COMPANY ANNOUNCEMENT

The following is a Company Announcement by HSBC Bank Malta p.l.c. in compliance with the Capital Markets Rules issued by the Malta Financial Services Authority.

Quote:

During a meeting held on 1 August 2023, the Board of Directors of HSBC Bank Malta p.l.c. approved the attached Group and Bank interim condensed financial statements for the six-month financial period ending 30 June 2023.

1 August 2023

2023 Interim Results – Highlights

The financial performance in the first half of the year reflected the value of the bank's large and diversified customer base, rising interest rates, strong risk management and credit quality of the loan book, improved performance of the insurance subsidiary and cost discipline, while still investing in the future of the business.

In view of the strong performance in H1 2023, the directors are recommending an interim gross cash dividend of 6.0 cents per share. The proposed interim gross dividend for 2023 is higher than the full year gross dividend of 5.6 cents paid for 2022. This represents the highest interim dividend paid by HSBC Bank Malta in seven years.

On 1 January 2023, HSBC Malta adopted IFRS 17 'Insurance Contracts'. As required by the standard, the bank applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date.

Financial performance (vs same period in 2022 restated for IFRS 17 'Insurance Contracts')

- Profit before tax increased by 238% or €41.8m to €59.3m, mainly driven by higher income on the placement of excess liquidity, lower credit recovery in view of a significant recovery reported in H1 2022, better performance reported by the insurance subsidiary and lower reported costs.
- Revenue increased by €43.5m or 69% driven by rising interest rates reflecting increased value from our large and diversified customer base and greater customer transaction volumes.
- A release of €2.6m was reported on expected credit losses ('ECL') in view of better economic projections and curing of non-performing loans on which moratoria measures were extended during the Covid period.
- Costs are €7.5m lower than the same period in 2022. This decrease was largely driven by higher regulatory fees booked in H1 2022 as a result of a change in the legislation regulating cash contributions towards the Depositor Compensation Scheme and an insurance refund received in 2023. Nevertheless, we continue to invest in the future of the business.
- During the first six months, loans to customers and deposits were largely at the same levels reported as at 31 December 2022.
- Profit attributable to shareholders of €38.5m for the six months ended 30 June 2023 resulted in earnings per share of 10.7 cents which compared favourably with 3.2 cents in the same period in 2022.
- Recommended an interim gross dividend of 6.0 cents per share.
- Return on equity of 16.2% for the six months ended 30 June 2023 compared favourably with 5.1% for the same period in 2022.
- Cost efficiency ratio ('CER') improved to 46.6% from 90.9% in the same period last year.
- The bank maintained a strong liquidity and capital position as at 30 June 2023.

Unquote

Paula Mamo LL.D.
Company Secretary

This Company Announcement is issued by

HSBC Bank Malta p.l.c.

Company Secretary Tel: (+356) 2380 2474

Directors' Report

Financial performance

Profit before tax for the six months ended 30 June 2023 was €59.3m, an increase of €41.8m from the same period in 2022, following IFRS 17 restatements. Higher profits reflect the value of the bank's large and diversified customer base, higher interest rates, better performance by the insurance subsidiary and lower costs. These positive variances were partially offset by lower credit recoveries due to a significant recovery on a commercial non-performing loan reported in H1 2022.

Net interest income ('NII') increased by €43.4m to €89.7m compared with €46.2m in the same period in 2022. The increase in NII reported by the global businesses was due to interest rate rises. The European Central Bank increased the interest rate on their overnight deposit facility from -0.5% on 26 July 2022 rising to 3.5% as from 21 June 2023 and therefore the bank's surplus liquidity position was no longer being placed at negative rates.

Non-funds income (fees and commissions and trading income) decreased by €2.3m. This was largely driven by the removal of the high balance fee in July 2022, which was a customer-driven decision taken by the bank in view of the rising interest rate environment. On an underlying basis the bank sustained good progress in the generation of fee as well as foreign exchange income by utilising its customer service transactional capability.

Operating expenses decreased by €7.5m to €49.5m, compared with €57.1m in the same period in 2022. This was mainly due to higher regulatory fees reported in H1 2022 as a change in the Depositor Compensation Scheme legislation was enacted requiring banks to anticipate the cash contributions payable in 2023 and 2024. In 2023, we also received a refund from insurance in relation to operational losses reported in prior years. On an underlying basis, expenses remained relatively flat as cost saving initiatives and cost discipline mitigated increased investment and inflation.

During the six months, we reported a release of expected credit losses ('ECL') of €2.6m, compared to a release of €11.8m reported in the same period last year. The release in 2023 considered more favourable economic projections while 2022 projections reflected economic uncertainty mainly due to the Russia - Ukraine war and inflationary pressures. In 2023 we also experienced the curing of non-performing loans on which moratoria measures were extended during the Covid period to help customers navigate through such difficult times. In H1 2022, the bank had reported a significant recovery on a commercial non-performing loan which was largely provided for in prior years.

The effective tax rate was 35% in H1 2023 compared to 34% in 2022. This translated into an interim tax expense of €20.8m.

HSBC Life Assurance (Malta) Ltd reported a profit of €1.6m compared to a loss of €3.2m reported in the same period last year, as restated in accordance with IFRS 17. In H1 2023, we have seen lower volatility in the market compared to the same period last year. The volatility in market prices negatively impacted the insurance subsidiary results in 2022.

Financial Position and Capital

Net loans and advances to customers amounted to €3,147m, a marginal decrease of €28m or 0.9% when compared to 31 December 2022. The bank continued to improve asset quality by reducing non-performing loans by 10%. It also retained a prudent credit policy to ensure long term sustainability of its service proposition while also delivering value for its shareholders.

The bank's investment portfolio increased by €97m to €1,101m and was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-.

Customer accounts were €5,930m as at 30 June 2023, a marginal decrease of €41m or 0.7% compared to 31 December 2022. The bank had a satisfactory advances-to-deposits ratio of 53%, and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity tier 1 capital was 17.8% as at 30 June 2023, compared to 18.5% at the end of 2022. The total capital ratio decreased to 20.6% compared to 21.3% at 31 December 2022. The deterioration in the capital ratios was driven by the build-up of the capital requirements for non-performing loans. The regulations require us to build-up capital reserves for long outstanding non-performing exposures over the years. It is to be noted that the June 2023 ratios exclude the unverified profits for the period under review. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The bank is determined to maintain a strong capital base, at the same time recognising the importance of dividends to its shareholders. The Board has thus recommended an interim gross dividend of 6.0 cents per share which amounts to an interim gross dividend of €21.6m. The interim dividend will be paid on 15 September 2023 to shareholders who are on the bank's register of shareholders on 14 August 2023.

Geoffrey Fichte, the new Chief Executive Officer of HSBC Malta, said:

"The turnaround strategy of HSBC Malta is off to a strong start with first half results showing higher profits before tax as a result of an increase in revenue, improved credit quality and effective cost management. This positive performance was achieved thanks to the support of our customers and colleagues, while we continue to invest in our business to meet the dynamic and evolving needs of customers.

By generating greater value for shareholders, we are recommending an interim gross dividend of 6.0 cents per share which is higher than the full dividend paid in 2022 and represents our highest interim dividend in seven years.

We are confident in the local economy, and continue to focus on growing our business, while investing in the future. Our main priority is improving customer services through better digital channels for customers while not losing the personalised service of our team. We leverage on our global strength being the leading international banking brand in Malta.

Our major investment in a new headquarters for Malta is now over 60% complete, representing a €30m investment. We are excited to move into this state-of-the-art green building in the near future. The HSBC Hub is purposely built for the long-term success of our customers and colleagues. Other major investments in the future of our business include upgrading and replacing 100% of our ATM fleet, green loans, digital and future skills training.

Sustainability represents the biggest transformation in the banking sector. We are already taking action to reduce our carbon footprint but recognise that our biggest impact comes from working with customers to help them transition to a net zero economy and become more sustainable through our green loan offers.

I would like to take this opportunity to thank our customers and colleagues for their support. HSBC is positive on Malta and we have identified many opportunities to grow our business here."

Financial summary

Income Statements

	Group		Bank	
	Half-year to[1]			
	30 Jun 2023 €000	30 Jun 2022 €000	**30 Jun 2023 €000**	30 Jun 2022 €000
Interest and similar income				
– on loans and advances to banks and customers and other financial assets	**90,598**	50,266	**90,598**	50,266
– on debt and other fixed income instruments	**6,856**	1,003	**6,856**	1,003
Interest expense	**(7,777)**	(5,031)	**(7,777)**	(5,031)
Net interest income	**89,677**	46,238	**89,677**	46,238
Fee income	**12,045**	14,302	**10,053**	12,166
Fee expense	**(1,305)**	(1,607)	**(1,122)**	(1,325)
Net fee income	**10,740**	12,695	**8,931**	10,841
Net trading income	**3,453**	3,757	**3,453**	3,757
Net income/(expense) from financial instruments of insurance operations measured at fair value through profit or loss	**15,868**	(64,070)	**—**	—
Dividend income from subsidiaries	**—**	—	**769**	1,308
Insurance finance (expense)/income	**(15,300)**	60,020	**—**	—
Insurance service result	**2,048**	2,870	**—**	—
– insurance revenue	**11,688**	8,974	**—**	—
– insurance service expense	**(9,640)**	(6,104)	**—**	—
Other operating (expense)/income	**(216)**	1,247	**(151)**	1,246
Total operating income	**106,270**	62,757	**102,679**	63,390
Net operating income before change in expected credit losses and other credit impairment charges	**106,270**	62,757	**102,679**	63,390
Change in expected credit losses and other credit impairment charges	**2,554**	11,833	**2,554**	11,833
Net operating income	**108,824**	74,590	**105,233**	75,223
Employee compensation and benefits	**(19,118)**	(19,421)	**(18,569)**	(18,440)
General and administrative expenses	**(26,723)**	(33,039)	**(25,073)**	(30,799)
Depreciation of property, plant and equipment and right-of-use assets	**(1,298)**	(2,295)	**(1,298)**	(2,294)
Amortisation and impairment of intangible assets	**(2,409)**	(2,310)	**(2,377)**	(2,284)
Total operating expenses	**(49,548)**	(57,065)	**(47,317)**	(53,817)
Profit before tax	**59,276**	17,525	**57,916**	21,406
Tax charge	**(20,752)**	(5,918)	**(20,280)**	(7,296)
Profit for the period	**38,524**	11,607	**37,636**	14,110
Earnings per share	**€0.11**	€0.03		

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*

Statements of comprehensive income

	Group		Bank	
	Half-year to[1]			
	30 Jun 2023 €000	30 Jun 2022 €000	**30 Jun 2023 €000**	30 Jun 2022 €000
Profit for the period	**38,524**	11,607	**37,636**	14,110
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:	**3,565**	(20,593)	**3,565**	(20,593)
– fair value gains/(losses)	**5,484**	(31,682)	**5,484**	(31,682)
– income taxes	**(1,919)**	11,089	**(1,919)**	11,089
Items that will not be reclassified subsequently to profit or loss:				
Equity instruments designated at fair value through other comprehensive income:	**4**	2	**4**	2
– fair value gains	**6**	3	**6**	3
– income taxes	**(2)**	(1)	**(2)**	(1)
Other comprehensive income for the period, net of tax	**3,569**	(20,591)	**3,569**	(20,591)
Total comprehensive income for the period	**42,093**	(8,984)	**41,205**	(6,481)

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*

Statements of Financial Position

	At[1]			
	Group		Bank	
	30 Jun 2023 €000	31 Dec 2022 €000	**30 Jun 2023 €000**	31 Dec 2022 €000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**1,565,609**	1,584,861	**1,565,609**	1,584,861
Items in the course of collection from other banks	**7,991**	6,921	**7,991**	6,921
Financial assets mandatorily measured at fair value through profit or loss	**683,938**	660,282	**—**	—
Derivatives	**24,889**	25,745	**24,889**	25,745
Loans and advances to banks	**698,509**	732,493	**696,664**	726,217
Loans and advances to customers	**3,147,133**	3,175,167	**3,147,133**	3,175,167
Financial investments	**1,101,387**	1,004,770	**1,101,385**	1,004,768
Prepayments and accrued income	**24,143**	20,126	**20,969**	17,535
Current tax assets	**2,207**	3,496	**—**	1,363
Reinsurance assets	**15,386**	12,488	**—**	—
Other non-current assets held for sale	**4,723**	5,173	**4,723**	5,173
Investment in subsidiaries	**—**	—	**30,859**	30,859
Right-of-use assets	**2,182**	2,459	**2,182**	2,459
Property, plant and equipment	**45,201**	44,627	**45,198**	44,623
Intangible assets	**20,037**	19,169	**19,532**	18,604
Deferred tax assets	**36,283**	38,555	**33,145**	35,620
Other assets	**10,741**	10,523	**12,201**	9,965
Total assets	**7,390,359**	7,346,855	**6,712,480**	6,689,880
Liabilities				
Deposits by banks	**6,317**	2,861	**6,317**	2,861
Customer accounts	**5,930,117**	5,970,958	**5,958,069**	6,010,392
Items in the course of transmission to other banks	**19,890**	27,397	**19,890**	27,397
Derivatives	**8,419**	10,252	**8,419**	10,252
Accruals and deferred income	**30,700**	27,300	**26,424**	22,279
Current tax liabilities	**19,732**	2,104	**19,732**	2,104
Liabilities under investment contracts	**156,662**	162,676	**—**	—
Liabilities under insurance contracts	**514,806**	518,433	**—**	—
Provisions	**19,169**	20,080	**18,039**	18,830
Deferred tax liabilities	**4,126**	3,529	**3,557**	3,569
Borrowings from a group undertaking	**90,000**	60,000	**90,000**	60,000
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Other liabilities	**35,910**	15,642	**12,904**	11,067
Total liabilities	**6,897,848**	6,883,232	**6,225,351**	6,230,751
Equity				
Called up share capital	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	**3,633**	64	**3,633**	64
Retained earnings	**380,786**	355,467	**375,404**	350,973
Total equity	**492,511**	463,623	**487,129**	459,129
Total liabilities and equity	**7,390,359**	7,346,855	**6,712,480**	6,689,880
Memorandum items				
Contingent liabilities	**137,669**	134,126	**137,619**	134,126
Commitments	**925,477**	877,820	**925,477**	877,820

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*

The financial statements were approved and authorised for issue by the Board of Directors on 1 August 2023 and signed on its behalf by:

John Bonello
Chairman

Geoffrey Fichte
Chief Executive Officer

Statements of changes in equity

	Group			
	Share capital	Revaluation reserve	Retained earnings	Total equity
	€000	€000	€000	€000
At 1 Jan 2023	**108,092**	**64**	**355,467**	**463,623**
Profit for the period	**—**	**—**	**38,524**	**38,524**
Other comprehensive income (net of tax)				
Financial investments measured at fair value through other comprehensive income:				
– fair value gains	**—**	**3,569**	**—**	**3,569**
Total other comprehensive income	**—**	**3,569**	**—**	**3,569**
Total comprehensive income for the period	**—**	**3,569**	**38,524**	**42,093**
Transactions with owners, recognised directly in equity (net of tax)				
Contributions by and distributions to owners:				
– share-based payment arrangements	**—**	**—**	**(66)**	**(66)**
– dividends	**—**	**—**	**(13,139)**	**(13,139)**
Total contributions by and distributions to owners	**—**	**—**	**(13,205)**	**(13,205)**
At 30 Jun 2023	**108,092**	**3,633**	**380,786**	**492,511**
At 31 Dec 2021 (IFRS4)	108,092	24,330	357,315	489,737
Impact on transition to IFRS17	—	—	(26,648)	(26,648)
At 1 Jan 2022	108,092	24,330	330,667	463,089
Profit for the period	—	—	11,607	11,607
Other comprehensive income (net of tax)				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses	—	(20,591)	—	(20,591)
Total other comprehensive income	—	(20,591)	—	(20,591)
Total comprehensive income for the period	—	(20,591)	11,607	(8,984)
Other movements (net of tax)				
Properties:				
– transfer of revaluation surplus on disposal of property to retained earnings	—	(1,256)	1,256	—
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payment arrangements	—	—	(8)	(8)
– dividends	—	—	(8,010)	(8,010)
Total contributions by and distributions to owners	—	—	(8,018)	(8,018)
At 30 Jun 2022	108,092	2,483	335,512	446,087

Statements of changes in equity (continued)

	Bank			
	Share capital	Revaluation reserve	Retained earnings	Total equity
	€000	€000	€000	€000
At 1 Jan 2023	**108,092**	**64**	**350,973**	**459,129**
Profit for the period	**—**	**—**	**37,636**	**37,636**
Other comprehensive income (net of tax)				
Financial investments measured at fair value through other comprehensive income:				
– fair value gains	**—**	**3,569**	**—**	**3,569**
Total other comprehensive income	**—**	**3,569**	**—**	**3,569**
Total comprehensive income for the period	**—**	**3,569**	**37,636**	**41,205**
Transactions with owners, recognised directly in equity (net of tax)				
Contributions by and distributions to owners:				
– share-based payment arrangements	**—**	**—**	**(66)**	**(66)**
– dividends	**—**	**—**	**(13,139)**	**(13,139)**
Total contributions by and distributions to owners	**—**	**—**	**(13,205)**	**(13,205)**
At 30 Jun 2023	**108,092**	**3,633**	**375,404**	**487,129**
At 1 Jan 2022	108,092	24,330	322,437	454,859
Profit for the period	—	—	14,110	14,110
Other comprehensive income (net of tax)				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses	—	(20,591)	—	(20,591)
Total other comprehensive income	—	(20,591)	—	(20,591)
Total comprehensive income for the period	—	(20,591)	14,110	(6,481)
Other movements (net of tax)				
Properties:				
– transfer of revaluation surplus on disposal of property to retained earnings	—	(1,256)	1,256	—
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payment arrangements	—	—	(8)	(8)
– dividends	—	—	(8,010)	(8,010)
Total contributions by and distributions to owners	—	—	(8,018)	(8,018)
At 30 Jun 2022	108,092	2,483	329,785	440,360

Statements of cash flows

	Group		Bank	
	Half-year to			
	30 Jun 2023	30 Jun 2022	**30 Jun 2023**	30 Jun 2022
	€000	€000	**€000**	€000
Cash flows from operating activities				
Interest, fees, loan recoveries and premium receipts	**138,110**	107,509	**101,960**	68,505
Interest, fees and claims payments	**(44,192)**	(41,802)	**(6,518)**	(5,794)
Payments to employees and suppliers	**(44,981)**	(49,303)	**(42,364)**	(45,050)
Cash flows from operating activities before changes in operating assets and liabilities	**48,937**	16,404	**53,078**	17,661
(Increase)/decrease in operating assets:				
– financial assets mandatorily measured at fair value through profit or loss	**(11,727)**	7,847	**—**	—
– reserve deposit with Central Bank of Malta	**133**	(2,581)	**133**	(2,581)
– loans and advances to banks and customers	**32,824**	54,895	**32,824**	54,895
– Treasury Bills	**(121,324)**	(14,375)	**(121,324)**	(14,375)
– other assets	**(1,405)**	(2,267)	**(1,294)**	(2,267)
(Decrease)/increase in operating liabilities:				
– deposits by banks and customer accounts	**(37,146)**	368,032	**(49,525)**	373,783
– other liabilities	**(1,221)**	(576)	**(1,028)**	(1,024)
Net cash from operating activities before tax	**(90,929)**	427,379	**(87,136)**	426,092
– tax paid	**(746)**	(2,454)	**(443)**	(2,159)
Net cash from operating activities	**(91,675)**	424,925	**(87,579)**	423,933
Cash flows from investing activities				
Dividends received	**—**	—	**500**	850
Interest received from financial investments	**4,925**	3,693	**4,925**	3,693
Purchase of financial investments	**(178,876)**	(99,484)	**(178,876)**	(99,484)
Proceeds from sale and maturity of financial investments	**88,806**	99,178	**88,806**	99,178
Purchase of property, plant and equipment and intangible assets	**(5,009)**	(2,438)	**(4,911)**	(2,438)
Proceeds from sale of property, plant and equipment and intangible assets	**—**	13	**—**	13
Net cash from investing activities	**(90,154)**	962	**(89,556)**	1,812
Cash flows from financing activities				
Dividends paid	**(13,139)**	(8,010)	**(13,139)**	(8,010)
Proceeds from borrowings from a group undertaking	**30,000**	—	**30,000**	—
Net cash from financing activities	**16,861**	(8,010)	**16,861**	(8,010)
Net (decrease)/increase in cash and cash equivalents	**(164,968)**	417,877	**(160,274)**	417,735
Cash and cash equivalents at beginning of period	**1,938,625**	1,599,671	**1,932,348**	1,593,517
Effect of exchange rate changes on cash and cash equivalents	**4,855**	(25,568)	**4,594**	(23,113)
Cash and cash equivalents at end of period	**1,778,512**	1,991,980	**1,776,668**	1,988,139

Notes on the financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

Our interim condensed consolidated financial statements have been prepared in accordance with Chapter 5 of the Capital Market Rules issued by the Listing Authority and the Prevention of Financial Markets Abuse Act 2005 and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC Bank Malta p.l.c. (the 'bank') and its subsidiary undertakings (collectively referred to as the 'local group') financial position and performance since the end of 2022. These financial statements should be read in conjunction with the *Annual Report and Accounts 2022*.

The condensed interim financial information has been extracted from the unaudited group's management accounts for the six months ended 30 June 2023. It has not been subject to an audit in accordance with the requirements of International Standards on Auditing nor to a review in accordance with the requirements of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

On 1 January 2023 the local group adopted IFRS 17 'Insurance Contracts' and as required by the standard applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. These financial statements should be read in conjunction with the information about the application of IFRS 17 'Insurance Contracts' set out below.

At 30 June 2023, 'Amendments to IAS 12: International Tax Reform – Pillar Two Model Rules', became effective. There were no unendorsed standards effective for the half-year to 30 June 2023 affecting these financial statements, and there was no difference between IFRSs adopted by the EU, and IFRSs issued by the IASB in terms of their application to the local group.

Standards applied during the half-year to 30 June 2023

IFRS 17 'Insurance Contracts'

On 1 January 2023, the local group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022.

On adoption of IFRS 17, IFRS 4 based balances, including the present value of in-force business ('PVIF') asset in relation to the upfront recognition of future profits of in-force insurance contracts, were derecognised. Insurance contract liabilities have been re-measured under IFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising best estimate of the present value of the future cash flows (for example premiums and payouts for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin ('CSM'). The CSM represents the unearned profits that will be released and systematically recognised in Insurance revenue as services are provided over the expected coverage period.

The standard allows the re-designation of eligible financial assets in order to reduce accounting mismatches. The local group has already applied this option under IFRS 9 implementation to re-designate eligible financial assets at fair value through profit or loss.

The key differences between IFRS 4 and IFRS 17 are summarised below:

	IFRS 4	IFRS 17
Balance sheet	– Insurance contract liabilities for non-linked life insurance contracts are calculated by local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulation. – An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in force insurance contracts.	– Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. – The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk. – The CSM represents the unearned profit.
Profit emergence / recognition	– The value of new business is reported as revenue on Day 1 as an increase in PVIF. – The impact of the majority of assumption changes is recognised immediately in the income statement. – Variances between actual and expected cash flows are recognised in the period they arise.	– The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). – Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the local group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the local group's share of the investment volatility is recorded in profit or loss as it arises. – Losses from onerous contracts are recognised in the income statement immediately.
Investment return assumptions (discount rate)	– PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	– Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities.
Expenses	– Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. – Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those costs released from the PVIF simultaneously.	– Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. – Non-attributable costs are reported in operating expenses.

In applying IFRS 17 retrospectively, the full retrospective approach ('FRA') is used unless it is impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The local group has applied the FRA for new business from 2019 and the FVA for the majority of contracts for which the FRA is impracticable.

Under the FVA, the valuation of insurance liabilities on transition is based on the requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of 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 (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using IFRS 17 principles.

In determining the fair value, the local group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate that takes into account the level of 'matching' between the local group's assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

Related updates to other accounting policies arising from the implementation of IFRS 17 will be disclosed in the *Annual Report and Accounts 2023*.

Amendments to IAS 12: International Tax Reform – Pillar Two Model Rules

On 23 May 2023, the IASB issued its amendments to IAS 12, International Tax Reform – Pillar Two Model Rules, which became effective immediately with disclosure requirements effective for annual reporting periods beginning on or after 1 January 2023. The effect of the amendments is not applicable to the local group.

There were no other new standards or amendments to standards that had an effect on these interim condensed financial statements.

(b) Use of 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 second half of 2023 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 2023 Interim Financial Results.

Management believes that the local group's critical accounting estimates and judgements are those that relate to:

- Expected credit losses on loans and advances;
- Post-employment benefit plans;
- Valuation of financial instruments; and
- Policyholder claims and benefits.

Excluding those related to IFRS17 implementation explained above and the 'Measurement of the ECL estimates' as highlighted in Note 4, there were no changes in the current period to the other critical accounting estimates and judgements applied in 2022, as set out in Note 58 of the *Annual Report and Accounts 2022*.

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.

(c) Composition of local group

There were no changes in the composition of the local group in the half-year to 30 June 2023.

(d) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

(e) Accounting policies

The accounting policies that we applied for these interim condensed consolidated financial statements are consistent with those described on pages 54 to 67 of the *Annual Report and Accounts 2022*, as are the methods of computation, with the exception of IFRS 17 as described above.

(f) Changes to presentation from 1 January 2023

IFRS 17 'Insurance Contracts'

On 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts'. As required by the standard, the local group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. Under IFRS 17 there is no present value of in-force business ('PVIF') asset recognised up front. Instead the measurement of the insurance contract liability takes into account fulfilment cash flows and a contractual service margin representing the unearned profit. In contrast to the local group's previous IFRS 4 accounting where profits are recognised up front, under IFRS 17 they are deferred and systematically recognised in revenue as services are provided over the life of the contract. The contractual service margin also includes attributable cost, which had previously been expensed as incurred and which is now incorporated within the insurance liability measurement and recognised over the life of the contract.

2 Dividends

	Group			
	30 Jun 2023	30 Jun 2022	**30 Jun 2023**	30 Jun 2022
	EUR per share	EUR per share	**€000**	€000
Gross of tax				
– prior year's final dividend	**0.06**	0.03	**20,214**	12,323
	0.06	0.03	**20,214**	12,323
Net of tax				
– prior year's final dividend	**0.04**	0.02	**13,139**	8,010
	0.04	0.02	**13,139**	8,010

The bank is proposing an interim net dividend of €14,052,000 in respect of the financial period ended 30 June 2023. The interim dividend will be paid on 15 September 2023 to shareholders who are on the bank's register of shareholders on 14 August 2023.

	Group	
	30 Jun 2023	30 Jun 2022
	€000	€000
Proposed interim dividend		
Profit for the period (net of tax)	**38,524**	11,607
Proposed interim dividend	**14,052**	—
Available for distribution	**14,052**	—
Issued and fully paid up shares	**360,306,099**	360,306,099
	EUR per share	EUR per share
Proposed interim dividend		
– gross of tax per share	**0.06**	—
– net of tax per share	**0.04**	—

No allocations were made during the current and previous periods to the General Banking Risk Reserve since the reserve balance held is sufficient to cover the current level of non-performing loans.

3 Net fee income

	Half-year to[1]			
	Group		Bank	
	30 Jun 2023	30 Jun 2022	**30 Jun 2023**	30 Jun 2022
	€000	€000	**€000**	€000
Fee income by product:				
Funds under management	**1,958**	2,235	**—**	—
Cards	**2,384**	2,258	**2,384**	2,258
Credit facilities	**757**	989	**757**	989
Broking income[2]	**426**	541	**426**	541
Account services	**1,613**	3,350	**1,613**	3,350
Global custody[2]	**26**	16	**26**	16
Remittances	**1,099**	968	**1,099**	968
Imports/exports	**661**	763	**661**	763
Receivables finance	**451**	413	**451**	413
Insurance agency commission	**1,286**	1,318	**—**	—
Other	**1,384**	1,451	**2,636**	2,868
Fee income	**12,045**	14,302	**10,053**	12,166
Less: fee expense	**(1,305)**	(1,607)	**(1,122)**	(1,325)
Net fee income	**10,740**	12,695	**8,931**	10,841

1 *From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Net fee income amounting to €452,000 (2022: €557,000) is derived from the investment services activities of the local group.*

4 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 following table, 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 the group of companies that are mainly engaged in financial and insurance activities including non-financial holding companies. 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 fair value through other comprehensive income ('FVOCI') and the associated allowance for ECL.

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

Transactions and balances with Retail Business Banking ('RBB') customers are classified as wholesale in the following tables, whereas these are reported under Wealth and Personal Banking ('WPB') in Note 5 'Segmental analysis'.

All credit card balances are classified as personal, whereas some of the balances held by corporate customers are reported under Commercial Banking ('CMB') in Note 5 'Segmental analysis'.

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

	At 30 Jun 2023		At 31 Dec 2022	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	€000	**€000**	€000	€000
Loans and advances to customers at amortised cost:	**3,193,653**	**(46,520)**	3,222,901	(47,734)
– personal	**2,261,753**	**(23,411)**	2,286,234	(24,710)
– corporate and commercial	**880,600**	**(21,535)**	872,673	(20,669)
– non-bank financial institutions	**51,300**	**(1,574)**	63,994	(2,355)
Loans and advances to banks at amortised cost	**696,664**	**—**	726,218	(1)
Other financial assets measured at amortised cost:	**1,896,216**	**(5,219)**	1,710,784	(5,596)
– balances at central banks	**1,310,719**	**(22)**	1,270,880	(13)
– items in the course of collection from other banks	**7,991**	**—**	6,921	—
– debt instruments measured at amortised cost	**531,139**	**(20)**	367,042	(18)
– Treasury Bills measured at amortised cost	**19,725**	**(1)**	42,203	(1)
– accrued income and other assets[2]	**26,642**	**(5,176)**	23,738	(5,564)
Total gross carrying amount on balance sheet	**5,786,533**	**(51,739)**	5,659,903	(53,331)
Loans and other credit-related commitments:	**925,477**	**(876)**	877,820	(1,187)
– personal	**332,560**	**(30)**	361,245	(26)
– corporate and commercial (including non-bank financial institutions)	**571,589**	**(846)**	514,199	(1,161)
– banks	**21,328**	**—**	2,376	—
Financial guarantee and similar contracts:	**135,584**	**(698)**	131,816	(557)
– personal	**6,777**	**(30)**	6,403	(30)
– corporate and commercial (including non-bank financial institutions)	**128,807**	**(668)**	125,413	(527)
Total nominal amount off balance sheet[3]	**1,061,061**	**(1,574)**	1,009,636	(1,744)
Total	**6,847,594**	**(53,313)**	6,669,539	(55,075)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	€000	**€000**	€000	€000
Debt instruments measured at fair value through other comprehensive income	**570,225**	**(72)**	637,709	(60)
Treasury Bills measured at fair value through other comprehensive income	**206,312**	**(2)**	242,292	(4)
Total	**776,537**	**(74)**	880,001	(64)

1 The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

2 Includes only those financial instruments that are subject to the impairment requirements of IFRS 9. 'Prepayments and accrued income' and 'Other assets' as presented within the statement of financial position on page 4, include both financial and non-financial assets.

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

Summary of credit risk 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:	2,824,180	260,150	109,323	3,193,653	(11,462)	(15,606)	(19,452)	(46,520)	0.4	6.0	17.8	1.5
– personal	2,102,020	104,187	55,546	2,261,753	(7,339)	(7,069)	(9,003)	(23,411)	0.3	6.8	16.2	1.0
– corporate and commercial	702,998	129,422	48,180	880,600	(3,819)	(7,710)	(10,006)	(21,535)	0.5	6.0	20.8	2.4
– non-bank financial institutions	19,162	26,541	5,597	51,300	(304)	(827)	(443)	(1,574)	1.6	3.1	7.9	3.1
Loans and advances to banks at amortised cost	696,664	—	—	696,664	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	1,886,425	1,877	7,914	1,896,216	(50)	—	(5,169)	(5,219)	—	—	65.3	0.3
Loan and other credit-related commitments:	859,530	58,988	6,959	925,477	(490)	(129)	(257)	(876)	0.1	0.2	3.7	0.1
– personal	329,707	2,717	136	332,560	(30)	—	—	(30)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	508,495	56,271	6,823	571,589	(460)	(129)	(257)	(846)	0.1	0.2	3.8	0.1
– banks	21,328	—	—	21,328	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts:	112,956	21,845	783	135,584	(272)	(121)	(305)	(698)	0.2	0.6	39.0	0.5
– personal	6,762	15	—	6,777	(30)	—	—	(30)	0.4	—	—	0.4
– corporate and commercial (including non-bank financial institutions)	106,194	21,830	783	128,807	(242)	(121)	(305)	(668)	0.2	0.6	39.0	0.5
At 30 Jun 2023	6,379,755	342,860	124,979	6,847,594	(12,274)	(15,856)	(25,183)	(53,313)	0.2	4.6	20.1	0.8

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Debt instruments measured at fair value through other comprehensive income	570,225	—	—	570,225	(72)	—	—	(72)	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	206,312	—	—	206,312	(2)	—	—	(2)	—	—	—	—
At 30 Jun 2023	776,537	—	—	776,537	(74)	—	—	(74)	—	—	—	—

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost:	2,812,374	291,517	119,010	3,222,901	(10,177)	(18,744)	(18,813)	(47,734)	0.4	6.4	15.8	1.5
– personal	2,112,941	110,141	63,152	2,286,234	(6,671)	(8,716)	(9,323)	(24,710)	0.3	7.9	14.8	1.1
– corporate and commercial	682,367	139,420	50,886	872,673	(3,272)	(8,168)	(9,229)	(20,669)	0.5	5.9	18.1	2.4
– non-bank financial institutions	17,066	41,956	4,972	63,994	(234)	(1,860)	(261)	(2,355)	1.4	4.4	5.2	3.7
Loans and advances to banks at amortised cost	726,218	—	—	726,218	(1)	—	—	(1)	—	—	—	—
Other financial assets measured at amortised cost	1,700,443	1,585	8,756	1,710,784	(37)	—	(5,559)	(5,596)	—	—	63.5	0.3
Loan and other credit-related commitments:	793,226	75,696	8,898	877,820	(392)	(141)	(654)	(1,187)	—	0.2	7.3	0.1
– personal	352,216	8,648	381	361,245	(26)	—	—	(26)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	438,634	67,048	8,517	514,199	(366)	(141)	(654)	(1,161)	0.1	0.2	7.7	0.2
– banks	2,376	—	—	2,376	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts:	105,440	25,542	834	131,816	(226)	(101)	(230)	(557)	0.2	0.4	27.6	0.4
– personal	6,403	—	—	6,403	(30)	—	—	(30)	0.5	—	—	0.5
– corporate and commercial (including non-bank financial institutions)	99,037	25,542	834	125,413	(196)	(101)	(230)	(527)	0.2	0.4	27.6	0.4
At 31 Dec 2022	6,137,701	394,340	137,498	6,669,539	(10,833)	(18,986)	(25,256)	(55,075)	0.2	4.8	18.4	0.8

Summary of credit risk by stage distribution and ECL coverage by business segment (continued)

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Debt instruments measured at fair value through other comprehensive income	637,709	—	—	637,709	(60)	—	—	(60)	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	242,292	—	—	242,292	(4)	—	—	(4)	—	—	—	—
At 31 Dec 2022	880,001	—	—	880,001	(64)	—	—	(64)	—	—	—	—

Measurement of ECL estimates

Methodology

The recognition and measurement of ECL involves the use of significant judgement and estimation. The bank's methodology in relation to the adoption and generation of economic scenarios is described on pages 96 to 101 of the *Annual Report and Accounts 2022*.

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

As highlighted below there were changes in the probability % weighting for the Central, Upside, Downside and Downside 2 scenarios as described below.

How economic scenarios are reflected in the wholesale calculation of ECL

In line with HSBC's methodology, for the wholesale portfolio, Forward Economic Guidance ('FEG') is incorporated into the calculation of ECL through the estimation of the term structure of probability of default ('PD') and loss given default ('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 projected economic paths in respect of each of the key macroeconomic variables specific to the Maltese economy across the four macroeconomic scenarios described above are presented in the tables below:

Malta: Consensus scenarios (average 2Q23-2Q28)

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
Real GDP Growth rate (%)	**3.5**	**4.0**	**2.8**	**2.2**
Consumer price index (%)	**2.1**	**2.1**	**2.0**	**1.7**
Unemployment (%)	**3.1**	**2.8**	**3.6**	**4.0**
Short-term interest rate (%)	**3.0**	**2.9**	**2.4**	**2.5**
House price index (%)	**6.4**	**7.0**	**5.7**	**(2.9)**
Probability weights (%)	**75.0**	**5.0**	**15.0**	**5.0**

Malta: Consensus scenarios (average 2Q22-2Q27)

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
Real GDP Growth rate (%)	3.0	3.6	1.8	1.8
Consumer price index (%)	1.8	2.0	2.2	1.4
Unemployment (%)	3.6	2.9	4.0	6.5
Short-term interest rate (%)	1.4	1.5	1.6	—
House price index (%)	5.5	6.2	1.1	(2.2)
Probability weights (%)	50.0	10.0	30.0	10.0

Malta: Real GDP growth rates – H1 2023 projections

	Consensus scenarios			Downside 2
	Central	Upside	Downside	scenario
2023: Annual average growth rate (%)	3.4	3.7	3.0	0.2
2024: Annual average growth rate (%)	3.6	4.8	1.9	(2.8)
2025: Annual average growth rate (%)	3.6	4.7	2.4	5.1
2026: Annual average growth rate (%)	3.4	3.6	3.2	4.9
2027: Annual average growth rate (%)	3.3	3.3	3.3	3.7
Five year average growth rate (%)	3.5	4.0	2.8	2.2

Malta: Unemployment rate – H1 2023 projections

	Consensus scenarios			Downside 2
	Central	Upside	Downside	scenario
2023: Annual average rate (%)	3.1	2.9	3.4	3.4
2024: Annual average rate (%)	3.2	2.4	4.4	4.5
2025: Annual average rate (%)	3.2	2.6	4.0	4.4
2026: Annual average rate (%)	3.0	2.9	3.1	3.8
2027: Annual average rate (%)	3.0	3.0	3.0	3.6
Five year average rate (%)	3.1	2.8	3.6	4.0

Malta: Consumer price index – H1 2023 projections

	Consensus scenarios			Downside 2
	Central	Upside	Downside	scenario
2023: Annual average % change (%)	4.6	4.4	4.9	6.9
2024: Annual average % change (%)	2.2	1.9	2.5	2.9
2025: Annual average % change (%)	1.5	2.1	0.7	(1.7)
2026: Annual average % change (%)	1.9	2.0	1.7	0.9
2027: Annual average % change (%)	2.1	2.1	2.1	1.7
Five year average % change (%)	2.1	2.1	2.0	1.7

Malta: House price index – H1 2023 projections

	Consensus scenarios			Downside 2
	Central	Upside	Downside	scenario
2023: Annual average % change (%)	5.9	6.2	5.5	5.2
2024: Annual average % change (%)	8.9	10.1	7.1	(1.4)
2025: Annual average % change (%)	7.1	8.3	5.9	(11.8)
2026: Annual average % change (%)	4.4	4.6	4.2	(7.8)
2027: Annual average % change (%)	5.1	5.1	5.1	0.9
Five year average % change (%)	6.4	7.0	5.7	(2.9)

Malta: Short-term interest rates – H1 2023 projections

	Consensus scenarios			Downside 2
	Central	Upside	Downside	scenario
2023: Annual average rate (%)	3.4	3.0	3.5	3.9
2024: Annual average rate (%)	3.4	3.1	3.1	3.7
2025: Annual average rate (%)	2.8	2.8	1.4	1.6
2026: Annual average rate (%)	2.7	2.7	1.7	1.7
2027: Annual average rate (%)	2.8	2.8	2.5	1.9
Five year average rate (%)	3.0	2.9	2.4	2.5

Scenario weighting

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

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

Management continues to adjust the weightings given that the macroeconomic outlook remains highly uncertain. In this respect, the combined probability assigned to the Downside scenarios as at 30 June 2023 is lower when compared to 31 December 2022, with the same weight being assigned to the consensus Upside scenario at 30 June 2023. As at 30 June 2023, the consensus Upside and Central scenarios had a combined weighting of 80% (2022: 65%). In contrast, the probability weight assigned to the Downside 2 scenario has been lowered to 5% (2022:10%) as at 30 June 2023, based on expert judgement applied in response to changes in the severity of modelled scenarios since the prior year. The 20% probability weight assigned to the Downside scenarios reflects the uncertain economic outlook driven by the elevated inflation rates and the current increasing interest rate environment.

The probability weights assigned to the respective scenarios across all wholesale and retail portfolios as at 30 June 2023, 31 December 2022, 30 June 2022 and 31 December 2021 are presented in the table below:

	Consensus Scenarios			Downside 2 scenario
	Central	Upside	Downside	
Probability (%) – 30 June 2023	**75**	**5**	**15**	**5**
Probability (%) – 31 December 2022	60	5	25	10
Probability (%) – 30 June 2022	50	10	30	10
Probability (%) – 31 December 2021	60	10	15	15

How economic scenarios are reflected in the retail calculation of ECL

We have developed and implemented a consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of the underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained above.

Economic scenarios sensitivity analysis of ECL estimates

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

As at 30 June 2023 and 31 December 2022, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described on previous pages for the wholesale and retail portfolios, applying a 100% weighting to each scenario in turn. In this respect, the credit loss allowances estimated on the basis of an assumption that the ECL outcome was determined solely on the basis of each respective scenario are presented in the table below.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date. There is a particularly high degree of estimation uncertainty in numbers representing more severe risk scenarios when assigned a 100% weighting. For wholesale credit risk exposures, the sensitivity analysis excludes the ECL related to defaulted (stage 3) obligors. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of obligors in default. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Therefore, the ECL in respect of wholesale stage 3 exposures is assumed to remain constant across the sensitivity outcomes presented in the table below.

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

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

ECL sensitivity: Applying a 100% weighting to each respective scenario – June 2023

	Weighted average ECL	Consensus scenarios			Downside 2 scenario
		Central	Upside	Downside	
	€000	€000	€000	€000	€000
Wholesale lending	**13,619**	**12,483**	**10,285**	**15,864**	**27,254**
Personal lending	**26,507**	**22,349**	**20,257**	**28,723**	**34,657**

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

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

Post-model adjustments

In the context of IFRS 9, post-model adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late-breaking events, model deficiencies and expert credit judgement applied following management review and challenge. Internal governance is in place to regularly monitor post-model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

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

	Non–credit impaired				Credit–impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2023	3,717,251	(10,800)	394,340	(18,986)	137,498	(25,256)	4,249,089	(55,042)
Transfers of financial instruments:	18,930	(2,011)	(18,021)	1,510	(909)	501	—	—
– transfers from stage 1 to stage 2	(38,268)	233	38,268	(233)	—	—	—	—
– transfers from stage 2 to stage 1	56,638	(2,076)	(56,638)	2,076	—	—	—	—
– transfers from stage 3	903	(171)	3,392	(596)	(4,295)	767	—	—
– transfers to stage 3	(343)	3	(3,043)	263	3,386	(266)	—	—
Net remeasurement of ECL arising from stage transfers	—	1,058	—	(1,324)	—	(328)	—	(594)
Changes in risk parameters	—	(1,168)	—	1,733	—	(1,771)	—	(1,206)
Net new and further lending/ repayments	48,877	690	(33,459)	1,211	(11,279)	1,340	4,139	3,241
Assets written off	—	—	—	—	(331)	331	(331)	331
At 30 Jun 2023	3,785,058	(12,231)	342,860	(15,856)	124,979	(25,183)	4,252,897	(53,270)
ECL charge for the period								1,772
Recoveries								870
Other								263
Change in expected credit losses for the period								2,905
Assets written off								(331)
Change in expected credit losses and other credit impairment charges								2,574

	At 30 Jun 2023		6 months ended 30 Jun 2023
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,252,897	(53,270)	2,574
Balances at central banks	1,310,719	(22)	(9)
Loans and advances to banks measured at amortised cost	696,664	—	1
Debt instruments measured at amortised cost	550,864	(21)	(2)
Items in course of collection	7,991	—	—
Accrued interest on debt instruments and other accrued income	7,131	—	—
Loan and other credit related commitments – banks	21,328	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	6,847,594	(53,313)	2,564
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	776,537	(74)	(10)
Total allowance for ECL/total income statement ECL release for the period	N/A	(53,387)	2,554

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €0.3m for the period ended 30 June 2023 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

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

	Non–credit impaired				Credit–impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2022	3,817,513	(15,382)	365,803	(16,108)	194,447	(38,000)	4,377,763	(69,490)
Transfers of financial instruments:	(78,443)	(374)	90,471	(1,927)	(12,028)	2,301	—	—
– transfers from stage 1 to stage 2	(116,822)	580	116,822	(580)	—	—	—	—
– transfers from stage 2 to stage 1	40,580	(744)	(40,580)	744	—	—	—	—
– transfers from stage 3	3,111	(238)	20,919	(2,527)	(24,030)	2,765	—	—
– transfers to stage 3	(5,312)	28	(6,690)	436	12,002	(464)	—	—
Net remeasurement of ECL arising from stage transfers	—	708	—	(5,461)	—	(436)	—	(5,189)
Changes in risk parameters	—	3,470	—	1,608	—	(5,831)	—	(753)
Net new and further lending/ repayments	(21,819)	778	(61,934)	2,902	(29,717)	1,506	(113,470)	5,186
Assets written off	—	—	—	—	(15,204)	15,204	(15,204)	15,204
At 31 Dec 2022	3,717,251	(10,800)	394,340	(18,986)	137,498	(25,256)	4,249,089	(55,042)
ECL charge for the year								14,448
Recoveries								9,359
Other								1,051
Change in expected credit losses for the year								24,858
Assets written off								(15,204)
Change in expected credit losses and other credit impairment charges								9,654

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

The above disclosure provides a reconciliation by stage of the bank's gross carrying/nominal amount and allowances for loans and advances to customers, including 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 release for the period ended 30 June 2023 amounted to €2.6m when compared to a release of €9.6m for the year ended 31 December 2022. This release for the period ended 30 June 2023 is due to the upgrade of facilities which were granted moratoria during the Covid-19 pandemic and a favourable change in the probability weightings of economic scenarios. The release of €9.6m for the year ended 31 December 2022 was mainly attributable to a recovery on a non-performing loan which was largely provided for in prior years.

5 Segmental analysis

Class of business

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by the following global businesses which are the local group's reportable segments under IFRS 8, 'Operating Segments'.

- Wealth and Personal Banking ('WPB') offers a full range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include retail banking products such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. WPB also provide wealth management services, including insurance and investment products, global asset management services and financial planning services.
- Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, 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.

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 notable items. 'Notable items' are components of our income statement that management would consider as outside the normal course of business and generally non-recurring in nature. As a result management and investors would ordinarily identify and consider notable items 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 notable items, is also presented when applicable. 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 attributable 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 notable items, which distort period-on-period 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 period-on-period performance. During the periods ended 30 June 2023 and 30 June 2022 there were no notable items requiring adjustment. Accordingly, the adjusted profit by global business reported below is the same as the reported profit.

	Wealth and Personal		Commercial Banking		Global Markets		Group total	
	Half-year to							
	30 Jun 2023 €000	30 Jun 2022 €000	**30 Jun 2023 €000**	30 Jun 2022 €000	**30 Jun 2023 €000**	30 Jun 2022 €000	**30 Jun 2023 €000**	30 Jun 2022 €000
Net operating income before change in expected credit losses and other credit impairment charges	**75,502**	39,221	**29,074**	21,609	**1,694**	1,927	**106,270**	62,757
external	**68,399**	39,505	**36,177**	21,325	**1,694**	1,927	**106,270**	62,757
inter-segment	**7,103**	(284)	**(7,103)**	284	**—**	—	**—**	—
– of which: net interest income	***66,202***	*32,252*	***23,475***	*13,986*	**—**	—	***89,677***	*46,238*
Change in expected credit losses and other credit impairment charges	**1,376**	1,864	**1,178**	9,969	**—**	—	**2,554**	11,833
Net operating income	**76,878**	41,085	**30,252**	31,578	**1,694**	1,927	**108,824**	74,590
Total operating expenses	**(37,253)**	(43,201)	**(11,926)**	(13,497)	**(369)**	(367)	**(49,548)**	(57,065)
Adjusted/Reported profit/(loss) before tax	**39,625**	(2,116)	**18,326**	18,081	**1,325**	1,560	**59,276**	17,525

	30 Jun 2023 €000	31 Dec 2022 €000	**30 Jun 2023 €000**	31 Dec 2022 €000	**30 Jun 2023 €000**	31 Dec 2022 €000	**30 Jun 2023 €000**	31 Dec 2022 €000
Reported balance sheet data								
Loans and advances to customers (net)	**2,240,617**	2,264,031	**906,516**	911,136	**—**	—	**3,147,133**	3,175,167
Total external assets	**5,495,657**	5,659,819	**1,869,003**	1,660,474	**25,699**	26,562	**7,390,359**	7,346,855
Customer accounts	**4,553,094**	4,545,286	**1,377,023**	1,425,672	**—**	—	**5,930,117**	5,970,958

6 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.

Fair values are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The valuation techniques utilised in preparing these interim condensed financial statements are consistent with those applied in the preparation of financial statements for the year ended 31 December 2022. There were no transfers between levels of the fair value hierarchy during the period under review.

ii 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 and basis of valuation

	Group			
	At 30 Jun 2023			
	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobserv-able inputs Level 3	Total
	€000	€000	€000	€000
Assets				
Treasury Bills	**49,775**	**156,537**	**—**	**206,312**
Derivatives	**—**	**24,889**	**—**	**24,889**
Financial assets mandatorily measured at fair value through profit or loss	**676,468**	**—**	**7,470**	**683,938**
Financial investments measured at fair value through other comprehensive income	**570,225**	**—**	**43**	**570,268**
	1,296,468	**181,426**	**7,513**	**1,485,407**
Liabilities				
Derivatives	**—**	**8,419**	**—**	**8,419**
Liabilities under investment contracts	**156,662**	**—**	**—**	**156,662**
	156,662	**8,419**	**—**	**165,081**
	At 31 Dec 2022			
Assets				
Treasury Bills	—	242,292	—	242,292
Derivatives	—	25,745	—	25,745
Financial assets mandatorily measured at fair value through profit or loss	652,302	—	7,980	660,282
Financial investments measured at fair value through other comprehensive income	637,709	—	37	637,746
	1,290,011	268,037	8,017	1,566,065
Liabilities				
Derivatives	—	10,252	—	10,252
Liabilities under investment contracts	162,676	—	—	162,676
	162,676	10,252	—	172,928

	Bank			
	At 30 Jun 2023			
Assets				
Treasury Bills	**49,775**	**156,537**	**—**	**206,312**
Derivatives	**—**	**24,889**	**—**	**24,889**
Financial investments measured at fair value through other comprehensive income	**570,225**	**—**	**41**	**570,266**
	620,000	**181,426**	**41**	**801,467**
Liabilities				
Derivatives	**—**	**8,419**	**—**	**8,419**
	—	**8,419**	**—**	**8,419**

Financial instruments by fair value and basis of valuation (continued)

	At 31 Dec 2022			
	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobserv-able inputs Level 3	Total
	€000	€000	€000	€000
Assets				
Treasury Bills	—	242,292	—	242,292
Derivatives	—	25,745	—	25,745
Financial investments measured at fair value through other comprehensive income	637,709	—	35	637,744
	637,709	268,037	35	905,781
Liabilities				
Derivatives	—	10,252	—	10,252
	—	10,252	—	10,252

Reconciliation of the fair value measurements in Level 3

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 Jan	**7,980**	4,610	**—**	—
Disposal/redemptions	**(187)**	(615)	**—**	—
Acquisitions	**16**	31	**—**	—
Changes in fair value (recognised in profit or loss)	**(339)**	—	**—**	—
At 30 Jun	**7,470**	4,026	**—**	—

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 in 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.

There has been no change to the key unobservable inputs to Level 3 financial instruments as disclosed in the bank's *Annual Report and Accounts 2022*.

iii Disclosures in respect of fair values of non-financial instruments carried at fair value

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 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

	Group		Bank	
	30 Jun	31 Dec	**30 Jun**	31 Dec
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Assets				
Property	**37,973**	38,092	**37,973**	38,092
	37,973	38,092	**37,973**	38,092

The local group's land and buildings within property, plant and equipment are fair valued annually by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Valuations are 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.

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.

iv Disclosures in respect of fair values of financial instruments not carried at fair value

Certain financial instruments are carried at amortised cost. The fair value of these financial instruments is 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	
	30 Jun 2023	31 Dec 2022	**30 Jun 2023**	31 Dec 2022
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**1,359,297**	1,342,569	**1,359,297**	1,342,569
Items in the course of collection from other banks	**7,991**	6,921	**7,991**	6,921
Loans and advances to banks	**698,509**	732,493	**696,664**	726,217
Loans and advances to customers	**3,147,133**	3,175,167	**3,147,133**	3,175,167
Financial investments measured at amortised cost	**531,119**	367,024	**531,119**	367,024
Accrued interest[1]	**18,896**	16,655	**15,798**	14,160
Other assets[2]	**12,899**	10,595	**12,836**	10,501
	5,775,844	5,651,424	**5,770,838**	5,642,559
Liabilities				
Deposits by banks	**6,317**	2,861	**6,317**	2,861
Customer accounts	**5,930,117**	5,970,958	**5,958,069**	6,010,392
Items in the course of transmission to other banks	**19,890**	27,397	**19,890**	27,397
Borrowings from a group undertaking	**90,000**	60,000	**90,000**	60,000
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**4,793**	1,864	**4,337**	1,677
Other liabilities[3]	**38,835**	14,193	**10,149**	8,968
	6,151,952	6,139,273	**6,150,762**	6,173,295

1 *Accrued interest comprises of interest receivable from Balances with Central Bank of Malta, Loans and advances to banks and customers, Financial investments and Treasury Bills measured at amortised cost.*
2 *Other assets include accrued income and committed letters of credit.*
3 *Other liabilities include bills payable, committed letters of credit and lease liabilities.*

As at 30 June 2023, financial instruments measured at amortised cost include Treasury Bills amounting to €19,724,000 (2022:€42,202,000) and debt instruments amounting to €531,119,000 (2022: €367,024,000). Fair values for these financial instruments as at 30 June 2023, determined by reference to quoted market prices, are €19,679,000 and €511,202,000 respectively (2022: €42,186,000 and €349,553,000). The fair value for Treasury Bills is categorised as Level 2 given that fair value is determined on the basis of quoted prices in an inactive market, whereas the fair value for debt instruments is categorised as Level 1, given that the fair value is determined by reference to quoted market prices in active markets.

The fair values of the other financial instruments measured at amortised cost are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or the bank has the ability to re-price them at its own discretion, or because these are short-term in nature. Fair values for these financial instruments (other than for cash) are estimated using discounted cash flows applying current market interest rates for instruments with similar remaining maturities and hence utilising mainly Level 3 inputs.

Fair values in relation to loans and advances to customers and in relation to customer accounts repayable on demand are deemed to be fairly close to carrying amounts principally in view of the local group's ability to reprice at its discretion. The majority of customer term deposit accounts are held for a period of less than 12 months and therefore their fair value is also deemed to closely approximate the carrying amount due to their short-term nature. These estimates are considered Level 3 fair value estimates.

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

Similarly deposits by banks are principally repayable on demand and, as a result, their fair value is approximated by their carrying amount. The fair value of balances with the Central Bank of Malta, loans and advances to banks, borrowings from a group undertaking and subordinated liabilities is deemed to approximate the carrying amount due to the fact that they are short-term in nature and/or reprice frequently.

7 Derivatives

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

Trading derivatives

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

All of the positions held for trading purposes are covered by back-to-back derivative transactions with HSBC Group entities, managing the market risk arising from these positions. Any market risk retained locally is managed within approved local trading mandates. Therefore, revenue is generated based on volume and spread.

Hedge accounting derivatives

The local group uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset portfolio.

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

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

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

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

The weighted average hedge rate in respect of the hedge accounting derivatives as at June 2023 was 0.50% (2022: -0.55%) per annum.

Derivatives

	Group/Bank							
	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Foreign exchange derivatives								
Foreign exchange	**424,152**	**—**	**4,751**	**—**	**4,751**	**4,338**	**—**	**4,338**
Interest rate derivatives								
Interest rate swaps	**109,664**	**271,000**	**4,138**	**16,000**	**20,138**	**4,081**	**—**	**4,081**
At 30 Jun 2023	**533,816**	**271,000**	**8,889**	**16,000**	**24,889**	**8,419**	**—**	**8,419**
Foreign exchange derivatives								
Foreign exchange	318,988	—	6,273	—	6,273	5,879	—	5,879
Interest rate derivatives								
Interest rate swaps	117,173	271,000	4,382	15,090	19,472	4,373	—	4,373
At 31 Dec 2022	436,161	271,000	10,655	15,090	25,745	10,252	—	10,252

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

Foreign exchange derivatives represent commitments to purchase and sell pre-established amounts of currencies and are gross settled.

Interest rate swaps are commitments to exchange one set of cash flows for another (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

Fair value hedges

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

Hedging instrument and hedged item by hedged risk

	Group/Bank					
	Notional[1]	Fair value movements since hedge inception[2,3]	Balance sheet presentation	Change in Fair Value	Hedge ineffectiveness recognised in profit and loss	
	€000	€000		€000	€000	Profit or loss presentation
Hedging instrument	**271,000**	**15,365**	**Derivatives**	**192**	**(62)**	**Net loss representing ineffective portion of fair value hedges**
Hedged item	**N/A**	**(15,568)**	**Financial investments**	**(254)**		
At 30 Jun 2023	**271,000**	**(203)**		**(62)**	**(62)**	
Hedging instrument	271,000	15,173	Derivatives	15,173	(141)	Net loss representing ineffective portion of fair value hedges
Hedged item	N/A	(15,314)	Financial investments	(15,314)		
At 31 Dec 2022	271,000	(141)		(141)	(141)	

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component in respect of hedged item.
3 Used in effectiveness testing; comprising the full fair value change of hedging instrument not excluding any component, in respect of hedging instrument.

8 Financial investments

	Group		Bank	
	30 Jun 2023	31 Dec 2022	**30 Jun 2023**	31 Dec 2022
	€000	€000	**€000**	€000
Measured at fair value through other comprehensive income:				
Debt instruments	**570,225**	637,709	**570,225**	637,709
Equity and other non-fixed income instruments	**43**	37	**41**	35
Measured at amortised cost:				
Debt instruments	**531,119**	367,024	**531,119**	367,024
	1,101,387	1,004,770	**1,101,385**	1,004,768

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.

Credit loss allowances in respect of debt instruments measured at fair value through other comprehensive income and at amortised cost amounted to €72,000 and €20,000 as at 30 June 2023 respectively (2022: €60,000 and €18,000 respectively).

Debt securities measured at fair value through other comprehensive income with a carrying amount of €87,302,000 (2022: €82,760,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 30 June 2023 and 2022, no balances were outstanding against these credit lines. In addition, debt securities measured at fair value through other comprehensive income with a carrying amount of €12,787,000 (2022: €11,105,000) have been pledged in terms of the Depositor Compensation Scheme.

9 Provisions

	Group				
	Termination benefits	**Litigation provision**	**Post–employment and other long-term employee benefits**	**Other provisions**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Provisions (excluding contractual commitments)					
At 31 December 2022	**1,786**	**2,108**	**11,819**	**2,623**	**18,336**
Additions	**8**	**795**	**—**	**50**	**853**
Amounts utilised	**(1,567)**	**—**	**(27)**	**(59)**	**(1,653)**
Unused amounts reversed	**(114)**	**(233)**	**—**	**(50)**	**(397)**
Remeasurement of post–employment and other long-term employee benefits	**—**	**—**	**456**	**—**	**456**
At 30 Jun 2023	**113**	**2,670**	**12,248**	**2,564**	**17,595**
Contractual commitments					
At 31 December 2022					**1,744**
Change in expected credit loss provision					**(170)**
At 30 Jun 2023					**1,574**
Total Provisions					
At 31 December 2022					**20,080**
At 30 Jun 2023					**19,169**

	Bank				
Provisions (excluding contractual commitments)					
At 31 December 2022	**1,786**	**1,988**	**11,819**	**1,493**	**17,086**
Additions	**8**	**795**	**—**	**50**	**853**
Amounts utilised	**(1,567)**	**—**	**(27)**	**(59)**	**(1,653)**
Unused amounts reversed	**(114)**	**(113)**	**—**	**(50)**	**(277)**
Remeasurement of post–employment and other long-term employee benefits	**—**	**—**	**456**	**—**	**456**
At 30 Jun 2023	**113**	**2,670**	**12,248**	**1,434**	**16,465**
Contractual commitments					
At 31 December 2022					**1,744**
Change in expected credit loss provision					**(170)**
At 30 Jun 2023					**1,574**
Total Provisions					
At 31 December 2022					**18,830**
At 30 Jun 2023					**18,039**

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

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

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 'Financial Instruments' in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*

Termination benefits refer to outstanding payments due to employees who applied for voluntary redundancy schemes issued by the bank to support a number of strategic initiatives to further improve its operational structure, benefiting from the Group's operating models, as the bank aims to drive efficiencies and enhance customer experience, and create a leaner working model that is externally-focused, performance-led, customer centred and fit for the future.

Litigation provision includes civil court, arbitration or tribunal proceedings brought against the local group (whether by claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. This provision is expected to be settled after more than one year from the reporting date and the impact of discounting is not considered to be significant.

Post–employment and other long-term employee benefits relate to obligations emanating from the provisions of the Collective Agreement. 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.

Other provisions represent mainly an onerous contract provision resulting from a closed investment product held by one of the subsidiary companies whereby future losses were estimated and a provision for obligations in respect of medical insurance cost for employees who retired under previous voluntary schemes.

For more details on the above provisions please refer to Note 41 'Provisions' on page 137 of the *Annual Report and Accounts 2022*.

For further details of the impact of IFRS 9 on undrawn loan commitments and financial guarantees, presented in 'Contractual commitments', see Note10. Further analysis of the movement in the expected credit loss provision is disclosed within the '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' table is included in Note 4.

10 Contingent liabilities, contractual commitments and guarantees

	Group Contract amount		Bank Contract amount	
	30 Jun 2023 €000	31 Dec 2022 €000	**30 Jun 2023 €000**	31 Dec 2022 €000
Guarantees and other contingent liabilities:				
– guarantees	**118,060**	113,686	**118,060**	113,686
– standby letters of credit	**17,524**	18,130	**17,524**	18,130
– other contingent liabilities	**2,085**	2,310	**2,035**	2,310
At the end of the period	**137,669**	134,126	**137,619**	134,126
Commitments:				
– documentary credits	**15,750**	17,816	**15,750**	17,816
– undrawn formal standby facilities, credit lines and other commitments to lend	**909,727**	860,004	**909,727**	860,004
At the end of the period	**925,477**	877,820	**925,477**	877,820

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 the end of the period 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, standby letters of credit and loan commitments is disclosed in Note 9.

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.

11 Asset encumbrance

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

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs.

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the local group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Group		Bank	
	30 Jun 2023 €000	31 Dec 2022 €000	**30 Jun 2023 €000**	31 Dec 2022 €000
Total assets	**7,390,359**	7,346,855	**6,712,480**	6,689,880
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	**12,787**	11,105	**12,787**	11,105
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,760**	1,513	**1,760**	1,513
Less:				
Other assets that cannot be pledged as collateral	**855,529**	830,223	**182,658**	182,188
Assets available to support funding and collateral needs	**6,520,283**	6,504,014	**6,515,275**	6,495,074

Out of the €6,520,000,000 (2022: €6,504,000,000) assets available for the local group and €6,515,000,000 (2022: €6,495,000,000) for the bank, €3,918,000,000 (2022: €3,975,000,000) do not form part of the local group's and the bank's High Quality Liquid Assets ('HQLA') and are therefore not categorised as liquid assets. Debt securities and loans and advances to customers pledged against the provision of credit lines by the Central Bank of Malta amounting to €87,302,000 and €97,257,000 respectively (2022: €82,760,000 and €100,615,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

12 Effects of adoption of IFRS 17

On 1 January 2023 the local group adopted IFRS 17 'Insurance Contracts' and as required by the standard, applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the local group's consolidated balance sheet as at 1 January 2022, as well as the local group consolidated income statement and the local group consolidated statement of comprehensive income for the six–month periods ended 30 June 2022.

Further information about the effect of adoption of IFRS 17 is provided in Note 1 Basis of preparation and significant accounting policies on page 8.

IFRS 17 transition impact on the Group consolidated balance sheet at 1 January 2022

	Reported Group numbers	Removal of PVIF and IFRS 4	IFRS 17 fulfilment cash flows	IFRS 17 CSM	Tax effect	Restated Group numbers	Total movements
	€000	€000	€000	€000	€000	€000	€000
Assets							
Financial assets mandatorily measured at fair value through profit or loss	**767,808**	**—**	**—**	**—**	**—**	**767,808**	**—**
Loans and advances to banks	**619,273**	**—**	**—**	**—**	**—**	**619,273**	**—**
Loans and advances to customers	**3,196,725**	**—**	**—**	**—**	**—**	**3,196,725**	**—**
Financial investments	**845,735**	**—**	**—**	**—**	**—**	**845,735**	**—**
Intangible assets	**50,168**	**(33,565)**	**—**	**—**	**—**	**16,603**	**(33,565)**
Deferred tax assets	**29,119**	**—**	**—**	**—**	**197**	**29,316**	**197**
All other assets	**1,665,977**	**(78,961)**	**(12,180)**	**19,760**	**—**	**1,594,596**	**(71,381)**
Total assets	**7,174,805**	**(112,526)**	**(12,180)**	**19,760**	**197**	**7,070,056**	**(104,749)**
Liabilities and equity							
Liabilities							
Liabilities under insurance contracts	**658,197**	**(652,631)**	**518,197**	**67,689**	**—**	**591,452**	**(66,745)**
Deferred tax liabilities	**15,005**	**—**	**—**	**—**	**(11,356)**	**3,649**	**(11,356)**
All other liabilities	**6,011,866**	**—**	**—**	**—**	**—**	**6,011,866**	**—**
Total liabilities	**6,685,068**	**(652,631)**	**518,197**	**67,689**	**(11,356)**	**6,606,967**	**(78,101)**
Total equity	**489,737**	**540,178**	**(530,377)**	**(47,929)**	**11,480**	**463,089**	**(26,648)**
Total liabilities and equity	**7,174,805**	**(112,453)**	**(12,180)**	**19,760**	**124**	**7,070,056**	**(104,749)**

Transition drivers

Removal of PVIF and IFRS 4 balances

The PVIF intangible asset of €33,565,000 previously reported under IFRS 4 within 'Intangible assets' arose from the upfront recognition of future profits associated with in-force insurance contracts. PVIF is no longer reported following the transition to IFRS 17, as future profits are deferred as unearned revenue within the CSM. Other IFRS 4 insurance assets (shown above within 'all other assets') and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 equivalents.

Recognition of the IFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the contractual obligations associated with the insurance contract, such as premiums, expenses, insurance benefits and claims including policyholder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment.

Recognition of the IFRS 17 CSM

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the P&L over the insurance coverage period.

Tax effect

The removal of deferred tax liabilities primarily results from the removal of the associated PVIF intangible, and new deferred tax assets are reported, where appropriate, on temporary differences between the new IFRS 17 accounting balances and their associated tax bases.

IFRS 17 transition impact on the reported Group consolidated income statement for the 6 months ended 30 June 2022

	Reported Group numbers	Removal of PVIF and IFRS 4	Insurance finance income/ expense	IFRS 17 CSM	Onerous contracts	Experience variance and other	Attribut- able expenses	Tax effect	Restated Group numbers
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income	46,238	—	—	—	—	—	—	—	46,238
Net fee income	12,274	—	—	—	—	—	421	—	12,695
Net trading income	3,757	—	—	—	—	—	—	—	3,757
Net expense from financial instruments of insurance operations measured at fair value through profit or loss	(64,070)	—	—	—	—	—	—	—	(64,070)
Net insurance premium income	26,242	(26,242)	—	—	—	—	—	—	—
Insurance finance income/(expense)	—	—	60,020	—	—	—	—	—	60,020
Insurance service result	—	—	—	4,471	(63)	(1,538)	—	—	2,870
– insurance revenue	—	—	—	4,471	—	4,503	—	—	8,974
– insurance service expense	—	—	—	—	(63)	(6,041)	—	—	(6,104)
Other operating income	3,068	(1,821)	—	—	—	—	—	—	1,247
Total operating income	**27,509**	**(28,063)**	**60,020**	**4,471**	**(63)**	**(1,538)**	**421**	**—**	**62,757**
Net insurance claims and benefits paid and movement in liabilities to policyholders	41,602	(41,602)	—	—	—	—	—	—	—
Net operating income before change in expected credit losses and other credit impairment charges	**69,111**	**(69,665)**	**60,020**	**4,471**	**(63)**	**(1,538)**	**421**	**—**	**62,757**
Change in expected credit losses and other credit impairment charges	11,833		—	—	—	—	—	—	11,833
Net operating income	**80,944**	**(69,665)**	**60,020**	**4,471**	**(63)**	**(1,538)**	**421**	**—**	**74,590**
Total operating expenses	(57,437)		—	—	—	—	372		(57,065)
Profit before tax	**23,507**	**(69,665)**	**60,020**	**4,471**	**(63)**	**(1,538)**	**793**	**—**	**17,525**
Tax charge	(8,002)		—	—	—	—	—	2,084	(5,918)
Profit for the period	**15,505**	**(69,665)**	**60,020**	**4,471**	**(63)**	**(1,538)**	**793**	**2,084**	**11,607**

Transition drivers

Removal of IFRS 4-based revenue items

As a result of the removal of the PVIF intangible asset, the associated revenue of €1,821,000 in 1H22 and €954,000 in 2H22 that was previously reported within Other operating income is no longer reported under IFRS 17. This includes the removal of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances.

On the implementation of IFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items 'Net insurance premium income', and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

Introduction of IFRS 17 income statement line items

Insurance finance income/(expense)

Insurance finance income/(expense) of €60,020,000 in 1H22 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For VFA contracts, which represent more than 92% of HSBC's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 9% during 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned on underlying assets, or changes to assumptions.

Onerous contracts

Losses on onerous contracts are taken to the income statement as incurred.

Experience variance and other

Experience variance and other represents the expected expenses, claims and recovery of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and amortisation of acquisition cash flows.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads which are included within the fulfilment cash flows and are no longer shown on the operating expenses line.

Transition impact

Equity

The impact to total equity on transition is summarised below. At transition, the local group's total equity reduced by €26,648,000 (or 5.4%). The primary drivers of the change included: the removal of IFRS 4 based balances including the PVIF intangible asset recognised under the group's historical accounting convention and IFRS 4 based insurance assets and liabilities; recognition of the contractual service margin under IFRS 17; and establishment of the remaining IFRS 17 assets and liabilities including the best estimate of future cash flows and risk adjustment. These changes are also adjusted for the effect of tax.

IFRS 17 transition impact on the Group consolidated statement of comprehensive income

	Half year to			
	31 Dec 2022	31 Dec 2022	**30 Jun 2022**	30 Jun 2022
	Restated Group numbers €000	Reported Group numbers €000	**Restated Group numbers €000**	Reported Group numbers €000
Opening total equity for the period	**463,089**	489,737	**463,089**	489,737
– of which:				
– Retained earnings	***334,051***	*357,315*	***330,667***	*357,315*
– Financial investments reserve	***731***	*731*	***731***	*731*
– Property reserve	***23,599***	*23,599*	***23,599***	*23,599*
Profit for the period	**30,771**	37,571	**11,607**	15,505
Debt instruments at fair value through other comprehensive income	**(23,177)**	(23,177)	**(20,593)**	(20,593)
Equity instruments designated at fair value through other comprehensive income	**1**	1	**2**	2
Other comprehensive income for the period, net of tax	**1,059**	1,059	**—**	—
Total comprehensive income for the period	**8,654**	15,454	**(8,984)**	(5,086)
Other movements	**(8,120)**	(8,120)	**(8,018)**	(8,018)
Closing total equity for the period	**463,623**	497,071	**446,087**	476,633

Group's consolidated balance sheet as at transition date and at 31 December 2022

	Restated Group numbers		Reported Group numbers	
	31 Dec 2022 €000	**1 Jan 2022 €000**	31 Dec 2022 €000	1 Jan 2022 €000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**1,584,861**	**1,496,407**	1,584,861	1,496,407
Items in the course of collection from other banks	**6,921**	**4,453**	6,921	4,453
Financial assets mandatorily measured at fair value through profit or loss	**660,282**	**767,808**	660,282	767,808
Derivatives	**25,745**	**4,640**	25,745	4,640
Loans and advances to banks	**732,493**	**619,273**	732,493	619,273
Loans and advances to customers	**3,175,167**	**3,196,725**	3,175,167	3,196,725
Financial investments	**1,004,770**	**845,735**	1,004,770	845,735
Prepayments and accrued income	**20,126**	**20,558**	20,126	20,558
Current tax assets	**3,496**	**3,669**	3,496	3,669
Reinsurance assets	**12,488**	**7,580**	49,792	77,972
Other non-current assets held for sale	**5,173**	**6,673**	5,173	6,673
Investment property	**—**	**1,600**	—	1,600
Right-of-use assets	**2,459**	**2,569**	2,459	2,569
Property, plant and equipment	**44,627**	**41,923**	44,627	41,923
Intangible assets	**19,169**	**16,603**	55,509	50,168
Deferred tax assets	**38,555**	**29,316**	35,620	29,119
Other assets	**10,523**	**4,524**	11,292	5,513
Total assets	**7,346,855**	**7,070,056**	7,418,333	7,174,805
Liabilities				
Deposits by banks	**2,861**	**1,397**	2,861	1,397
Customer accounts	**5,970,958**	**5,621,195**	5,970,958	5,621,195
Items in the course of transmission to other banks	**27,397**	**21,573**	27,397	21,573
Derivatives	**10,252**	**4,592**	10,252	4,592
Accruals and deferred income	**27,300**	**21,976**	27,300	21,976
Current tax liabilities	**2,104**	**499**	2,104	499
Liabilities under investment contracts	**162,676**	**185,137**	162,676	185,137
Liabilities under insurance contracts	**518,433**	**591,452**	544,246	658,197
Provisions	**20,080**	**21,252**	20,080	21,252
Deferred tax liabilities	**3,529**	**3,649**	15,819	15,005
Borrowings from a group undertaking	**60,000**	**60,000**	60,000	60,000
Subordinated liabilities	**62,000**	**62,000**	62,000	62,000
Other liabilities	**15,642**	**12,245**	15,569	12,245
Total liabilities	**6,883,232**	**6,606,967**	6,921,262	6,685,068
Equity				
Called up share capital	**108,092**	**108,092**	108,092	108,092
Revaluation reserve	**64**	**24,330**	64	24,330
Retained earnings	**355,467**	**330,667**	388,915	357,315
Total equity	**463,623**	**463,089**	497,071	489,737
Total liabilities and equity	**7,346,855**	**7,070,056**	7,418,333	7,174,805

Statement pursuant to Capital Markets Rule 5.75.3 issued by the Malta Financial Services Authority.

I confirm that to the best of my knowledge:

- the interim condensed financial statements give a true and fair view of the financial position of the local group and the bank as at 30 June 2023, as well as of their financial performance and cash flows for the period then ended, in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and
- the Directors' Report includes a fair review of the information required under Capital Markets Rules 5.81 to 5.84.

Geoffrey Fichte
Chief Executive Officer

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