	(1,070)	(14,209)	(15,279)
– non-bank financial institutions	—	—	(143)	(143)
At 31 December 2019	—	(2,287)	(16,309)	(18,596)

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

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

	2020	2019
	€000	€000
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers	**3.1%**	2.7%
Interest income recognised in respect of forborne/renegotiated assets	**4,709**	4,575
Movement in forbearance activity during the year:		
At 1 January	**87,347**	98,096
Loans renegotiated without derecognition	**30,007**	13,984
Repayments	**(12,916)**	(17,815)
Amounts written off	**(639)**	(6,918)
At 31 December	**103,799**	87,347

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

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

Out of the outstanding gross loans and advances subject to general payment moratoria, €43,575,000 relate to retail mortgage customers. In order to earmark obligors experiencing a significant increase in credit risk and estimate the impact of delayed emergence of defaults in view of these moratoria, and accordingly estimate the ECL referred to above, the bank designed a post-model estimation methodology, using a segmentation technique which amongst other factors takes into consideration employment status and employment sector of the obligor. In respect of wholesale exposures, the bank assessed and individually rated each borrower requesting a general payment moratorium on the basis of recently obtained management information, including forecasts.

During 2020, the bank also confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee. In this respect, as at 31 December 2020, newly originated gross loans subject to the Malta Development Bank Covid-19 Guarantee Scheme amounted to €14,284,000, of which a maximum amount of €12,676,000 is considered guaranteed. As at 31 December 2020, newly originated gross loans, under this scheme, classified as Stage 1 and Stage 2 amounted to €5,734,000 and €8,550,000 respectively. As at 31 December 2020, there were no newly originated loans under these scheme classified in Stage 3.

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 2020 and 2019 to the closing carrying/nominal amounts as at 31 December 2020 and 2019 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	624,100	164,471	46,923	835,494	(3,121)	(10,289)	(18,743)	(32,153)
– agriculture, forestry and fishing	126	430	367	923	–	(10)	(81)	(91)
– manufacture	33,466	8,524	5,886	47,876	(335)	(361)	(2,471)	(3,167)
– electricity, gas, steam and air-conditioning supply	82,212	21	–	82,233	(276)	–	–	(276)
– water supply, sewerage, waste management and remediation	34,875	21	–	34,896	(16)	–	–	(16)
– construction	9,370	3,970	1,546	14,886	(80)	(86)	(765)	(931)
– wholesale and retail trade, repair of motor vehicles and motorcycles	79,753	42,752	6,926	129,431	(630)	(1,204)	(2,680)	(4,514)
– transportation and storage	8,095	7,711	147	15,953	(66)	(204)	(53)	(323)
– accommodation and food	5,201	76,321	4,535	86,057	(88)	(5,101)	(2,785)	(7,974)
– information and communication	30,897	4,078	3	34,978	(325)	(1,220)	(3)	(1,548)
– real estate	90,726	13,264	21,281	125,271	(1,087)	(1,219)	(5,930)	(8,236)
– professional, scientific and technical activities	82,787	122	8	82,917	(68)	(8)	(8)	(84)
– administrative and support services	2,827	2,051	453	5,331	(8)	(182)	(8)	(198)
– education	171	3,309	–	3,480	(3)	(579)	–	(582)
– health and care	5,517	345	5,043	10,905	(57)	(4)	(3,756)	(3,817)
– arts, entertainment and recreation	342	1,054	25	1,421	(1)	(36)	(25)	(62)
– other services	2,534	498	703	3,735	(29)	(75)	(178)	(282)
– public administration and defence, compulsory social security	155,201	–	–	155,201	(52)	–	–	(52)
Non-bank financial institutions	83,715	110,542	459	194,716	(862)	(3,426)	(82)	(4,370)
At 31 December 2020	707,815	275,013	47,382	1,030,210	(3,983)	(13,715)	(18,825)	(36,523)
Other financial assets measured at amortised cost								
– endorsements and acceptances	512	609	–	1,121	(1)	(6)	–	(7)
– accrued income	2,354	2,815	9,541	14,710	–	–	(7,381)	(7,381)
At 31 December 2020	2,866	3,424	9,541	15,831	(1)	(6)	(7,381)	(7,388)

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

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	762,084	32,204	56,015	850,303	(4,601)	(2,412)	(16,656)	(23,669)
– agriculture, forestry and fishing	564	8	386	958	(12)	—	(26)	(38)
– manufacture	41,222	2,162	9,441	52,825	(330)	(198)	(2,203)	(2,731)
– electricity, gas, steam and air-conditioning supply	75,339	247	8	75,594	(297)	—	(8)	(305)
– water supply, sewerage, waste management and remediation	36,960	—	—	36,960	(6)	—	—	(6)
– construction	14,981	304	1,834	17,119	(119)	(26)	(680)	(825)
– wholesale and retail trade, repair of motor vehicles and motorcycles	131,704	10,865	8,138	150,707	(1,180)	(355)	(2,689)	(4,224)
– transportation and storage	17,577	2,201	199	19,977	(151)	(296)	(154)	(601)
– accommodation and food	77,333	1,887	4,054	83,274	(777)	(97)	(2,469)	(3,343)
– information and communication	32,507	4,162	43	36,712	(286)	(851)	(19)	(1,156)
– real estate	97,710	6,867	25,002	129,579	(1,091)	(401)	(4,816)	(6,308)
– professional, scientific and technical activities	90,710	670	357	91,737	(86)	(8)	—	(94)
– administrative and support services	2,584	683	6	3,273	(48)	(2)	(6)	(56)
– education	778	1,590	—	2,368	(5)	(133)	—	(138)
– health and care	17,517	67	5,036	22,620	(140)	(1)	(3,295)	(3,436)
– arts, entertainment and recreation	1,090	98	66	1,254	(13)	(1)	(41)	(55)
– other services	4,758	393	1,445	6,596	(44)	(43)	(250)	(337)
– public administration and defence, compulsory social security	118,750	—	—	118,750	(16)	—	—	(16)
Non-bank financial institutions	172,240	1,262	634	174,136	(1,278)	(51)	(143)	(1,472)
At 31 December 2019	934,324	33,466	56,649	1,024,439	(5,879)	(2,463)	(16,799)	(25,141)
Other financial assets measured at amortised cost								
– endorsements and acceptances	1,468	68	—	1,536	(2)	—	—	(2)
– accrued income	3,697	232	10,842	14,771	—	—	(7,229)	(7,229)
At 31 December 2019	5,165	300	10,842	16,307	(2)	—	(7,229)	(7,231)

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

	Nominal amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Corporate and commercial	**546,887**	**116,877**	**2,762**	**666,526**	**(516)**	**(1,092)**	**(542)**	**(2,150)**
Non-bank financial institutions	**39,331**	**30,007**	**—**	**69,338**	**(146)**	**(62)**	**—**	**(208)**
At 31 December 2020	**586,218**	**146,884**	**2,762**	**735,864**	**(662)**	**(1,154)**	**(542)**	**(2,358)**
Corporate and commercial	586,695	19,744	1,923	608,362	(1,005)	(133)	(11)	(1,149)
Non-bank financial institutions	4,872	2,852	—	7,724	(1)	(5)	—	(6)
At 31 December 2019	591,567	22,596	1,923	616,086	(1,006)	(138)	(11)	(1,155)

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

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1.1m for the year ended 31 December 2020 and included in 'Other' in the above reconciliation.

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

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

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

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	**186,103**	**10,136**	**410,127**	**57,398**	**2,762**	**666,526**	**(2,151)**	**664,375**
Non-bank financial institutions	**–**	**2,630**	**56,906**	**9,802**	**–**	**69,338**	**(207)**	**69,131**
At 31 December 2020	**186,103**	**12,766**	**467,033**	**67,200**	**2,762**	**735,864**	**(2,358)**	**733,506**
Corporate and commercial	50,316	19,560	523,129	13,434	1,923	608,362	(1,149)	607,213
Non-bank financial institutions	2	–	7,684	38	–	7,724	(6)	7,718
At 31 December 2019	50,318	19,560	530,813	13,472	1,923	616,086	(1,155)	614,931

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 .
1 January 2020 and 31 December 2020, together with their associated ECL allowance by CRR.

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

	Gross carrying amount				Allowance for ECL				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL Coverage
	€000	€000	€000	€000	€000	€000	€000	€000	%
Corporate and Commercial	**624,100**	**164,471**	**46,923**	**835,494**	**(3,121)**	**(10,289)**	**(18,743)**	**(32,153)**	**3.8**
CRR1	**228,289**	**–**	**–**	**228,289**	**(15)**	**–**	**–**	**(15)**	**–**
CRR2	**55,515**	**–**	**–**	**55,515**	**(26)**	**–**	**–**	**(26)**	**–**
CRR3	**120**	**–**	**–**	**120**	**(1)**	**–**	**–**	**(1)**	**0.8**
CRR4	**157,550**	**4,937**	**–**	**162,487**	**(801)**	**(74)**	**–**	**(875)**	**0.5**
CRR5	**175,008**	**14,092**	**–**	**189,100**	**(2,122)**	**(390)**	**–**	**(2,512)**	**1.3**
CRR6	**7,618**	**100,682**	**–**	**108,300**	**(156)**	**(4,899)**	**–**	**(5,055)**	**4.7**
CRR7	**–**	**30,869**	**–**	**30,869**	**–**	**(2,556)**	**–**	**(2,556)**	**8.3**
CRR8	**–**	**13,891**	**–**	**13,891**	**–**	**(2,370)**	**–**	**(2,370)**	**17.1**
CRR9/10	**–**	**–**	**46,923**	**46,923**	**–**	**–**	**(18,743)**	**(18,743)**	**39.9**
Non-bank financial institutions	**83,715**	**110,542**	**459**	**194,716**	**(862)**	**(3,426)**	**(82)**	**(4,370)**	**2.2**
CRR1	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
CRR2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
CRR3	**3,220**	**–**	**–**	**3,220**	**(6)**	**–**	**–**	**(6)**	**0.2**
CRR4	**32,311**	**38,061**	**–**	**70,372**	**(149)**	**(656)**	**–**	**(805)**	**1.1**
CRR5	**48,184**	**47,952**	**–**	**96,136**	**(707)**	**(1,675)**	**–**	**(2,382)**	**2.5**
CRR6	**–**	**20,485**	**–**	**20,485**	**–**	**(270)**	**–**	**(270)**	**1.3**
CRR7	**–**	**4,044**	**–**	**4,044**	**–**	**(825)**	**–**	**(825)**	**20.4**
CRR8	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
CRR9/10	**–**	**–**	**459**	**459**	**–**	**–**	**(82)**	**(82)**	**17.9**
At 31 December 2020	**707,815**	**275,013**	**47,382**	**1,030,210**	**(3,983)**	**(13,715)**	**(18,825)**	**(36,523)**	**3.5**
Corporate and Commercial	762,084	32,204	56,015	850,303	(4,601)	(2,412)	(16,656)	(23,669)	2.8
CRR1	24,631	38	–	24,669	(2)	–	–	(2)	–
CRR2	226,136	–	–	226,136	(114)	–	–	(114)	0.1
CRR3	56,918	119	–	57,037	(155)	(2)	–	(157)	0.3
CRR4	177,432	671	–	178,103	(922)	(2)	–	(924)	0.5
CRR5	276,967	1,960	–	278,927	(3,408)	(30)	–	(3,438)	1.2
CRR6	–	16,258	–	16,258	–	(698)	–	(698)	4.3
CRR7	–	6,198	–	6,198	–	(404)	–	(404)	6.5
CRR8	–	6,960	–	6,960	–	(1,276)	–	(1,276)	18.3
CRR9/10	–	–	56,015	56,015	–	–	(16,656)	(16,656)	29.7
Non-bank financial institutions	172,240	1,262	634	174,136	(1,278)	(51)	(143)	(1,472)	0.8
CRR1	–	–	–	–	–	–	–	–	–
CRR2	–	–	–	–	–	–	–	–	–
CRR3	3,314	–	–	3,314	(10)	–	–	(10)	0.3
CRR4	120,988	–	–	120,988	(784)	–	–	(784)	0.6
CRR5	47,938	860	–	48,798	(484)	(37)	–	(521)	1.1
CRR6	–	402	–	402	–	(14)	–	(14)	3.5
CRR7	–	–	–	–	–	–	–	–	–
CRR8	–	–	–	–	–	–	–	–	–
CRR9/10	–	–	634	634	–	–	(143)	(143)	22.6
At 31 December 2019	934,324	33,466	56,649	1,024,439	(5,879)	(2,463)	(16,799)	(25,141)	2.5

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 2020 and 2019 to the closing carrying/nominal amounts as at 31 December 2020 and 2019 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	**1,960,035**	**40,159**	**69,707**	**2,069,901**	**(8,861)**	**(3,753)**	**(6,905)**	**(19,519)**
Other personal lending	**195,640**	**14,915**	**13,907**	**224,462**	**(756)**	**(1,668)**	**(1,443)**	**(3,867)**
– second lien residential mortgages	**106,289**	**4,874**	**11,949**	**123,112**	**(323)**	**(247)**	**(255)**	**(825)**
– credit cards	**28,148**	**1,475**	**199**	**29,822**	**(288)**	**(541)**	**(126)**	**(955)**
– other	**61,203**	**8,566**	**1,759**	**71,528**	**(145)**	**(880)**	**(1,062)**	**(2,087)**
At 31 December 2020	**2,155,675**	**55,074**	**83,614**	**2,294,363**	**(9,617)**	**(5,421)**	**(8,348)**	**(23,386)**
Other financial assets measured at amortised cost								
– accrued income	**5,140**	**374**	**5,064**	**10,578**	**–**	**–**	**(2,445)**	**(2,445)**
At 31 December 2020	**5,140**	**374**	**5,064**	**10,578**	**–**	**–**	**(2,445)**	**(2,445)**
By portfolio								
First lien residential mortgages	1,925,840	37,571	51,325	2,014,736	(1,288)	(2,488)	(5,028)	(8,804)
Other personal lending	233,030	11,129	10,960	255,119	(384)	(1,062)	(1,470)	(2,916)
– second lien residential mortgages	119,267	5,588	8,928	133,783	(20)	(134)	(190)	(344)
– credit cards	32,502	3,192	101	35,795	(188)	(727)	(65)	(980)
– other	81,261	2,349	1,931	85,541	(176)	(201)	(1,215)	(1,592)
At 31 December 2019	2,158,870	48,700	62,285	2,269,855	(1,672)	(3,550)	(6,498)	(11,720)
Other financial assets measured at amortised cost								
– accrued income	3,441	120	4,728	8,289	–	–	(1,866)	(1,866)
At 31 December 2019	3,441	120	4,728	8,289	–	–	(1,866)	(1,866)

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	**454,723**	**10,640**	**114**	**465,477**	**(31)**	**(31)**	**–**	**(62)**
At 31 December 2020	**454,723**	**10,640**	**114**	**465,477**	**(31)**	**(31)**	**–**	**(62)**
Personal	542,215	4,734	81	547,030	(16)	(146)	–	(162)
At 31 December 2019	542,215	4,734	81	547,030	(16)	(146)	–	(162)

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

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

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	**1,960,035**	**40,159**	**69,707**	**2,069,901**	**(8,861)**	**(3,753)**	**(6,905)**	**(19,519)**	**0.9**
Not past due	**1,954,135**	**30,120**	**29,505**	**2,013,760**	**(8,841)**	**(2,938)**	**(3,258)**	**(15,037)**	**0.7**
Past due by:									
less than 30 days	**5,900**	**4,752**	**5,935**	**16,587**	**(20)**	**(366)**	**(354)**	**(740)**	**4.5**
30 to 59 days	**—**	**4,202**	**3,135**	**7,337**	**—**	**(385)**	**(170)**	**(555)**	**7.6**
60 to 89 days	**—**	**1,085**	**1,168**	**2,253**	**—**	**(64)**	**(106)**	**(170)**	**7.5**
90 days and more	**—**	**—**	**29,964**	**29,964**	**—**	**—**	**(3,017)**	**(3,017)**	**10.1**
Other personal lending	**195,640**	**14,915**	**13,907**	**224,462**	**(756)**	**(1,668)**	**(1,443)**	**(3,867)**	**1.7**
Not past due	**194,170**	**11,932**	**4,522**	**210,624**	**(752)**	**(1,294)**	**(556)**	**(2,602)**	**1.2**
Past due by:									
less than 30 days	**1,470**	**1,713**	**910**	**4,093**	**(4)**	**(155)**	**(78)**	**(237)**	**5.8**
30 to 59 days	**—**	**878**	**653**	**1,531**	**—**	**(129)**	**(23)**	**(152)**	**9.9**
60 to 89 days	**—**	**392**	**528**	**920**	**—**	**(90)**	**(26)**	**(116)**	**12.6**
90 days and more	**—**	**—**	**7,294**	**7,294**	**—**	**—**	**(760)**	**(760)**	**10.4**
At 31 December 2020	**2,155,675**	**55,074**	**83,614**	**2,294,363**	**(9,617)**	**(5,421)**	**(8,348)**	**(23,386)**	**1.0**
First lien residential mortgages	1,925,840	37,571	51,325	2,014,736	(1,288)	(2,488)	(5,028)	(8,804)	0.4
Not past due	1,912,199	25,528	20,241	1,957,968	(1,281)	(1,797)	(2,746)	(5,824)	0.3
Past due by:									
less than 30 days	13,641	7,352	4,323	25,316	(7)	(382)	(335)	(724)	2.9
30 to 59 days	—	3,488	2,184	5,672	—	(182)	(166)	(348)	6.1
60 to 89 days	—	1,203	1,990	3,193	—	(127)	(265)	(392)	12.3
90 days and more	—	—	22,587	22,587	—	—	(1,516)	(1,516)	6.7
Other personal lending	233,030	11,129	10,960	255,119	(384)	(1,062)	(1,470)	(2,916)	1.1
Not past due	227,402	7,131	2,438	236,971	(370)	(753)	(573)	(1,696)	0.7
Past due by:									
less than 30 days	5,628	1,896	892	8,416	(14)	(111)	(78)	(203)	2.4
30 to 59 days	—	1,581	411	1,992	—	(112)	(43)	(155)	7.8
60 to 89 days	—	521	410	931	—	(86)	(7)	(93)	10.0
90 days and more	—	—	6,809	6,809	—	—	(769)	(769)	11.3
At 31 December 2019	2,158,870	48,700	62,285	2,269,855	(1,672)	(3,550)	(6,498)	(11,720)	0.5

Collateral and other credit enhancements

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

The principal collateral types are as follows:

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

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

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

The loan-to-value ('LTV') ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility.

Where collateral assets are shared by multiple loans and advances, the collateral value is pro-rated across the loans and advances protected by the collateral.

Wholesale lending to customers

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

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

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

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

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

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Stage 1			
Not collateralised	**233,098**	**(2,011)**	**0.9**
Fully collateralised	**458,016**	**(1,809)**	**0.4**
– less than or equal to 50%	**126,454**	**(1,432)**	**1.1**
– 51% to 75%	**10,234**	**(88)**	**0.9**
– 76% to 90%	**25,997**	**(163)**	**0.6**
– 91% to 100%	**295,331**	**(126)**	**–**
Partially collateralised			
– greater than 100% LTV	**16,701**	**(163)**	**1.0**
– *of which: Collateral value*	***6,064***		
Total	**707,815**	**(3,983)**	**0.6**
Stage 2			
Not collateralised	**78,680**	**(4,565)**	**5.8**
Fully collateralised	**192,547**	**(9,028)**	**4.7**
– less than or equal to 50%	**160,991**	**(7,031)**	**4.4**
– 51% to 75%	**23,696**	**(1,691)**	**7.1**
– 76% to 90%	**1,337**	**(102)**	**7.6**
– 91% to 100%	**6,523**	**(204)**	**3.1**
Partially collateralised			
– greater than 100% LTV	**3,786**	**(122)**	**3.2**
– *of which: Collateral value*	***1,236***		
Total	**275,013**	**(13,715)**	**5.0**
Stage 3			
Not collateralised	**10,916**	**(5,680)**	**52.0**
Fully collateralised	**30,782**	**(9,260)**	**30.1**
– less than or equal to 50%	**21,854**	**(3,698)**	**16.9**
– 51% to 75%	**8,252**	**(5,333)**	**64.6**
– 76% to 90%	**628**	**(192)**	**30.6**
– 91% to 100%	**48**	**(37)**	**77.1**
Partially collateralised			
– greater than 100% LTV	**5,684**	**(3,885)**	**68.3**
– *of which: Collateral value*	***2,719***		
Total	**47,382**	**(18,825)**	**39.7**
At 31 December 2020	**1,030,210**	**(36,523)**	**3.5**

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

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

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

	Gross carrying amount €000	**Allowance for ECL €000**	**ECL coverage %**
CRR 1 to 8			
Not collateralised	**311,778**	**(6,576)**	**2.1**
Fully collateralised	**650,563**	**(10,837)**	**1.7**
– less than or equal to 50%	**287,445**	**(8,463)**	**2.9**
– 51% to 75%	**33,930**	**(1,779)**	**5.2**
– 76% to 90%	**27,334**	**(265)**	**1.0**
– 91% to 100%	**301,854**	**(330)**	**0.1**
Partially collateralised			
– greater than 100% LTV	**20,487**	**(285)**	**1.4**
– *of which: Collateral value*	***7,300***		
Total	**982,828**	**(17,698)**	**1.8**
CRR 9 to 10			
Not collateralised	**10,916**	**(5,680)**	**52.0**
Fully collateralised	**30,782**	**(9,260)**	**30.1**
– less than or equal to 50%	**21,854**	**(3,698)**	**16.9**
– 51% to 75%	**8,252**	**(5,333)**	**64.6**
– 76% to 90%	**628**	**(192)**	**30.6**
– 91% to 100%	**48**	**(37)**	**77.1**
Partially collateralised			
– greater than 100% LTV	**5,684**	**(3,885)**	**68.3**
– *of which: Collateral value*	***2,719***		
Total	**47,382**	**(18,825)**	**39.7**
At 31 December 2020	**1,030,210**	**(36,523)**	**3.5**

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

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

Personal lending to customers

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

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

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

	Gross carrying amount €000	Allowance for ECL €000	ECL coverage %
Stage 1			
Not collateralised	**85,140**	**(420)**	**0.5**
Fully collateralised	**2,067,256**	**(9,191)**	**0.4**
– less than or equal to 50%	**736,056**	**(2,687)**	**0.4**
– 51% to 75%	**779,938**	**(3,657)**	**0.5**
– 76% to 90%	**548,111**	**(2,831)**	**0.5**
– 91% to 100%	**3,151**	**(16)**	**0.5**
Partially collateralised :			
– greater than 100% LTV	**3,279**	**(6)**	**0.2**
– *of which: Collateral value*	***1,091***		
Total	**2,155,675**	**(9,617)**	**0.4**
Stage 2			
Not collateralised	**8,042**	**(1,257)**	**15.6**
Fully collateralised	**46,500**	**(4,117)**	**8.9**
– less than or equal to 50%	**29,787**	**(747)**	**2.5**
– 51% to 75%	**10,556**	**(1,798)**	**17.0**
– 76% to 90%	**5,454**	**(1,441)**	**26.4**
– 91% to 100%	**703**	**(131)**	**18.6**
Partially collateralised:			
– greater than 100% LTV	**532**	**(47)**	**8.8**
– *of which: Collateral value*	***162***		
Total	**55,074**	**(5,421)**	**9.8**
Stage 3			
Not collateralised	**1,661**	**(1,011)**	**60.9**
Fully collateralised	**81,931**	**(7,321)**	**8.9**
– less than or equal to 50%	**45,419**	**(924)**	**2.0**
– 51% to 75%	**23,018**	**(3,121)**	**13.6**
– 76% to 90%	**12,404**	**(3,080)**	**24.8**
– 91% to 100%	**1,090**	**(196)**	**18.0**
Partially collateralised:			
– greater than 100% LTV	**22**	**(16)**	**72.7**
– *of which: Collateral value*	***14***		
Total	**83,614**	**(8,348)**	**10.0**
At 31 December 2020	**2,294,363**	**(23,386)**	**1.0**
Stage 1			
Not collateralised	105,543	(349)	0.3
Fully collateralised	2,048,497	(1,315)	0.1
– less than or equal to 50%	770,949	(98)	—
– 51% to 75%	741,613	(615)	0.1
– 76% to 90%	526,410	(591)	0.1
– 91% to 100%	9,525	(11)	0.1
Partially collateralised :			
– greater than 100% LTV	4,830	(8)	0.2
– *of which: Collateral value*	*1,625*		
Total	2,158,870	(1,672)	0.1
Stage 2			
Not collateralised	5,057	(897)	17.7
Fully collateralised	43,518	(2,647)	6.1
– less than or equal to 50%	25,830	(542)	2.1
– 51% to 75%	11,472	(1,232)	10.7
– 76% to 90%	5,675	(835)	14.7
– 91% to 100%	541	(38)	7.0
Partially collateralised:			
– greater than 100% LTV	125	(6)	4.8
– *of which: Collateral value*	*123*		
Total	48,700	(3,550)	7.3
Stage 3			
Not collateralised	1,316	(877)	66.6
Fully collateralised	60,504	(5,341)	8.8
– less than or equal to 50%	35,610	(948)	2.7
– 51% to 75%	15,658	(2,106)	13.4
– 76% to 90%	8,809	(2,202)	25.0
– 91% to 100%	427	(85)	19.9
Partially collateralised:			
– greater than 100% LTV	465	(280)	60.2
– *of which: Collateral value*	*444*		
Total	62,285	(6,498)	10.4
At 31 December 2019	2,269,855	(11,720)	0.5

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

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Less than 30 days past due			
Not collateralised	**92,930**	**(1,864)**	**2.0**
Fully collateralised	**2,148,342**	**(16,693)**	**0.8**
– less than or equal to 50%	**784,727**	**(3,952)**	**0.5**
– 51% to 75%	**800,636**	**(7,082)**	**0.9**
– 76% to 90%	**558,998**	**(5,476)**	**1.0**
– 91% to 100%	**3,981**	**(183)**	**4.6**
Partially collateralised			
– greater than 100% LTV	**3,792**	**(59)**	**1.6**
– *of which: Collateral value*	***1,251***		
Total	**2,245,064**	**(18,616)**	**0.8**
30 days to 89 days past due			
Not collateralised	**884**	**(235)**	**26.6**
Fully collateralised	**11,126**	**(756)**	**6.8**
– less than or equal to 50%	**7,743**	**(135)**	**1.7**
– 51% to 75%	**2,260**	**(314)**	**13.9**
– 76% to 90%	**970**	**(257)**	**26.5**
– 91% to 100%	**153**	**(50)**	**32.7**
Partially collateralised			
– greater than 100% LTV	**31**	**(2)**	**6.5**
– *of which: Collateral Value*	***9***		
Total	**12,041**	**(993)**	**8.2**
90 days past due or more			
Not collateralised	**1,029**	**(589)**	**57.2**
Fully collateralised	**36,219**	**(3,180)**	**8.8**
– less than or equal to 50%	**18,792**	**(271)**	**1.4**
– 51% to 75%	**10,616**	**(1,180)**	**11.1**
– 76% to 90%	**6,001**	**(1,619)**	**27.0**
– 91% to 100%	**810**	**(110)**	**13.6**
Partially collateralised			
– greater than 100% LTV	**10**	**(8)**	**80.0**
– *of which: Collateral value*	***7***		
Total	**37,258**	**(3,777)**	**10.1**
At 31 December 2020	**2,294,363**	**(23,386)**	**1.0**
Less than 30 days past due			
Not collateralised	110,126	(1,357)	1.2
Fully collateralised	2,113,309	(6,852)	0.3
– less than or equal to 50%	809,819	(1,176)	0.1
– 51% to 75%	755,836	(2,562)	0.3
– 76% to 90%	537,849	(3,049)	0.6
– 91% to 100%	9,805	(65)	0.7
Partially collateralised :			
– greater than 100% LTV	5,236	(238)	4.5
– *of which: Collateral value*	*2,142*		
Total	2,228,671	(8,447)	0.4
30 days to 89 days past due			
Not collateralised	933	(218)	23.4
Fully collateralised	10,792	(768)	7.1
– less than or equal to 50%	5,788	(124)	2.1
– 51% to 75%	3,420	(422)	12.3
– 76% to 90%	1,230	(191)	15.5
– 91% to 100%	354	(31)	8.8
Partially collateralised			
– greater than 100% LTV	63	(2)	3.2
– *of which: Collateral value*	*16*		
Total	11,788	(988)	8.4
90 days past due or more			
Not collateralised	857	(548)	63.9
Fully collateralised	28,418	(1,683)	5.9
– less than or equal to 50%	16,782	(288)	1.7
– 51% to 75%	9,487	(969)	10.2
– 76% to 90%	1,815	(388)	21.4
– 91% to 100%	334	(38)	11.4
Partially collateralised			
– greater than 100% LTV	121	(54)	44.6
– *of which: Collateral value*	*34*		
Total	29,396	(2,285)	7.8
At 31 December 2019	2,269,855	(11,720)	0.5

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 2020 and 2019.

Forward-looking information incorporated in the ECL model

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

The Covid-19 outbreak dominated the political and economic landscape through much of 2020. The twin shocks of a public health emergency and the resultant economic fallout have been felt around the world. The sharp contraction in economic activity experienced in both global and local economies has had varying effects on different industry sectors, with borrowers operating or employed within such industry sectors experiencing financial difficulties.

At the same time, measures designed to soften the extent of the damage to economic activity and the labour market were announced by the Maltese government, as well as European and local regulatory authorities. Such measures include income support to households, funding support to businesses (including through government guaranteed schemes), as well as the granting of general public moratoria on capital and/or interest repayments in response to the outbreak of the pandemic.

In this respect, the significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have also impacted the performance of ECL models, since the severity of projections of macroeconomic variables being forecasted in response to the pandemic are outside the historical observations on which the ECL models have been built and calibrated.

In this regard, a significant judgement within the bank's estimation of ECL impairment allowances as at 31 December 2020 relates to the determination of forward-looking scenarios reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

Methodology

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

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

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

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

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

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

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

The Additional Downside scenario was calibrated by reference to the U-Shape scenario, which is a scenario featuring a severe and prolonged economic contraction developed by the HSBC Group in response to the outbreak of the Covid-19 pandemic and used for internal stress testing purposes. In this respect, the Additional Downside scenario represents the mid-point between the Central scenario and the U-Shape scenario.

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

The impact of the pandemic on the duration of the Covid-19 outbreak and the severity of the economic impact remains uncertain, especially in light of potential subsequent waves of infection, the effectiveness of vaccinations in slowing and eventually reversing the spread of the pandemic, as well as the unwinding of government support schemes and local political decisions.

Based on the above, the estimation of credit loss allowances as at 31 December 2020 required an elevated level of subjectivity and expert judgement, resulting in a significant ECL charge for the year.

How economic scenarios are reflected in the wholesale calculation of ECL

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

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

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

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

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

Consensus scenarios (average 2021-2025)

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

Consensus scenarios (average 2020-2024)

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

The tables above show a worsening of the forecasted macroeconomic variables under each of the scenarios when compared to the prior financial year, other than in the case of the real GDP growth rate. For example, the five year average unemployment rates and house price index reflect worsening economic conditions. Meanwhile, the average real GDP growth rate over the forecasted five year period is larger than that assumed in the prior year. This is attributable to the economic recovery expected during 2021 relative to the significant drop in real GDP experienced as a result of the outbreak of the Covid-19 pandemic during 2020.

As shown in the table below, under the Central scenario GDP is expected to grow by 5.6% during 2021 relative to a decrease in real GDP of 11% experienced during 2020. This is driving the increase in average real GDP growth rates when compared to the prior year. In this context, under the Central scenario, despite the substantial real GDP growth rate projected for 2021 (i.e. 5.6%), the real GDP is not assumed to reach pre-Covid-19 levels prior to 2024.

The real GDP growth rates assumed under each scenario, relative to a starting point drop in real GDP growth rates of 11% are disclosed in the table below.

Real GDP Growth rates

	Wholesale lending			
	Parameters as at 31 December 2020			
	Central scenario	**Upside scenario**	**Downside scenario**	**Additional downside scenario**
2020: Annual average growth rate (%)	**(11.0)**	**(11.0)**	**(11.0)**	**(11.0)**
2021: Annual average growth rate (%)	**5.6**	**9.4**	**2.4**	**(0.8)**
2022: Annual average growth rate (%)	**2.3**	**4.6**	**0.0**	**3.3**
2023: Annual average growth rate (%)	**2.3**	**2.3**	**2.3**	**2.4**
Five year average growth (%)	**2.8**	**4.0**	**1.7**	**1.9**

How economic scenarios are reflected in the retail calculation of ECL

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

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

The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained above. During the financial year ended 31 December 2020, the annual monitoring assessment performed by the local group in respect of correlations between observed default rates and key macroeconomic variables resulted in a change in the key macroeconomic variable from real GDP growth rates to unemployment rates in all retail portfolios other than for credit cards. The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central, Upside, Downside and Additional Downside scenarios.

Consensus scenarios (average 2021-2025)

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

Consensus scenarios (average 2020-2024)

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

As can be observed in the table below, the average unemployment rates forecasted under the Downside and Additional Downside scenarios, to which a combined probability weight of 30% is assigned, reflect a significant increase in the national unemployment rate during 2021 - 2023. The elevated unemployment rates assumed in these scenarios have been developed to capture different assumptions in respect of the economic recovery in response to the outbreak of the Covid-19 pandemic. In this respect, the economic activity under the Downside and Additional Downside scenarios is assumed to experience a more severe adverse impact during 2021 in the aftermath of the outbreak of the pandemic. In addition, the recovery period for economic activity to return to pre-Covid-19 levels is expected to take longer under these scenarios.

The 2020 base annual average unemployment rate of 4.8% reflects the increase in unemployment experienced as a result of the outbreak of the Covid-19 pandemic relative to an unemployment rate of 3.4% during 2019. Under the Central scenario, which is assigned a probability weight of 60% for the purpose of the ECL calculation, the annual average unemployment rate during 2021 is expected to remain in line with the closing unemployment rate experienced during 2020. In this regard, the economic activity under the Central scenario is expected to return to pre-Covid-19 levels by 2023.

Unemployment rates

	Retail lending			
	Parameters as at 31 December 2020			
	Central scenario	**Upside scenario**	**Downside scenario**	**Additional downside scenario**
2020: Annual average rate (%)	**4.8**	**4.8**	**4.8**	**4.8**
2021: Annual average rate (%)	**4.7**	**2.9**	**6.5**	**7.3**
2022: Annual average rate (%)	**4.3**	**3.6**	**6.1**	**8.9**
2023: Annual average rate (%)	**4.1**	**4.1**	**4.1**	**7.4**
Five year average rate (%)	**4.3**	**3.7**	**5.1**	**7.1**

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

As at 31 December 2019, the sensitivity impact was not considered to be significant taking cognisance of the level of ECL allowances and the effects of the application of macroeconomic inputs to ECL calculations.

Treasury Bills and debt securities

Debt securities and other bills by rating agency (S&P Rating Agency) designation of the bank, are reported in the table below. Information relating to the HSBC Life insurance business is disclosed in Note 4(f)(ii).

Debt securities and other bills by rating agency

	Treasury Bills	Debt securities	Total
	€000	€000	€000
AAA	**—**	**292,217**	**292,217**
AA- to AA+	**—**	**159,129**	**159,129**
A-	**256,302**	**426,106**	**682,408**
As at 31 December 2020	**256,302**	**877,452**	**1,133,754**
AAA	—	294,498	294,498
AA- to AA+	—	185,412	185,412
A-	127,075	463,663	590,738
As at 31 December 2019	127,075	943,573	1,070,648

Derivatives

The bank participates in transactions exposing it to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it and it arises principally from OTC derivatives. Transactions vary in value by reference to a market factor such as interest rate, exchange rate or asset price. The bank manages its derivative market risk positions principally through back-to-back derivative transactions with HSBC Group entities. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA').

For transactions with HSBC Group entities, the bank has an International Swaps and Derivatives Association ('ISDA') Master Agreement in place. It provides the contractual framework within which dealing activity across a full range of OTC products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur. In this respect, gross derivative assets amounting to €597,000 (2019: €697,000) 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 €5,947,000 (2019: €4,466,000) 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 December 2020	31 December 2019
	%	%
Actual LCR	**232**	200
Regulatory Minimum	**100**	100

During the financial years ended 31 December 2020 and 2019, 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 Basel Committee on Banking Supervision publication 295. This calculation requires various interpretations of the text, and therefore the bank's NSFR may not be directly comparable with the ratios of other institutions.

The bank is in the process of updating its methodology for the calculation of the NSFR to conform with the provisions of the amendments to Regulation (EU) No.575/2013, known as the Capital Requirements Regulation ("CRR II"), which is effective as from 28 June 2021.

NSFR year end levels for the bank

	31 December 2020	31 December 2019
	%	%
Actual NSFR	**166**	137
Regulatory Minimum	**100**	100

During the financial years ended 31 December 2020 and 2019, 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 2020 and 2019, the bank was within the risk appetite levels set for depositor concentration and term funding maturity concentration.

iv Contractual maturity ladder

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

Financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Limited) by remaining contractual maturities

	Group						
	At 31 December 2020						
	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	**28,890**	**–**	**–**	**–**	**–**	**–**	**28,890**
Balances with Central Bank of Malta and Treasury Bills	**773,935**	**126,189**	**16,049**	**–**	**–**	**51,616**	**967,789**
Items in the course of collection from other banks	**4,959**	**–**	**–**	**–**	**–**	**–**	**4,959**
Held for trading derivatives	**914**	**1,058**	**1,354**	**1,457**	**1,791**	**–**	**6,574**
Loans and advances to banks	**137,869**	**30,000**	**150,000**	**265,570**	**–**	**–**	**583,439**
Loans and advances to customers	**231,895**	**9,864**	**133,224**	**329,078**	**2,560,603**	**–**	**3,264,664**
Financial investments	**47,508**	**35,690**	**120,313**	**613,901**	**60,040**	**33**	**877,485**
Other assets	**29,508**	**270**	**–**	**–**	**–**	**–**	**29,778**
Total assets	**1,255,478**	**203,071**	**420,940**	**1,210,006**	**2,622,434**	**51,649**	**5,763,578**
Liabilities							
Deposits by banks	**3,754**	**–**	**–**	**–**	**–**	**–**	**3,754**
Customer accounts	**4,710,462**	**154,626**	**298,769**	**109,104**	**–**	**–**	**5,272,961**
Held for trading derivatives	**894**	**1,036**	**1,311**	**1,410**	**1,900**	**–**	**6,551**
Subordinated liabilities	**–**	**–**	**–**	**–**	**62,000**	**–**	**62,000**
Other liabilities	**25,712**	**1,178**	**995**	**2,203**	**857**	**–**	**30,945**
Total liabilities	**4,740,822**	**156,840**	**301,075**	**112,717**	**64,757**	**–**	**5,376,211**
Liquidity gap	**(3,485,344)**	**46,231**	**119,865**	**1,097,289**	**2,557,677**		
Cumulative liquidity gap	**(3,485,344)**	**(3,439,113)**	**(3,319,248)**	**(2,221,959)**	**335,718**		
	At 31 December 2019						
Assets							
Cash	32,275	–	–	–	–	–	32,275
Balances with Central Bank of Malta and Treasury Bills	475,225	24,026	5,009	–	–	49,537	553,797
Items in the course of collection from other banks	3,436	–	–	–	–	–	3,436
Financial assets mandatorily measured at fair value through profit or loss	–	–	–	–	–	4,507	4,507
Held for trading derivatives	575	423	675	1,119	2,528	–	5,320
Loans and advances to banks	132,062	15,000	50,000	475,890	–	–	672,952
Loans and advances to customers	263,384	26,310	36,710	392,580	2,538,449	–	3,257,433
Financial investments	68,860	32,296	157,421	631,393	53,603	30	943,603
Other assets	29,038	2	4	–	–	–	29,044
Total assets	1,004,855	98,057	249,819	1,500,982	2,594,580	54,074	5,502,367
Liabilities							
Deposits by banks	840	–	–	–	–	–	840
Customer accounts	4,345,160	176,370	308,867	146,183	–	–	4,976,580
Held for trading derivatives	510	422	558	1,041	2,659	–	5,190
Subordinated liabilities	–	–	–	–	62,000	–	62,000
Other liabilities	52,978	1,315	1,231	2,694	906	–	59,124
Total liabilities	4,399,488	178,107	310,656	149,918	65,565	–	5,103,734
Liquidity gap	(3,394,633)	(80,050)	(60,837)	1,351,064	2,529,015		
Cumulative liquidity gap	(3,394,633)	(3,474,683)	(3,535,520)	(2,184,456)	344,559		

Financial assets and liabilities by remaining contractual maturities

	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
	Bank						
	At 31 December 2020						
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash	**28,890**	**–**	**–**	**–**	**–**	**–**	**28,890**
Balances with Central Bank of Malta and Treasury Bills	**773,935**	**126,189**	**16,049**	**–**	**–**	**51,616**	**967,789**
Items in the course of collection from other banks	**4,959**	**–**	**–**	**–**	**–**	**–**	**4,959**
Held for trading derivatives	**914**	**1,058**	**1,354**	**1,457**	**1,791**	**–**	**6,574**
Loans and advances to banks	**137,869**	**30,000**	**150,000**	**265,570**	**–**	**–**	**583,439**
Loans and advances to customers	**231,895**	**9,864**	**133,224**	**329,078**	**2,560,603**	**–**	**3,264,664**
Financial investments	**47,508**	**35,690**	**120,313**	**613,901**	**60,040**	**31**	**877,483**
Other assets	**29,342**	**270**	**–**	**–**	**–**	**–**	**29,612**
Total assets	**1,255,312**	**203,071**	**420,940**	**1,210,006**	**2,622,434**	**51,647**	**5,763,410**
Liabilities							
Deposits by banks	**3,754**	**–**	**–**	**–**	**–**	**–**	**3,754**
Customer accounts	**4,751,255**	**154,626**	**298,769**	**109,104**	**–**	**–**	**5,313,754**
Held for trading derivatives	**894**	**1,036**	**1,311**	**1,410**	**1,900**	**–**	**6,551**
Subordinated liabilities	**–**	**–**	**–**	**–**	**62,000**	**–**	**62,000**
Other liabilities	**25,712**	**1,178**	**995**	**2,203**	**857**	**–**	**30,945**
Total liabilities	**4,781,615**	**156,840**	**301,075**	**112,717**	**64,757**	**–**	**5,417,004**
Liquidity gap	**(3,526,303)**	**46,231**	**119,865**	**1,097,289**	**2,557,677**		
Cumulative liquidity gap	**(3,526,303)**	**(3,480,072)**	**(3,360,207)**	**(2,262,918)**	**294,759**		
	At 31 December 2019						
Assets							
Cash	32,275	–	–	–	–	–	32,275
Balances with Central Bank of Malta and Treasury Bills	475,225	24,026	5,009	–	–	49,537	553,797
Items in the course of collection from other banks	3,436	–	–	–	–	–	3,436
Financial assets mandatorily measured at fair value through profit or loss	–	–	–	–	–	4,507	4,507
Held for trading derivatives	575	423	675	1,119	2,528	–	5,320
Loans and advances to banks	132,062	15,000	50,000	475,890	–	–	672,952
Loans and advances to customers	263,384	26,310	36,710	392,580	2,538,449	–	3,257,433
Financial investments	68,860	32,296	157,421	631,393	53,603	28	943,601
Other assets	29,114	2	4	–	–	–	29,120
Total assets	1,004,931	98,057	249,819	1,500,982	2,594,580	54,072	5,502,441
Liabilities							
Deposits by banks	840	–	–	–	–	–	840
Customer accounts	4,394,646	176,370	308,867	146,183	–	–	5,026,066
Held for trading derivatives	510	422	558	1,041	2,659	–	5,190
Subordinated liabilities	–	–	–	–	62,000	–	62,000
Other liabilities	52,978	1,315	1,231	2,694	906	–	59,124
Total liabilities	4,448,974	178,107	310,656	149,918	65,565	–	5,153,220
Liquidity gap	(3,444,043)	(80,050)	(60,837)	1,351,064	2,529,015		
Cumulative liquidity gap	(3,444,043)	(3,524,093)	(3,584,930)	(2,233,866)	295,149		

Current accounts and savings deposits payable on demand or at short notice amounted to €4,436 million at 31 December 2020 (2019: €4,054 million), for the local group and €4,476 million at 31 December 2020 (2019: €4,103 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 €197 million at 31 December 2020 (2019: €235 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) Limited) by remaining contractual maturities at the reporting date. Information relating to HSBC Life insurance business is disclosed in Note 4(f)(iv):

Cash flows payable under non-derivative financial liabilities

	Due within 3 months €000	Due between 3 and 12 months €000	Due between 1 and 5 years €000	Due after 5 years €000	Gross nominal outflow €000	Carrying amount €000
Group						
At 31 December 2020						
Financial liabilities						
Deposits by banks	**3,754**	**–**	**–**	**–**	**3,754**	**3,754**
Customer accounts	**4,719,102**	**455,579**	**110,722**	**–**	**5,285,403**	**5,272,961**
Subordinated liabilities	**235**	**704**	**3,755**	**64,816**	**69,510**	**62,000**
Other liabilities	**25,802**	**2,537**	**3,065**	**1,302**	**32,706**	**30,945**
	4,748,893	**458,820**	**117,542**	**66,118**	**5,391,373**	**5,369,660**
Commitments	**1,223,615**	**–**	**–**	**–**	**1,223,615**	**1,223,615**
At 31 December 2019						
Financial liabilities						
Deposits by banks	840	–	–	–	840	840
Customer accounts	4,420,965	505,899	58,182	–	4,985,046	4,976,580
Subordinated liabilities	258	774	4,129	66,129	71,290	62,000
Other liabilities	52,978	2,601	2,898	1,007	59,484	59,124
	4,475,041	509,274	65,209	67,136	5,116,660	5,098,544
Commitments	1,234,178	–	–	–	1,234,178	1,234,178
Bank						
At 31 December 2020						
Financial liabilities						
Deposits by banks	**3,754**	**–**	**–**	**–**	**3,754**	**3,754**
Customer accounts	**4,759,896**	**455,579**	**110,722**	**–**	**5,326,197**	**5,313,754**
Subordinated liabilities	**235**	**704**	**3,755**	**64,816**	**69,510**	**62,000**
Other liabilities	**25,802**	**2,537**	**3,065**	**1,302**	**32,706**	**30,945**
	4,789,687	**458,820**	**117,542**	**66,118**	**5,432,167**	**5,410,453**
Commitments	**1,223,617**	**–**	**–**	**–**	**1,223,617**	**1,223,617**
At 31 December 2019						
Financial liabilities						
Deposits by banks	840	–	–	–	840	840
Customer accounts	4,470,451	505,899	58,182	–	5,034,532	5,026,066
Subordinated liabilities	258	774	4,129	66,129	71,290	62,000
Other liabilities	52,978	2,601	2,898	1,007	59,484	59,124
	4,524,527	509,274	65,209	67,136	5,166,146	5,148,030
Commitments	1,234,180	–	–	–	1,234,180	1,234,180

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

	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 year and 5 years €000	Over 5 years €000	Total €000
Group/Bank					
At 31 December 2020					
Inflows	**25,037**	**59,954**	**2,539**	**68**	**87,598**
Outflows	**(25,003)**	**(59,883)**	**(2,524)**	**(68)**	**(87,478)**
	34	**71**	**15**	**–**	**120**
At 31 December 2019					
Inflows	82,541	184,090	3,974	251	270,856
Outflows	(82,472)	(183,948)	(3,929)	(251)	(270,600)
	69	142	45	–	256

(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	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Total assets at 31 December	**6,730,459**	6,497,617	**5,893,605**	5,636,934
Less:				
Debt securities pledged in terms of the Depositor Compensation Scheme	**21,007**	21,941	**21,007**	21,941
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,053**	896	**1,053**	896
Less:				
Other assets that cannot be pledged as collateral	**978,920**	1,011,966	**150,792**	157,215
Assets available to support funding and collateral needs at 31 December	**5,729,479**	5,462,814	**5,720,753**	5,456,882

Out of the €5,729,000,000 (2019: €5,463,000,000) assets available for the local group and €5,721,000,000 (2019: €5,457,000,000) for the bank, €3,944,000,000 (2019: €4,023,000,000) do not form part of the local group's and the bank's HQLA and are therefore not categorised as liquid assets. Debt securities pledged against the provision of credit lines by the Central Bank of Malta amounting to €83,450,000 (2019: €60,974,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

(e) Market risk

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

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

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

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

Monitoring and limiting market risk exposure

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

i Sensitivity analysis

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

ii Value at risk ('VaR')

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

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

The historical simulation models used incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

The nature of VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions. The local group routinely validates the accuracy of the VaR models by back-testing the hypothetical daily results.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

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

VaR for the bank

	2020	2019
	€000	€000
At 31 December	**840**	922
Average	**836**	852
Minimum	**594**	723
Maximum	**1,048**	947

iii Stress testing

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

iv Interest rate risk

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

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

Sensitivity of net interest income

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

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

The net interest income sensitivity calculations shown in the table below, assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario and 'down-shock' scenario subject to an established response strategy set by the bank. The net interest income sensitivity calculations take account of the effect on net interest income of anticipated differences in changes between interbank interest rates and interest rates over which the bank has discretion in terms of the timing and extent of rate changes.

The table below sets out the impact on future one year net income of an incremental 100 basis points parallel fall or rise in the yield curves, based on current financial position/risk profiles and current managed interest rate policy. During 2020, these profiles and policies were reviewed by business heads and approved by ALCO.

Impact on future one year net income

	Group/Bank	
	Impact on profit for the year	Impact on profit for the year
	2020	2019
	€000	€000
+ 100 basis points	**16,366**	12,186
- 100 basis points	**(13,769)**	(4,938)

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

	Group					
	At 31 December 2020					
	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	**774,988**	**126,189**	**16,049**	**—**	**—**	**917,226**
Loans and advances to banks	**577,869**	**—**	**5,570**	**—**	**—**	**583,439**
Loans and advances to customers	**2,183,933**	**219,691**	**479,209**	**363,409**	**18,422**	**3,264,664**
Debt instruments measured at fair value through other comprehensive income	**185,324**	**635**	**108,076**	**523,377**	**60,040**	**877,452**
Total assets	**3,722,114**	**346,515**	**608,904**	**886,786**	**78,462**	**5,642,781**
Liabilities						
Deposits by banks	**3,754**	**—**	**—**	**—**	**—**	**3,754**
Customer accounts	**4,710,462**	**154,626**	**298,769**	**109,104**	**—**	**5,272,961**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**4,776,216**	**154,626**	**298,769**	**109,104**	**—**	**5,338,715**
Interest rate sensitivity gap	**(1,054,102)**	**191,889**	**310,135**	**777,682**	**78,462**	
Cumulative interest rate sensitivity gap	**(1,054,102)**	**(862,213)**	**(552,078)**	**225,604**	**304,066**	
	At 31 December 2019					
Assets						
Balances with Central bank of Malta and Treasury Bills	476,121	24,026	5,009	—	—	505,156
Loans and advances to banks	672,952	—	—	—	—	672,952
Loans and advances to customers	2,468,873	218,781	517,212	25,787	26,780	3,257,433
Debt instruments measured at fair value through other comprehensive income	211,914	49,742	135,517	492,797	53,603	943,573
Total assets	3,829,860	292,549	657,738	518,584	80,383	5,379,114
Liabilities						
Deposits by banks	840	—	—	—	—	840
Customer accounts	4,345,160	176,370	308,867	146,183	—	4,976,580
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	4,408,000	176,370	308,867	146,183	—	5,039,420
Interest rate sensitivity gap	(578,140)	116,179	348,871	372,401	80,383	
Cumulative interest rate sensitivity gap	(578,140)	(461,961)	(113,090)	259,311	339,694	

	Bank					
	At 31 December 2020					
Assets						
Balances with Central bank of Malta and Treasury Bills	**774,988**	**126,189**	**16,049**	**—**	**—**	**917,226**
Loans and advances to banks	**577,869**	**—**	**5,570**	**—**	**—**	**583,439**
Loans and advances to customers	**2,183,933**	**219,691**	**479,209**	**363,409**	**18,422**	**3,264,664**
Debt instruments measured at fair value through other comprehensive income	**185,324**	**635**	**108,076**	**523,377**	**60,040**	**877,452**
Total assets	**3,722,114**	**346,515**	**608,904**	**886,786**	**78,462**	**5,642,781**
Liabilities						
Deposits by banks	**3,754**	**—**	**—**	**—**	**—**	**3,754**
Customer accounts	**4,751,255**	**154,626**	**298,769**	**109,104**	**—**	**5,313,754**
Subordinated liabilities	**62,000**	**—**	**—**	**—**	**—**	**62,000**
Total liabilities	**4,817,009**	**154,626**	**298,769**	**109,104**	**—**	**5,379,508**
Interest rate sensitivity gap	**(1,094,895)**	**191,889**	**310,135**	**777,682**	**78,462**	
Cumulative interest rate sensitivity gap	**(1,094,895)**	**(903,006)**	**(592,871)**	**184,811**	**263,273**	
	At 31 December 2019					
Assets						
Balances with Central bank of Malta and Treasury Bills	476,121	24,026	5,009	—	—	505,156
Loans and advances to banks	672,952	—	—	—	—	672,952
Loans and advances to customers	2,468,873	218,781	517,212	25,787	26,780	3,257,433
Debt instruments measured at fair value through other comprehensive income	211,914	49,742	135,517	492,797	53,603	943,573
Total assets	3,829,860	292,549	657,738	518,584	80,383	5,379,114
Liabilities						
Deposits by banks	840	—	—	—	—	840
Customer accounts	4,394,646	176,370	308,867	146,183	—	5,026,066
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	4,457,486	176,370	308,867	146,183	—	5,088,906
Interest rate sensitivity gap	(627,626)	116,179	348,871	372,401	80,383	
Cumulative interest rate sensitivity gap	(627,626)	(511,447)	(162,576)	209,825	290,208	

Balances with Central Bank of Malta included in above tables relate to balances subject to interest rate risk.

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

v Foreign exchange risk

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

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

	Group				
	2020				
	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	**971,148**	**24,756**	**528**	**247**	**996,679**
Items in the course of collection from other banks	**4,897**	**20**	**42**	**–**	**4,959**
Held for trading derivatives	**3,442**	**3,122**	**8**	**2**	**6,574**
Financial investments	**654,293**	**127,759**	**83,622**	**11,811**	**877,485**
Loans and advances to banks	**488,104**	**976**	**69,728**	**24,631**	**583,439**
Loans and advances to customers	**3,240,646**	**23,427**	**271**	**320**	**3,264,664**
Other assets	**27,914**	**1,705**	**44**	**115**	**29,778**
Total assets	**5,390,444**	**181,765**	**154,243**	**37,126**	**5,763,578**
Liabilities					
Deposits by banks	**980**	**2,774**	**–**	**–**	**3,754**
Customer accounts	**4,921,813**	**170,825**	**144,521**	**35,802**	**5,272,961**
Held for trading derivatives	**3,256**	**3,266**	**27**	**2**	**6,551**
Subordinated liabilities	**62,000**	**–**	**–**	**–**	**62,000**
Other liabilities	**29,635**	**867**	**437**	**6**	**30,945**
Total liabilities	**5,017,684**	**177,732**	**144,985**	**35,810**	**5,376,211**
Net open position	**372,760**	**4,033**	**9,258**	**1,316**	
	2019				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	585,032	339	431	270	586,072
Items in the course of collection from other banks	3,319	28	73	16	3,436
Financial assets mandatorily measured at fair value through profit or loss	4,507	–	–	–	4,507
Held for trading derivatives	4,110	1,193	17	–	5,320
Financial investments	705,531	132,202	97,427	8,443	943,603
Loans and advances to banks	574,884	48,121	17,174	32,773	672,952
Loans and advances to customers	3,231,372	25,398	270	393	3,257,433
Other assets	26,878	1,949	171	46	29,044
Total assets	5,135,633	209,230	115,563	41,941	5,502,367
Liabilities					
Deposits by banks	16	–	–	824	840
Customer accounts	4,619,938	205,025	111,666	39,951	4,976,580
Held for trading derivatives	3,627	1,545	17	1	5,190
Subordinated liabilities	62,000	–	–	–	62,000
Other liabilities	58,104	951	44	25	59,124
Total liabilities	4,743,685	207,521	111,727	40,801	5,103,734
Net open position	391,948	1,709	3,836	1,140	

	Bank				
	2020				
	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	**971,148**	**24,756**	**528**	**247**	**996,679**
Items in the course of collection from other banks	**4,897**	**20**	**42**	**–**	**4,959**
Held for trading derivatives	**3,442**	**3,122**	**8**	**2**	**6,574**
Financial investments	**654,291**	**127,759**	**83,622**	**11,811**	**877,483**
Loans and advances to banks	**488,104**	**976**	**69,728**	**24,631**	**583,439**
Loans and advances to customers	**3,240,646**	**23,427**	**271**	**320**	**3,264,664**
Other assets	**27,748**	**1,705**	**44**	**115**	**29,612**
Total assets	**5,390,276**	**181,765**	**154,243**	**37,126**	**5,763,410**
Liabilities					
Deposits by banks	**980**	**2,774**	**–**	**–**	**3,754**
Customer accounts	**4,957,230**	**174,535**	**145,255**	**36,734**	**5,313,754**
Held for trading derivatives	**3,256**	**3,266**	**27**	**2**	**6,551**
Subordinated liabilities	**62,000**	**–**	**–**	**–**	**62,000**
Other liabilities	**29,635**	**867**	**437**	**6**	**30,945**
Total liabilities	**5,053,101**	**181,442**	**145,719**	**36,742**	**5,417,004**
Net open position	**337,175**	**323**	**8,524**	**384**	
	2019				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	585,032	339	431	270	586,072
Items in the course of collection from other banks	3,319	28	73	16	3,436
Financial assets mandatorily measured at fair value through profit or loss	4,507	–	–	–	4,507
Held for trading derivatives	4,110	1,193	17	–	5,320
Financial investments measured at fair value through other comprehensive income	705,529	132,202	97,427	8,443	943,601
Loans and advances to banks	574,884	48,121	17,174	32,773	672,952
Loans and advances to customers	3,231,372	25,398	270	393	3,257,433
Other assets	26,954	1,949	171	46	29,120
Total assets	5,135,707	209,230	115,563	41,941	5,502,441
Liabilities					
Deposits by banks	16	–	–	824	840
Customer accounts	4,666,447	206,430	112,271	40,918	5,026,066
Held for trading derivatives	3,627	1,545	17	1	5,190
Subordinated liabilities	62,000	–	–	–	62,000
Other liabilities	58,104	951	44	25	59,124
Total liabilities	4,790,194	208,926	112,332	41,768	5,153,220
Net open position	345,513	304	3,231	173	

All derivatives are transacted primarily to create risk management solutions for clients. All positions entered into with clients are covered by back-to-back derivative transactions with HSBC Group entities. Accordingly, the local group or bank does not use currency derivatives to close open currency positions.

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

(f) Insurance risk

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

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

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

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

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

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected. At present these risks do not vary significantly in relation to the location of the risk insured by the local group. However, undue concentration could have an impact on the severity of benefit payments on a portfolio basis. In this respect, the impact of Covid-19 has not resulted in a significant increase in the trend of death or critical illness claims as the socio-economic profile of the insured portfolio held by the local group has not been significantly impacted by the pandemic.

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

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

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

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

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, and the variability in contract holder behaviour. The local group uses appropriate base tables of standard mortality according to the type of contract being written. In this respect, it is of note that no significant increases in the trend of death or critical illness claims or lapse rates were experienced during the current year (beyond some volatility at the time Malta entered into lockdown). In addition, the local group does not take credit for future lapses in determining the liability of long-term contracts.

The technical provisions in respect of long-term life insurance contracts are subject to quarterly valuations by the Approved Actuary based on data and information provided by the local group.

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

	2020	2019
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**281,784**	295,323
Term assurance and other long-term contracts	**124,809**	117,748
Total non-linked	**406,593**	413,071
Life insurance (linked)	**241,435**	245,399
Liabilities under insurance contracts	**648,028**	658,470

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. The most important components of this financial risk are market risk, credit risk and liquidity risk. This risk is heightened through the period of market volatility that has been brought about because of the Covid-19 outbreak. In fact, the local group's insurance subsidiary company has been significantly impacted in this respect, primarily through the impact that the drop in the yield curve has had on non-unit liabilities (which increased) and the PVIF (which decreased).

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. At least 90% of the eligible investment return is attributed to the contract holders. Policyholders receive regular (reversionary) bonus. A Regular bonus rate is declared yearly in advance. This rate may be reviewed upwards during the course of the year based on the performance of the fund. This provides a progressive build-up of guaranteed benefits over the lifetime of the policy. Regular bonuses are set by the Board 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.

ii Market risk

Interest rate risk

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

Exchange risk

The insurance subsidiary company is exposed to currency risk on its investment portfolio and to 10% of the investments backing contracts with DPF. The net exposure amounts to €3,533,745 (2019: €3,700,819) 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	
	2020	2019
	€000	€000
+100 basis points shift in yield curves	**3,451**	1,505
-100 basis points shift in yield curves	**(19,409)**	(984)
+10 per cent increase in equity prices	**682**	766
-10 per cent decrease in equity prices	**(682)**	(766)

iii Credit risk

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- investment portfolios of debt securities;
- insurance and other receivables; and
- call and term deposits.

The insurance subsidiary company structures the levels of credit risk it accepts by placing limits on its exposure to investment grade single counterparty, or groups of counterparties, and to geographical and industry segments. Investment credit exposures positions are reviewed on a quarterly basis by the insurance subsidiary company's Asset Liability Committee.

The selection of reinsurers also includes restrictions designed to minimise the risk of credit exposure.

The insurance subsidiary company currently manages the majority of reinsurance risk by using reinsurers with a minimum rating of AA-. The creditworthiness of reinsurers is confirmed from public rating information and considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The third party banks with whom cash and cash equivalents are held, amounting to €1,956,000 (2019: €1,104,000), 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 2020 and 2019 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	
	2020	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000
AAA	**–**	–	**4,061**	946	**4,061**	946
AA+ to AA-	**–**	–	**26,582**	25,261	**26,582**	25,261
A+ to A-	**–**	178	**162,531**	162,046	**162,531**	162,224
BBB+ to BBB-	**1,592**	1,422	**61,961**	62,289	**63,553**	63,711
BB+ to B-	**1,474**	1,760	**–**	–	**1,474**	1,760
Unrated	**743**	800	**16,136**	12,509	**16,879**	13,309
Total	**3,809**	4,160	**271,271**	263,051	**275,080**	267,211

The insurance subsidiary company is not exposed to credit risk in respect of unit-linked business, although the relevant credit information is disclosed. Insurance and other receivables amounting to €3,105,000 (2019: €4,806,000) include accrued interest amounting to €2,623,0000 (2019: €2,701,000) which would exhibit a similar rating profile to debt securities above.

iv Liquidity risk

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk. As part of the management of this exposure, estimates are prepared for most lines of insurance business of cash flows expected to arise from insurance funds at the reporting date. The insurance subsidiary company actively manages its assets in such a manner as to achieve a competitive rate of return within the prevailing risk objectives delineated by asset liquidity, credit quality and asset-liability matching.

The following table shows the cash flows expected to arise pertaining to insurance and investment liabilities as well as the contractual maturity of financial assets as at the reporting date.

Cash flows of financial assets and insurance and investment liabilities

	At 31 December 2020					
	No fixed maturity	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 year and 5 years**	**Due after 5 years**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Financial investments	**458,590**	**—**	**8,690**	**115,281**	**151,109**	**733,670**
Reinsurance assets	**80,083**	**—**	**—**	**—**	**—**	**80,083**
Cash	**5,820**	**—**	**—**	**—**	**—**	**5,820**
	544,493	**—**	**8,690**	**115,281**	**151,109**	**819,573**

	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	**—**	**16,471**	**42,116**	**202,924**	**393,998**	**655,509**
– investment contracts	**111,261**	**532**	**1,489**	**11,073**	**37,345**	**161,700**
	111,261	**17,003**	**43,605**	**213,997**	**431,343**	**817,209**

	At 31 December 2019					
	No fixed maturity	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Financial investments	482,435	1,990	16,243	105,769	143,209	749,646
Reinsurance assets	78,945	—	—	—	—	78,945
Cash	3,079	—	—	—	—	3,079
	564,459	1,990	16,243	105,769	143,209	831,670

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 year and 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000
Liabilities to customers:						
– insurance contracts	—	20,937	42,748	203,259	407,440	674,384
– investment contracts	123,814	1,166	4,406	15,058	41,205	185,649
	123,814	22,103	47,154	218,317	448,645	860,033

The insurance subsidiary company's Asset Liability Committee reviews and approves investment strategies on a periodic basis, ensuring that assets are managed efficiently within approved risk mandates.

The methodology used for estimating cash outflows on liabilities to customers can be found below:

- Linked Insurance Reserves: derived via undiscounted cash flows. No future premiums are assumed and investment returns are not included in the provisions. All decrements are considered.
- Linked Investment Reserves: derived via undiscounted cash flows but only considering contractual maturities and no other form of decrement. When there is no contractual maturity, the reserve is placed within the 'on demand' bucket.
- Non-Linked Reserve: derived via undiscounted reserves run-off on a reporting basis. All future premiums are considered and provisions based on all expected decrements. The timing of cash flows is based on the expected run-off of the reserves.

5 Fair value of financial and non-financial instruments

i Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes there is a difference between the transaction price and the fair value of the financial asset where fair value will be based on a quoted price in an active market (such as other observable current market transactions in the same instrument, without modification or repackaging), or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the local group recognises a trading gain or loss on day one, being the difference between the transaction price and the fair value. In all other cases (such as when significant unobservable parameters are used), the entire day one gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the local group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the local group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the local group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria as described in Note 3(f).

ii Control framework

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

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

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

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

iii Fair value hierarchy

Fair values are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

iv Critical accounting estimates and judgements

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell.

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes is considered. In addition, the value of some products are dependent on more than one market factor, and in these cases it is typically necessary to consider how movements in one market factor may affect the other market factors.

The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations, prepayment rates and default rates.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

v Disclosures in respect of fair values of financial instruments carried at fair value

The following table sets out the financial instruments by fair value hierarchy:

Financial instruments by fair value

	Group			
	At 31 December 2020			
	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	**–**	**256,302**	**–**	**256,302**
Held for trading derivatives	**–**	**6,574**	**–**	**6,574**
Financial assets mandatorily measured at fair value through profit or loss	**724,621**	**3,675**	**5,374**	**733,670**
Financial investments	**877,452**	**–**	**33**	**877,485**
	1,602,073	**266,551**	**5,407**	**1,874,031**
Liabilities				
Held for trading derivatives	**–**	**6,551**	**–**	**6,551**
Liabilities under investment contracts	**170,865**	**–**	**–**	**170,865**
	170,865	**6,551**	**–**	**177,416**
	At 31 December 2019			
Assets				
Treasury Bills	–	127,075	–	127,075
Held for trading derivatives	–	5,320	–	5,320
Financial assets mandatorily measured at fair value through profit or loss	738,180	4,461	11,379	754,020
Financial investments	943,573	–	30	943,603
	1,681,753	136,856	11,409	1,830,018
Liabilities				
Held for trading derivatives	–	5,190	–	5,190
Liabilities under investment contracts	182,496	893	317	183,706
	182,496	6,083	317	188,896
	Bank			
	At 31 December 2020			
Assets				
Treasury Bills	**–**	**256,302**	**–**	**256,302**
Held for trading derivatives	**–**	**6,574**	**–**	**6,574**
Financial investments	**877,452**	**–**	**31**	**877,483**
	877,452	**262,876**	**31**	**1,140,359**
Liabilities				
Held for trading derivatives	**–**	**6,551**	**–**	**6,551**
	–	**6,551**	**–**	**6,551**
	At 31 December 2019			
Assets				
Treasury Bills	–	127,075	–	127,075
Held for trading derivatives	–	5,320	–	5,320
Financial assets mandatorily measured at fair value through profit or loss	–	–	4,507	4,507
Financial investments	943,573	–	28	943,601
	943,573	132,395	4,535	1,080,503
Liabilities				
Held for trading derivatives	–	5,190	–	5,190
	–	5,190	–	5,190

The local group's and bank's assets categorised within Level 2 comprise Treasury Bills, debt securities, equity investments and units in collective investment schemes which are traded in inactive markets, with fair value determined on the basis of quoted prices in such inactive markets.

The local group's and bank's derivative instruments are categorised as Level 2, since they are fair valued principally using discounted cash flow models where all significant inputs are observable, such as exchange rates and interest rate yield curves.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2020 and 2019. 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	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 January	**11,379**	8,153	**4,507**	–
Disposal/redemptions	**(8,738)**	(1,915)	**(7,354)**	–
Acquisitions	**115**	3,309	**–**	2,675
Exchange adjustments	**58**	–	**58**	–
Changes in fair value (recognised in profit or loss)	**2,560**	1,832	**2,789**	1,832
At 31 December	**5,374**	11,379	**–**	4,507

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 2020 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 2020, 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 2020 and 2019, the carrying amounts of the local group's land and buildings within property, plant and equipment, were adjusted to reflect the properties' estimated open market value. Albeit, market activity has been impacted in a number of sectors, which has lead to a heightened level of uncertainty within the local property market, the real impact of the pandemic on property prices will not be fully known until market conditions stabilise.

The local group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined above as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The local group's land and buildings, within property, plant and equipment, comprises commercial branches, bank offices and other operational premises. All the recurring property fair value measurements at 31 December 2020 and 2019 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

As at 31 December 2019, the investment property principally comprised commercial property that was leased out as offices to third parties including the local group's intermediate parent (Note 53). This property was sold during the financial year ended 31 December 2020 as explained in Note 31 'Investment Property'. Accordingly, as at 31 December 2020 the investment property comprised a commercial property owned by a subsidiary of the local group which is currently being renovated. The fair value measurement in respect of this 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 2020 and 2019.

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 31 and 32 respectively.

Valuation processes

The valuations of the properties are performed regularly on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the local group which is derived from the bank's financial systems and is subject to the bank's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market-related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Financial Officer ('CFO'). This includes a review of fair value movements over the period. When the CFO considers that the valuation report is appropriate, the valuation report is recommended to the Audit Committee. The Audit Committee considers the valuation report as part of its overall responsibilities.

At the end of every reporting period, the CFO assesses whether any significant changes or developments have been experienced since the last external valuation. This is supported by an assessment performed by the independent firm of property valuers.

Valuation techniques

The external valuations of the Level 3 property have been performed using predominantly the traditional investment method of valuation based on the capitalised rentals approach. In view of the limited market information available, the valuations have been performed using unobservable inputs. In relation to the capitalised rentals approach, the significant unobservable inputs include a capitalisation rate applied at 5.00% – 6.75% (2019: 4.75% – 8.8%), which is effectively the discount rate adjusted for anticipated growth, and the expected annual rental value ('ERV') taking into account the rental rate per square metre for comparable properties located in proximity to the local group's property with adjustments for differences in the size, age, exact location and condition of the property. Effectively, the capitalisation rate indicates the return the investor expects to receive through annual rental value.

	At 31 December 2020			
Description by class based on highest and best use	**Fair value €000**	**Valuation technique**	**Significant unobservable input**	**Range of unobservable inputs (weighted average) € per square metre**
Current use as commercial branches, bank offices and other related premises	**36,206**	**Capitalised rental approach**	**Rental rate per square metre**	**40 – 220 (125)**
Currently held for rental yield and capital appreciation purposes	**1,600**	**Capitalised rental approach**	**Rental rate per square metre**	**(300)**
	At 31 December 2019			
Current use as commercial branches, bank offices and other related premises	38,186	Capitalised rental approach	Rental rate per square metre	40 – 220 (118)
Current use as third party offices	9,788	Capitalised rental approach	Rental rate per square metre	(102)

The higher the rental rate per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate, the higher the fair value. The highest and best use of the properties reflected in the tables above is equivalent to their current use.

vii Disclosures in respect of fair values of financial instruments not carried at fair value

Certain financial instruments are carried at amortised cost. The fair values of these financial instruments are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or the bank has the ability to re-price them at its own discretion, or because these are short-term in nature.

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

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta and cash	**740,377**	458,997	**740,377**	458,997
Items in course of collection from other banks	**4,959**	3,436	**4,959**	3,436
Loans and advance to banks	**589,259**	676,031	**583,439**	672,952
Loans and advance to customers	**3,264,664**	3,257,433	**3,264,664**	3,257,433
Accrued interest	**21,965**	21,723	**19,282**	18,858
Other assets	**10,551**	10,186	**10,330**	10,262
	4,631,775	4,427,806	**4,623,051**	4,421,938
Liabilities				
Deposits by banks	**3,754**	840	**3,754**	840
Customer accounts	**5,272,961**	4,976,580	**5,313,754**	5,026,066
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**2,137**	3,397	**1,933**	3,163
Other liabilities	**32,123**	30,973	**29,012**	30,973
	5,372,975	5,073,790	**5,410,453**	5,123,042

Fair values for these financial instruments (other than for cash) are estimated using discounted cash flows applying current market interest rates for instruments with similar remaining maturities and hence utilising mainly Level 3 inputs.

Fair values in relation to loans and advances to customers and in relation to customer accounts repayable on demand are deemed to be fairly close to carrying amounts principally in view of the local group's ability to reprice at its discretion. The majority of customer term deposit accounts are held for a period of less than 12 months and therefore their fair value is also deemed to closely approximate the carrying amount due to their short-term nature. These estimates are considered Level 3 fair value estimates.

Similarly deposits by banks are principally repayable on demand and, as a result, their fair value is approximated by their carrying amount. The fair value of balances with the Central Bank of Malta, loans and advances to banks and subordinated liabilities is deemed to approximate the carrying amount due to the fact that they are short-term in nature and/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 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 Capital Requirement Regulation ('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.

	2020	2019
	€000	€000
Common Equity Tier 1 capital		
Called up share capital	**108,092**	108,092
Retained earnings	**337,604**	329,672
Revaluation reserve	**32,718**	32,202
Adjustments		
– depositor compensation scheme	**(20,781)**	(21,921)
– intangible assets	**(4,966)**	(10,193)
– expected final dividend	**(2,717)**	(4,918)
– retained earnings – HSBC Life Assurance (Malta) Limited	**(36,691)**	(42,786)
– prudential valuation adjustment	**(1,147)**	(1,085)
– IFRS 9 transitional adjustments	**18,682**	6,841
– single resolution fund	**(1,053)**	(896)
– non-performing loans	**(14,315)**	–
Total Tier 1 capital	**415,426**	395,008
Tier 2 capital		
Subordinated debt	**62,000**	62,000
Total Tier 2 capital	**62,000**	62,000
Total own funds	**477,426**	457,008

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

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

HSBC Life Assurance (Malta) Limited, one of the local group'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 year ended 31 December 2020, the subsidiary has complied with all such externally imposed regulatory capital requirements.

7 Interest and similar income

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
On balances with Central Bank of Malta	**2**	—	**2**	—
On loans and advances to banks	**1,219**	2,562	**1,219**	2,562
On loans and advances to customers	**107,834**	109,985	**107,834**	109,985
On other assets	**—**	124	**—**	—
On loans and advances to banks and customers and other assets	**109,055**	112,671	**109,055**	112,547
Interest on debt and other fixed income instruments	**13,676**	16,340	**13,676**	16,340
Amortisation of net premiums on debt and other fixed income instruments	**(9,133)**	(8,438)	**(9,133)**	(8,438)
On debt and other fixed income instruments	**4,543**	7,902	**4,543**	7,902
	113,598	120,573	**113,598**	120,449

Interest income recognised on credit impaired loans and advances, which is entirely included in interest income on loans and advances to customers, amounted to €4,350,000 (2019: €5,268,000).

8 Interest expense

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
On balances with Central Bank of Malta	**279**	406	**279**	406
On Treasury Bills	**799**	525	**799**	525
On loans and advances to banks	**451**	402	**451**	402
On deposits by banks	**36**	583	**36**	583
On customer accounts	**4,961**	7,418	**4,961**	7,418
On lease liabilities	**149**	51	**149**	51
On subordinated liabilities	**1,021**	1,077	**1,021**	1,077
	7,696	10,462	**7,696**	10,462

9 Net fee income

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Fee income earned on:				
– financial assets or liabilities not at fair value through profit or loss, other than fees included in effective interest rate calculations	**14,743**	16,167	**14,743**	16,167
– trust and other fiduciary activities where the local group holds or invests in assets on behalf of its customers	**5,247**	6,968	**2,723**	2,898
– other	**2,842**	1,624	**2,122**	2,378
	22,832	24,759	**19,588**	21,443
Fee expense	**(1,872)**	(2,009)	**(1,390)**	(1,728)
	20,960	22,750	**18,198**	19,715

Net fee income amounting to €861,000 (2019: €938,000) is derived from the investment services activities of the local group.

10 Net trading income

	Group/Bank	
	2020	2019
	€000	€000
Net income from foreign exchange activities	**5,569**	4,831
Net income from held for trading financial instruments	**157**	525
Other	**2,789**	1,832
	8,515	7,188

11 Dividend income

Dividend income received by the bank in 2020 amounted to €2,033,000 (2019: 22,383,000), out of which €2,000,000 (2019: €22,354,000) represents 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	**29,715**	**27,085**	**56,800**
Reinsurers' share of gross premium income	**(5,420)**	**—**	**(5,420)**
Year ended 31 December 2020	**24,295**	**27,085**	**51,380**
Gross insurance premium income	36,510	26,500	63,010
Reinsurers' share of gross premium income	(5,302)	—	(5,302)
Year ended 31 December 2019	31,208	26,500	57,708

13 Other operating income

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Operating income				
Rental income from investment property	**482**	752	**482**	752
Gains arising on disposal of re-possessed properties	**357**	239	**357**	239
Gains arising on disposal of owned properties held as Non-current assets held for sale	**54**	368	**54**	260
Other income	**645**	631	**630**	608
	1,538	1,990	**1,523**	1,859
Loss arising on disposal of equipment	**(840)**	(42)	**(840)**	(42)
Loss arising on disposal of investment property	**(168)**	—	**(168)**	—
Fair value changes in respect of investment property	**(599)**	—	**—**	—
	(69)	1,948	**515**	1,817

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

	Group	
	2020	2019
	€000	€000
Claims, benefits and surrenders paid	**55,252**	57,701
Movement in liabilities	**(10,444)**	37,686
Gross claims, benefits paid and movement in liabilities	**44,808**	95,387
Reinsurers' share of claims, benefits and surrenders paid	**(2,732)**	(1,406)
Reinsurers' share of movement in liabilities	**(1,139)**	6,120
Reinsurers' share of claims, benefits paid and movement in liabilities	**(3,871)**	4,714
	40,937	100,101

15 Change in expected credit losses and other credit impairment charges

	Group/Bank	
	2020	2019
	€000	€000
Change in expected credit losses:		
– loans and advances to customers including accrued interest	**22,877**	(6,235)
– balances with central banks	**(9)**	18
– loans and advances to banks	**7**	(2)
– loan commitments and guarantees	**1,103**	(496)
– other financial assets	**5**	(12)
– debt instruments measured at fair value through other comprehensive income	**338**	11
Other credit impairment charges:		
– bad debts written off	**2,023**	8,338
– bad debts recovered	**(755)**	(1,233)
	25,589	389

16 Movement in provision for brokerage remediation costs

In 2016, the bank recognised a provision amounting to €8,000,000 for a customer remediation programme (refer to Note 42) in respect of a legacy operational and regulatory failure in the bank's brokerage business, which has been wound down during 2014. The failure relates to 'execution only' trades effected by customers purchasing complex instruments through the bank, wherein the bank failed to undertake the appropriateness test in accordance with the requirements stipulated within Markets in Financial Instruments Directive ('MiFID'). The bank had self-identified and self-reported the issue to the supervisory authorities.

Execution of the remediation programme commenced during 2017 and continued in 2018.

During 2017, the bank effected a partial reversal of this provision, amounting to €1,800,000 taking into account the impact on the provision of the revised categorisation of certain instruments as non-complex, on the basis of expert independent advice obtained. These instruments had been re-categorised as non-complex as they were considered to be traded on either regulated or liquid markets. Remediation payments amounting to €346,000 were processed in 2018 and €2,455,000 in 2017.

In 2018 and 2019 the bank effected reversals of provisions amounting to €2,028,000 and €1,371,000 respectively, such that at 31 December 2019, the provision was fully released. Reversals were based on both a review of the residual liabilities and confirmation that no further operational costs relating to the programme will be incurred.

17 Employee compensation and benefits

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Wages, salaries and allowances	**39,512**	43,786	**36,933**	41,277
Defined contribution social security costs	**2,411**	2,640	**2,261**	2,497
Termination benefits and long-term employee benefits	**1,614**	17,633	**1,613**	17,255
Share-based payments	**268**	403	**261**	398
	43,805	64,462	**41,068**	61,427
Average number of employees:				
– executive and senior managerial	**279**	318	**260**	299
– other managerial, supervisory and clerical	**821**	945	**773**	901
– others	**6**	8	**6**	3
	1,106	1,271	**1,039**	1,203

Termination benefits and long-term employee benefits

In 2019, the local group announced a strategic plan to increase its focus on digital banking services and to modernise its branch network. As part of this plan the bank closed a number of branches and devised an associated voluntary redundancy scheme in view of the expected reduction in roles within the organisation.

Termination benefits for 2019 comprised a provision for restructuring costs amounting to €18,837,000 attributable to local group employees and €18,459,000 attributable to bank employees that opted for voluntary redundancy under the voluntary redundancy scheme which closed by year end. The amount reflected the estimated payments to the affected individual employees which were approximately 195 applicants, representing 180 Full Time Equivalent employees, for the local group and 191 applicants, representing 176 Full Time Equivalent employees, for the bank. In 2020, an additional provision for restructuring costs amounting to €372,000, attributable to local group and bank, was recognised in respect of three Full Time Equivalent employees.

The local group and the bank have liabilities for long-term employee benefits, treated as defined benefit obligations, arising out of the provisions of the Collective Agreement (refer to Note 42). The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement on medical grounds. As a result of the 2019 restructuring exercise (refer to above), the long-term employee benefits provision was revised to reflect the reduction in the number of employees as these employees were no longer eligible for the benefits stipulated within the Collective Agreement. This resulted in a one-time release in 2019 of the provision to the income statement amounting to €2,826,000 (refer to Note 42). Current service costs attributable to these obligations, amounting to €864,000 (2019: €1,150,000), were recognised in the income statement.

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

Share-based payments

In order to align the interests of staff with those of shareholders, restricted share awards are awarded to local group senior management under discretionary incentive plans and, in addition, local group employees are invited to join Share Match, an HSBC International Employee Share Purchase Plan to acquire shares in HSBC Holdings plc. Under this Plan, HSBC Holdings plc commenced granting matching award shares to the local group’s employees subject to a three year service condition. The share-based payment is classified as equity-settled since the share-based payment transactions with the employees are settled by the transfer of shares of HSBC Holdings plc. An employee is required to specify a monthly deduction (subject to a cap) from the salary for buying shares on a quarterly basis at the then current fair value (investment shares). For every three investment shares bought, the employees will receive an additional free share (matching share) on the third anniversary of the scheme (the vesting date) provided the employee remains employed and retains the investment shares until the end of the three-year holding period. The impact of this plan on the local group’s financial results and financial position is insignificant, and accordingly the disclosures required by IFRS 2 in relation to share-based payment arrangements have not been deemed necessary.

In respect of the restricted share awards (including Group Performance Share Plans (‘GPSP’)) referred to above, an assessment of performance over the relevant period is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. GPSP awards vest after five years, whereas other deferred awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post vesting. GPSP awards are retained until cessation of employment. In view of the insignificant impact of HSBC restricted share awards on the local group’s income statement charge, the other IFRS 2 disclosure requirements attributable to share-based payment arrangements are not being presented in these financial statements.

18 Profit before tax

Profit before tax of the local group is stated after charging auditors’ fees (excluding VAT) amounting to €407,000 (2019: €362,000) in relation to the annual statutory audit of the financial statements, of which €319,000 (2019: €275,000) 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 €68,000 (2019: €58,000), whereas other fees, exclusive of VAT, charged by the appointed independent auditors to the bank comprise other assurance services in respect of Investor Services Rules amounting to €12,000 (2019: nil).

General and administration expenses are analysed as follows:

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Premises and equipment costs	**4,423**	4,708	**4,411**	4,691
IT support and telecommunication costs	**9,257**	9,938	**8,707**	9,519
Insurance, security and maintenance costs	**2,133**	2,221	**2,133**	2,221
Investment management and administrator fees	**811**	1,177	**—**	—
Actuarial services	**345**	434	**—**	—
Service contracted out costs	**8,431**	9,258	**7,210**	8,397
Regulatory fees	**5,398**	5,160	**5,271**	5,044
Professional fees	**1,532**	1,920	**1,141**	1,516
Other administrative expenses	**14,654**	15,478	**12,836**	14,942
	46,984	50,294	**41,709**	46,330

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

19 Tax expense

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

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Current tax:	**12,798**	12,224	**12,079**	17,583
– for this year	**12,813**	12,227	**12,094**	17,633
– adjustments in respect of prior years	**(15)**	(3)	**(15)**	(50)
Deferred tax:	**(9,927)**	(1,683)	**(5,906)**	(919)
– origination and reversal of temporary differences	**(9,937)**	(1,637)	**(5,916)**	(919)
– adjustments in respect of prior years	**10**	(46)	**10**	—
	2,871	10,541	**6,173**	16,664

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	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Profit before tax	**10,443**	30,709	**20,294**	48,497
Tax at the applicable rate of 35%	**3,655**	10,748	**7,103**	16,974
Tax effect of:				
– non-taxable income	**(924)**	(163)	**(911)**	(270)
– income taxed at different rates	**(162)**	(68)	**(162)**	(68)
– non-deductible expenses	**25**	38	**25**	36
– disallowed expense arising from depreciation of property, plant and equipment	**185**	210	**185**	210
– further allowances on rental income	**(35)**	(53)	**(35)**	(53)
– fair value changes in respect of investment property	**162**	—	**—**	—
– current tax adjustments in respect of prior years	**(15)**	(3)	**(15)**	(50)
– deferred tax not previously recognised	**10**	(46)	**10**	—
– tax credit on pension contribution	**(109)**	(111)	**(109)**	(111)
– loss on disposal of property, plant and equipment	**67**	—	**67**	—
– others	**12**	(11)	**15**	(4)
Tax expense	**2,871**	10,541	**6,173**	16,664

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					
	2020			2019		
	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	**1,162**	**(407)**	**755**	478	(167)	311
Fair valuation of properties:						
– net changes in fair value	**338**	**(34)**	**304**	(528)	53	(475)
Remeasurement of defined benefit obligation:						
– net remeasurement	**(686)**	**240**	**(446)**	(952)	333	(619)
	814	**(201)**	**613**	(1,002)	219	(783)

20 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the local group by the weighted average number of ordinary shares in issue during the year. The profit attributable to equity holders of the local group amounted to €7,572,000 (2019: €20,168,000), while the weighted average number of ordinary shares in issue was 360,306,099 (2019: 360,306,099). The basic earnings per share of the local group amounted to 2.1c (2019: 5.6c). The local group has no instruments or arrangements which give rise to dilutive potential ordinary shares, and accordingly diluted earnings per share is equivalent to basic earnings per share.

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

	Group/Bank	
	2020	2019
	€000	€000
Balances with Central Bank of Malta	**711,487**	426,722
Malta Government Treasury Bills		
– classified at fair value through other comprehensive income	**256,302**	127,075
Cash	**28,890**	32,275
	996,679	586,072

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 €50,564,000 (2019: €48,641,000).

Balances with Central Bank of Malta include an amount of €1,053,000 (2019: €896,000) 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 €10,000 (2019: €19,000) and €30,000 (2019: €1,000) respectively.

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

	Group	
	2020	2019
	€000	€000
Debt securities and other fixed income instruments	**275,080**	267,211
Equity and other non-fixed income instruments	**458,590**	486,809
	733,670	754,020

Debt securities and other fixed income instruments

	Group	
	2020	2019
	€000	€000
Issued by public bodies:		
– local government	**99,596**	96,366
– foreign governments	**49,061**	56,554
Issued by other bodies:		
– local banks	**7,319**	2,078
– foreign banks	**25,869**	23,167
– other local issuers	**8,904**	12,508
– other foreign issuers	**84,331**	76,538
	275,080	267,211
Listing status:		
– listed on the Malta Stock Exchange	**115,769**	110,953
– listed on other recognised exchanges	**159,261**	155,299
– unlisted	**50**	959
	275,080	267,211
At 1 January	**267,211**	260,657
Acquisitions	**52,632**	63,111
Disposals/redemptions	**(43,952)**	(66,543)
Changes in fair value	**(811)**	9,986
At 31 December	**275,080**	267,211

Equity and other non-fixed income instruments

	Group	
	2020	2019
	€000	€000
Issued by other bodies:		
– local banks	**1,210**	1,135
– foreign banks	**6,674**	7,462
– other local issuers	**26,848**	101,330
– other foreign issuers	**423,858**	376,882
	458,590	486,809
Listing status:		
– listed on the Malta Stock Exchange	**15,487**	17,245
– listed on other recognised exchanges	**43,818**	56,585
– local unlisted	**12,570**	88,158
– foreign unlisted	**386,715**	324,821
	458,590	486,809
At 1 January	**486,809**	433,424
Acquisitions	**71,723**	287,845
Disposals	**(77,355)**	(303,565)
Changes in fair value	**(22,587)**	69,105
At 31 December	**458,590**	486,809

23 Held for trading derivatives

The local group transacts derivatives primarily to create risk management solutions for clients. This includes the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. As part of this process, the local group considers the customers' suitability in respect of the respective risks involved and the business purpose underlying the transaction.

The local group manages its derivative risk positions principally through offsetting derivative transactions with HSBC Group entities. For accounting purposes, all derivative instruments are classified as held for trading.

	Group/Bank	
	2020	2019
	€000	€000
Derivative assets		
Held for trading	**6,574**	5,320
Derivative liabilities		
Held for trading	**6,551**	5,190

Derivatives held for trading

	Group/Bank			
	2020			
	Notional	**Fair Value Assets**	**Notional**	**Fair Value Liabilities**
	€000	**€000**	**€000**	**€000**
Foreign exchange derivatives				
Currency forwards	**51,213**	**3,368**	**51,079**	**3,278**
Interest rate derivatives				
Interest rate swaps	**80,824**	**3,206**	**80,824**	**3,273**
Total derivatives		**6,574**		**6,551**
	2019			
Foreign exchange derivatives				
Currency forwards	135,159	1,635	133,377	1,446
Interest rate derivatives				
Interest rate swaps	97,659	3,685	97,659	3,744
Total derivatives		5,320		5,190

The notional contract amounts of derivatives indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Currency forwards represent commitments to purchase and sell pre-established amounts of currencies, and are gross settled.

Interest rate swaps are commitments to exchange one set of cash flows for another (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

All of these positions are covered by back-to-back derivative transactions with HSBC Group entities, managing the market risk arising from these positions. Any market risk retained locally is managed within approved local trading mandates.

24 Loans and advances to banks

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Repayable on call and at short notice	**96,837**	124,543	**91,017**	121,464
Term loans and advances	**492,422**	551,488	**492,422**	551,488
	589,259	676,031	**583,439**	672,952

Loans and advances to banks in the table above are shown net of credit loss allowances which amounted to €8,000 (2019: €1,000).

25 Loans and advances to customers

	Group/Bank	
	2020	2019
	€000	€000
Repayable on call and at short notice	**196,639**	234,621
Term loans and advances	**3,127,934**	3,059,673
Gross loans and advances to customers	**3,324,573**	3,294,294
Allowance for ECL	**(59,909)**	(36,861)
Net loans and advances to customers	**3,264,664**	3,257,433
Allowance for ECL		
– allowances booked under stage 1	**13,600**	7,551
– allowances booked under stage 2	**19,136**	6,013
– allowances booked under stage 3	**27,173**	23,297
	59,909	36,861

26 Financial investments

	Group		Bank	
	2020	2019	**2020**	2019
Measured at fair value through Other Comprehensive Income:	**€000**	€000	**€000**	€000
Debt securities and other fixed income instruments	**877,452**	943,573	**877,452**	943,573
Equity and other non-fixed income instruments	**33**	30	**31**	28
	877,485	943,603	**877,483**	943,601

Debt securities and other fixed income instruments

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Issued by public bodies:				
– local government	**426,105**	463,663	**426,105**	463,663
– foreign governments	**204,069**	224,797	**204,069**	224,797
Issued by other bodies:				
– other foreign issuers	**247,278**	255,113	**247,278**	255,113
	877,452	943,573	**877,452**	943,573
Listing status:				
– listed on the Malta Stock Exchange	**426,105**	463,663	**426,105**	463,663
– listed on other recognised exchanges	**451,347**	479,910	**451,347**	479,910
	877,452	943,573	**877,452**	943,573
At 1 January	**943,573**	902,215	**943,573**	902,215
Exchange adjustments	**(16,360)**	5,006	**(16,360)**	5,006
Amortisation of premium/discount	**(9,133)**	(8,438)	**(9,133)**	(8,438)
Acquisitions	**214,787**	315,277	**214,787**	315,277
Disposals/redemptions	**(256,223)**	(270,965)	**(256,223)**	(270,965)
Changes in fair value	**808**	478	**808**	478
At 31 December	**877,452**	943,573	**877,452**	943,573

Debt instruments with a carrying amount of €83,450,000 (2019: €60,974,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2020 and 2019, no balances were outstanding against these credit lines. In addition debt securities with a carrying amount of €21,007,000 (2019: €21,941,000) have been pledged in terms of the Depositor Compensation Scheme (refer to Note 46).

The financial investments which are denominated in currencies other than the reporting currency are economically hedged through balances in corresponding currencies mainly forming part of Customer accounts and Deposits by banks. Thus, the exchange adjustment reflected above does not result in an exchange gain or loss recognised in profit or loss.

Equity and other non-fixed income instruments

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks:				
– local issuers	**6**	6	**4**	4
– foreign issuers	**27**	24	**27**	24
	33	30	**31**	28
Listing status:				
– listed on the Malta Stock Exchange	**6**	6	**4**	4
– unlisted	**27**	24	**27**	24
	33	30	**31**	28

27 Prepayments and accrued income

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Gross accrued interest	**31,791**	30,818	**29,108**	27,953
Allowance for ECL	**(9,826)**	(9,095)	**(9,826)**	(9,095)
Net accrued interest	**21,965**	21,723	**19,282**	18,858
Other accrued income	**1,487**	789	**1,266**	803
Prepayments	**696**	1,066	**688**	1,054
	24,148	23,578	**21,236**	20,715

28 Reinsurance assets

	Group	
	2020	2019
	€000	€000
Life insurance assets (non-linked)		
Long-term insurance contracts	**78,840**	78,227
Claims outstanding	**2,553**	2,038
Other payables	**(1,310)**	(1,320)
	80,083	78,945

29 Other non-current assets held for sale

	Group/Bank	
	2020	2019
	€000	€000
Assets acquired in satisfaction of debt	**4,769**	5,206
Assets held for sale attributable to closed branches	**4,150**	3,216
	8,919	8,422

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 2020, a number of other branches were closed in accordance with the bank's strategic plan to modernise its operations and enhance its branch network infrastructure as announced in 2019 and to reflect the continued increase of trends observed last year in customer use of, and demand for digital banking services accelerated by the Covid-19 pandemic. Hence land and buildings and other equipment with a carrying amount of €2,127,000 (2019: €3,216,000) attributable to specific closed branches were reclassified from Property, plant and equipment (refer to Note 32). The carrying amount of these assets was or will be recovered through a sale transaction rather than through continuing use.

30 Investments in subsidiaries

	Bank			
	Nature of business	Equity interest	**2020**	2019
		%	**€000**	€000
HSBC Life Assurance (Malta) Limited	Life insurance	99.99	**28,578**	28,578
HSBC Global Asset Management (Malta) Limited	Portfolio management services	99.99	**2,281**	2,281
			30,859	30,859

All subsidiaries are incorporated in Malta.

31 Investment property

	Fair value 2020 €000	Cost 2020 €000	Fair value 2019 €000	Cost 2019 €000
Group				
Freehold land and buildings				
As at 1 January	**9,788**	**8,537**	9,714	8,463
Additions	**6**	**6**	74	74
Disposals	**(7,595)**	**(6,823)**	—	—
Fair value adjustments	**(599)**	**(599)**	—	—
At 31 December	**1,600**	**1,121**	9,788	8,537
Bank				
Freehold land and buildings				
As at 1 January	**7,589**	**6,817**	7,515	6,743
Additions	**6**	**6**	74	74
Disposals	**(7,595)**	**(6,823)**	—	—
At 31 December	**—**	**—**	7,589	6,817

During the year ended 31 December 2020 an amount of €482,000 (2019: €752,000) was recognised as rental income in profit or loss relating to investment property for the local group and the bank. Related repair and maintenance expenses incurred by the local group and the bank on these properties are reimbursed by the tenant. The bank's investment property, which was a non core property asset and not part of the bank's normal business, was disposed of during the financial year ended 31 December 2020 as announced on 17 January 2020. A loss amounting to €168,000 was realised upon disposal (refer to Note 13).

Fair values are determined by professional valuers who apply recognised valuation techniques. The local group has in place set benchmarks to ensure that these valuers hold the necessary recognised and relevant professional qualifications as well as the knowledge and experience depending on the location and category of the investment property being valued.

32 Property, plant and equipment

	Group			
	Land and buildings €000	**Computer equipment €000**	**Others €000**	**Total €000**
Cost/revaluation				
At 1 January 2020	**39,765**	**21,171**	**46,695**	**107,631**
Additions	**73**	**443**	**1,256**	**1,772**
Revaluation	**320**	**—**	**—**	**320**
Disposals/Write offs	**—**	**(1,349)**	**(9,413)**	**(10,762)**
Transfers (refer to Note 29)	**(2,192)**	**—**	**(306)**	**(2,498)**
At 31 December 2020	**37,966**	**20,265**	**38,232**	**96,463**
Accumulated depreciation and impairment losses				
At 1 January 2020	**1,579**	**19,030**	**39,619**	**60,228**
Depreciation charge for the year	**320**	**674**	**1,629**	**2,623**
Revaluation	**(18)**	**—**	**—**	**(18)**
Disposals/Write offs	**—**	**(1,343)**	**(8,585)**	**(9,928)**
Transfers (refer to Note 29)	**(121)**	**—**	**(250)**	**(371)**
Reversal of impairment losses	**—**	**—**	**(277)**	**(277)**
At 31 December 2020	**1,760**	**18,361**	**32,136**	**52,257**
Carrying amount at 1 January 2020	**38,186**	**2,141**	**7,076**	**47,403**
Carrying amount at 31 December 2020	**36,206**	**1,904**	**6,096**	**44,206**
Cost/revaluation				
At 1 January 2019	45,277	20,830	48,107	114,214
Additions	137	395	105	637
Revaluation	(1,013)	—	—	(1,013)
Disposals/Write offs	(1,455)	(54)	(1,270)	(2,779)
Transfers (refer to Note 29)	(3,181)	—	(247)	(3,428)
At 31 December 2019	39,765	21,171	46,695	107,631
Accumulated depreciation and impairment losses				
At 1 January 2019	1,699	18,150	38,952	58,801
Depreciation charge for the year	391	943	1,753	3,087
Revaluation	(485)	—	—	(485)
Disposals/write offs	(20)	(63)	(1,157)	(1,240)
Transfers (refer to Note 29)	(6)	—	(206)	(212)
Impairment losses	—	—	277	277
At 31 December 2019	1,579	19,030	39,619	60,228
Carrying amount at 1 January 2019	43,578	2,680	9,155	55,413
Carrying amount at 31 December 2019	38,186	2,141	7,076	47,403

	Bank			
	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Cost/revaluation				
At 1 January 2020	**39,765**	**20,933**	**46,488**	**107,186**
Additions	**73**	**443**	**1,256**	**1,772**
Revaluation	**320**	**—**	**—**	**320**
Disposals/Write offs	**—**	**(1,349)**	**(9,413)**	**(10,762)**
Transfers (refer to Note 29)	**(2,192)**	**—**	**(306)**	**(2,498)**
At 31 December 2020	**37,966**	**20,027**	**38,025**	**96,018**
Accumulated depreciation and impairment losses				
At 1 January 2020	**1,579**	**18,792**	**39,412**	**59,783**
Depreciation charge for the year	**320**	**674**	**1,629**	**2,623**
Revaluation	**(18)**	**—**	**—**	**(18)**
Disposals/Write offs	**—**	**(1,343)**	**(8,585)**	**(9,928)**
Transfers (refer to Note 29)	**(121)**	**—**	**(250)**	**(371)**
Reversal of impairment losses	**—**	**—**	**(277)**	**(277)**
At 31 December 2020	**1,760**	**18,123**	**31,929**	**51,812**
Carrying amount at 1 January 2020	**38,186**	**2,141**	**7,076**	**47,403**
Carrying amount at 31 December 2020	**36,206**	**1,904**	**6,096**	**44,206**
Cost/revaluation				
At 1 January 2019	45,375	20,592	47,900	113,867
Additions	39	395	105	539
Revaluation	(1,013)	—	—	(1,013)
Disposals/Write offs	(1,455)	(54)	(1,270)	(2,779)
Transfers (refer to Note 29)	(3,181)	—	(247)	(3,428)
At 31 December 2019	39,765	20,933	46,488	107,186
Accumulated depreciation and impairment losses				
At 1 January 2019	1,699	17,903	38,745	58,347
Depreciation charge for the year	391	943	1,753	3,087
Revaluation	(485)	—	—	(485)
Disposals/Write offs	(20)	(54)	(1,157)	(1,231)
Transfers (refer to Note 29)	(6)	—	(206)	(212)
Impairment losses	—	—	277	277
At 31 December 2019	1,579	18,792	39,412	59,783
Carrying amount at 1 January 2019	43,676	2,689	9,155	55,520
Carrying amount at 31 December 2019	38,186	2,141	7,076	47,403

As a result of the bank's strategic plan to modernise its operations, the branch network infrastructure is being enhanced to reflect this change. As part of this plan, a number of branches have been closed. In this regard, land and buildings and other equipment with a carrying amount of €2,127,000 (2019: €3,216,000) attributable to specific closed branches were reclassified to Other non-current assets held for sale, as their carrying amount will be recovered through a sale transaction rather than through continuing use, they are available for sale in their current condition and their sale is highly probable as at reporting date (refer to Note 29). Land and buildings and fixtures and fittings pertaining to specific closed branches with a carrying amount of €5,532,000 (2019: €4,434,000) have not been reclassified to Other non-current assets held for sale as these assets do not meet the criteria within IFRS 5, Non-current assets held for sale and discontinued operations for initial classification as held for sale.

The equipment of all impacted branches has been written off during the year ended 31 December 2020 and consequently the impairment charge recognised in 2019 amounting to €277,000 has been reversed during current year.

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	
	2020	2019
	€000	€000
At 31 December		
Cost	**11,621**	13,740
Accumulated depreciation	**(1,778)**	(2,064)
Carrying amount	**9,843**	11,676

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	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Software	**13,762**	10,618	**13,152**	10,193
PVIF	**40,538**	50,858	**—**	—
Deferred acquisition costs	**42**	42	**—**	—
	54,342	61,518	**13,152**	10,193

Software

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Cost				
At 1 January	**40,016**	33,747	**38,093**	32,063
Additions	**5,899**	6,269	**5,615**	6,030
Disposals/Write offs	**(96)**	—	**(96)**	—
At 31 December	**45,819**	40,016	**43,612**	38,093
Accumulated amortisation				
At 1 January	**29,398**	27,619	**27,900**	26,232
Amortisation charge for the year	**2,751**	1,779	**2,652**	1,668
Disposals/Write offs	**(92)**	—	**(92)**	—
At 31 December	**32,057**	29,398	**30,460**	27,900
Carrying amount at 1 January	**10,618**	6,128	**10,193**	5,831
Carrying amount at 31 December	**13,762**	10,618	**13,152**	10,193

PVIF

	Group	
	2020	2019
	€000	€000
At 1 January	**50,858**	52,723
Addition from current year new business	**4,140**	6,874
Movement from in-force business	**(14,460)**	(8,739)
At 31 December	**40,538**	50,858

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:

	2020	2019
	%	%
Risk free rate	**EIOPA yield curve**	Euro Swap Curve
Risk adjusted discount rate	**EIOPA yield curve + 50 Bps Operational Risk Margin**	Euro Swap Curve + 50 Bps Operational Risk Margin
Expenses inflation	**Wage inflation and French Inflation Swap Curve modified for Malta**	Wage inflation and French Inflation Swap Curve modified for Malta
Lapse rate	**Different rates for different products and duration in-force**	Different rates for different products and duration in-force

The following table shows the effect on the PVIF of reasonably possible changes in the main economic assumptions across the life insurance business:

		Group	
		PVIF Impact	
		2020	2019
Assumptions	Movement	**€000**	€000
Risk free rate	+100 basis points	**4,863**	(445)
Risk free rate	-100 basis points	**(5,969)**	376
Expenses inflation	+10%	**(1,536)**	(1,305)
Expenses inflation	-10%	**1,658**	1,454
Lapse rate	+100 basis points	**4,999**	3,344
Lapse rate	-100 basis points	**(6,710)**	(4,652)

Deferred acquisition costs

	Group	
	2020	2019
	€000	€000
At 1 January	**42**	285
Amortisation	—	(243)
At 31 December	**42**	42

34 Right-of-use assets

The local group leases various offsite ATMs, offices and branches as well as low value items such as IT equipment. Rental contracts are typically made for fixed periods but may have extension options. Extension and termination options are included in a number of property leases across the local group. These are used to maximise operational flexibility in terms of managing the assets used in the local group's operations. The majority of extension and termination options held are exercisable only by the local group and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

	Group/Bank	
	2020	2019
Right-of-use assets	**€000**	€000
At 1 January	**4,685**	—
Impact of application of IFRS 16	**—**	5,624
Additions	**969**	124
Terminations	**(226)**	—
Depreciation	**(1,228)**	(1,063)
At 31 December	**4,200**	4,685
Lease liabilities at 31 December		
Current	**1,033**	1,051
Non-current	**3,060**	3,601
	4,093	4,652

	Group/Bank	
	2020	2019
	€000	€000
The income statement reflects the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**1,228**	1,063
Interest expense	**149**	51
Expense relating to short-term leases (included in administrative expenses)	**17**	103
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**355**	492

The total cash payments for leases, including short-term and low-value leases, in 2020 was €1,738,000 (2019: €1,742,000).

35 Deferred tax

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

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

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Deferred tax assets	**27,130**	22,427	**27,130**	22,427
Deferred tax liabilities	**(17,562)**	(22,443)	**(4,036)**	(4,899)
	9,568	(16)	**23,094**	17,528

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% (2019: 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 (2019: 8% or 10%).

The balance at 31 December represents temporary differences attributable to:

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Depreciation of property, plant and equipment	**(684)**	(905)	**(711)**	(918)
Expected credit loss allowances	**25,392**	16,564	**25,392**	16,564
Fair valuation of properties	**(4,164)**	(5,075)	**(4,036)**	(4,899)
Fair value gains on financial instruments	**(3,674)**	(4,590)	**(3,674)**	(4,591)
Value of in-force life insurance business	**(14,188)**	(17,800)	**—**	—
Provisions for liabilities and other charges	**6,646**	11,184	**5,922**	10,814
Other	**240**	606	**201**	558
	9,568	(16)	**23,094**	17,528

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

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

	At 1 January 2019	Recognised in profit or loss	Recognised in OCI	At 31 December 2019
	€000	€000	€000	€000
Depreciation of property, plant and equipment	(913)	8	—	(905)
Expected credit loss allowances	19,444	(2,880)	—	16,564
Fair valuation of properties	(5,295)	167	53	(5,075)
Fair value movements on financial instruments	(3,782)	(641)	(167)	(4,590)
Value of in-force life insurance business	(18,453)	653	—	(17,800)
Provisions for liabilities and other charges	6,607	4,244	333	11,184
Other	474	132	—	606
	(1,918)	1,683	219	(16)

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

	At 1 January 2019	Recognised in profit or loss	Recognised in OCI	At 31 December 2019
	€000	€000	€000	€000
Depreciation of property, plant and equipment	(913)	(5)	—	(918)
Expected credit loss allowances	19,444	(2,880)	—	16,564
Fair valuation of properties	(5,119)	167	53	(4,899)
Fair value movements on financial instruments	(3,783)	(641)	(167)	(4,591)
Provisions for liabilities and other charges	6,279	4,202	333	10,814
Other	482	76	—	558
	16,390	919	219	17,528

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than 12 months from the end of the reporting period.

36 Other assets

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Committed letters of credit	**1,114**	1,534	**1,114**	1,534
Other	**9,614**	11,683	**8,486**	9,530
	10,728	13,217	**9,600**	11,064

Committed letters of credit in the table above are shown net of credit loss allowances which amounted to €7,000 (2019: €2,000).

37 Deposits by banks

	Group/Bank	
	2020	2019
	€000	€000
Term deposits	**2,774**	824
Repayable on demand	**980**	16
	3,754	840

38 Customer accounts

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Term deposits	**837,331**	922,615	**837,331**	922,615
Repayable on demand	**4,435,630**	4,053,965	**4,476,423**	4,103,451
	5,272,961	4,976,580	**5,313,754**	5,026,066

39 Accruals and deferred income

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Accrued interest	**2,137**	3,397	**1,933**	3,163
Accrued expenses	**12,405**	16,387	**9,148**	14,282
Deferred income	**301**	551	**121**	399
	14,843	20,335	**11,202**	17,844

40 Liabilities under investment contracts

	Group	
	2020	2019
	€000	€000
At 1 January	**183,706**	166,347
Premiums received	**6,738**	9,185
Amounts paid on surrender and other terminations during the year	**(8,447)**	(15,486)
Changes in unit prices and other movements	**(11,132)**	23,660
At 31 December	**170,865**	183,706

41 Liabilities under insurance contracts

	Group	
	Gross	Gross
	2020	2019
	€000	€000
Life insurance (non-linked)		
Provisions for policyholders	**403,097**	410,048
Outstanding claims	**3,497**	3,023
Total non-linked	**406,594**	413,071
Life insurance (linked)		
Provisions for policyholders	**240,164**	244,585
Outstanding claims	**1,270**	814
Total linked	**241,434**	245,399
Total liabilities under insurance contracts	**648,028**	658,470

	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 2020	**410,048**	**244,585**	**3,837**	**658,470**
Premiums received	**—**	**26,488**	**—**	**26,488**
Other movements for the year	**(6,951)**	**(5,644)**	**930**	**(11,665)**
Account balances paid on surrender and other terminations during the year	**—**	**(25,265)**	**—**	**(25,265)**
At 31 December 2020	**403,097**	**240,164**	**4,767**	**648,028**
At 1 January 2019	407,040	210,542	3,199	620,781
Premiums received	—	26,500	—	26,500
Other movements for the year	3,008	27,844	638	31,490
Account balances paid on surrender and other terminations during the year	—	(20,301)	—	(20,301)
At 31 December 2019	410,048	244,585	3,837	658,470

42 Provisions for liabilities and other charges

	Group					
	Restructuring costs	Legal proceedings and regulatory matters	Brokerage remediation	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)						
At 31 December 2019	**15,730**	**1,090**	**—**	**13,548**	**1,586**	**31,954**
Additions	**372**	**235**	**—**	**1,550**	**1,128**	**3,285**
Amounts utilised	**(15,536)**	**(8)**	**—**	**(912)**	**(142)**	**(16,598)**
Unused amounts reversed	**—**	**(14)**	**—**	**—**	**(16)**	**(30)**
At 31 December 2020	**566**	**1,303**	**—**	**14,186**	**2,556**	**18,611**
Contractual commitments						
At 31 December 2019						**1,317**
Change in expected credit loss provision						**1,103**
At 31 December 2020						**2,420**
Total Provisions						
At 31 December 2019						**33,271**
At 31 December 2020						**21,031**

	Bank					
Provisions (excluding contractual commitments)						
At 31 December 2019	**15,352**	**1,090**	**—**	**13,548**	**907**	**30,897**
Additions	**372**	**235**	**—**	**1,550**	**117**	**2,274**
Amounts utilised	**(15,158)**	**(8)**	**—**	**(912)**	**(142)**	**(16,220)**
Unused amounts reversed	**—**	**(14)**	**—**	**—**	**(16)**	**(30)**
At 31 December 2020	**566**	**1,303**	**—**	**14,186**	**866**	**16,921**
Contractual commitments						
At 31 December 2019						**1,317**
Change in expected credit loss provision						**1,103**
At 31 December 2020						**2,420**
Total Provisions						
At 31 December 2019						**32,214**
At 31 December 2020						**19,341**

	Group					
	Restructuring costs	Legal proceedings and regulatory matters	Brokerage remediation	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)						
At 31 December 2018	99	881	1,371	14,882	1,643	18,876
Additions	18,837	255	—	2,102	155	21,349
Amounts utilised	(3,206)	(39)	—	(610)	—	(3,855)
Unused amounts reversed	—	(7)	(1,371)	(2,826)	(212)	(4,416)
At 31 December 2019	15,730	1,090	—	13,548	1,586	31,954
Contractual commitments						
At 31 December 2018						1,813
Change in expected credit loss provision						(496)
At 31 December 2019						1,317
Total Provisions						
At 31 December 2018						20,689
At 31 December 2019						33,271

	Bank					
	Restructuring costs	Legal proceedings and regulatory matters	Brokerage remediation	Long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)						
At 31 December 2018	99	835	1,371	14,882	752	17,939
Additions	18,459	255	—	2,102	155	20,971
Amounts utilised	(3,206)	—	—	(610)	—	(3,816)
Unused amounts reversed	—	—	(1,371)	(2,826)	—	(4,197)
At 31 December 2019	15,352	1,090	—	13,548	907	30,897
Contractual commitments						
At 31 December 2018						1,813
Change in expected credit loss provision						(496)
At 31 December 2019						1,317
Total Provisions						
At 31 December 2018						19,752
At 31 December 2019						32,214

(a) Restructuring costs

In line with the local group's strategic plan announced in 2019 which focuses on investing in digital banking services, modernising the branch network, increasing efficiency and productivity and managing costs, a provision for €18,837,000 was raised during 2019 for the local group and €18,459,000 for the bank for restructuring cost emanating from applications by local group's employees under a voluntary redundancy scheme which closed by 31 December 2019 (refer to Note 17). In 2020 an additional provision for €372,000 for the local group and the bank was recognised in respect of further voluntary redundancies for three full time equivalent employees. The scheme was devised in view of the expected reduction in headcount as a result of the closure of a number of branches. This provision was required to enable the local group to implement these strategic actions and as this started being accomplished a number of roles in the bank were gradually reduced. The provision reflected the full amount of payments agreed with the individual employees affected, with the major part of the provision utilised during the current year. The movement in provisions is reflected in Note 17 '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 2020 amounted to €1,303,000 for both local group and bank (2019: €1,090,000 for the local group and bank). This provision is expected to be settled after more than one year from the reporting date. The impact of discounting is not considered to be significant. The movement in these provisions for 2020, comprising a net increase in provision of €213,000 for both local group and bank (2019: €209,000 for the local group and €255,000 for the bank), is recognised through the income statement under 'General and administrative expenses'.

Based on legal advice, the Board believes that adequate provisions have been recognised, taking into consideration the timing and amount of the probable economic outflows required in respect of the litigation highlighted.

(c) Brokerage remediation provision

At 31 December 2016, a provision of €8,000,000 was recognised in respect of the estimated cost of brokerage remediation in relation to the 'execution only' trades effected by customers purchasing complex instruments through the bank, without the bank undertaking an appropriateness test required by MiFID (refer to Note 16).

During 2016, the bank had engaged a 'Group Business Review Team' that had experience in handling similar remediation projects in the UK to investigate the bank's failure, support the design of a remediation programme, carry out detailed estimates of the remediation costs and to eventually execute the programme.

The estimated liability for brokerage remediation was arrived at after taking into consideration transactions made by customers who dealt in complex bonds, equities and funds over the period of time during which the bank had failed to adhere strictly to the requirements stipulated within MiFID. This included both customers who had purchased and sold such instruments while the bank was still undertaking the brokerage business, as well as customers whose portfolios were transferred to other institutions as a result of the bank's decision to wind down its brokerage business.

Remediation costs for customers that had sold such instruments through the bank's brokerage business were calculated by taking account of the exact amount of units that were purchased and eventually sold by those customers as well as the price at which those units were sold. In respect of instruments that were transferred to other institutions, the estimation for the remediation costs was based on current unit prices, assuming the customer still held those instruments.

The classification of the instruments between those deemed complex and non-complex was carried out by the bank and was subject to an independent review carried out by third party firms specialised in the subject matter.

The remediation costs also included a provision for income/return that such customers would have received on non-complex instruments had they not dealt in such complex instruments, as well as for operational expenditure that was incurred to execute the programme.

Execution of the remediation programme was carried out between 2017 and 2018 giving rise to processed remediation payments amounting to an aggregate of €2,801,000.

During 2017 the bank effected a partial reversal of this provision amounting to €1,800,000 taking into account the impact on the provision of the revised categorisation of certain instruments as non-complex, on the basis of expert independent advice obtained.

In 2018 and 2019 the bank effected further reversals of the provision amounting to €2,028,000 and €1,371,000 respectively. These releases were based on both a review of the residual liabilities and confirmation that no further operational costs relating to the programme will be incurred (refer to Note 16). The amount of the reversal effected during 2019 was equivalent to the balance of the provision as at 31 December 2018.

(d) Provisions in respect of long-term employee benefits

The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement for medical grounds. This provision is principally non-current in nature, with the maturity profile of the obligation spanning over the estimated remaining working life. These obligations emanate from the provisions of the Collective Agreement. The defined benefit obligation as at 31 December 2020 has been estimated at €14,186,000 (2019: €13,548,000) by independent actuaries using the projected unit credit method. In 2019, as a result of the restructuring exercise referred to above, the long-term employee benefits provision was revised to reflect the reduction in the number of employees resulting in a release to the income statement amounting to €2,826,000. Furthermore, charges of €864,000 (2019: €1,150,000) and €686,000 (2019: 952,000) were recognised in profit or loss and in other comprehensive income respectively, during the current financial year. The charge recognised in the income statement mainly relates to current service costs while the charge recognised in other comprehensive income principally comprises actuarial losses attributable to financial assumptions and experience adjustments.

The present value of the defined benefit obligation at 31 December 2020 and 2019 has been estimated after taking into consideration the following assumptions:

- i a rate of 0.62% (2019: 0.72%) to discount the future obligations to present value, which is based on the eurozone corporate bond yield curve. The yield curve is derived by considering the market yields on high-quality corporate bonds with currency and term of the corporate bonds (rated AA- or better) consistent with the currency and term of the liabilities. For longer durations, where such data is not available, the shape of the composite AA-rated government bond yield curve is used to extrapolate the curve to very long durations;
- ii an inflation rate of 1.00% (2019: 1.80%) in line with the eurozone inflation curve;
- iii a salary increase assumption of 2.00% (2019: 2.00%);
- iv withdrawal rates, representing the local group's expectations in respect of retirement of employees, which were based on standard tables used by actuaries after taking into consideration the observed retirement history of the local group;
- v retirement age of 61;
- vi mortality rates based on generational tables used by actuaries; and
- vii ill health rates mainly based on the local group's historical experience.

A sensitivity analysis for significant actuarial assumptions as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at that date is not deemed necessary taking into account the materiality and significance of the amount of the provisions in the context of the aggregate level of assets and liabilities of the local group and the level of financial results registered during the current period.

(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).

43 Subordinated liabilities

The subordinated liabilities will, in the event of the winding up of the bank, be subordinated to the claims of depositors and other creditors. The bank did not have any defaults of interest or other breaches with respect to its subordinated liabilities during the current and comparative periods.

The €62,000,000 subordinated unsecured loan stock, with maturity date of 14 December 2028, was issued in December 2018 and has a floating rate linked to three-month Euribor. As at 31 December 2020 the interest rate was 1.51% (2019: 1.67%).

44 Other liabilities

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Bills payable	**20,964**	19,674	**20,964**	19,674
Committed letters of credit	**1,121**	1,515	**1,121**	1,515
Lease liabilities (refer to note 34)	**4,093**	4,652	**4,093**	4,652
Other	**8,184**	36,486	**5,073**	32,916
	34,362	62,327	**31,251**	58,757

45 Called up share capital

	Group/Bank	
	2020	2019
	€000	€000
Authorised		
470,000,000 ordinary shares of 30 cents each	**141,000**	141,000
Issued and fully paid up		
360,306,099 ordinary shares of 30 cents each	**108,092**	108,092

46 Reserves

(a) Revaluation reserve

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

	Group/Bank
	€000
On land and buildings	
1 January 2019	**27,238**
– loss arising on revaluation	**(528)**
– deferred tax on revaluation loss	**53**
– transfer to retained earnings upon realisation through disposal	**(701)**
– deferred tax on transfer upon realisation through disposal	**70**
31 December 2019	**26,132**
– surplus arising on revaluation	**338**
– deferred tax on revaluation surplus	**(34)**
– transfer to retained earnings upon realisation through disposal	**(603)**
– deferred tax on transfer upon realisation through disposal	**60**
31 December 2020	**25,893**
On financial investments	
1 January 2019	**7,027**
– fair value adjustments	**478**
– deferred tax on fair value adjustments	**(167)**
– reclassification to retained earnings	**(1,950)**
– deferred tax on reclassification to retained earnings	**682**
31 December 2019	**6,070**
– fair value adjustments	**1,162**
– deferred tax on fair value adjustments	**(407)**
31 December 2020	**6,825**
Total revaluation reserve	
Total as at 31 December 2019	**32,202**
Total as at 31 December 2020	**32,718**

(b) Retained earnings

Retained earnings include the Depositor Compensation Scheme reserve which is excluded for the purposes of the Own Funds calculations (refer to Note 6) and the General Banking Risk reserve which is held as a capital buffer for regulatory purposes.

Depositor Compensation Scheme reserve

The Depositor Compensation Scheme reserve amounts to €20,781,000 (2019: €21,921,000). As at 31 December 2020, debt securities with a carrying amount of €21,007,000 (2019: €21,941,000) had been pledged in terms of the Depositor Compensation Scheme (refer to Note 26).

General Banking Risk reserve

Banking Rule BR 09 'Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994', issued by the MFSA, requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from planned dividends. As at 31 December 2020, the General Banking Risk reserve amounts to €6,209,000 (2019: €6,209,000).

47 Contingent liabilities

	Group Contract amount		Bank Contract amount	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Guarantees	**132,066**	137,609	**132,068**	137,611
Standby letters of credit	**17,954**	19,025	**17,954**	19,025
Other contingent liabilities	**2,276**	2,020	**2,276**	2,020
	152,296	158,654	**152,298**	158,656

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 42.

Other contingent liabilities relate to legal claims against the bank. Based on legal advice, it is not considered probable that settlement will require the outflow of economic benefits in the case of these legal claims, or the amount of the obligation cannot be reliably measured.

48 Commitments

	Group/Bank Contract amount	
	2020	2019
	€000	€000
Documentary credits	**19,020**	16,556
Undrawn formal standby facilities, credit lines and other commitments to lend	**1,052,299**	1,058,968
	1,071,319	1,075,524

The allowance for ECL on loan commitments is disclosed in Note 42.

The above commitments exclude commitments in relation to capital expenditure which is disclosed in Note 49.

49 Capital commitments

Capital commitments as at 31 December 2020 amounting to €756,000 (2019: €292,000) are mainly related to the acquisition of property, plant and equipment.

50 Dividends

	Group			
	2020	2019	**2020**	2019
	Cents per 30c share	Cents per 30c share	**€000**	€000
Gross of income tax				
– prior year's final dividend	**–**	1.80	**–**	6,486
– current year's interim dividend	**–**	1.70	**–**	6,125
	–	3.50	**–**	12,611
Net of income tax				
– prior year's final dividend	**–**	1.17	**–**	4,216
– current year's interim dividend	**–**	1.10	**–**	3,981
	–	2.27	**–**	8,197

On 27 July 2020, the European Central Bank ('ECB') issued a Recommendation on dividend distributions during the Covid-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35), which inter alia recommended that no dividends be paid out by credit institutions until 1 January 2021 and that no irrevocable commitment to pay out dividends be undertaken by credit institutions for the financial years 2019 and 2020.

During August 2020, the Board reviewed the position regarding the payment of the dividend in respect of the financial year ended . 31 December 2019 and, in view of the ECB's recommendation, a decision to withdraw the recommendation made on 18 February 2020 to declare a final dividend in respect of the year ended 31 December 2019 was made. As at the same date, the Board also decided that no interim dividend in respect of the year ended 31 December 2020 would be declared.

On 15 December 2020, the ECB issued another Recommendation on dividend distributions during the Covid-19 pandemic and repealing Recommendation ECB/2020/35 (ECB/2020/62), which encourages prudence on the part of credit institutions when deciding on or paying out dividends. In this respect, the ECB generally considers distributions exceeding the lower of 15% of accumulated profit for the financial years ended 31 December 2019 and 2020 and 20 basis points in terms of the Common Equity Tier 1 ratio to lack prudence. In this respect, the bank is proposing a final dividend of €2,717,000, which represents a pay-out ratio of 15% on the cumulative profits reported in respect of the financial years ended 31 December 2020 and 2019 for entities in scope of regulatory consolidation in terms of the provisions of the Capital Requirements Regulation, less any dividends paid in relation to the same financial years.

	Group	
	2020	2019
	€000	€000
Proposed dividend		
Profit for the year	**7,572**	20,168
Proposed dividend	**2,717**	3,981
Less: interim dividend paid	**–**	(3,981)
Available for distribution	**2,717**	–
Proposed final dividend	**2,717**	–
Issued and fully paid up shares (Note 45)	**360,306,099**	360,306,099
	Cents per share	Cents per share
Proposed final dividend		
– gross of income tax per share	**1.16**	–
– net of income tax per share	**0.75**	–

No allocations were made during the current and previous year to the General Banking Risk Reserve since the reserve balance held is sufficient to cover the current level of non-performing loans (refer to Note 46).

51 Cash and cash equivalents

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**28,890**	32,275	**28,890**	32,275
Malta Government Treasury Bills of three months or less	**—**	30,007	**—**	30,007
Balances with Central Bank of Malta (excluding reserve deposit) of three months or less	**659,880**	377,202	**659,880**	377,202
Loans and advances to banks of three months or less	**110,347**	135,201	**104,527**	132,046
Items in course of collection from other banks	**4,959**	3,436	**4,959**	3,436
Items in course of transmission to other banks	**(21,372)**	(23,473)	**(21,372)**	(23,473)
Per Statements of Cash Flows	**782,704**	554,648	**776,884**	551,493
Adjustment to reflect balances with contractual maturity of more than three months	**773,831**	648,564	**776,942**	652,210
Per Statements of Financial Position	**1,556,535**	1,203,212	**1,553,826**	1,203,703
Analysed as follows:				
Cash and balances with Central Bank of Malta	**740,377**	458,997	**740,377**	458,997
Malta Government Treasury Bills	**256,302**	127,075	**256,302**	127,075
Loans and advances to banks	**589,259**	676,031	**583,439**	672,952
Items in course of collection from other banks	**4,959**	3,436	**4,959**	3,436
Other liabilities	**(34,362)**	(62,327)	**(31,251)**	(58,757)
	1,556,535	1,203,212	**1,553,826**	1,203,703

52 Segmental information

Our global businesses

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by the following global businesses which are the local group's reportable segments under IFRS 8, 'Operating Segments'.

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

During 2020, the following realignments were effected within the local group's internal reporting to the Board of Directors and senior management:

- RBWM ('Retail Banking and Wealth Management') is now referred to as Wealth and Personal Banking ('WPB') following Group's simplification of its organisational structure by merging GPB ('Global Private Banking') and RBWM; and
- Balance Sheet Management was reallocated from Corporate Centre to the global businesses.

Comparative data has been represented accordingly.

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

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

Global business results are assessed by the CEO on the basis of adjusted performance that removes the effects of significant items. 'Significant items' refers collectively to the items that management and investors would ordinarily identify and consider separately to improve the understanding of the underlying trends in the business.

Results are presented in the tables below on an adjusted basis as required by IFRSs. As required by IFRS 8, reconciliation of the reported results to adjusted results by global business, excluding significant items, are also presented below. The local group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Where relevant, income and expense amounts presented include the results of inter-segment funding. All such transactions are undertaken on arm's length terms.

Adjusted profit before tax and balance sheet data

Adjusted performance is computed by adjusting reported results for the effects of significant items, which distort year-on-year comparisons. The local group considers adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant, and providing insight into how management assesses year-on-year performance. During 2020 there were no significant items requiring adjustment. Accordingly, the adjusted profit by global business reported below is the same as the reported profit.

	Group			
	2020			
	Wealth and Personal Banking	**Commercial Banking**	**Global Markets**	**Group Total**
	€000	**€000**	**€000**	**€000**
Net interest income	**74,745**	**31,157**	**–**	**105,902**
– external	**73,860**	**32,042**	**–**	**105,902**
– internal	**885**	**(885)**	**–**	**–**
Net non-interest income	**11,098**	**13,585**	**2,838**	**27,521**
Net operating income before loan impairment charges	**85,843**	**44,742**	**2,838**	**133,423**
Change in expected credit losses and other credit impairment charges	**(13,266)**	**(12,323)**	**–**	**(25,589)**
Net operating income	**72,577**	**32,419**	**2,838**	**107,834**
Employee compensation and benefits	**(33,089)**	**(10,348)**	**(368)**	**(43,805)**
General and administrative expenses	**(35,087)**	**(11,654)**	**(243)**	**(46,984)**
Depreciation of property, plant and equipment and right-of-use assets	**(2,725)**	**(1,109)**	**(17)**	**(3,851)**
Amortisation of intangible assets	**(1,974)**	**(765)**	**(12)**	**(2,751)**
Total operating expenses	**(72,875)**	**(23,876)**	**(640)**	**(97,391)**
Adjusted/Reported profit before tax	**(298)**	**8,543**	**2,198**	**10,443**
Assets				
Segment total assets	**5,035,973**	**1,687,340**	**7,146**	**6,730,459**
Total equity	**283,853**	**186,179**	**8,382**	**478,414**
	2019			
Net interest income	77,791	32,320	–	110,111
– external	75,229	34,882	–	110,111
– internal	2,562	(2,562)	–	–
Net non-interest income	25,391	12,362	2,548	40,301
Net operating income before loan impairment charges	103,182	44,682	2,548	150,412
Change in expected credit losses and other credit impairment charges	(1,316)	927	–	(389)
Net operating income	101,866	45,609	2,548	150,023
Employee compensation and benefits	(35,935)	(11,907)	(610)	(48,452)
General and administrative expenses	(36,180)	(13,726)	(388)	(50,294)
Depreciation of property, plant and equipment and right-of-use assets	(2,733)	(1,383)	(34)	(4,150)
Amortisation of intangible assets	(1,256)	(509)	(14)	(1,779)
Total operating expenses	(76,104)	(27,525)	(1,046)	(104,675)
Adjusted profit before tax	25,762	18,084	1,502	45,348
Assets				
Segment total assets	4,864,368	1,627,437	5,812	6,497,617
Total equity	279,018	184,094	6,854	469,966

Reconciliation of reported and adjusted profit by global business

During 2019, 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 2019 is shown in the table below.

	2019			
Adjusted profit before tax	25,762	18,084	1,502	45,348
Significant item:	(10,457)	(3,723)	(459)	(14,639)
– Restructuring provision	(11,828)	(3,723)	(459)	(16,010)
– Brokerage remediation provision	1,371	–	–	1,371
Reported profit before tax	15,305	14,361	1,043	30,709

53 Related party transactions

The immediate parent company of the local group and the bank is HSBC Europe B.V., a company incorporated in the Netherlands, with its registered address at 8, Canada Square, London E14 5HQ, United Kingdom.

The ultimate parent company of the local group and the bank is HSBC Holdings plc, a company incorporated in England, with its registered address at 8, Canada Square, London E14 5HQ, United Kingdom.

Related parties of the local group and the bank include subsidiaries, the ultimate parent, all entities controlled by the ultimate parent, key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank Malta p.l.c., being the Directors and the bank's Executive Committee members.

(a) Transactions, arrangements and agreements involving Directors and other key management personnel

Particulars of transactions, arrangements and agreements entered into with Directors and other key management personnel, close family members and companies controlled or jointly controlled by them:

	Group/Bank			
	Highest balance during the year	**Balance at end of year**	Highest balance during the year	Balance at end of year
	2020	**2020**	2019	2019
	€000	**€000**	€000	€000
Credit card balances	**4**	**3**	10	10
Commitments to lend	**705**	**705**	100	92

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	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Directors' emoluments (including Non-Executive Directors)				
Salaries and other emoluments	**2,427**	2,374	**1,399**	1,099
Benefits	**230**	254	**164**	151
Share-based payments	**41**	40	**34**	30
	2,698	2,668	**1,597**	1,280
Other key management personnel				
Salaries and other emoluments	**1,885**	1,752	**2,191**	2,325
Benefits	**216**	156	**256**	215
Share-based payments	**6**	3	**13**	13
	2,107	1,911	**2,460**	2,553

Directors' emoluments for the local group include the compensation of certain key management personnel of the bank amounting to €361,000 (2019: €901,000) that also serve as Directors of subsidiary companies, as well as the compensation of Non-Executive Directors of subsidiary companies amounting to €79,000 (2019: €75,000).

(c) Balances and transactions with other related parties

Balance and transactions with HSBC Bank plc

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Assets				
Held for trading derivatives	**597**	697	**597**	697
Loans and advances to banks	**316,373**	401,088	**314,079**	401,088
Prepayments and accrued income	**70**	54	**14**	28
Liabilities				
Held for trading derivatives	**5,947**	4,466	**5,947**	4,466
Deposits by banks	**3,754**	840	**3,754**	840
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accruals and deferred income	**1,426**	774	**314**	275
Income statement				
Interest income	**517**	1,845	**517**	1,845
Interest expense	**1,477**	1,803	**1,477**	1,803
Fee income	**203**	232	**90**	114
Fee expense	**129**	123	**84**	75
Net trading income	**(3,162)**	(742)	**(3,162)**	(742)
Other income	**110**	166	**110**	166
General and administrative expenses	**1,733**	1,194	**543**	390

Balances and transactions with other subsidiaries of HSBC Holdings plc

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Assets				
Financial assets mandatorily measured at fair value through profit or loss	**—**	179	**—**	—
Loans and advances to banks	**268,273**	270,121	**266,702**	268,146
Prepayments and accrued income	**159**	180	**33**	59
Other assets	**936**	1,009	**936**	830
Liabilities				
Customer accounts	**2,521**	3,303	**2,521**	3,303
Accruals and deferred income	**3,733**	5,951	**2,596**	5,312
Income statement				
Interest income	**702**	717	**702**	717
Fee income	**1,211**	1,319	**—**	12
Fee expense	**154**	20	**2**	19
Net trading income	**5**	4	**5**	4
Other income	**919**	1,177	**919**	1,177
General and administrative expenses	**20,430**	23,063	**19,072**	21,637

Balances and transactions with local group entities

	Bank	
	2020	2019
	€000	€000
Assets		
Prepayments and accrued income	**277**	289
Investment in subsidiaries	**30,859**	30,859
Liabilities		
Customer accounts	**40,793**	49,486
Income statement		
Fee income	**2,920**	3,253
Net trading income	**67**	131
Dividend income	**2,000**	22,354

The outstanding balances, reflected in tables above, arose from the ordinary course of business and are of substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

54 Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the local group. The local group has established and manages investment funds to provide customers with investment opportunities.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	• These vehicles are financed through the issue of units to investors. • To generate fees from managing assets on behalf of third party investors.	• Investments in units issued by the fund • Management fees

As fund manager, the local group is entitled to receive a management and performance fee based on the assets under management. The total management fees earned during the year were €3,585,000 (2019: €3,578,000).

The table below shows the total assets of unconsolidated structured entities in which the local group has an interest at the reporting date, and the maximum exposure to loss in relation to those interests. The maximum exposure to loss from the local group's interests in unconsolidated structured entities represents the maximum loss that the local group could incur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

	2020	2019
	€000	€000
Carrying amount of units in HSBC managed investment funds - classified as financial investments measured at fair value through profit or loss	**85,569**	85,220
Total assets of HSBC managed funds	**389,353**	397,089

The maximum exposure to loss is equivalent to the carrying amount of the assets held at the reporting date.

55 Trust and custody activities

The local group provides custody services to individuals and retirement benefit plans, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer.

The local group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the local group and are not recognised in the statements of financial position. The local group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2020, total assets held by the local group on behalf of customers amounted to €590,901,000 (2019: €585,907,000).

56 Registered office and ultimate parent company

The addresses of the registered and principal offices of the bank and its subsidiary companies included in the consolidated financial statements can be found in a separate statement which is filed at the Registrar of Companies in accordance with the provisions of the Third Schedule to the Companies Act, 1995.

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, and the immediate parent company is HSBC Europe B.V., which are incorporated and registered in the United Kingdom and the Netherlands respectively. The registered address of HSBC Holdings plc is 8, Canada Square, London E14 5HQ, United Kingdom and the registered address of HSBC Europe B.V. is Karspeldreef 6K, Amsterdam, 1101 CJ, Netherlands. Copies of the HSBC Holdings plc Annual 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;
- in determining the lifetime and point of initial recognition of revolving facilities;
- in calibrating PD, LGD and EAD models which support the ECL calculations, including making assumptions and estimates about how models react to relevant information about current and future economic conditions; and
- selecting economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected losses.

In particular, the measurement of the expected credit loss allowance is an area that requires the use of complex models and of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current and future macroeconomic conditions are such that the level of expected credit losses is likely to be greater or less than historical experience. The PD, LGD and EAD models, which support the measurement of ECL, are reviewed regularly in light of differences between loss estimates and actual loss experience, although available information in respect of the local group's historical loss experience since the initial adoption of IFRS 9 is limited. The level of estimation uncertainty and judgement has increased since 31 December 2019 as a result of the economic effects of the outbreak of the Covid-19 pandemic, especially since there is no observable historical trend, which can be reflected within the models, that will accurately represent the effects of the economic changes brought about by the pandemic. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain highly subjective.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, detailed in note 4(b)(iv). In addition, many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole is sensitive.

A key judgement in the context of the Covid-19 pandemic is whether the heightened level of macroeconomic uncertainty and its effects are more likely to be temporary or prolonged. The shape of recovery is also a significant uncertainty. This in turn increases significantly the level of subjectivity around the estimation of credit loss allowances in respect of loans and advances to customers.

In this regard, management applied a higher level of expert judgement in order to assess the impact of the pandemic on the local group's level of defaults, including evaluating the impact of government support schemes and regulatory relief measures on both the incidence of default events and the severity of losses as described below.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers. This is particularly relevant in those instances where customers have accepted payment deferrals and other relief designed to address short-term liquidity issues or have extended those deferrals. In response to such limitations, management used segmentation techniques for the purposes of identifying indicators of significant increase in credit risk within both wholesale and retail portfolios.

In relation to retail portfolios, ECL models are generally reliant on the assumption that default emergence is directly impacted by delinquency related indicators since less information is available at asset level to enable the timely identification of a SICR or UTP events. In this respect, a management overlay was developed in respect of the mortgage portfolio in order to estimate the impact of the delayed emergence of defaults due to government support schemes and regulatory relief measures on the calculation of credit loss allowances as at 31 December 2020. Amongst other factors, the segmentation technique used for this purpose takes into consideration employment status of the borrower and the economic sector within which the borrower is employed.

Judgement was also required in determining whether individually significant loans have experienced a SICR or a UTP event within the wholesale portfolio. In this respect, as part of management's response to the Covid-19 pandemic, the Bank assessed and individually rated those borrowers that requested payment deferrals/moratoria as well as those individually significant borrowers within wholesale sub-portfolios deemed mostly impacted by the pandemic, through individual, ad-hoc credit assessments on the basis of recently obtained management information, including forecasts. As part of these credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow 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 around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The heightened level of uncertainty within the local property market, driven by the pandemic, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of the pandemic will not be fully known until market conditions stabilise. To reflect the volatile economic conditions associated with the Covid-19 pandemic, judgemental overlay adjustments were applied by management in order to overcome limitations in respect of determining collateral valuations, and the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios. The level of expert judgement required is exacerbated by the heightened level of uncertainty around predictions in respect of the potential impact of the pandemic, including the effectiveness of government support schemes and regulatory relief measures, on key macroeconomic variables and, as a result on forward-looking PDs and LGDs. As alluded to earlier, there is an absence of an observable historical trend that can accurately represent the severity and speed of the economic impacts brought about by the pandemic. Moreover, the complexities of government support schemes, regulatory guidance on the treatment of customer impacts (such as forbearance) and the unpredictable pathways of the pandemic have never been modelled. Consequently, in some cases, the bank's IFRS 9 models generate outputs that appear overly sensitive when compared with other credit risk metrics and as a result, modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions.

These model limitations have been addressed through the introduction of an additional downside scenario and the recalibration of probability weights, as described in further detail in Note 4(b)(iii) to the financial statements.
In view of the above, management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario. The effect of economic uncertainty on the ECL outcome is disclosed in the sensitivity analysis presented in Note 4(b)(iii) within the section entitled 'Economic scenarios sensitivity analysis of ECL estimates'. The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes as there is a high degree of estimation uncertainty in the numbers representing tail risk scenarios when assigned a 100% weighting.

(b) Policyholder claims and benefits

The estimation of future benefit payments and premiums arising from long-term insurance contracts is one of the local group's most critical accounting estimates. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the local group. Estimates are made as to the expected number of deaths for each of the years in which the local group is exposed to risk. The local group bases these estimates on industry standard mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the local group's own experience. The estimated number of deaths determines the value of the future benefit payments. The main source of uncertainty is that epidemics such as AIDS, SARS, pandemic flu, swine flu, Covid-19 and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the local group has significant exposure to mortality risk. New estimates are made each subsequent year to reflect the current long-term outlook.

Estimates are also made as to future investment income arising from the assets backing long-term insurance. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rate assumptions for the purposes of valuing liabilities as at reporting date are based on the EIOPA yield curve (2019: euro swap rates curve).

Appropriate margins were taken for bond portfolio and equities/property portfolio. If the average future investment returns differ by +/-1% from management's estimates, the insurance liability would decrease by €16,794,000 (2019: €17,011,000) or increase by €27,249,000 (2019: €17,469,000). In this case there is no relief arising from reinsurance contracts held. If the number of deaths in future years differ by +/-10% from management's estimate, the liability would increase by €1,264,000 (2019: €1,112,000) or decrease by €1,430,000 (2019: €1,296,000). If the expenses in future years differ by +/-10% from management's estimate, the liability would increase by €1,197,000 (2019: €1,215,000) or decrease by €612,000 (2019: €612,000). These impacts are calculated before considering changes to other assets and liabilities which may offset the gross impacts of these changes.

(c) Present value of in-force long-term assurance business ('PVIF')

The PVIF measures the shareholder's share of the future profits that are expected to be earned in future years attributable to the long-term life insurance business in force at the valuation date. Policies classified as investment contracts are excluded. The approach is to take a present value of the expected future shareholder cash flows discounted using the risk discount rate.

The risk free rate of return used within the valuation is the EIOPA yield curve as at 31 December 2020 allowing adjustments using the Smith Wilson method for (1) Credit Risk Adjustment of 10bps, and (2) the EIOPA yield curve is set to the Last Liquid Point ('LLP') of 20 years, and then extrapolated to the Ultimate Forward Rate ('UFR') of 3.75% (2019: Set as the euro swap rate curve). The risk discount rate is set to the risk free curve with no margins (2019: risk free curve with an additional 0.5% margin).

The PVIF valuation assumes lapse rates varying by product and duration in-force that range from 0.2% to 18.3% p.a. (2019: from 0% to 18.3% p.a.). Expense inflation is calculated as a blend of wage inflation and price inflation, with the latter based on an adjusted French inflation curve. This results in a term dependent expense inflation assumption increasing from 1.8% p.a. to 2.2% p.a. (2019: 1.8% p.a. to 2.3% p.a.)

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The effect on the PVIF of reasonably possible changes in the main assumptions across the insurance business are included in Note 33.

59 Comparative financial information

With effect from the current financial year, debt securities pledged against the provision of credit lines with the Central Bank of Malta are being treated as unencumbered assets. The nature of these exposures makes them available for immediate release (refer to note 4(d) Encumbered and unencumbered assets).

In this respect, comparative figures disclosed in the note have been reclassified to conform with the current year's presentation for the purposes of fairer presentation.

Additional regulatory disclosures

Introduction

Regulatory framework for disclosures

Under the European Central Bank ('ECB') Single Supervisory Mechanism ('SSM'), HSBC Bank Malta p.l.c. falls under the direct supervision of both the ECB, as well as the Malta Financial Services Authority ('MFSA') via the Joint Supervisory Team ('JST'), the latter consisting of representatives of the ECB and MFSA.

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 prudential 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 Regulation and Directive collectively known as CRR/'CRD IV.

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

Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

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

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The local group, through its internal verification procedures, is satisfied that these ARDs are presented fairly.

Pillar 3 disclosures

Purpose

HSBC's Pillar 3 disclosures at 31 December 2020 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation within CRD IV and the European Banking Authority's ('EBA') final standards on revised Pillar 3 disclosures issued in December 2016.

In light of the fact that the local group is considered a significant subsidiary of HSBC Holdings plc within the local market, and subject to consolidated supervision at the level of HSBC Holdings plc, the local group is exempt from full disclosure requirements laid down in Part Eight of the CRR.

The Pillar 3 disclosures are governed by the Group's disclosure policy framework. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to an internal review process in accordance with the banks' financial reporting and governance processes.

Comparatives

In our disclosures, to give insight into movements during the year, we provide comparative figures for the previous year or period, analytical review of variances and 'flow' tables for capital requirements.

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Where disclosures have been enhanced, or are new, we do not generally restate or provide prior-year comparatives. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to HSBC's activities, we omit them and follow the same premise for comparative disclosures. The capital resources tables track the position from a CRD IV transitional to an end-point basis.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Annual Report and Accounts 2020* or to other locations.

Certain items in tables 20, 21 and 23 have been reclassified to confirm with current year's presentation.

Table 1: Key metrics (KM1)

Ref*		Footnotes	At 31 Dec 2020	31 Dec 2019
	Available capital (€000)	1		
1	Common equity tier 1 ('CET1') capital	^	**415,426**	395,008
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**396,744**	388,167
3	Tier 1 capital	^	**415,426**	395,008
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**396,744**	388,167
5	Total capital	^	**477,426**	457,008
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**458,744**	450,167
	Risk-weighted assets ('RWAs') (€000)			
7	Total RWAs	^	**2,311,411**	2,403,621
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**2,296,429**	2,396,780
	Capital ratios (%)			
9	CET1	^	**18.0**	16.4
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**17.3**	16.1
11	Tier 1	^	**18.0**	16.4
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**17.3**	16.1
13	Total capital	^	**20.7**	19.0
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**20.0**	18.7
	Additional CET1 buffer requirements as a percentage of RWA (%)			
	Capital conservation buffer requirement		**2.5**	2.5
	Countercyclical buffer requirement		**—**	—
	Bank G-SIB and/or D-SIB additional requirements		**1.5**	1.5
	Total of bank CET1 specific buffer requirements	2	**9.8**	4.0
	CET1 available after meeting the bank's minimum capital requirements	2	**11.5**	10.4
	Total capital requirement (%)			
	Total capital requirement		**20.7**	19.0
	Leverage ratio			
15	Total leverage ratio exposure measure (€000)	^	**6,124,252**	5,818,253
16	Leverage ratio (%)	^	**6.8**	6.8
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied		**6.5**	6.7
	Liquidity Coverage Ratio ('LCR')	3		
	Total high-quality liquid assets (€000)		**1,777,435**	1,434,158
	Total net cash outflow (€000)		**765,669**	716,230
	LCR ratio (%)		**232.1**	200.2

* *The references in this, and subsequent tables, identify the lines prescribed in the relevant European Banking Authority ('EBA') template where applicable and where there is a value.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Capital figures and ratios are reported using the CRR II transitional basis for capital instruments.*
2 *Comparative buffer requirements is being restated in accordance with current year reporting.*
3 *The EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation do not apply to liquidity coverage measures. LCR is calculated as at the end of each period rather than using average values.*

We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses ('ECL') in the non-credit impaired book thereafter.

Any add-back must be tax affected and accompanied by a recalculation of exposure and RWAs.

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit impaired book. In the current period, the net add-back to the capital base amounted to €18,682,000.

Some figures (indicated with ^) within the table have been prepared on an IFRS 9 transitional basis. All other tables report numbers on the basis of full adoption of IFRS 9.

Regulatory Developments

Covid-19

The Covid-19 outbreak has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures related to customer support, operational capacity and amendments to the RWAs, capital and liquidity frameworks.

In the European Union ('EU'), measures included a package known as the Capital Requirements Regulation ('CRR') Quick Fixes enacted in June 2020. This represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR2'), which were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the pandemic. The amendments came into effect in June 2020, with the exception of the changes to the rules on software assets which came into effect in December 2020 following adoption by the European Commission of the European Banking Authority's ('EBA') regulatory technical standards.

The material changes that went live in June include:

- a resetting of the transitional provisions in relation to recognising IFRS 9 provisions in Common Equity Tier 1 ('CET1') capital;
- the CRR2 changes to the small- to medium-sized enterprises ('SME') supporting factor and the new infrastructure supporting factor.

Under previous rules, software assets were deducted in full from common equity tier 1 ('CET1'). Under the new rules, a portion of the asset is risk-weighted at 100% and the remainder is subject to a CET1 deduction.

In addition to the CRR Quick Fix package, the ECB implemented in 2020 (one year earlier than expected under CRD5) a more lenient Pillar 2 Requirement ('P2R') capital mix.

In December 2020, the ECB announced it had reassessed banks' capital positions in light of the economic uncertainty caused by Covid-19 and concluded that banks are now able to resume external distributions, subject to restrictions. The ECB intends to transition back to its standard approach to capital-setting and shareholder distributions after September 2021.

The Basel III Reforms

The Basel III Reforms published by the Basel Committee ('Basel') are scheduled to be implemented on 1 January 2023. The final standards will need to be transposed into the relevant local law before coming into effect.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the ('CRR2'). This included the EU's implementation of the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'), introducing changes to the own funds regime as well. The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline.

The implementation of the remaining Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. The EBA responded to the European Commission's request to update its previous advice on the impact of the package, taking into account the effect of the Covid-19 outbreak. Two scenarios have been considered. One scenario entails implementing the reforms in EU legislation in full alignment with Basel's standards and timeline i.e. 1 January 2023. The second scenario entails the implementation of the reforms in line with Basel's timeline but with the SME and infrastructure factors, and the historical loss multipliers set to 1 for operational risk. The subsequent EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament.

The UK's withdrawal from the EU

As a result of the decision of the referendum on 23 June 2016, the UK left the EU on 31 January 2020. In order to smooth the transition, the UK remained subject to EU law during a transition period, which ended on 31 December 2020.

The agreement reached between the UK and the EU on 24 December 2020 ('EU-UK Trade and Cooperation Agreement') sets out preferential arrangements in various areas excluding financial services and related equivalences. As a result, the UK will be treated from . 1 January 2021 onwards as a third country, the treatment of which is subject to equivalence assessments.

Linkage to the Annual Report and Accounts 2020

Basis of preparation

This section sets out the main reasons why the measurement of regulatory exposures is not directly comparable with the financial information presented in the *Annual Report and Accounts 2020*.

The Pillar 3 Disclosures at 31 December 2020 are prepared in accordance with the regulatory capital adequacy concepts and rules, while the *Annual Report and Accounts 2020* are prepared in accordance with IFRSs. The purpose of the regulatory balance sheet is to provide a point-in-time value of all on-balance sheet assets.

The regulatory exposure value includes an estimation of risk, and is expressed as the amount expected to be outstanding if and when the counterparty defaults. Moreover the regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis.

For regulatory reporting purposes, subsidiaries engaged in insurance activities are excluded from the regulatory consolidation and deducted from regulatory capital subject to thresholds. Therefore the investment in HSBC Life Assurance (Malta) Limited is excluded for the purpose of regulatory reporting.

The table below provides a full reconciliation of the local group's total own funds to the Statement of Financial Position within the audited financial statements for the year ended 31 December 2020, as required by article 437(1)(a) of the CRR.

Table 2: Reconciliation between accounting and regulatory scope of consolidation

	At 31 Dec 2020 €000	At 31 Dec 2019 €000
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**337,604**	329,672
Revaluation reserve	**32,718**	32,202
Adjustments		
– depositor compensation scheme	**(20,781)**	(21,921)
– intangible assets	**(4,966)**	(10,193)
– expected final dividend	**(2,717)**	(4,918)
– retained earnings - HSBC Life Assurance (Malta) Limited	**(36,691)**	(42,786)
– prudential valuation adjustment	**(1,147)**	(1,085)
– IFRS 9 transitional adjustments	**18,682**	6,841
– Non performing Loans	**(14,315)**	—
– single resolution fund	**(1,053)**	(896)
	415,426	395,008
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
	62,000	62,000
Total own funds	**477,426**	457,008

Explanations of differences between accounting and regulatory exposure amounts

Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet amounts subject to credit risk regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. We apply a credit conversion factor ('CCF') to these items and add potential future exposures ('PFE') for counterparty credit risk.

Differences due to financial collateral

Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas accounting value is before such deductions.

Differences due to expected credit losses

The carrying value of assets is net of credit risk adjustments.

Differences due to EAD modelling and other differences

The carrying value of assets is usually measured at amortised cost or fair value as at the balance sheet date. Other differences include IFRS 9 transitional arrangements applicable to standardised credit risk exposure.

Differences due to credit risk mitigation

In counterparty credit risk ('CCR'), differences arise between accounting carrying values and regulatory exposure as a result of the application of credit risk mitigation and the use of modelled exposures.

Capital management

Approach and policy

HSBC Bank Malta p.l.c. objective in managing the Bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory requirements at all times.

HSBC Bank Malta p.l.c. manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2020, HSBC Bank Malta p.l.c. complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital.

The policy on capital management is underpinned by the HSBC group capital management framework, which enables a consistent management of the capital.

Each HSBC Bank Malta p.l.c. subsidiary subject to individual regulatory capital requirements manages its own capital to support its planned business growth and meet its local regulatory requirements.

The Internal Capital Adequacy Assessment Process ('ICAAP') which aims at assessing the adequacy of the bank's capital resources with regards its risk and requirements incorporates different assessment methods of the capital needs within HSBC Bank Malta p.l.c. These capital measures include economic capital and regulatory capital defined as follows:

- Economic capital is the internally calculated capital requirement which is deemed necessary by HSBC Bank Malta p.l.c. to support the risks to which it is exposed to; and
- Regulatory capital is the level of capital which HSBC Bank Malta p.l.c. is required to hold in accordance with the rules set by the legislation and the ECB.

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the sensitivities of the core assumptions included in HSBC Bank Malta p.l.c.'s capital plans to the adverse effect of extreme but plausible events. Stress testing allows senior management to formulate its response, including risk mitigating actions, in advance of conditions starting to reflect the stress scenarios identified.

The actual market stresses experienced by the financial system in recent years have also been used to inform the capital planning process and further develop the stress scenarios employed within HSBC Bank Malta p.l.c.

Regulatory stress tests (carried out at the request of regulators using their prescribed assumptions), internal stress tests (using internally defined scenarios defined to capture the specific risks faced by HSBC Bank Malta p.l.c.) and sensitivity analysis are performed. HSBC Bank Malta p.l.c. takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond the stress testing framework, a list of the main risks with associated potential impacts on HSBC Bank Malta p.l.c capital ratios is reviewed regularly. These risks are identified as possibly affecting Risk-Weighted Assets ('RWAs') and/or capital position. They can either result from expected regulatory and model changes, or from structural and activity related items. These risks are monitored regularly within the Asset & Liability Committee and the Risk Committee. For the relevant categories of risk, scenario analysis are performed. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

HSBC Bank Malta p.l.c.'s approach to managing its capital position has been to ensure the bank complies with current regulatory requirements and internal risk appetite, as well as to ensure that future regulatory requirements are considered.

Risk-weighted asset targets

Risk-weighed asset targets for the global businesses are established in accordance with the Group's strategic direction and risk appetite, approved through HSBC Bank Malta p.l.c.'s processes and through the Bank's annual planning processes.

Monitoring is performed at an operational level taking into account growth strategies; active portfolio management; business and/or customer-level reviews; RWA accuracy and allocation initiatives and risk mitigations.

Business performance against RWA targets is monitored through regular reporting discussed in the Asset & Liability Committee, Risk Management Meeting, Executive Committee, Risk Committee and Board of Directors.

Capital Measurement

The Basel III framework also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD IV legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Regulatory capital is the capital which HSBC Bank Malta p.l.c. is required to hold in accordance with the rules established by regulators; and Economic capital is the internally calculated capital requirement to support risks to which HSBC Bank Malta p.l.c. is exposed and forms a core part of the internal capital adequacy assessment process.

Regulatory Capital

HSBC Bank Malta p.l.c.'s capital base is divided into two (out of three) main categories, namely Common Equity Tier 1 and Tier 2, but holds no instruments under Additional Tier1.

Common Equity Tier 1 ('CET1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRD IV/CRR various capital deductions and regulatory adjustments are made against these items – these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability as well as prudential recognition for Non-Performing Exposures in line with latest regulations and requirements.

Tier 2 capital comprises eligible subordinated debt and any related share premiums.

The subordinated debt is repayable at par on maturity and must have an original maturity of a least five years. It may be called and redeemed by the issuer; subject to prior consent from the ECB. For regulatory purposes, it is a requirement that Tier 2 instruments are amortised on a straight line basis in their final five years to maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

A list of the main features of HSBC Bank Malta p.l.c. regulatory capital instruments prepared in accordance with the instructions provided in Annex III of the Regulation 1423/2013 are presented in the table on the following page.

Capital Instruments Main Features	HSBC Ordinary shares	Subordinated Tier 2 Regulatory Capital 2028
Issuer	HSBC Bank Malta p.l.c.	
Unique identifier	MT0000030107	N/A
Governing Law(s) of the instrument	Maltese Law	Maltese Law
Regulatory Treatment	—	—
Transitional CRR rules	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2
Eligible at solo/(sub)consolidated /solo and (sub)consolidated	Solo and (Sub) consolidated	Solo and (Sub) consolidated
Amount recognised in regulatory capital	108,091,800	62,000,000
Nominal amount of instrument	108,091,800	62,000,000
Issue price	N/A	At par (€100 per bond)
Redemption price	N/A	At €100
Accounting classification	Share Equity	Liability – amortised cost
Original date of issuance	January 27, 1993*	December 14, 2018
Perpetual or dated	N/A	Dated
Original maturity date	No	December 14, 2028
Issuer call subject to prior supervisory approval	No	Yes
Coupons/dividends		
Fixed or floating dividend coupon	Floating	Floating
Coupon rate and any related index	N/A	3 month EURIBOR
Existence of dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory
Existence of step up or other incentive to redeem	N/A	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
Position in subordination hierarchy in liquidation	Subordinated to HSBC Subordinated Tier 2 Capital	Subordinated to senior creditors and depositors
Non-compliant transitional features	No	No

* *Date when the bank was initially listed on the Malta Stock Exchange*

The full Terms and Conditions (T&Cs) of the HSBC Ordinary Shares are available in the Memorandum and Articles of Association; an electronic copy is available on our website (https://www.about.hsbc.com.mt/investor relations) under section Company Notifications – Announcements. The full T&Cs of the Tier2 Regulatory Capital 2028 is available by contacting the company secretary of HSBC Bank Malta p.l.c. (companysecretarymalta@hsbc.com). Information with respect to any capital instrument in these documents should not be used for investment advice and does not constitute an offer to sell or solicitation of an offer to buy any such capital instrument or any advice or recommendation with respect to any such capital instrument. When making a decision about your investments, you should seek the advice of a professional financial adviser.

Further to the above, the local group's total own funds include other items the terms of which are described below.

Retained earnings

The retained earnings represent earnings not paid out as dividends. Profits form part of Own funds only if those profits have been verified by the local group's independent external auditor. The local group may only make distributions out of profits available for this purpose.

Revaluation reserves

Property revaluation reserve

This represents the surplus arising on the revaluation of the local group's property net of related deferred tax effects. This reserve is not available for distribution.

Financial investments reserve

This represents the cumulative net change in fair values of financial investments held by the local group, net of related deferred tax effects.

Table 3: Own funds disclosure

Ref		Footnotes	At 31 Dec 2020	31 Dec 2019
	Common equity tier 1 (CET1) capital: instruments and reserves		**€000**	€000
1	Capital instruments and the related share premium accounts		**108,092**	108,092
	– of which: ordinary shares		***108,092***	*108,092*
2	Retained earnings	1	**291,987**	275,759
3	Accumulated other comprehensive income (and other reserves)		**32,718**	32,202
3a	Funds for general banking risk (related to BR09)	2	**6,209**	6,209
6	**Common equity tier 1 capital before regulatory adjustments**		**439,006**	422,262
	Common equity tier 1 capital: regulatory adjustments			
7	Additional valuation adjustments	3	**(1,147)**	(1,085)
8	Intangible assets	4	**(4,966)**	(10,193)
9a	IFRS 9 transitional adjustments		**18,682**	6,841
9b	Single Resolution Fund	5	**(1,053)**	(896)
9c	Non performing Loans	6	**(14,315)**	–
26a	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	7	**(20,781)**	(21,921)
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**		**(23,580)**	(27,254)
29	**Common equity tier 1 (CET1) capital**		**415,426**	395,008
51	**Tier 2 (T2) capital before regulatory adjustments**		**62,000**	62,000
57	**Total regulatory adjustments to Tier 2 (T2) capital**		**–**	–
58	**Tier 2 (T2) capital**		**62,000**	62,000
59	**Total capital (TC = T1 + T2)**		**477,426**	457,008
59a	**Risk weighted assets in respect of amounts subject to pre-CRR treatment**			
	– of which: Items not deducted from CET1: direct holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		***28,578***	*28,578*
	– of which: Items not deducted from CET1: deferred tax assets arising from temporary differences		***27,130***	*22,427*
60	**Total risk-weighted assets**		**2,311,411**	2,403,621
	Capital ratios and buffers			
61	Common equity tier 1		**18.0%**	16.4%
62	Tier 1		**18.0%**	16.4%
63	Total capital		**20.7%**	19.0%
64	Institution specific buffer requirement		**9.8%**	10.5%
65	*– of which: capital conservation buffer requirement*		***2.5%***	*2.5%*
66	*– of which: counter cyclical buffer requirement*		***–%***	*–%*
67	*– of which: systemic risk buffer requirement*	8	***–%***	*–%*
67a	*– of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*		***1.5%***	*1.5%*
68	Common Equity Tier 1 available to meet buffers		**11.5%**	10.4%
	Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**27,130**	22,427

1 *The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiary engaged in insurance activities from the regulatory consolidation.*
2 *The local group is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'. This reserve refers to the amount allocated by the bank from its retained earnings, to a non-distributable reserve against potential risks linked to the local group's non-performing loans and advances. .*
3 *Additional value adjustments are deducted from CET1. These are calculated on all assets measured at fair value.*
4 *On 12 November 2020, EU Commission Delegated Legislation (EU/2020/2176) was enacted which replaced the full CET1 capital deduction on Software Assets with a combination of CET1 deductions and Risk Weighted Assets (RWA), where the portion subject to RWA shall be risk weighted at 100% which at year end 31 December 2020 amounted to €8,186,000.*
5 *Irrevocable Payment Commitment ('IPC') of €1,053,000 to the Single Resolution Board in terms of the Recovery and Resolution Regulations.*
6 *The deduction from capital of €14,315,000 represents a deduction from own funds where Non Performing loans are not sufficiently covered by provisions, in line with Article 3 of the Capital Requirement Regulation and ECB guidance to banks on non-performimg loans.*
7 *Pledged in favour of the Depositor Compensation Scheme as at 31 December 2020, that are not available to the local group for unrestricted and immediate use to cover risk of losses as soon as they occur.*
8 *The bank does not have any systemic risk buffer as at year end 31 December 2020.*

Leverage ratio

The risk of excess leverage is managed as part of HSBC's appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS')

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

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

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

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

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

Table 4: Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

		At 31 Dec	
		2020	2019
		€000	€000
1	Total assets as per published financial statements	**6,730,459**	6,497,617
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(838,248)**	(862,374)
4	– derivative financial instruments	**2,925**	5,016
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**228,534**	218,232
7	– other	**582**	(40,238)
8	**Total leverage ratio exposure**	**6,124,252**	5,818,253

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

Table 5: Leverage ratio common disclosure (LRCom)

			At 31 Dec	
			2020	2019
		Footnotes	**€000**	€000
	On-balance sheet exposures (excluding derivatives)	*1*		
1	On-balance sheet items (excluding derivatives)		**5,909,798**	5,616,939
2	(Asset amounts deducted in determining tier 1 capital)		**(23,579)**	(27,254)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**		**5,886,219**	5,589,685
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)		**6,574**	5,320
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)		**2,925**	5,016
11	**Total derivative exposures**		**9,499**	10,336
17	Off-balance sheet exposures at gross notional amount		**1,152,359**	1,161,404
18	(Adjustments for conversion to credit equivalent amounts)		**(923,825)**	(943,172)
19	**Total Other off-balance sheet exposures**		**228,534**	218,232
	Capital and total exposures			
20	Tier 1 capital		**415,426**	395,008
21	Total leverage ratio exposure		**6,124,252**	5,818,253
	Leverage ratios			
22	**Leverage ratio (%) – transitional**		**6.8**	6.8

1 *In accordance with Article 500b(1) of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 and Regulation (EU) 2020/873, institutions that opt to exclude exposures to their central bank from their total exposure measure should add the disclosure required in the last sentence of paragraph 2 of that article in a separate new row 'EU-22a' to be inserted in the table 'LRCom'. HSBC Bank Malta p.l.c has opted out of the exemption, and as a result, row 'EU-22a' is not disclosed.*

Table 6: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives and exempted exposures) – (LRSpl)

		At 31 Dec	
		2020	2019
		€000	€000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**5,909,798**	5,616,939
EU-5	exposures treated as sovereigns	**1,441,731**	1,203,506
EU-6	exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**583,342**	491,371
EU-7	institutions	**323,754**	666,281
EU-8	secured by mortgages of immovable properties	**2,233,924**	1,973,310
EU-9	retail exposures	**262,997**	419,071
EU-10	corporate	**778,079**	584,108
EU-11	exposures in default	**110,192**	91,836
EU-12	other exposures (e.g. equity and other non-credit obligation assets)	**175,779**	187,456

Capital buffers

The local group is compliant with the CRD IV capital requirements. In respect of the local group, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act 1994, requires additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions ('O-SII') buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD IV combined buffer.

The local group is required to maintain a capital conservation buffer of 2.5%, O-SII buffer of 1.5% and the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU. These capital buffers are to be composed of CET1 capital, as a percentage of the Risk Weighted Assets as from 1 January 2019. These buffers were phased in over the period from 1 January 2016 to 31 December 2019.

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. Given that the local group's exposures are contained within Malta, this buffer results in a marginal percentage.

The tables below discloses the geographical distribution of the bank's credit exposure relevant to the calculation of the institution-specific countercyclical buffer rate and the amount of institution-specific countercyclical capital buffer. The disclosures are performed in accordance with Article 440 of Regulation (EU) 575/2013.

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	Group				
	General credit exposures	**Own funds requirement**			
	Exposure value for SA ^	***of which: general credit exposures***	**Total**	**Own funds requirement weights**	**Counter-cyclical capital buffer rate**
Breakdown per country	**€000**	***€000***	**€000**	**%**	**%**
Malta	**4,361,933**	***140,179***	**140,179**	**93.00**	**–**
Czech Republic	**32**	***2***	**2**	**–**	**0.50**
Hong Kong	**1,470**	***3***	**3**	**–**	**1.00**
Norway	**20**	***1***	**1**	**–**	**1.00**
Luxembourg	**12**	**–**	**–**	**–**	**0.25**
Bulgaria	**6**	***1***	**1**	**–**	**0.50**
Slovakia	**11**	**–**	**–**	**–**	**1.00**
Other	**266,948**	***10,523***	**10,523**	**7.00**	**–**
Total at 31st December 2020	**4,630,432**	***150,709***	**150,709**	**100.00**	

^ *Figures have been prepared on an IFRS 9 transitional basis.*

Table 8: Amount of institution-specific countercyclical capital buffer

	Group ^	
	2020	2019
	€000	€000
Total risk amount	**2,311,411**	2,403,621
Institution specific countercyclical buffer rate (%)	**–**	–
Institution specific countercyclical buffer requirement	**1**	9

^ *Figures have been prepared on an IFRS 9 transitional basis.*

In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. The 'systemic risk buffer' may range between 0% and 5%. In the case of the local group, the higher of the O-SII buffer and the systemic risk buffer applies.

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk requirements. These requirements are expressed in terms of RWAs. The table provides information on the scope of permissible approaches and our adopted approach by risk type.

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 ('CIRB') 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. We have in place an operational risk model that is used for economic capital calculation purposes.

Table 9: Net value of exposure at the end of year

	Group		
	At 31 Dec		
	2020		
	Net value of exposure at the end of year ^	Risk-weighted assets ^	Capital Required 1 ^
	€000	€000	€000
Central governments or central banks	1,455,295	67,826	5,426
Public sector entities	442,838	1	–
Multilateral development banks	237,859	–	–
International Organisations	10,013	–	–
Institutions	354,454	121,959	9,757
Corporates	1,406,422	548,455	43,876
Retail exposures	685,805	195,466	15,637
Secured by mortgages on immovable property	2,233,924	809,676	64,774
Exposures in default	116,588	116,930	9,354
Items associated with particularly high risk	51,217	66,850	5,348
Equity exposures	33	33	3
Other items	136,442	146,451	11,716
Credit risk	7,130,890	2,073,647	165,891
Operational risk		237,216	18,977
Foreign exchange risk		548	44
Total		2,311,411	184,912
Own funds			
Common Equity Tier			415,426
Tier 2			62,000
Total own funds			477,426
Total capital ratio			20.7%

Table 9: Net value of exposure at the end of year (continued)

	Group At 31 Dec 2019		
	Net value of exposure at the end of year	Risk-weighted assets	Capital Required[1]
	€000	€000	€000
Central governments or central banks	1,250,635	56,068	4,485
Public sector entities	245,418	—	—
Multilateral development banks	239,821	—	—
International Organisations	16,173	—	—
Institutions	713,722	216,004	17,280
Corporates	1,158,091	540,769	43,262
Retail exposures	960,725	311,928	24,954
Secured by mortgages on immovable property	1,973,310	702,020	56,162
Exposures in default	97,008	103,952	8,316
Items associated with particularly high risk	53,182	68,321	5,466
Equity exposures	4,537	4,537	363
Other items	142,204	150,046	12,004
Credit risk	6,854,826	2,153,645	172,292
Operational risk		249,517	19,961
Foreign exchange risk		459	37
Total		2,403,621	192,290
Own funds			
Common Equity Tier			395,008
Tier 2			62,000
Total own funds			457,008
Total capital ratio			19.0%

1 *Capital requirements, here and in all tables where the term is used, represents the Pillar I capital charge at 8% of RWAs.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*

Table 10: Overview of RWAs (OV1)[1]

		At			
		31 Dec 2020	**31 Dec 2020**	31 Dec 2019	31 Dec 2019
		Risk-weighted assets ^	**Minimum capital requirements ^**	Risk-weighted assets	Minimum capital requirements
		€000	**€000**	€000	€000
1	Credit risk (excluding CCR)	**1,928,384**	**154,271**	2,020,304	161,624
2	*– of which: the standardised approach*	***1,928,384***	***154,271***	*2,020,304*	*161,624*
6	CCR	**5,993**	**479**	5,828	466
7	*– of which: mark to market*	***5,993***	***479***	*5,828*	*466*
19	Market risk	**548**	**44**	459	37
20	*– of which: the standardised approach*	***548***	***44***	*459*	*37*
23	Operational risk	**237,216**	**18,977**	249,517	19,961
24	*– of which: standardised approach*	***237,216***	***18,977***	*249,517*	*19,961*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**139,270**	**11,141**	127,513	10,202
29	**Total**	**2,311,411**	**184,912**	2,403,621	192,290

1 *'Capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*

Pillar 2 and Internal Capital Adequacy Assessment Process

Pillar 2

Pillar 2 (Supervisory and own funds management process) consists of the own assessment by banks and of the assessment from supervision authorities, of the need to allocate capital resources to risks that are not covered by the Pillar 1 framework. A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process ('ICAAP'), conducted by HSBC Bank Malta p.l.c., to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates HSBC Bank Malta p.l.c.'s risk management processes and governance framework. As part of this ICAAP, a range of stress tests are applied to our base capital plan.

Furthermore, stress testing forms an integral part of the risk and capital management framework and is an important component of ICAAP. Its main purpose is to highlight to senior management potential adverse unexpected outcomes that could arise under hypothetical scenarios, and provides a quantitative indication of how much capital might be required to absorb the losses, should such adverse scenarios occur. Stress testing is used to assess risk concentrations, estimate the impact on revenue, impairments, write-downs and the resultant capital adequacy under a variety of adverse scenarios.

Macroeconomic stress testing considers the impact on both revenue and capital under a range of scenarios. It entails multi-year systemic shocks to assess the local group's ability to meet its capital requirement and liabilities as they fall due under a downturn in the business cycle and/or macroeconomic environment.

The stress testing framework brings multiple benefits to risk management, including: understanding the impact of recessionary scenarios; assessing material risk concentrations; impact of market price movements; and, forecasting of the balance sheet management and liquidity.

The Overall Capital Requirement, applicable on total capital is composed of the Pillar 1 requirement, the Pillar 2 requirement add-on, and the cumulated regulatory buffers. This stands as the applicable regulatory minimum on total capital for a bank falling under ECB supervision.

Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirement and guidance under Pillar 2. This process can also include specific demands on all aspects of the bank's management. The SREP process results in a Pillar 2 requirement and a Pillar 2 guidance, which are added to the Pillar 1 requirements.

The Total SREP capital requirement, which is composed only of the Pillar 1 requirement and the Pillar 2 requirement add-on applicable on the total capital ratio, is the ratio that banks should respect under stressed scenarios.

As a result of the annual SREP, the ECB has set to 2.25 percent the Pillar 2 requirements for HSBC Bank Malta p.l.c. for the year 2021.

In line with 2020 requirements, HSBC Bank Malta p.l.c. is required to meet on a consolidated basis a minimum capital ratio of at least 14.25%. The OCR is composed of : the 8% Pillar 1 requirement, the 2.25% Pillar 2 requirement mentioned above, the 2.5% capital conservation buffer in respect of article 129 of the CRD IV. On 08 April 2020, a decision was communicated by the ECB which amended the composition of the the Pillar 2 additional own funds requirement. As a result the requirement of CET1 has been revised to 11.69% (versus 12.25% in 2020), excluding Pillar 2 guidance.

Internal capital adequacy assessment process

The Board approves the ICAAP, and together with the Risk Committee, examines the Bank's risk profile from both a regulatory and economic capital viewpoint. They aim to ensure that capital resources:

- remain sufficient to support the bank's risk profile and outstanding commitments;
- exceed current regulatory requirements, and that the bank is well placed to meet those expected in the future;
- allow the bank to remain adequately capitalised in the event of a severe economic downturn stress scenario; and
- remain consistent with the strategic and operational goals, and the shareholders and investors' expectations.

The economic capital assessment is a more risk-sensitive measure, as it covers a wider range of risks and takes account of substantial diversification of risk accruing from our operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into the management of risk. Economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon with a 99.95% confidence level.

The ICAAP and its constituent economic capital calculations are examined by the Joint Supervisory Team as part of its supervisory review and evaluation process. The examination informs the regulator's view of the Pillar 2 capital requirement and guidance. A strong level of integration between risk and capital management frameworks helps optimising the response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including counterparty credit risk, market and operational risk, non-trading book interest rate risk, insurance risk and pension risk.

The minimum regulatory capital that HSBC Bank Malta p.l.c. is required to hold is determined by the rules and guidance established by the Joint Supervisory Team. These capital requirements are a primary influence shaping the business planning process, in which RWA targets are established for global businesses in accordance with the bank's strategic direction and risk appetite.

As stipulated in Section 1 of Chapter 2 of CRD IV, the local group is required to have in place an internal process to assess the adequacy of capital levels in relation to its overall risk profile. The outcome of this process is enshrined in a document known as the Internal Capital Adequacy Assessment Process ('ICAAP').

Credit risk

Overview and Responsibilities

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending, trade finance and treasury business, mainly through the holdings of debt securities, but also from off-balance sheet products such as guarantees. Credit risk represents our largest regulatory capital requirement.

In response to the onset of the Covid-19 pandemic, credit risk appetite was reviewed and adjusted in line with expected impact, as well to support measures aimed at assisting clients through the pandemic.

The tables on the following page provide a summary of credit risk exposure by exposure class and approach. The average net exposure value of this financial period is based on the last four end of quarter observations.

Table 11: Total and average net amount of exposures (CRB-B)

		Footnotes	At 31 Dec 2020	
			Net value of exposure at the end of year	Average net exposure over the year
			€000	€000
15	**Total IRB approach**		—	—
16	Central government or central banks		**1,454,850**	**1,155,568**
18	Public sector entities		**442,761**	**327,506**
19	Multilateral development banks		**237,859**	**222,391**
20	International organisations		**10,013**	**12,728**
21	Institutions		**354,458**	**585,784**
22	Corporates		**1,402,164**	**1,186,348**
23	– *of which:SMEs*		***546,150***	***537,990***
24	Retail		**684,078**	**733,247**
25	– *of which:SMEs*		***5,738***	***1,785***
26	Secured by mortgages on immovable property		**2,230,825**	**2,003,064**
27	– *of which:SMEs*		***160,114***	***141,630***
28	Exposures in default		**108,573**	**89,368**
29	Items associated with particularly high risk		**50,152**	**45,751**
33	Equity exposures	1	**33**	**873**
34	Other items		**136,442**	**128,096**
35	**Total standardised approach**		**7,112,208**	**6,490,724**
36	**Total**		**7,112,208**	**6,490,724**
			At 31 Dec 2019	
15	Total IRB approach		—	—
16	Central government or central banks		1,250,635	1,149,793
18	Public sector entities		245,418	198,731
19	Multilateral development banks		239,821	218,332
20	International organisations		16,173	4,043
21	Institutions		713,722	757,300
22	Corporates		1,158,091	1,111,497
23	– *of which:SMEs*		*632,979*	*752,820*
24	Retail		960,725	936,384
25	– *of which:SMEs*		*601*	*18,744*
26	Secured by mortgages on immovable property		1,973,310	1,928,380
27	– *of which:SMEs*		*124,175*	*31,044*
28	Exposures in default		97,008	107,170
29	Items associated with particularly high risk		53,182	35,839
33	Equity exposures		4,537	3,892
34	Other items		142,204	189,375
35	Total standardised approach		6,854,826	6,640,736
36	Total		6,854,826	6,640,736

1 *We had equity investments in the non-trading book. These consist of investments held for the purposes to facilitate ongoing business. Details of our accounting policy for equity investments measured at FVOCI and the valuation of financial instruments can be found in the Disclosures in respect of fair values of financial instruments carried at fair value of the* Annual Report and Accounts 2020*.*

Credit quality of exposures by exposures class and instruments

We form part of a universal bank with a conservative approach to credit risk. This is reflected in our credit risk profile being diversified across a number of asset classes with a credit quality profile mainly concentrated in the lower risk classes. The following tables present information on the credit quality of exposures by exposure class, industry and geography, covering both on-balance-sheet and off-balance-sheet exposures at year end.

Table 12: Credit quality of exposures by exposure class and instrument 1 (CR1-A)

			Gross carrying values of					
			Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year[1]	Credit risk adjustment charges of the period[1]	Net carrying values[2]
		Footnotes	€000	€000	€000	€000	€000	€000
15	**Total IRB approach**		**—**	**—**	**—**	**—**	**—**	**—**
16	Central governments or central banks		**—**	**1,455,669**	**819**	**—**	**471**	**1,454,850**
18	Public sector entities		**—**	**443,059**	**298**	**—**	**230**	**442,761**
19	Multilateral development banks		**—**	**237,877**	**18**	**—**	**—**	**237,859**
20	International organisations		**—**	**10,013**	**—**	**—**	**—**	**10,013**
21	Institutions		**—**	**355,248**	**790**	**—**	**493**	**354,458**
22	Corporates		**46,150**	**1,415,311**	**33,945**	**705**	**7,502**	**1,427,516**
23	– *of which: SMEs*		***46,150***	***557,708***	***26,998***	***705***	***4,466***	***576,860***
24	Retail		**9,280**	**690,784**	**8,005**	`	**5,524**	**692,059**
25	– *of which: SMEs*		**—**	***5,788***	***50***	**—**	***50***	***5,738***
26	Secured by mortgages on immovable property		**84,266**	**2,246,338**	**24,539**	**1,184**	**9,021**	**2,306,065**
27	– *of which: SMEs*		***488***	***126,342***	***4,888***	**—**	***2,642***	***121,942***
28	Exposures in default	3	**139,696**	**—**	**31,123**	**2,023**	**7,723**	**108,573**
29	Items associated with particularly high risk		**12,806**	**41,482**	**4,136**	**—**	**955**	**50,152**
33	Equity exposures		**—**	**33**	**—**	**—**	**—**	**33**
34	Other items		**—**	**136,442**	**—**	**—**	**—**	**136,442**
35	**Total standardised approach**		**152,502**	**7,032,256**	**72,550**	**2,023**	**24,196**	**7,112,208**
36	**Total at 31 December 2020**		**152,502**	**7,032,256**	**72,550**	**2,023**	**24,196**	**7,112,208**
37	– *of which: loans*		***145,636***	***4,506,563***	***69,760***	***2,023***	***21,098***	***4,582,439***
38	– *of which: debt securities*		**—**	***1,137,526***	***370***	**—**	***772***	***1,137,156***
39	– *of which: off-balance sheet exposures*		***6,866***	***1,214,475***	***2,420***	**—**	***2,326***	***1,218,921***
15	Total IRB approach		—	—	—	—	—	—
16	Central governments and central banks		—	1,250,709	74	—	74	1,250,635
18	Public sector entities		—	245,426	8	—	8	245,418
19	Multilateral development banks		—	239,828	7	—	7	239,821
20	International Organisations		—	16,174	1	—	1	16,173
21	Institutions		849	713,724	851	—	—	713,722
22	Corporates		56,749	1,167,455	27,521	7,338	(3,339)	1,196,683
23	– *of which: SMEs*		—	*637,354*	*4,375*	—	*(1,142)*	*632,979*
24	Retail		7,114	963,968	5,828	1,000	(1,044)	965,254
25	– *of which: SMEs*		—	*601*	—	—	—	*601*
26	Secured by mortgages on immovable property		59,196	1,977,855	9,854	—	3,937	2,027,197
27	– *of which: SMEs*		*853*	*126,342*	*2,167*	—	—	*125,028*
28	Exposures in default	3	123,908	—	26,900	8,338	(3,999)	97,008
29	Items associated with particularly high risk		8,935	47,430	3,183	—	3,183	53,182
33	Equity exposures		—	4,537	—	—	—	4,537
34	Other exposures		—	142,204	—	—	—	142,204
35	Total standardised approach		132,843	6,769,310	47,327	8,338	2,827	6,854,826
36	Total at 31 December 2019		132,843	6,769,310	47,327	8,338	2,827	6,854,826
37	– *of which: loans*		*127,663*	*4,290,679*	*45,978*	*8,338*	*3,312*	*4,372,364*
38	– *of which: debt securities*		—	*1,075,493*	*31*	—	*11*	*1,075,462*
39	– *of which: off-balance sheet exposures*		*5,180*	*1,223,635*	*1,318*	—	*(496)*	*1,227,497*

1 *Presented on a year-to-date basis.*
2 *Net values is the summation of the defaulted and non-defaulted exposures less any specific credit risk adjustments.*
3 *Under the standardised approach, exposures that are in default are reported within individual exposure classes and totalled in 'Exposures in default'.*

Credit quality of exposures by industry type

The following table provides a comprehensive picture of the credit quality of HSBC Bank Malta p.l.c.'s on-balance sheet and off-balance sheet exposures by industry type.

Table 13: Credit quality of exposures by industry or counterparty types (CR1-B)

		Gross carrying values of					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year[1]	Credit risk adjustment charges of the period[1]	Net carrying values [2]
		€000	€000	€000	€000	€000	€000
1	Agriculture	**1,182**	**1,354**	**109**	**—**	**53**	**2,427**
3	Manufacturing	**6,515**	**101,766**	**5,757**	**441**	**1,445**	**102,524**
4	Utilities	**—**	**183,404**	**208**	**—**	**(385)**	**183,196**
5	Water supply	**—**	**25**	**—**	**—**	**—**	**25**
6	Construction	**2,210**	**90,280**	**1,299**	**2**	**322**	**91,191**
7	Wholesale & retail trade	**8,135**	**309,100**	**4,576**	**95**	**1,203**	**312,659**
8	Transportation & storage	**286**	**45,382**	**548**	**26**	**44**	**45,120**
9	Accommodation & food services	**6,316**	**106,950**	**8,758**	**22**	**3,505**	**104,508**
10	Information & communication	**—**	**44,080**	**379**	**21**	**50**	**43,701**
11	Financial & insurance activities	**489**	**1,918,685**	**2,032**	**—**	**1,089**	**1,917,142**
12	Real estate	**25,404**	**138,394**	**14,023**	**39**	**1,774**	**149,775**
13	Professional activities	**348**	**4,337**	**63**	**16**	**23**	**4,622**
14	Administrative service	**970**	**365,844**	**4,581**	**—**	**2,114**	**362,233**
15	Public administration and defence, compulsory social security	**—**	**794,044**	**21**	**—**	**(73)**	**794,023**
16	Education	**—**	**5,132**	**621**	**—**	**358**	**4,511**
17	Human health & social work	**5,820**	**15,512**	**4,465**	**—**	**609**	**16,867**
18	Arts & entertainment	**33**	**5,334**	**91**	**33**	**110**	**5,276**
19	Other services	**842**	**17,028**	**45**	**18**	**43**	**17,825**
20	Personal	**93,952**	**2,650,713**	**24,953**	**1,310**	**11,903**	**2,719,712**
21	Extra-territorial bodies	**—**	**214,600**	**21**	**—**	**9**	**214,579**
22	Other	**—**	**20,292**	**—**	**—**	**—**	**20,292**
23	**Total at 31 December 2020**	**152,502**	**7,032,256**	**72,550**	**2,023**	**24,196**	**7,112,208**
1	Agriculture	1,358	1,361	42	—	(4)	2,677
3	Manufacturing	11,894	100,645	5,280	213	1,477	107,259
4	Utilities	—	105,942	632	—	368	105,310
5	Water supply	—	25	—	—	(7)	25
6	Construction	2,160	88,532	901	271	(3,712)	89,791
7	Wholesale & retail trade	8,315	305,927	3,261	139	(557)	310,981
8	Transportation & storage	20	37,059	498	2	376	36,581
9	Accommodation & food services	5,100	108,225	4,203	111	148	109,122
10	Information & communication	21	50,447	345	—	(543)	50,123
11	Financial & insurance activities	1,704	1,653,343	1,290	7	(600)	1,653,757
12	Real estate	27,304	145,959	11,767	6,249	4,133	161,496
13	Professional activities	501	4,334	64	—	(348)	4,771
14	Administrative service	1,246	356,521	1,648	—	1,328	356,119
15	Public administration and defence, compulsory social security	—	716,034	40	—	34	715,994
16	Education	—	3,572	142	—	134	3,430
17	Human health & social work	5,426	28,390	3,731	110	(241)	30,085
18	Arts & entertainment	33	5,124	21	37	(7)	5,136
19	Other services	1,286	66,474	55	198	233	67,705
20	Personal	66,475	2,767,686	13,400	1,001	608	2,820,761
21	Extra-territorial bodies	—	204,252	7	—	7	204,245
22	Other	—	19,458	—	—	—	19,458
23	Total at 31 December 2019	132,843	6,769,310	47,327	8,338	2,827	6,854,826

1 *Presented on a year to date basis.*
2 *Net values is the summation of the defaulted and non-defaulted exposures less any specific credit risk adjustments.*

Credit quality of exposures by geography

The tables provides a comprehensive picture of the credit quality of an institution's on-balance-sheet and off-balance-sheet exposures by geographical concentration.

Table 14: Credit quality of exposures by geography[3] (CR1-C)

		Gross carrying values of					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year[1]	Credit risk adjustment charges of the period[1]	Net carrying values[2]
		€000	€000	€000	€000	€000	€000
1	**Europe**	**152,493**	**6,509,104**	**72,461**	**2,023**	**24,130**	**6,589,136**
2	Malta	**152,385**	**5,976,388**	**71,214**	**2,023**	**23,395**	**6,057,559**
3	Belgium	**—**	**3,023**	**—**	**—**	**—**	**3,023**
4	Switzerland	**—**	**2,193**	**1**	**—**	**(1)**	**2,192**
5	Germany	**—**	**124,321**	**292**	**—**	**251**	**124,029**
6	France	**4**	**175,304**	**1**	**—**	**—**	**175,307**
7	United Kingdom	**44**	**224,215**	**933**	**—**	**477**	**223,326**
8	Poland	**—**	**1,547**	**—**	**—**	**1**	**1,547**
9	Netherlands	**—**	**259**	**1**	**—**	**1**	**258**
10	Other countries	**60**	**1,854**	**19**	**—**	**6**	**1,895**
11	**North America**	**7**	**4,975**	**—**	**—**	**(1)**	**4,982**
12	Canada	**2**	**2,972**	**—**	**—**	**(1)**	**2,974**
13	United States	**—**	**—**	**—**	**—**	**—**	**—**
14	Other Countries	**5**	**2,003**	**—**	**—**	**—**	**2,008**
15	**Asia**	**1**	**5,712**	**59**	**—**	**41**	**5,654**
16	Other countries	**1**	**5,712**	**59**	**—**	**41**	**5,654**
17	**Middle East**	**1**	**264,602**	**5**	**—**	**4**	**264,598**
18	United Arab Emirates	**—**	**260,185**	**1**	**—**	**1**	**260,184**
19	Other countries	**1**	**4,417**	**4**	**—**	**3**	**4,414**
20	**Other geographical areas**	**—**	**247,863**	**25**	**—**	**22**	**247,838**
21	**Total at 31 December 2020**	**152,502**	**7,032,256**	**72,550**	**2,023**	**24,196**	**7,112,208**
1	Europe	132,782	6,237,910	47,312	8,338	2,812	6,323,380
2	Malta	131,814	5,586,893	46,422	8,338	1,922	5,672,285
3	Belgium	—	—	—	—	—	—
4	Switzerland	—	3,613	4	—	4	3,609
5	Germany	—	134,415	2	—	2	134,413
6	France	1	219,788	1	—	1	219,788
7	United Kingdom	897	272,178	872	—	872	272,203
8	Poland	—	—	—	—	—	—
9	Netherlands	9	256	—	—	—	265
10	Other countries	61	20,767	11	—	11	20,817
11	North America	39	8,695	3	—	3	8,731
12	Canada	26	2,045	3	—	3	2,068
13	United States	13	6,650	—	—	—	6,663
14	Other countries	—	—	—	—	—	—
15	Asia	21	2,049	4	—	4	2,066
16	Other countries	21	2,049	4	—	4	2,066
17	Middle East	1	264,634	1	—	1	264,634
18	United Arab Emirates	—	260,137	—	—	—	260,137
19	Other countries	1	4,497	1	—	1	4,497
20	Other geographical area	—	256,022	7	—	7	256,015
21	Total at 31 December 2019	132,843	6,769,310	47,327	8,338	2,827	6,854,826

1 Presented on a year to date basis.
2 Net values is the summation of the defaulted and non-defaulted exposures less any specific credit risk adjustments.
3 Amounts shown by geographical region and country/territory in this table are based on the country/territory of residence of the counterparty.

Credit concentration risk

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

Table 15: Geographical breakdown of exposure (CRB-C) [1]

		Net carrying values			
		Malta	Europe	Other	Total
		€000	€000	€000	€000
6	**Total IRB approach**	**—**	**—**	**—**	**—**
7	Central government or central banks	**1,436,811**	**18,039**	**—**	**1,454,850**
9	Public sector entities	**256,389**	**186,372**	**—**	**442,761**
10	Multilateral developments banks	**—**	**—**	**237,859**	**237,859**
11	International Organisations	**—**	**—**	**10,013**	**10,013**
12	Institutions	**20,060**	**322,578**	**11,820**	**354,458**
13	Corporates	**1,135,517**	**3,484**	**263,163**	**1,402,164**
14	Retail	**683,191**	**710**	**177**	**684,078**
15	Secured by mortgages on immovable property[1]	**2,230,505**	**320**	**—**	**2,230,825**
16	Exposures in default	**108,490**	**74**	**9**	**108,573**
17	Items associated with particular high risk	**50,152**	**—**	**—**	**50,152**
21	Equity exposures	**2**	**—**	**31**	**33**
22	Other exposures	**136,442**	**—**	**—**	**136,442**
23	**Total standardised approach**	**6,057,559**	**531,577**	**523,072**	**7,112,208**
24	**Total at 31 December 2020**	**6,057,559**	**531,577**	**523,072**	**7,112,208**
6	Total IRB approach	—	—	—	—
7	Central government or central banks	1,216,712	33,923	—	1,250,635
9	Public sector entities	53,535	191,883	—	245,418
10	Multilateral developments banks	—	—	239,821	239,821
11	International Organisations	—	—	16,173	16,173
12	Institutions	20,238	422,898	270,586	713,722
13	Corporates	1,157,099	986	6	1,158,091
14	Retail	959,530	923	272	960,725
15	Secured by mortgages on immovable property	1,972,917	393	—	1,973,310
16	Exposures in default	96,866	89	53	97,008
17	Items associated with particular high risk	53,182	—	—	53,182
21	Equity exposures	2	—	4,535	4,537
22	Other exposures	142,204	—	—	142,204
23	Total standardised approach	5,672,285	651,095	531,446	6,854,826
24	Total at 31 December 2019	5,672,285	651,095	531,446	6,854,826

1 Amounts shown by geographical region and country/territory in this table are based on the country/territory of residence of the counterparty.

Credit concentration risk analysed by counterparty

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 12.8% of the total loan portfolio as at end of 2020. These exposures are strictly monitored by management and every reasonable step is taken to reduce this concentration and spread risk over a wider customer base with further growth in the loan portfolio.

The maximum on-balance sheet credit exposure to any client, group of connected clients or counterparty as at 31 December 2020 amounted to €199,399,000 before taking account of collateral or other credit enhancements.

Within its daily operations, the local group transacts with counterparty banks and other financial institutions. By conducting these transactions, the local group is running the risk of losing funds due to the possible delays in the repayment of existing and future obligations by counterparty banks. To mitigate this risk, the local group places short-term funds solely with pre-approved counterparties subject to pre-established limits determined on the basis of the respective institution's credit rating as well as with its parent. The positions are checked against the limits on a daily basis and in real time.

As prescribed in article 400(2)(c), in light of the fact that the local group is subject to prudential supervision on a consolidated basis, the local group's exposure with its parent is exempt from limits to large exposures outlined in article 395(1) of the CRR. Similarly, the local group invests in debt securities issued by Maltese government, and given that these exposures attract a 0% risk weight, they are also exempt from large exposure limits.

Credit concentration risk analysed by counterparty types

The counterparty sector analysis of the local group's exposure amounts split by exposure class is shown in the following table:

Table 16: Concentration of exposures by counterparty type (CRB-D)

		Personal	Property	Manufacturing	Government	Other commercial	Financial	Total
		€000	€000	€000	€000	€000	€000	€000
6	**Total IRB approach**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
7	Central government or central banks	**—**	**—**	**—**	**473,389**	**—**	**981,461**	**1,454,850**
9	Public sector entities	**—**	**—**	**—**	**302,232**	**6,367**	**134,162**	**442,761**
10	Multilateral development banks	**—**	**—**	**—**	**—**	**204,569**	**33,290**	**237,859**
11	International Organisations	**—**	**—**	**—**	**—**	**10,013**	**—**	**10,013**
12	Institutions	**—**	**—**	**—**	**—**	**—**	**354,458**	**354,458**
13	Corporates	**12,303**	**99,099**	**70,677**	**16,332**	**899,601**	**304,152**	**1,402,164**
	– *of which: SMEs*	***10,234***	***77,147***	***35,765***	***9,974***	***411,028***	***2,002***	***546,150***
14	Retail	**682,720**	**—**	**186**	**—**	**1,042**	**130**	**684,078**
	– *of which: SMEs*	***5,738***	**—**	**—**	**—**	**—**	**—**	***5,738***
15	Secured by mortgages on immovable property	**1,938,984**	**12,685**	**29,030**	**—**	**249,602**	**524**	**2,230,825**
	– *of which: SMEs*	**—**	***7,728***	***20,653***	**—**	***131,733***	**—**	***160,114***
16	Exposures in default	**83,652**	**7,767**	**2,631**	**—**	**14,122**	**401**	**108,573**
17	Items associated with particular high risk	**2,054**	**30,223**	**—**	**—**	**17,875**	**—**	**50,152**
21	Equity exposures	**—**	**—**	**—**	**—**	**—**	**33**	**33**
22	Other exposures	**—**	**—**	**—**	**—**	**—**	**136,442**	**136,442**
23	**Total standardised approach**	**2,719,713**	**149,774**	**102,524**	**791,953**	**1,403,191**	**1,945,053**	**7,112,208**
	Total at 31 December 2020	**2,719,713**	**149,774**	**102,524**	**791,953**	**1,403,191**	**1,945,053**	**7,112,208**

6	Total IRB approach	—	—	—	—	—	—	—
7	Central government or central banks	—	—	—	658,233	13,311	579,091	1,250,635
9	Public sector entities	—	—	—	57,761	47,067	140,590	245,418
10	Multilateral development banks	—	—	—	—	183,537	56,284	239,821
11	International Organisations	—	—	—	—	16,173	—	16,173
12	Institutions	—	—	—	—	—	713,722	713,722
13	Corporates	14,940	86,719	82,472	—	939,005	34,955	1,158,091
	– *of which: SMEs*	*13,919*	*82,810*	*47,537*	—	*448,570*	*40,144*	*632,980*
14	Retail	958,760	—	243	—	1,320	402	960,725
	– *of which: SMEs*	*601*	—	—	—	—	—	*601*
15	Secured by mortgages on immovable property	1,788,447	7,915	16,631	—	160,317	—	1,973,310
	– *of which: SMEs*	—	*5,440*	*16,631*	—	*102,104*	—	*124,175*
16	Exposures in default	58,614	13,678	7,913	—	16,027	776	97,008
17	Items associated with particular high risk	—	53,182	—	—	—	—	53,182
21	Equity exposures	—	—	—	—	4,535	2	4,537
22	Other exposures	—	—	—	—	14,270	127,934	142,204
23	Total standardised approach	2,820,761	161,494	107,259	715,994	1,395,562	1,653,756	6,854,826
	Total at 31 December 2019	2,820,761	161,494	107,259	715,994	1,395,562	1,653,756	6,854,826

The residual maturity breakdown by exposure class at year-end was as follows:

Table 17: Maturity of exposures at year-end (CRB-E)

		Net carrying values					
		On demand	Less than one year	Over one but less than five years	Over five years	No stated maturity	Total
		€000	€000	€000	€000	000	€000
6	**Total IRB approach**	**—**	**—**	**—**	**—**	**—**	**—**
7	Central Government or central banks	**687,009**	**344,933**	**322,226**	**73,552**	**27,130**	**1,454,850**
9	Public sector entities	**—**	**44,641**	**157,798**	**240,322**	**—**	**442,761**
10	Multilateral developments banks	**—**	**96,575**	**141,284**	**—**	**—**	**237,859**
11	International organisations	**—**	**10,013**	**—**	**—**	**—**	**10,013**
12	Institutions	**52,281**	**164,808**	**135,813**	**1,556**	**—**	**354,458**
13	Corporates	**199**	**801,325**	**398,977**	**201,663**	**—**	**1,402,164**
14	Retail	**133,460**	**55,194**	**37,160**	**458,264**	**—**	**684,078**
15	Secured by mortgages on immovable property	**—**	**105,259**	**108,991**	**2,016,575**	**—**	**2,230,825**
16	Exposures in default	**4,176**	**6,557**	**15,628**	**82,212**	**—**	**108,573**
17	Items associated with particular high risk	**—**	**5,597**	**36,618**	**7,937**	**—**	**50,152**
21	Equity exposures	**—**	**—**	**—**	**—**	**33**	**33**
22	Other exposures	**—**	**4,959**	**—**	**—**	**131,483**	**136,442**
23	**Total standardised approach**	**877,125**	**1,639,861**	**1,354,495**	**3,082,081**	**158,646**	**7,112,208**
24	**Total at 31 December 2020**	**877,125**	**1,639,861**	**1,354,495**	**3,082,081**	**158,646**	**7,112,208**

		Net carrying values					
6	Total IRB approach	—	—	—	—	—	—
7	Central Government or central banks	426,722	286,092	308,399	206,995	22,427	1,250,635
9	Public sector entities	—	75,746	132,637	37,035	—	245,418
10	Multilateral developments banks	—	39,918	199,903	—	—	239,821
11	International organisations	—	6,111	10,062	—	—	16,173
12	Institutions	50,650	182,470	479,263	1,339	—	713,722
13	Corporates	288	580,787	328,908	248,108	—	1,158,091
14	Retail	188,374	61,656	41,985	668,710	—	960,725
15	Secured by mortgages on immovable property	—	69,317	67,900	1,836,093	—	1,973,310
16	Exposures in default	3,491	24,212	8,388	60,917	—	97,008
17	Items associated with particular high risk	—	8,464	38,696	6,022	—	53,182
21	Equity exposures	—	—	—	—	4,537	4,537
22	Other exposures	—	3,436	—	—	138,768	142,204
23	Total standardised approach	669,525	1,338,209	1,616,141	3,065,219	165,732	6,854,826
24	Total at 31 December 2019	669,525	1,338,209	1,616,141	3,065,219	165,732	6,854,826

Past due but not impaired exposures, impaired exposures and credit risk adjustments ('CRA')

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

We analyse past due but not impaired, impaired exposures and impairment allowances, and other credit risk provisions using accounting values on a regulatory consolidation basis. Our approach for determining impairment allowances is explained in HSBC Bank Malta p.l.c. *Annual Report and Accounts 2020*, and HSBC Bank Malta p.l.c.'s definitions for accounting purposes of 'past due' and 'impaired' are set out in Note 4 of the Annual Report and Accounts. Under the accounting standards currently adopted by HSBC Bank Malta p.l.c., impairment allowances, value adjustments and credit related provisions for off-balance sheet amounts are treated as specific CRAs.

The table below provides an ageing analysis of accounting on-balance sheet past due exposures regardless of their impairment status. The gross carrying values indicated is before impairments and provisions but after the write-offs reported in financial statements.

Table 18: Ageing of past-due unimpaired and impaired exposures (CR1-D)

		Gross carrying values					
		Less than 30 days	Between 30 and 60 days	Between 60 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	Greater than 1 year
		€000	€000	€000	€000	€000	€000
1	Loans	**29,300**	**9,151**	**3,323**	**6,050**	**8,379**	**51,259**
3	**Total exposures at 31 December 2020**	**29,300**	**9,151**	**3,323**	**6,050**	**8,379**	**51,259**
1	Loans	79,347	10,999	6,803	7,491	9,313	49,606
3	Total exposures at 31 December 2019	79,347	10,999	6,803	7,491	9,313	49,606

No debt securities were past due as at 31 December 2020 and 31 December 2019.

Non-performing and forborne exposures

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Annual Report and Accounts 2020*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure, except in its treatment of 'cures'.

Under the EBA definition, exposures cease to be reported as forborne if they pass three tests:

- the forborne exposure must have been considered to be performing for a 'probation period' of at least two years;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- no exposure to the debtor is more than 30 days past due at the end of the probation period.

Under EBA guidelines, the use of support measures introduced as a result of the Covid-19 outbreak does not in itself trigger identification as non-performing or forborne. Borrower specific support measures are assessed under the existing rules to determine whether forbearance has been granted.

The tables below provide an overview of non-performing and forborne exposures as per the Commission Implementing Regulation (EU) No 680/2014.

Table 19: Non-performing and forborne exposures

	Gross carrying values of performing and non-performing exposures							**Accumulated impairment and provisions and negative fair value adjustments due to credit risk**				**Collateral and financial guarantees received**	
				of which: non-performing				**On performing exposures**		**On non- performing exposures**			
		of which: performing but past due between 30 and 90 days	***of which: performing forborne***		***of which: defaulted***	***of which: impaired***	***of which: forborne***		***of which: forborne***		***of which: forborne***	**On non-performing exposures**	***of which: forborne***
	€000	***€000***	***€000***	**€000**	***€000***	***€000***	***€000***	**€000**	***€000***	**€000**	***€000***	**€000**	***€000***
At 31 December 2020													
1 Debt securities	**1,134,124**	**—**	**—**	**—**	**—**	**—**	**—**	**(370)**	**—**	**—**	**—**	**—**	**—**
2 Loans and Advances	**3,847,551**	***6,613***	***22,805***	**130,996**	***130,996***	***130,996***	***80,995***	**(32,761)**	***(2,887)***	**(27,173)**	***(20,502)***	**109,356**	***67,198***
3 Off-balance sheet exposures	**1,221,341**	**—**	**—**	**2,876**	***2,876***	***2,876***	**—**	**(1,878)**	**—**	**(542)**	**—**	**—**	**—**
At 31 December 2019													
1 Debt securities	1,070,680	—	—	—	—	—	—	(32)	—	—	—	—	—
2 Loans	4,398,960	*7,049*	*22,842*	118,934	*118,934*	*118,934*	*64,505*	(13,586)	*(2,287)*	(23,297)	*(16,309)*	90,079	*42,776*
3 Off-balance sheet exposures	1,232,160	—	—	2,004	*2,004*	—	—	(1,306)	—	(11)	—	—	—

In the *Annual Report and Accounts 2020* we classify and report loans on which concessions have been granted under conditions of credit distress as 'renegotiated loans' when their contractual payment terms have been modified because we have significant concerns about the borrowers' ability to meet contractual payments when due. This is aligned to the EBA definitions of forborne exposures. The EBA and *Annual Report and Accounts 2020* differ in the treatment of cures from the forborne/renegotiated status. Under the EBA definition, exposures are no longer considered forborne once the exposures have complied with the revised contractual obligations for a period of at least three years and the exposures are no longer considered impaired or have any elements that are more than 30 days past due. In the *Annual Report and Accounts 2020*, renegotiated loans retain this classification until maturity or derecognition. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are considered to be unlikely to pay. The *Annual Report and Accounts 2020* does not report non-performing exposure, however the definition of impaired loans is well aligned to the EBA non-performing definitions.

Table 20: Credit quality of forborne exposures

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	*Of which defaulted*	*Of which impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*Of which forborne non-exposures*
		€000	€000	*€000*	*€000*	€000	€000	€000	*€000*
	At 31 December 2020								
1	**Loans and advances**	**22,805**	**80,995**	***80,995***	***80,995***	**(2,887)**	**(20,502)**	**89,640**	***67,198***
5	Other financial corporations	**—**	**451**	***451***	***451***	**—**	**(80)**	**378**	***378***
6	Non-financial corporations	**8,063**	**39,805**	***39,805***	***39,805***	**(1,502)**	**(16,055)**	**35,398**	***27,461***
7	Households	**14,742**	**40,739**	***40,739***	***40,739***	**(1,385)**	**(4,367)**	**53,864**	***39,359***
10	**Total**	**22,805**	**80,995**	***80,995***	***80,995***	**(2,887)**	**(20,502)**	**89,640**	***67,198***
	At 31 December 2019								
1	Loans and advances	22,842	64,505	*64,505*	*64,505*	(2,287)	(16,309)	70,080	*42,777*
5	Other financial corporations	—	633	*633*	*633*	—	(143)	255	*255*
6	Non-financial corporations	8,514	49,112	*49,112*	*49,112*	(1,115)	(14,218)	41,537	*29,067*
7	Households	14,328	14,760	*14,760*	*14,760*	(1,172)	(1,948)	28,288	*13,455*
10	Total	22,842	64,505	*64,505*	*64,505*	(2,287)	(16,309)	70,080	*42,777*

Table 21 presents an analysis of performing and non-performing exposures by days past due. The gross NPL ratio at 31 Dec 2020 was 3.52% (2.69% in 2019) calculated in line with the EBA guidelines.

Table 21: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
	At 31 December 2020												
1	**Loans and advances**	**3,716,555**	**3,710,058**	**6,497**	**130,996**	**65,307**	**6,050**	**8,379**	**12,088**	**24,042**	**4,008**	**11,122**	***130,996***
2	Central banks	**24,476**	**24,476**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
3	General governments	**148,881**	**148,881**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
4	Credit institutions	**497,381**	**497,381**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
5	Other financial corporations	**194,733**	**194,733**	**—**	**459**	**385**	**—**	**—**	**—**	**—**	**—**	**74**	***459***
6	Non-financial corporations	**653,060**	**652,090**	**970**	**47,141**	**18,656**	**65**	**531**	**8,262**	**16,790**	**1,263**	**1,574**	***47,141***
7	– *of which: SMEs*	***404,654***	***403,684***	***970***	***46,308***	***18,649***	***65***	***531***	***8,262***	***16,790***	***1,214***	***797***	***46,308***
8	Households	**2,198,024**	**2,192,497**	**5,527**	**83,396**	**46,266**	**5,985**	**7,848**	**3,826**	**7,252**	**2,745**	**9,474**	***83,396***
9	**Debt securities**	**1,134,124**	**1,134,124**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
11	General governments	**886,476**	**886,476**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
12	Credit institutions	**247,648**	**247,648**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
15	**Off-balance-sheet exposures**	**1,218,465**	**1,218,465**	**—**	**2,876**	**2,876**	**—**	**—**	**—**	**—**	**—**	**—**	***2,876***
17	General governments	**107,372**	**107,372**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
18	Credit institutions	**29,180**	**29,180**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
19	Other financial corporations	**70,242**	**70,242**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
20	Non-financial corporations	**550,649**	**550,649**	**—**	**2,775**	**2,775**	**—**	**—**	**—**	**—**	**—**	**—**	***2,775***
21	Households	**461,022**	**461,022**	**—**	**101**	**101**	**—**	**—**	**—**	**—**	**—**	**—**	***101***
22	**Total**	**6,069,144**	**6,062,647**	**6,497**	**133,872**	**68,183**	**6,050**	**8,379**	**12,088**	**24,042**	**4,008**	**11,122**	***133,872***

Table 21: Credit quality of performing and non-performing exposures by past due days (continued)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
	At 31 December 2019												
1	Loans and advances	4,280,026	4,272,977	7,049	118,934	52,525	7,490	9,313	17,728	15,921	6,800	9,157	*118,934*
2	Central banks	426,741	426,741	—	—	—	—	—	—	—	—	—	—
3	General governments	126,170	126,170	—	—	—	—	—	—	—	—	—	—
4	Credit institutions	676,389	676,389	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	173,566	173,566	—	635	379	70	—	—	—	—	186	*635*
6	Non-financial corporations	696,692	696,417	275	58,725	20,289	2,243	5,223	13,579	8,763	3,270	5,358	*58,725*
7	– *of which: SMEs*	*524,206*	*524,132*	*74*	*53,388*	*18,577*	*1,344*	*5,223*	*13,487*	*7,890*	*2,852*	*4,015*	*53,838*
8	Households	2,180,468	2,173,694	6,774	59,574	31,857	5,177	4,090	4,149	7,158	3,530	3,613	*59,574*
9	Debt securities	1,070,680	1,070,680	—	—	—	—	—	—	—	—	—	—
11	General governments	815,560	815,560	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	255,120	255,120	—	—	—	—	—	—	—	—	—	—
15	Off-balance-sheet exposures	1,230,156	1,230,156	—	2,004	2,004	—	—	—	—	—	—	*2,004*
17	General governments	45,185	45,185	—	—	—	—	—	—	—	—	—	—
18	Credit institutions	43,087	43,087	—	—	—	—	—	—	—	—	—	—
19	Other financial corporations	96,675	96,675	—	4	4	—	—	—	—	—	—	*4*
20	Non-financial corporations	503,148	503,148	—	1,943	1,943	—	—	—	—	—	—	*1,943*
21	Households	542,061	542,061	—	57	57	—	—	—	—	—	—	*57*
22	Total	6,580,862	6,573,813	7,049	120,938	54,529	7,490	9,313	17,728	15,921	6,800	9,157	*120,938*

The table below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained by taking possession. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet whilst the accumulated negative changes is the accumulated impairment or negative change on the initial recognition value of the collateral obtained by taking possession including amortisation in the case of PP&E and investment properties.

Table 22: Collateral obtained by taking possession and execution processes

		2020		2019	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
		€000	**€000**	€000	€000
1	Property, plant and equipment (PP&E)	**—**	**—**	—	—
2	Other than PP&E	**4,855**	**86**	5,303	(97)
3	Residential immovable property	**1,658**	**59**	2,066	(69)
4	Commercial Immovable property	**3,156**	**8**	3,196	(8)
7	Other	**41**	**19**	41	(20)
8	**Total at 31 December**	**4,855**	**86**	5,303	(97)

The following table provides information on the gross carrying amount of exposures and related impairment with further detail on the IFRS 9 stage, accumulated partial write off and collateral. The IFRS 9 stages have the following characteristics:

- stage 1: These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for ECL is recognised;
- stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised; and
- stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.

Table 23: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, negative changes in fair value due to credit risk and provisions		
			of which stage 1	*of which stage 2*		*of which stage 2*	*of which stage 3*		*of which stage 1*	*of which stage 2*		*of which stage 2*	*of which stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*
	At 31 December 2020												
1	**Loans and advances**	3,716,555	*3,385,859*	*330,696*	130,996	—	*130,996*	(32,743)	*(13,601)*	*(19,142)*	(27,173)	—	*(27,173)*
2	Central banks	24,476	*24,476*	—	—	—	—	—	—	—	—	—	—
3	General governments	148,881	*148,881*	—	—	—	—	(51)	*(51)*	—	—	—	—
4	Credit institutions	497,381	*497,381*	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	194,733	*84,189*	*110,544*	459	—	*459*	(4,290)	*(864)*	*(3,426)*	(82)	—	*(82)*
6	Non-financial corporations	653,060	*483,068*	*169,992*	47,141	—	*47,141*	(13,513)	*(3,104)*	*(10,409)*	(18,777)	—	*(18,777)*
7	– *of which: SMEs*	*404,654*	*285,888*	*118,766*	*46,308*	—	*46,308*	*(10,782)*	*(2,491)*	*(8,291)*	*(17,995)*	—	*(17,995)*
8	Households	2,198,024	*2,147,864*	*50,160*	83,396	—	*83,396*	(14,889)	*(9,582)*	*(5,307)*	(8,314)	—	*(8,314)*
9	**Debt securities**	1,134,124	*1,134,124*	—	—	—	—	—	—	—	—	—	—
11	General governments	886,476	*886,476*	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	247,648	*247,648*	—	—	—	—	—	—	—	—	—	—
15	**Off-balance-sheet exposures**	1,218,465	*1,060,941*	*157,524*	2,876	—	*2,876*	(1,878)	*(693)*	*(1,185)*	(542)	—	*(542)*
17	General governments	107,372	*107,372*	—	—	—	—	(2)	*(2)*	—	—	—	—
18	Credit institutions	29,180	*28,664*	*516*	—	—	—	(5)	*(5)*	—	—	—	—
19	Other financial corporations	70,242	*40,213*	*30,029*	—	—	—	(208)	*(146)*	*(62)*	—	—	—
20	Non-financial corporations	550,649	*434,133*	*116,516*	2,775	—	*2,775*	(1,601)	*(509)*	*(1,092)*	(542)	—	*(542)*
21	Households	461,022	*450,559*	*10,463*	101	—	*101*	(62)	*(31)*	*(31)*	—	—	—
22	**Total**	6,069,144	*5,580,924*	*488,220*	133,872	—	*133,872*	(34,621)	*(14,294)*	*(20,327)*	(27,715)	—	*(27,715)*

			Collaterals and financial guarantees received	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
	At 31 December 2020			
1	**Loans and advances**	(12,073)	2,643,517	109,356
2	Central banks	—	—	—
3	General governments	—	148,873	—
4	Credit institutions	—	—	—
5	Other financial corporations	—	120,239	378
6	Non-financial corporations	(12,027)	349,751	28,700
7	– *of which: SMEs*	*(12,027)*	*181,803*	*28,651*
8	Households	(46)	2,024,654	80,278
9	**Debt securities**	—	—	—
10	Central banks	—	—	—
11	General governments	—	—	—
12	Credit institutions	—	—	—
13	Other financial corporations	—	—	—
14	Non-financial corporations	—	—	—
15	**Off-balance-sheet exposures**	—	—	—
16	Central banks	—	—	—
17	General governments	—	—	—
18	Credit institutions	—	—	—
19	Other financial corporations	—	—	—
20	Non-financial corporations	—	—	—
21	Households	—	—	—
22	**Total**	(12,073)	2,643,517	109,356

Table 23: Performing and non-performing exposures and related provisions (continued)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, negative changes in fair value due to credit risk and provisions		
			of which stage 1	*of which stage 2*		*of which stage 2*	*of which stage 3*		*of which stage 1*	*of which stage 2*		*of which stage 2*	*of which stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000
	At 31 December 2019												
1	Loans and advances	4,280,026	*4,197,792*	*82,234*	118,934	—	*118,934*	(13,586)	*(7,573)*	*(6,013)*	(23,297)	—	*(23,297)*
2	Central banks	426,741	*426,741*	—	—	—	—	(19)	*(19)*	—	—	—	—
3	General governments	126,170	*126,169*	*1*	—	—	—	(33)	*(33)*	—	—	—	—
4	Credit institutions	676,389	*676,389*	—	—	—	—	(1)	*(1)*	—	—	—	—
5	Other financial corporations	173,566	*172,301*	*1,265*	635	—	*635*	(1,331)	*(1,278)*	*(53)*	(143)	—	*(143)*
6	Non-financial corporations	696,692	*661,171*	*35,521*	58,725	—	*58,725*	(7,097)	*(4,577)*	*(2,520)*	(16,746)	—	*(16,746)*
7	*– of which: SMEs*	*524,206*	*492,833*	*31,373*	*53,388*	—	*53,388*	*(6,618)*	*(4,387)*	*(2,424)*	*(15,266)*	—	*(15,266)*
8	Households	2,180,468	*2,135,021*	*45,447*	59,574	—	*59,574*	(5,105)	*(1,665)*	*(3,440)*	(6,408)	—	*(6,408)*
9	Debt securities	1,070,680	*1,070,680*	—	—	—	—	(32)	*(32)*	—	—	—	—
11	General governments	815,560	*815,560*	—	—	—	—	(25)	*(25)*	—	—	—	—
12	Credit institutions	255,120	*255,120*	—	—	—	—	(7)	*(7)*	—	—	—	—
15	Off-balance-sheet exposures	1,230,156	*1,202,826*	*27,330*	2,004	—	*2,004*	(1,306)	*(1,022)*	*(284)*	(11)	—	*(11)*
17	General governments	45,185	*45,180*	*5*	—	—	—	(2)	*(2)*	—	—	—	—
18	Credit institutions	43,087	*43,087*	—	—	—	—	(1)	*(1)*	—	—	—	—
19	Other financial corporations	96,675	*93,747*	*2,928*	4	—	*4*	(160)	*(156)*	*(4)*	—	—	—
20	Non-financial corporations	503,148	*483,006*	*20,142*	1,943	—	*1,943*	(980)	*(846)*	*(134)*	(11)	—	*(11)*
21	Households	542,061	*537,806*	*4,255*	57	—	*57*	(163)	*(17)*	*(146)*	—	—	—
22	Total	6,580,862	*6,471,298*	*109,564*	120,938	—	*120,938*	(14,924)	*(8,627)*	*(6,297)*	(23,308)	—	*(23,308)*

			Collaterals and financial guarantees received	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
	At 31 December 2019			
1	Loans and advances	(12,090)	2,555,216	90,079
2	Central banks	—		
3	General governments	—	119,703	—
4	Credit institutions	—	—	—
5	Other financial corporations	—	—	186
6	Non-financial corporations	(12,086)	413,434	32,278
7	*– of which: SMEs*	*(12,059)*		
8	Households	(4)	2,022,079	57,615
9	Debt securities	—	—	—
10	Central banks	—	—	—
11	General governments	—	—	—
12	Credit institutions	—	—	—
13	Other financial corporations	—	—	—
14	Non-financial corporations	—	—	—
15	Off-balance-sheet exposures	—	—	—
16	Central banks	—	—	—
17	General governments	—	—	—
18	Credit institutions	—	—	—
19	Other financial corporations	—	—	—
20	Non-financial corporations	—	—	—
21	Households	—	—	—
22	Total	(12,090)	2,555,216	90,079

Table 21 analyses past due unimpaired and credit impaired exposures on a regulatory consolidation basis using accounting values. There are no material differences between the regulatory and accounting scope of consolidation.

All amounts past due more than 90 days are considered credit impaired even where regulatory rules deem default as 180 days past due.

Table 24: Amount of past due unimpaired and credit impaired exposures by geographical region

At 31 December 2020	Europe €000	Asia €000	MENA €000	North America €000	Latin America €000	Total €000
Past due	**26,003**	**—**	**206**	**1**	**12**	**26,222**
– personal	**20,173**	**—**	**206**	**1**	**12**	**20,392**
– corporate and commercial	**5,564**	**—**	**—**	**—**	**—**	**5,564**
– financial	**266**	**—**	**—**	**—**	**—**	**266**
At 31 December 2019						
Past due	161,734	132	183	272	—	162,321
– personal	74,329	132	183	272	—	74,916
– corporate and commercial	74,208	—	—	—	—	74,208
– financial	13,197	—	—	—	—	13,197

Expected Loss ('EL') and credit risk adjustments

The local group analyses credit loss experience in order to assess the performance of our risk measurement and control processes, and to inform our understanding of the implications for risk and capital management of dynamic changes occurring in the risk profile of our exposures.

When comparing regulatory EL with measures of ECL under IFRS 9, differences in the definition and scope of each should be considered. These can give rise to material differences in the way economic, business and methodological drivers are reflected quantitatively in the accounting and regulatory measures of loss.

In general, HSBC calculates ECL using three main components namely probability of default, loss given default, and exposure at default.

ECL include impairment allowances (or provisions, against commitments and guarantees) calculated for a 12-month period ('12-month ECL'), for the remaining life of an exposure ('lifetime ECL'), and on financial assets that are considered to be in default or otherwise credit impaired. ECL resulting from default events that are possible:

- within the next 12 months are recognised for financial instruments in stage 1; and
- beyond 12 months are recognised for financial instruments in stages 2 and 3.

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Change in ECL and other credit impairment charges represents the movement in the ECL during the year including write-offs, recoveries and foreign exchange. EL represents the one-year regulatory expected loss accumulated in the book at the balance sheet date.

Credit risk adjustments ('CRAs') encompass the impairment allowances or provisions balances, and changes in ECL and other credit impairment charges.

Further information on the measurement of loans and advances is disclosed in the Note 3 of the Significant accounting policies within the *Annual Report and Accounts*.

Impaired loans and advances

Impaired loans and advances are those that are classified as CRR 9 or CRR 10. These grades are assigned when HSBC Bank Malta p.l.c. considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the bank.

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

The table below analyses the change in stock of specific credit risk adjustment for the financial year ended 31 December 2020.

Table 25: Changes in the stock of general and specific credit risk adjustments (CR2-A)

		Footnotes	Accumulated specific credit risk adjustment €000
1	**Opening balance at 1 January 2020**		**47,327**
2	Increases due to amounts set aside for estimated loan losses during the period	1	**24,196**
4	Decreases due to amounts taken against accumulated credit risk adjustments		**(2,023)**
8	Other adjustments		**3,050**
9	**Closing balance at 31 December 2020**		**72,550**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss		**755**

Table 25: Changes in the stock of general and specific credit risk adjustments (CR2-A) (continued)

		Accumulated specific credit risk adjustment
		€000
1	Opening balance at 1 January 2019	52,838
2	Increases due to amounts set aside for estimated loan losses during the period	2,827
3	Decreases due to amounts reversed for estimated loan losses during the period	(8,338)
9	Closing balance at 31 December 2019	47,327
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	1,233

1 *Following adoption of IFRS 9 'Financial instruments', the movement due to amounts set aside for estimated loan losses during the period has been reported net.*

The local group does not account for any general credit risk adjustments.

Defaulted exposures

The accounting definition of impaired and the regulatory definition of default are generally aligned. For particular retail exposures regulatory default is identified at 180 days past due, while the exposures are identified as impaired at 90 days past due.

Table 26: Changes in stock of defaulted loans and debt securities (CR2-B)

		Gross carrying value defaulted exposures
		€000
1	**Opening balance at 1 January 2020**	**136,508**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	**40,813**
3	Returned to non-defaulted status	**(9,093)**
4	Amounts written off	**(2,023)**
5	Other changes	**(17,728)**
6	**Closing balance at 31 December 2020**	**148,477**
1	Opening balance at 1 January 2019	162,269
2	Loans and debt securities that have defaulted or impaired since the last reporting period	18,607
3	Returned to non-defaulted status	(8,682)
4	Amounts written off	(8,338)
5	Other changes	(27,348)
6	Closing balance at 31 December 2019	136,508

In 2020, interest income amounting to €4,350,000 was recognised in profit or loss on loans for which individually assessed impairment provisions existed.

The local group's impaired and past due but not impaired loans and advances to customers are all concentrated in Malta.

Additional disclosures on measures applied in response to the Covid-19 outbreak

The following tables provide information on payment moratoria and forbearance measures to existing loans and public guarantees to new lending in the context of Covid-19. These temporary additional disclosures were announced on 2 June 2020 by the European Banking Authority ('EBA'), and set out its expectations on how the disclosures guidelines are to be applied.

Table 27: Loans and advances subject to legislative and non-legislative moratoria

		Gross carrying amount						
			Performing			Non performing		
				Of which forborne	*Of which stage 2*		*Of which forborne*	*Unlikely to pay but not past-due or past-due <= 90 days*
	At 31 December 2020	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	Loans and advances subject to moratorium	**163,536**	**158,426**	**601**	**99,964**	**5,110**	**4,994**	**4,638**
2	– *of which: Households*	***41,621***	***36,511***	***601***	***1,227***	***5,110***	***4,994***	***4,638***
3	– *of which: Collateralised by residential immovable property*	***41,080***	***36,011***	***580***	***1,227***	***5,069***	***4,973***	***4,607***
4	– *of which: Non-financial corporations*	***65,676***	***65,676***	–	***62,147***	–	–	–
5	– *of which: Small and Medium-sized Enterprises*	***45,394***	***45,394***	–	***41,957***	–	–	–
6	– *of which: Collateralised by commercial immovable property*	***37,215***	***37,215***	–	***33,861***	–	–	–

Table 27: Loans and advances subject to legislative and non-legislative moratoria (continued)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing			
			Of which forborne	*Of which stage 2*		*Of which forborne*	*Unlikely to pay but not past-due or past-due <= 90 days*	Inflows to non-performing exposures
At 31 December 2020	**€000**	**€000**	***€000***	***€000***	**€000**	***€000***	***€000***	**€000**
1 Loans and advances subject to moratorium	**(5,173)**	**(4,998)**	***(2)***	***(4,541)***	**(175)**	***(162)***	***(165)***	**5,057**
2 – *of which: Households*	***(344)***	***(169)***	***(2)***	***(32)***	***(175)***	***(162)***	***(165)***	***5,057***
3 – *of which: Collateralised by residential immovable property*	***(329)***	***(168)***	***(2)***	***(32)***	***(161)***	***(161)***	***(157)***	***5,026***
4 – *of which: Non-financial corporations*	**(2,347)**	**(2,347)**	–	***(2,298)***	–	–	–	–
5 – *of which: Small and Medium-sized Enterprises*	***(2,225)***	***(2,225)***	–	***(2,177)***	–	–	–	–
6 – *of which: Collateralised by commercial immovable property*	***(1,995)***	***(1,995)***	–	***(1,948)***	–	–	–	–

Table 28: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria

		Gross carrying amount							
					Residual maturity of moratoria				
	Number of obligors		*Of which: legislative moratoria*	*Of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
At 31 December 2020		**€000**	***€000***	***€000***	**€000**	**€000**	**€000**	**€000**	**€000**
1 Loans and advances for which moratorium was offered	**2,224**	**442,605**							
2 Loans and advances subject to moratorium (granted)	**1,821**	**430,158**	***430,158***	***266,622***	**42,874**	**119,377**	**1,285**	–	–
3 – *of which: Households*	–	***238,718***	***238,718***	***197,097***	***13,205***	***27,131***	***1,285***	–	–
4 – *of which: Collateralised by residential immovable property*	–	***233,914***	***233,914***	***192,834***	***13,017***	***26,778***	***1,285***	–	–
5 – *of which: Non-financial corporations*	–	***102,727***	***102,727***	***37,051***	***18,923***	***46,753***	–	–	–
6 – *of which: Small and Medium-sized Enterprises*	–	***56,159***	***56,159***	***10,765***	***4,933***	***40,461***	–	–	–
7 – *of which: Collateralised by commercial immovable property*	–	***43,171***	***43,171***	***5,956***	***15,109***	***22,106***	–	–	–

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis

In May 2020, HSBC Bank Malta p.l.c. confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme. This government-backed scheme provides banks with credit risk mitigation in respect of loans granted to eligible and viable businesses which may be experiencing cash flow and liquidity pressures resulting from the adverse business conditions following the Covid-19 outbreak.

Table 29: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis

	Gross carrying amount		Public guarantees received	Inflows to non-performing exposures
		of which: forborne	Maximum amount of the guarantee that can be considered	Gross carrying amount
At 31 December 2020	**€000**	***€000***	**€000**	**€000**
1 Newly originated loans and advances subject to public guarantee schemes	**14,284**	–	**12,676**	**2,973**
4 – *of which: Non-financial corporations*	***14,284***	–	***12,676***	***2,973***
5 – *of which: Small and Medium-sized Enterprises*	***10,784***	–	–	–
6 – *of which: Collateralised by commercial immovable property*	***3,255***	–	–	–

Risk mitigation

Our approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured.

Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Detailed policies cover the acceptability, structuring and terms with regards to the availability of credit risk mitigation such as in the form of collateral security. These policies together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Policy and procedures

Policies and procedures govern the protection of our position from the outset of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to private banking and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. Facilities to small and medium-sized enterprises ('SME's') are commonly granted against guarantees given by their owners and/or directors.

For credit risk mitigants in the form of immovable property, the key determinant of concentration is geographic; use of immovable property mitigants for risk management purposes is entirely property situated in Malta.

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. Collateral values are determined through a combination of professional appraisals and house price indices. Specifically, HSBC Bank Malta p.l.c. utilises the price index to update its mortgage portfolio value at intervals of up to three years, or more frequently as the need arises, for example, where market conditions are subject to significant change. Professional valuations are obtained for high value mortgage loans annually for impaired loans. Valuation of collateral on commercial real estate is obtained on an 3 yearly basis, with valuation of commercial property securing defaulted exposures being obtained on an 18 month basis.

In addition, revaluation is also sought where, for example, as part of the regular credit assessment of the obligor, material concerns arise in relation to the performance of the collateral. CRE revaluation also commonly occurs where a decline in the obligor's credit quality gives cause for concern that the principal payment source may not fully meet the obligation.

Other forms of Credit Risk Mitigation

Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank. In our corporate lending portfolio, we also take guarantees from corporates as part of a parent/subsidiary or common parent relationships.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses for credit derivatives, where appropriate) to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor. For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and, in the case of eligible debt securities, their credit quality) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

Table 30: Credit risk mitigation techniques – overview (CR3)

		Exposures unsecured: carrying amount	Exposures secured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
		€000	€000	€000	€000
1	Loans	**4,206,642**	**375,797**	**93,958**	**281,839**
2	Debt securities	**1,137,156**	**–**	**–**	**–**
3	**Total at 31 December 2020**	**5,343,798**	**375,797**	**93,958**	**281,839**
4	*– of which: defaulted*	***110,385***	***1,149***	***1,149***	**–**
1	Loans	4,149,773	222,591	91,155	131,436
2	Debt securities	1,075,461	–	–	–
3	Total at 31 December 2019	5,225,234	222,591	91,155	131,436
4	*– of which: defaulted*	*99,421*	*4,087*	*4,087*	–

Credit risk exposures and credit risk mitigant techniques

The table below illustrates the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in the application of Article 222 and Article 223 of the same regulation on standardised approach capital requirements' calculations. RWA density provides a synthetic metric on the riskiness of each portfolio.

Table 31: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

		Footnotes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
			On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
			€000	€000	€000	€000	€000	%
	Asset classes	1						
1	Central governments or central banks		**1,441,731**	**11,647**	**1,726,936**	**51,754**	**67,826**	**4**
3	Public sector entities		**335,470**	**107,368**	**186,448**	**—**	**1**	**—**
4	Multilateral development banks		**237,859**	**—**	**237,859**	**—**	**—**	**—**
5	International Organisations		**10,013**	**—**	**10,013**	**—**	**—**	**—**
6	Institutions		**323,754**	**28,715**	**323,754**	**1,394**	**121,562**	**37**
7	Corporates		**778,079**	**622,747**	**625,378**	**89,973**	**542,859**	**76**
8	Retail		**262,997**	**422,809**	**260,392**	**259**	**195,466**	**75**
9	Secured by mortgages on immovable		**2,233,924**	**—**	**2,233,924**	**—**	**809,676**	**36**
10	Exposures in default		**110,192**	**6,396**	**110,038**	**300**	**116,930**	**106**
11	Higher-risk categories		**39,306**	**11,911**	**38,977**	**5,590**	**66,850**	**150**
15	Equity		**33**	**—**	**33**	**—**	**33**	**100**
16	Other items		**136,442**	**—**	**136,442**	**—**	**146,452**	**107**
17	**Total at 31 December 2020**		**5,909,800**	**1,211,593**	**5,890,194**	**149,270**	**2,067,655**	**34**
1	Central governments or central banks		1,203,506	45,179	1,329,768	25,865	56,068	4
3	Public sector entities		235,376	10,042	191,883	—	—	—
4	Multilateral development banks		239,821	—	239,821	—	—	—
5	International Organisations		16,173	—	16,173	—	—	—
6	Institutions		666,281	44,244	666,281	16,626	215,365	32
7	Corporates		584,108	568,793	480,384	83,023	535,579	95
8	Retail		419,071	541,654	415,599	398	311,928	75
9	Secured by mortgages on immovable		1,973,310	—	1,973,310	—	702,020	36
10	Exposures in default		91,836	5,172	91,611	138	103,952	113
11	Higher-risk categories		40,716	12,467	40,196	5,351	68,321	150
15	Equity		4,537	—	4,537	—	4,537	100
16	Other items		142,204	—	142,204	—	150,047	106
17	Total at 31 December 2019		5,616,939	1,227,551	5,591,767	131,401	2,147,817	38

1 *Derivative instruments exposures are not included in the above table, on which RWA's amounted to €5,993,000 in 2020 (2019: €5,828,000).*

The table below represents for each exposure class, the total exposure value that is secured and unsecured In the case of exposures secured by mortgage on immovable property, the value is limited to 70% of the market value of the property or the mortgage lending value of the property in the case of residential property, and 50% of the market value of the property or 60% of the mortgage lending value of the property in the case of commercial property, are being mostly captured under the exposures unsecured: carrying amount. The local group also holds other eligible collateral classified as funded credit protection, such as cash and life insurance policies, as well as liquid sovereign debt securities; are being included under the exposures secured by financial guarantees. The local group does not use any guarantees or credit derivatives as referred to in Article 453(g) of the CRR as a credit risk mitigant to cover credit exposures.

Table 32: Credit risk mitigation techniques – Standardised

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees
	€000	€000	€000	€000
Central government or central banks	**1,454,850**	**—**	**—**	**—**
Public sector entities	**186,372**	**256,389**	**6,367**	**250,022**
Multilateral development banks	**237,859**	**—**	**—**	**—**
International organisations	**10,013**	**—**	**—**	**—**
Institutions	**354,458**	**—**	**—**	**—**
Corporates	**1,023,022**	**379,142**	**195,962**	**183,180**
Retail Exposures	**670,045**	**14,033**	**14,033**	**—**
Secured by mortgages on immovable property	**2,202,478**	**28,347**	**28,347**	**—**
Exposures in default	**107,937**	**636**	**636**	**—**
Items associated with particularly high risk	**36,834**	**13,318**	**13,318**	**—**
Equity exposures	**33**			
Other exposures	**136,442**			
Total at 31 December 2020	**6,420,343**	**691,865**	**258,663**	**433,202**

Table 32: Credit risk mitigation techniques – Standardised (continued)

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees
	€000	€000	€000	€000
Central government or central banks	1,241,983	8,652	8,652	—
Public sector entities	191,883	53,535	13,355	40,180
Multilateral development banks	239,821	—	—	—
International organisations	16,173	—	—	—
Institutions	713,722	—	—	—
Corporates	842,084	316,007	188,191	127,816
Retail Exposures	945,901	14,824	14,824	—
Secured by mortgages on immovable property	1,967,813	5,497	5,497	—
Exposures in default	92,921	4,087	4,087	—
Items associated with particularly high risk	47,751	5,431	5,431	—
Equity exposures	4,537	—	—	—
Other exposures	142,204	—	—	—
Total at 31 December 2019	6,446,793	408,033	240,037	167,996

Counterparty credit risk

Overview

Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to counterparties in both the trading and non-trading books. The table below sets out details of the local Group's counterparty credit risk exposures through its over the counter ('OTC') derivative exposures.

Four approaches may be used under CRD IV to calculate exposure values for CCR: mark-to-market, original exposure, standardised and IMM. Exposure values calculated under these approaches are used to determine RWAs; HSBC Malta applies the mark-to-market approach. Under the mark-to-market approach, the EAD is calculated as current exposure plus regulatory add-ons.

CCR management in HSBC Malta is performed through different levels:

- Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') subfunction, within the Risk function, either at local level or regional level or even Group level.
- Credit exposure monitoring is performed by the WMR subfunction.

Credit authority for CCR

HSBC Malta WCR has a delegated approval authority for Corporates. Depending on the level of the credit limit, credit approval might require concurrence from HSBC Bank plc WCMR and Group WCMR if above HSBC Malta delegated approval authority. Sovereigns, Intra-Group and Banks limits require HSBC Bank plc / Group WCR concurrence whatever the amount of the limit.

All credit limits are reviewed at least once a year. At the request of the local Relationship Manager and potentially the Global Relationship Manager, HSBC Malta WMR may recommend credit limit application to the relevant credit authority, in for specific limit requests. WMR's recommendations highlight the main risk drivers and is based on the in depth analysis of the existing portfolio which includes views on contingent market risk and stress exposure and potentially include proposals to reduce the portfolio risk or mitigate proposed transactions.

Credit limit set up for CCR management

Two groups of limits are used in the management of CCR:

- Counterparty-level limits;
- Portfolio-level traded credit risk limits.

Counterparty-level limits

Category A ('Cat A') limits

Cat A limits are those for which a credit limit is typically recorded at the full notional amount of the facility, the bank being actually or potentially at risk for 100% of the committed amount. Cat A facilities include on-balance sheet assets such as loans or lines of credit, as well as bond investments and trading lines. They may be either funded (loans, money market advances, bond trading) or unfunded such as guarantees and underwriting limits. Cat A limits are set according to maturity bands.

Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off-balance sheet products and are used for the monitoring of the PFE (Potential Future Exposure). Usage under Cat B represents the cost of replacement of the OTC contracts. In most instances, Cat B limits are set at entity level (known as the parent level) according to maturity bands. For Funds, risk is controlled at both an umbrella fund and individual fund level. Some complex corporates are mainly controlled at entity level but may have shared limits under the total relationship.

Category S ('Cat S') limits

Cat S limits cover the risk that counterparties will fail to meet their delivery obligations, either through payment systems ('PSL'), or through settlement processes for treasury and securities transactions ('TSL').

Portfolio-level limits

WMR has established a number of portfolio-level limits to monitor risk at an aggregate level. These are formalised through a mandate shared with the Head of Global Markets ('GM') , subject to annual review and ongoing monitoring routines.

Table 33: Analysis of counterparty credit risk ('CCR') exposure by approach

		Replacement cost	Potential future exposure	EAD post-CRM	RWAs
		€000	€000	€000	€000
1	Mark to market	**6,574**	**2,925**	**9,499**	**5,993**
11	**Total at 31 December 2020**	**6,574**	**2,925**	**9,499**	**5,993**
1	Mark to Market	5,320	5,016	10,336	5,828
11	Total at 31 December 2019	5,320	5,016	10,336	5,828

Credit quality of financial assets

Information on the credit quality of financial assets can be found in Note 4 of the Annual Report and Accounts

Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the bank's income or portfolio value.

There were no material changes to the policies and practices for the management of market risk during 2020. A summary of our current policies and practices for the management of market risk is set out in Note 4 (e).

Exposure to Market risk

Exposure to market risk is split into two portfolios:

- Trading portfolios: these comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.
- Non-trading portfolios: these comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, debt instruments measured at amortised cost, and exposures arising from our insurance operations.

The local group operates in Non-trading portfolios, with the objective of managing and controlling market risk exposures, to optimise return on risk while maintaining a market risk profile consistent with our established risk appetite.

The table below reflects the components of capital requirement under the standardised approach.

Table 34: Market risk under standardised approach (MR1)

		At		
		31 December 2020	31 December 2019	**31 December 2020**
		RWAs	RWAs	**Capital requirements**
		€000	€000	**€000**
	Outright products			
3	Foreign exchange risk	**548**	459	**44**

Operational Risk

Overview

HSBC Bank Malta p.l.c defines operational risk as a risk that would arise from:

- Inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically through information systems;
- External events

Notable sources of operational risk include external or internal fraud risk (article 324 of CRR), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

We have historically experienced operational risk losses in the following major categories:

- External Fraud event
- Transaction processing

Further information can be found in The Report of the Directors under section Non-financial Risks of this Annual Report and Accounts.

Table reports our operational risk capital requirements for the current year.

Table 35: Operational risk RWAs and capital required

		At		
		31 December 2020	31 December 2019	**31 December 2020**
		RWAs	RWAs	**Capital requirements**
		€000	€000	**€000**
	Standardised Approach			
3	Operational Risk	**237,216**	249,517	**18,977**

Organisation and responsibilities

Responsibility for managing non-financial risk lies with our people. During 2020 we continued to strengthen our approach to managing non-financial risk as set out in the Risk Management Framework ('RMF'). The framework sets out our approach to governance and risk appetite and provides a single view of non-financial risks that matter the most and associated controls. The enhancement and embedding of the risk appetite framework for non-financial risk, and the improvement of the consistency of the adoption of the end-to-end risk and control assessment processes were a particular focus in 2020. While there remains more to do, we made progress in strengthening the control environment and the management of non-financial risk.

In line with the increasing threat landscape that the industry faces within non-financial risk, we formed the new operational and resilience risk-sub-function in 2020. Operational and Resilience Risk is a combined risk stewardship and oversight function, which ensures governance and management of Operational and Resilience Risk through the delivery and embedding of effective frameworks, and continuous oversight and assurance of end to end processes, risks and controls. The effectiveness of first line of defence risk and control owners, and second line of defence risk stewards in managing HSBC's Non-Financial Risk processes and practices is reported through Risk Management Meetings ('RMMs').

Non-financial risk is organised as a specific risk discipline within our Risk function, managed by the Head of Operational Risk and the Head of Resilience Risk, who together are responsible for monitoring the effectiveness of the internal control environment, the level of operational losses and the resilience risk taxonomies. These individuals are accountable to the Chief Risk Officer in respect of this element of the overall risk management framework.

Activity to strengthen the three lines of defence model continued to be a key focus in 2020. The first line of defence owns the risk and is accountable for identifying, assessing, managing key existing and emerging risks. The second line of defence sets the policy and control standards to manage risks, and provides advice and guidance to support these policies. It also challenges the first line to ensure it is managing risk effectively. The third line of defence is Internal Audit, which provides independent assurance to the Board and management that our risk management approach and processes are designed and operating effectively.

Measurement and monitoring

We have codified our RMF in a high level standard, supplemented by detailed policies. These policies explain our approach to identifying, assessing, monitoring and controlling non-financial risk, and give guidance on mitigating actions to be taken when weaknesses are identified.

Monitoring non-financial risk exposure against risk appetite on a regular basis, and setting out our risk acceptance process, drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

Risk scenario analysis provides a top down, forward-looking assessment of risks to help determine whether they are being effectively managed within our risk appetite or whether further management action is required. Business managers are responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The RMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Risk and control assessment approach

Non-financial risk and control assessments are performed by individual business units and functions. The risk and control assessment process is designed to provide business areas and functions with a forward-looking view of non-financial risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage non-financial risks within acceptable levels. Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment; and
- investigating whether cost-effective insurance cover is available to mitigate the risk.

Recording

We use a Group-wide risk management system to record the results of our non-financial risk management process. Non-financial risk and control assessments, as described above, are inputted and maintained by business units. Business management monitors and follow up the progress of documented action plans. Operational risk losses are entered into the group-wide risk management system and reported to RMM, the Risk Committee of the Board, and the Board itself, on a monthly basis. Loss capture thresholds are in line with industry standards.

Continuity of business operations during Covid-19 pandemic

As a result of the Covid-19 outbreak, business continuity responses have been successfully implemented and the majority of service level agreements has been maintained. We have not experienced any major impacts to the supply chain for our third party service providers due to Covid-19. The risk of damage or theft to our physical assets or criminal injury to our employees remains unchanged and no significant incidents have impacted our buildings or staff.

Liquidity and funding

Liquidity management across the group

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risks are managed by HSBC Bank Malta p.l.c. on a standalone basis with no implicit reliance assumed on any other Group entity (unless pre-committed). HSBC Group's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

HSBC Bank Malta p.l.c. liquidity group manages its liquidity and funding risks in line with the HSBC Group framework.

Strategies and processes in the management of liquidity risk

Liquidity risk is the risk that HSBC Bank Malta p.l.c. does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required.

HSBC has an internal liquidity and funding risk management framework ('LFRF'), which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken locally (by country) in compliance with the Group's LFRF, and with practices and limits set by the Markets Treasury through the RMM and approved by the Board. HSBC Bank Malta p.l.c's policy is that it should be self-sufficient in funding its own activities.

The key aspects of the internal LFRF which is used to ensure that HSBC maintains an appropriate overall liquidity risk profile are:

- the bank is to manage liquidity and funding risk on a standalone basis without reliance on other members of the group or central banks and other shareholders;
- minimum liquidity coverage ratio ('LCR') requirement; and
- minimum net stable funding ratio ('NSFR') requirement or other appropriate metric.

Structure and Organisation of the liquidity risk management function

The Asset, Liability & Capital Management ('ALCM') team is responsible for the application of the LFRF for HSBC Bank Malta p.l.c. The elements of the LFRF are underpinned by a robust governance framework, the two major elements of which are:

- Asset and Liability Management Committees ('ALCOs'); and
- Annual individual liquidity adequacy assessment process ('ILAAP') used to validated risk tolerance and set risk appetite.

HSBC Bank Malta p.l.c. is required to prepare an internal liquidity adequacy assessment ('ILAA') document at an appropriate frequency. The final objective of the ILAA, approved by the Board of Directors, is to verify that HSBC Bank Malta p.l.c. maintains liquidity resources which are adequate in both amount and quality at all times, ensuring that there is no significant risk that its liabilities cannot be met as they fall due, maintaining a prudent funding profile.

Management of liquidity and funding risk

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

The LCR is calculated as per Commission Delegated Regulation 2015/61 (LCR Delegated Act) supplementing the CRR.

Net stable funding ratio ('NSFR')

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 NSFR is calculated on the BCBS 295 basis. Nevertheless, HSBC Bank Malta p.l.c. also considers the evolution on the NSFR required by the CRR2, which will enter into force in June 2021.

Liquid Assets

Liquid assets consist in any unencumbered liquid securities and available cash held by the Markets Treasury. They are managed at HSBC Bank Malta p.l.c. level. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

Overall adequacy of liquidity risk management

HSBC Bank Malta p.l.c. is required to manage liquidity risk and funding risk in accordance with the LFRF, which includes the preparation of an Individual Liquidity Adequacy Assessment ('ILAA') document, to ensure that:

- liquidity resources are adequate, both as to the amount and quality;
- there is no significant risk that liabilities cannot be met as they fall due;
- a prudent structural funding profile is maintained;
- adequate liquidity resources continue to be maintained; and
- that the liquidity risk framework is adequate and robust.
- The two key objectives of the ILAAP process are to:
- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- validate the risk tolerance/appetite set at HSBC Bank Malta p.l.c.'s level by demonstrating that reverse stress testing scenarios are acceptably remote; and vulnerabilities have been assessed through the use of severe stress scenarios.

The final conclusion of the ILAA, approved by the Board of Directors, is that HSBC Bank Malta p.l.c.:

- maintains liquidity resources which are adequate in both amount and quality at all times, and ensures that
- there is no significant risk that its liabilities cannot be met as they fall due; and
- ensures its liquidity resources contain an adequate amount of high quality liquid assets ('HQLA') and maintains a prudent funding profile.

Liquidity stress testing

The local group undertakes liquidity stress testing to test that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the local group's business. The local group also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the local group to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken. Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

Governance

ALCM team applies the LFRF at an individual entity level, and is responsible for the implementation of HSBC Group and local regulatory policy as a legal entity level. Balance Sheet Management ('BSM') has responsibility for cash and liquidity management.

Liquidity Risk Management carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and BSM. The role of Liquidity Risk Management includes setting control standards, advice on policy implementation, and review and challenge of reporting.

Other risks

Reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of the local Group and result in financial or non-financial effects or loss of confidence in the HSBC Bank Malta p.l.c. Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. We have taken, and are taking, measures to enhance our AML, sanctions and other regulatory compliance frameworks.

Sustainability risk

Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.

Sustainability risk is:

- measured by assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high-risk transactions; and
- managed using sustainability risk policies covering project finance lending and sector-based sustainability policies for sectors and themes with potentially large environmental or social impacts.

Risk management of insurance operations

We operate an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term life contracts.

By focusing largely on the personal lines of business, we are able to optimise volumes and diversify individual insurance risks.

We choose to manufacture these insurance products in our subsidiary HSBC Life Assurance (Malta) Ltd. based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the group. We also engage with external third party insurance providers to provide general insurance as part of specific propositions or in relation to home loans.

The risk profile of our insurance manufacturing business is measured using an economic capital approach. Assets and liabilities are measured on a market consistent basis, and a capital requirement is defined to ensure that there is a less than one-in-200 chance of insolvency over a one-year time horizon, given the risks to which the business is exposed. The methodology for the economic capital calculation is aligned to the Solvency II insurance capital regulations.

HSBC Life Assurance (Malta) Ltd is excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted).

Business risk

Business risk is the potential negative effect on profits and capital from the local Group not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our risk appetite, business planning and stress testing processes, so that our business model and planned activities are monitored, resourced and capitalised consistent with the commercial, economic and risk environment in which the local Group operates, and that any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non-recourse portfolio, we do not report any dilution risk, as we obtain an indemnity from the seller that indemnifies us against this risk. Moreover, factoring transactions involve lending at a discount to the face-value of the receivables which provides protection against dilution risk.

Interest rate risk

Interest rate risk in the banking book ('IRRBB') is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralised in the market is transferred to BSM to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the Group aims to balance mitigating the effect of future interest rate movements, which could reduce net interest income against the cost of hedging. The monitoring of the projected net interest income and economic value of equity sensitivity under varying interest rate scenarios is a key part of this.

Asset encumbrance

The following is the disclosure of on-balance sheet encumbered and unencumbered assets, and off-balance sheet collateral (represented by median values of monthly data points in 2020) based on the requirement in Part Eight of CRD IV.

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

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

In accordance with the EBA 'Guidelines on disclosure of encumbered and unencumbered assets', the amounts disclosed in the table below represent median values, being the rolling quarterly amounts over the previous 12 months.

Table 36: Encumbered and unencumbered assets

		Footnotes	Carrying amount of encumbered gross assets	Fair value of encumbered gross assets	Carrying amount of unencumbered gross assets	Fair value of unencumbered gross assets
			€000	€000	€000	€000
			At 31 December 2020			
01	Assets of the reporting institution		**22,368**	**—**	**5,779,364**	**—**
03	Equity instruments		**—**	**—**	**33**	**—**
04	Debt Securities		**21,315**	**21,315**	**1,126,796**	**1,126,796**
12	Other Assets		**1,053**	**—**	**4,675,547**	**—**
			At 31 December 2019			
01	Assets of the reporting institution		86,013	—	5,417,716	—
03	Equity instruments		—	—	3,804	—
04	Debt Securities		85,186	85,186	1,011,962	1,011,962
12	Other Assets	1	896	—	4,406,923	—

1 Comparative figures are restated in accordance with current year reporting.

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

As at 31 December 2020, the local group did not have any outstanding liabilities associated with encumbered assets and collateral received.

The bank undertakes the following types of encumbrance:

i Pledging of loans and advances to customer and debt securities against the provision of credit lines by the Central Bank of Malta.

ii Cash pledged in terms of the Recovery and Resolution Regulations, and debt securities in favour of the Depositor Compensation Scheme.

Remuneration policy

Information on the bank's Remuneration Policy and practices is disclosed in the Remuneration Report section within the Annual Report and Accounts.

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

Group income statements

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
Interest receivable and similar income	**113,598**	120,573	118,943	132,850	142,062
Interest expense	**(7,696)**	(10,462)	(10,321)	(12,190)	(15,635)
Net interest income	**105,902**	110,111	108,622	120,660	126,427
Net non-interest income	**27,521**	41,672	41,779	42,029	47,115
Change in expected credit losses and other credit impairment charges	**(25,589)**	(389)	(3,488)	—	—
Loan impairment charges	**N/A**	N/A	N/A	1,168	(9,030)
Operating expenses	**(97,391)**	(120,685)	(108,357)	(114,034)	(102,291)
Profit before tax	**10,443**	30,709	38,556	49,823	62,221
Tax expense	**(2,871)**	(10,541)	(9,860)	(18,968)	(22,008)
Profit for the year	**7,572**	20,168	28,696	30,855	40,213
Earnings per share	**2.1c**	5.6c	8.0c	8.6c	11.2c

Group Statements of Comprehensive Income

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
Profit for the year	**7,572**	20,168	28,696	30,855	40,213
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Debt instruments at fair value through other comprehensive income/available-for-sale investments:	**753**	311	(3,592)	(4,739)	(7,392)
– fair value (losses)/gains	**1,159**	478	(5,527)	(7,290)	(585)
– fair value losses reclassified to profit or loss on disposal	**—**	—	—	—	(10,787)
– income taxes	**(406)**	(167)	1,935	2,551	3,980
Items that will not be reclassified subsequently to profit or loss:					
Properties:	**304**	(475)	382	—	2,299
– (loss)/surplus arising on revaluation	**338**	(528)	424	—	2,299
– income taxes	**(34)**	53	(42)	—	—
Defined benefit obligation:	**(446)**	(619)	(334)	—	—
– remeasurement of defined benefit obligation	**(686)**	(952)	(514)	—	—
– income taxes	**240**	333	180	—	—
Equity instruments designated at fair value through other comprehensive income:	**2**	—	1,045	N/A	N/A
– fair value gains	**3**	—	1,608	N/A	N/A
– income taxes	**(1)**	—	(563)	N/A	N/A
Other comprehensive income, net of tax	**613**	(783)	(2,499)	(4,739)	(5,093)
Total comprehensive income	**8,185**	19,385	26,197	26,116	35,120

Five-year comparison: Statements of financial position

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**996,679**	586,072	190,768	164,059	122,418
Items in course of collection from other banks	**4,959**	3,436	5,404	18,158	16,796
Financial investments designated at fair value attributable to insurance operations	**N/A**	N/A	N/A	727,270	1,383,606
Financial assets mandatorily measured at fair value through profit or loss	**733,670**	754,020	694,081	N/A	N/A
Held for trading derivatives	**6,574**	5,320	4,956	5,175	11,440
Loans and advances to banks	**589,259**	676,031	1,097,714	1,059,308	1,077,859
Loans and advances to customers	**3,264,664**	3,257,433	3,110,412	3,128,833	3,320,332
Financial investments	**877,485**	943,603	904,920	926,096	1,053,200
Prepayments and accrued income	**24,148**	23,578	27,312	24,236	31,178
Current tax assets	**1,813**	1,719	16,728	13,911	12,963
Reinsurance assets	**80,083**	78,945	85,205	85,887	85,228
Assets attributable to disposal group held for sale	**—**	—	—	473,797	—
Other non-current assets held for sale	**8,919**	8,422	5,908	7,411	9,750
Investment property	**1,600**	9,788	9,714	10,600	13,026
Property, plant and equipment	**44,206**	47,403	55,413	56,308	59,147
Intangible assets	**54,342**	61,518	59,136	64,062	67,773
Right-of-use assets	**4,200**	4,685	—	—	—
Deferred tax assets	**27,130**	22,427	21,509	16,488	22,163
Other assets	**10,728**	13,217	21,814	16,384	19,085
Total assets	**6,730,459**	6,497,617	6,310,994	6,797,983	7,305,964
Liabilities					
Deposits by banks	**3,754**	840	2,542	54,703	10,770
Customer accounts	**5,272,961**	4,976,580	4,887,473	4,765,995	5,000,836
Held for trading derivatives	**6,551**	5,190	4,991	5,228	12,600
Accruals and deferred income	**14,843**	20,335	19,151	17,838	17,171
Current tax liabilities	**88**	2,489	538	—	177
Liabilities under investment contracts	**170,865**	183,706	166,347	203,136	930,937
Liabilities under insurance contracts	**648,028**	658,470	620,781	658,792	645,561
Provisions for liabilities and other charges	**21,031**	33,271	20,689	20,099	17,631
Deferred tax liabilities	**17,562**	22,443	23,427	26,295	34,586
Subordinated liabilities	**62,000**	62,000	62,000	29,277	87,418
Liabilities attributable to disposal group held for sale	**—**	—	—	473,797	—
Other liabilities	**34,362**	62,327	44,277	63,785	74,753
Total liabilities	**6,252,045**	6,027,651	5,852,216	6,318,945	6,832,440
Total equity	**478,414**	469,966	458,778	479,038	473,524
Total liabilities and equity	**6,730,459**	6,497,617	6,310,994	6,797,983	7,305,964
Memorandum items					
Contingent liabilities	**152,296**	158,654	149,783	122,959	118,469
Commitments	**1,071,319**	1,075,524	1,433,773	1,215,457	1,225,232

Five-year comparison: Statements of cash flows

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
Net cash (used in)/from operating activities	**158,480**	(204,056)	(71,376)	(156,694)	16,105
Cash flows from investing activities					
Dividends received	**33**	29	18	—	—
Interest received from financial investments	**14,746**	16,229	20,091	32,305	33,435
Purchase of financial investments	**(214,787)**	(315,277)	(242,523)	(139,115)	(100,609)
Proceeds from sale and maturity of financial investments	**263,519**	270,965	254,972	231,950	227,414
Purchase of property, plant and equipment, investment property and intangible assets	**(7,677)**	(6,980)	(5,194)	(2,999)	(990)
Proceeds on sale of property, plant and equipment, investment property, intangible assets and liquidation of subsidiary company	**7,903**	1,865	1,300	—	2,639
Net cash flows (used in)/from investing activities	**63,737**	(33,169)	28,664	122,141	161,889
Cash flows from financing activities					
Dividends paid	**—**	(8,197)	(38,409)	(20,610)	(22,717)
Issue of subordinated liabilities	**—**	—	62,000	—	—
Repayment of subordinated liabilities	**—**	—	(29,277)	(58,158)	—
Net cash used in financing activities	**—**	(8,197)	(5,686)	(78,768)	(22,717)
(Decrease)/increase in cash and cash equivalents	**222,217**	(245,422)	(48,398)	(113,321)	155,277

Five-year comparison: Accounting ratios

	2020	2019	2018	2017	2016
	%	%	%	%	%
Net operating income before loan impairment charges to total assets	**2.0**	2.3	2.4	2.4	2.5
Operating expenses to total assets	**1.4**	1.9	1.7	1.7	1.4
Cost efficiency ratio	**73.0**	80.2	73.0	70.9	60.0
Profit before tax to total assets	**0.2**	0.5	0.6	0.7	0.9
Profit before tax to equity	**2.2**	6.5	8.4	10.4	13.1
Profit after tax to equity	**1.6**	4.3	6.1	6.5	8.5

	2020	2019	2018	2018	2017
Shares in issue (millions)	**360.3**	360.3	360.3	360.3	360.3
Net assets per 30 cents share (cents)	**132.8**	130.4	127.3	133.0	131.4
Earnings per 30 cents share (cents)	**2.1**	5.6	8.0	8.6	11.2
Dividend per 30 cents share (cents)					
– gross	**1.16**	1.70	5.80	17.10	11.20
– net	**0.75**	1.10	3.80	11.10	7.30
Dividend cover	**2.8**	5.1	2.1	0.8	1.5

Branches and offices

Malta offices

Registered Office/Head Office
116 Archbishop Street, Valletta VLT 1444
Tel: 2380 2380

Retail Banking and Wealth Management
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Premier Centre

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

Commercial Banking
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 8000

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

Trade Services
Business Banking Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 1828

Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Card Operations
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Contact Centre
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Inheritance Unit
80 Mill Street, Qormi QRM 3101
Tel: 2380 3360/1/2/3/4

Legal Office
32 Merchants Street, Valletta VLT 1173
Tel: 2380 2411

Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2380 3382

Branches

Birkirkara
1 Naxxar Road BKR 9049
Tel: 2380 2380

Gzira
196 The Strand GZR 1023
Tel: 2380 2380

Mosta
63 Constitution Street MST 9058
Tel: 2380 2380

Paola
12 Antoine De Paule Square PLA 1261
Tel: 2380 2380

Rabat
12 Saqqajja Square RBT 1190
Tel: 2380 2380

Sliema
High Street SLM 1549
Tel: 2380 2380

Swieqi
St Andrew's Road SWQ 9020
Tel: 2380 2380

Valletta
32 Merchants Street VLT 1173
Tel: 2380 2380

Zejtun
25th November Avenue ZTN 2018
Tel: 2380 2380

Zurrieq
38 High Street ZRQ 1318
Tel: 2380 2380

Gozo office

Victoria
90 Republic Street VCT 1017
Tel: 2380 2380

Subsidiary companies

HSBC Global Asset Management (Malta) Limited
Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 5128

HSBC Life Assurance (Malta) Limited
Business Banking Centre
80 Mill Street Qormi QRM 3101
Tel: 2380 8699

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