HSBC Bank Malta p.l.c.

Pillar 3 Disclosures at 30 June 2023

HSBC

Contents

Introduction

Regulatory framework for disclosures

HSBC Bank Malta p.l.c. falls under the Single Supervisory Mechanism ('SSM') of the European Central Bank ('ECB') through the Joint Supervisory Team ('JST'), which consists of representatives from both the ECB and the Malta Financial Services Authority ('MFSA'). HSBC Bank Malta p.l.c. is under the direct supervision of both the JST and MFSA. Information regarding HSBC Bank Malta p.l.c.'s capital adequacy requirements as an entity is received by the two regulatory bodies.

The Basel III framework of the Basel Committee on Banking Supervision as implemented by the European Union (the 'EU') in the amended Capital Requirements Regulation and Directive, collectively referred to as CRR/CRD IV, is used to calculate capital for prudential regulatory reporting purposes at a consolidated level. The local group comprises HSBC Bank Malta p.l.c. and its subsidiary HSBC Global Asset Management (Malta) Ltd. HSBC Life Assurance (Malta) Ltd is excluded from the regulatory scope of consolidation by eliminating assets, liabilities, and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted at 250%).

The Basel III framework consists of three 'pillars'. Pillar 1 measures minimum capital requirements for the credit, market, and operational risks that banks face. Pillar 2 'supervisory review' focuses on the fundamentals of the supervisory review procedure and emphasizes the necessity of a qualitative approach to bank supervision. An Internal Capital Adequacy Assessment Process ('ICAAP') is required by banks to estimate their own capital. Through the Supervisory Review and Evaluation Process ('SREP'), the Regulator conducts supervisory reviews of the ICAAP and Internal Liquidity Adequacy Assessment Process ('ILAAP'). Pillar 3 'market discipline' mandates that banks publish a variety of qualitative and quantitative disclosures to the market in order to provide additional information regarding the capital structure, capital adequacy, and risk management practices.

Disclosure requirements are an integral part of the Basel framework. These disclosures meet the requirements of Article 433 of Part Eight of EU Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – 'CRR2'), in conjunction with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994, issued by the MFSA. Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive – Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation – Pillar 2) of the European Parliament and of the Council of 26 June 2013.

The EBA adopted updated guidelines in 2021, namely the 'Final Draft implementing technical standards on public disclosures of information referred to in Titles II and III of Part Eight of Regulation (EU) No. 575/2013 by institutions'. The disclosure framework in the EU is now in line with Basel Pillar 3 standards which bring the regulatory changes made by the revised CRR2 into effect. The entirety of this regulation became legally binding on 28 June 2021.

Pillar 3 disclosures

HSBC Bank Malta p.l.c.'s Pillar 3 disclosures at 30 June 2023 comprise all information required under Pillar 3, both quantitative and qualitative.

In light of the fact that the local group is considered a significant subsidiary of HSBC Continental Europe within the local market, and subject to consolidated supervision at the level of both HSBC

Continental Europe and HSBC Holdings plc, the local group is exempt from full disclosure requirements laid down in Part Eight of the CRR.

The Pillar 3 disclosures are governed by HSBC Group's disclosure policy framework that sets out the governance, control, and assurance requirements for publication of the Pillar 3 disclosures document. As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the financial statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The local group through its internal verification procedures and governance processes is satisfied that these Pillar 3 disclosures are presented fairly.

Where information pertaining to Pillar 3 requirements is contained in other parts of the Annual Report, a reference has been added. The quarterly disclosures as required by CRR article 433a, are included in this Pillar 3 disclosures.

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of Risk Weighted Assets ('RWAs') by article 92 of the CRR.

Regulatory Developments

The Basel III Reforms

The Basel III Reforms introduce significant changes to the way firms calculate risk-weighted assets ('RWAs') across all risk types. A first draft of the rules implementing the reforms in the European Union ('EU') (the third Capital Requirement Regulation 'CRR 3' or the sixth Capital Requirement Directive 'CRD 6') was published by the European Commission ('EC') at the end of 2021, with a proposed implementation date of 1 January 2025. These rules included significant deviations from the original guidelines issued by the Basel Committee on Banking Supervision and have been subject to intense negotiations between the main legislative parties. This process, known as 'trilogue negotiations', started in March 2023 and led to a provisional agreement on 26 June. The publication of the final text is expected by the end of 2023, following further technical discussions in the coming months.

Interest Rate Risk in the Banking Book ('IRRBB')

In 2022, the EBA published its Regulatory Technical Standards ('RTS') on the IRRBB Supervisory Outlier Test ('SOT'). This introduced a new definition of what constitutes a large decline of the Net Interest Income to 2.5% of Tier 1 Capital. The EBA is yet to publish the final version of its RTS, replacing the original level of 2.5% to 5% of Tier 1 Capital.

Environmental Social and Governance ('ESG') related disclosures requirements

In the EU, regulators continue to publish multiple proposals and discussion papers on ESG topics, including on the extent to which climate risks are captured and dealt with in the prudential framework. These encompass several areas including European Green Bond regulations and securitization, taxonomy for non-climate environmental objectives, disclosures and sustainability reporting standards, and ESG ratings.

Significant events

Minimum Requirement for own funds and Eligible Liabilities ('MREL')

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

Table 1: Key metrics (KM1)

Ref*		At 30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022
	Available capital (€000)+					
1	Common Equity Tier 1 ('CET1') capital^	**398,071**	403,866	410,150	377,472	375,075
1a	Fully loaded ECL accounting model CET1	**394,105**	400,147	400,871	366,506	366,985
2	Tier 1 capital^	**398,071**	403,866	410,150	377,472	375,075
2a	Fully loaded ECL accounting model Tier 1	**394,105**	400,147	400,871	366,506	366,985
3	Total capital^	**460,071**	465,866	472,150	439,472	437,075
3a	Fully loaded ECL accounting model total capital	**456,105**	462,147	462,871	428,506	428,985
	Risk-weighted exposure amounts ('RWEAs') (€000)					
4	Total risk-weighted exposure amount	**2,236,599**	2,257,439	2,220,525	2,274,843	2,297,339
	Total RWEAs as if IFRS 9 transitional arrangements had not been applied	**2,233,101**	2,254,544	2,212,934	2,266,252	2,291,238
	Capital ratios (%)					
5	Common Equity Tier 1 ratio (%)	**17.8**	17.9	18.5	16.6	16.3
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	**17.6**	17.7	18.1	16.2	16.0
6	Tier 1 ratio (%)	**17.8**	17.9	18.5	16.6	16.3
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**17.6**	17.7	18.1	16.2	16.0
7	Total capital ratio (%)	**20.6**	20.6	21.3	19.3	19.0
7a	Fully loaded ECL accounting model total capital ratio (%)	**20.4**	20.5	20.9	18.9	18.7
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	**2.3**	2.3	2.3	2.3	2.3
EU 7b	– *of which: to be made up of CET1 capital (percentage points)*	***1.3***	*1.3*	*1.3*	*1.3*	*1.3*
EU 7c	– *of which: to be made up of Tier 1 capital (percentage points)*	***1.7***	*1.7*	*1.7*	*1.7*	*1.7*
EU 7d	Total SREP own funds requirements (%)	**10.3**	10.3	10.3	10.3	10.3
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**—**	—	—	—	—
9	Institution specific countercyclical capital buffer (%)	**—**	—	—	—	—
EU 9a	Systemic risk buffer (%)	**—**	—	—	—	—
10	Global Systemically Important Institution buffer (%)	**—**	—	—	—	—
EU 10a	Other Systemically Important Institution buffer (%)£	**1.3**	1.3	1.5	1.5	1.5
11	Combined buffer requirement (%)	**3.8**	3.8	4.0	4.0	4.0
EU 11a	Overall capital requirements (%)	**14.0**	14.0	14.3	14.3	14.3
12	CET1 available after meeting the total SREP own funds requirements (%)	**10.1**	10.2	10.8	8.9	8.6
	Leverage ratio					
13	Total exposure measure$	**6,911,555**	6,881,711	6,895,112	6,934,865	6,925,928
14	Leverage ratio (%)^	**5.8**	5.9	5.9	5.4	5.4
14a	Fully loaded ECL accounting model leverage ratio (%)	**5.7**	5.8	5.8	5.3	5.3
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage	**—**	—	—	—	—
EU 14b	– *of which: to be made up of CET1 capital (percentage points)*	**—**	—	—	—	—
EU 14c	Total SREP leverage ratio requirements (%)	**3.0**	3.0	3.0	3.0	3.0
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	**—**	—	—	—	—
EU 14e	Overall leverage ratio requirement (%)	**3.0**	3.0	3.0	3.0	3.0
	Liquidity Coverage Ratio ('LCR')					
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**2,533,116**	2,429,309	2,412,674	2,207,581	1,953,281
EU 16a	Cash outflows – Total weighted value	**1,139,095**	1,145,205	1,135,477	1,104,745	1,052,305
EU 16b	Cash inflows – Total weighted value	**572,840**	598,845	585,685	588,982	683,307
16	Total net cash outflows (adjusted value)	**566,255**	546,360	589,490	546,804	440,319
	LCR ratio (%)[1]	**449.1**	457.0	420.3	425.5	461.0
	Net Stable Funding Ratio					
18	Total available stable funding	**5,365,372**	5,429,043	5,416,247	5,058,155	5,370,199
19	Total required stable funding	**2,611,599**	2,625,503	2,599,764	2,622,116	2,664,712
20	NSFR ratio (%)	**205.4**	206.8	208.3	192.9	201.5

* *The references in this, and subsequent tables, identify the lines prescribed in the relevant European Banking Authority ('EBA') template where applicable and where there is a value.*
\+ *Capital figures and ratios are reported using the CRR2 transitional basis for capital instruments.*
£ *The Other Systematically Important Institution buffer was reduced to 1.25% in 2023 in line with the parent company HBCE.*
$ *Comparatives for 31 Dec 22 are being restated in accordance to current period reporting.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Liquidity Coverage Ratio figures for December 2022, September 2022 and June 2022 are being restated in accordance with current period reporting.*

Total capital of €460,071 (2022 : €472,150) was decreased by 2.56%, attributed to an increase in the contribution amount allocated to the Depositor Compensation Scheme, an increase in capital deduction on non performing loans, a recalculation on intangible assets, and a lower relief claimed under IFRS9 as the bank approaches the end of the transitional arrangements. On the other hand, an improvement was achieved in the revaluation reserve generated through the HTC&S portfolio. The LCR ratio increased by 28.8% to 449.1% as at 30 Jun 2023 (December 2022: 420.3%), as a result of an increase in High Quality Liquid Assets and a decrease in Net Cash outflows.

Table 2: Net value of exposures

	Group					
	At 30 Jun			At 31 Dec		
	2023			2022		
	Net value of exposure^	**Risk-weighted assets^**	**Capital Required^**	Net value of exposure^	Risk-weighted assets^	Capital Required^
	€000	**€000**	**€000**	€000	€000	€000
Central governments or central banks	**2,147,170**	**82,862**	**6,629**	2,143,439	87,734	7,019
Public sector entities	**435,783**	**—**	**—**	456,191	—	—
Multilateral development banks	**122,616**	**—**	**—**	166,509	—	—
International Organisations	**200,628**	**—**	**—**	72,119	—	—
Institutions	**714,822**	**178,636**	**14,291**	721,606	182,546	14,603
Corporates	**1,074,204**	**448,524**	**35,882**	1,054,165	394,225	31,538
Retail exposures	**672,137**	**259,216**	**20,737**	732,468	274,497	21,960
Secured by mortgages on immovable property	**2,177,331**	**768,358**	**61,470**	2,120,661	767,578	61,406
Exposures in default	**97,621**	**110,205**	**8,816**	112,719	125,268	10,021
Items associated with particularly high risk	**15,487**	**16,895**	**1,352**	16,252	16,515	1,321
Equity exposures	**89**	**89**	**7**	83	83	7
Other exposures	**135,683**	**143,281**	**11,462**	137,331	142,433	11,395
Credit risk	**7,793,571**	**2,008,066**	**160,646**	7,733,543	1,990,879	159,270
Operational risk[1]		**225,956**	**18,076**		225,956	18,076
Foreign exchange risk		**390**	**31**		765	61
Credit Valuation Adjustment Risk		**2,187**	**175**		2,925	234
Total		**2,236,599**	**178,928**		2,220,525	177,641
Own funds						
Common Equity Tier 1			**398,071**			410,150
Tier 2			**62,000**			62,000
Total own funds			**460,071**			472,150
Total capital ratio			**20.6%**			21.3%

^ *Figures have been prepared on an IFRS9 transitional basis.*
1 *Operational risk is calculated annually and the amount reported as at 30 June 2023 reflects the operational risk amount as at 31 December 2022.*

The following material movements are observed when comparing current reporting with December 2022:

- Exposures in default decreased by 13.4% resulting from recoveries on facilities which were considered as in default;
- Exposures with International Organisations increased by 178.2%, mainly driven by the maturing of investments in Multilateral Development Banks instruments, and re-invested in International Organisations debt instruments.

HSBC Bank Malta p.l.c. has adopted the regulatory transitional arrangements in CRR2 for IFRS 9, including paragraph four of article 473a. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses ('ECL') in the non-credit impaired book thereafter.

Any add-back must be tax affected and accompanied by a recalculation of exposure and RWAs.

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit impaired book. In the current period, the net add-back to the capital base amounted to €3,966,000.

Some figures (indicated with ^) within the table have been prepared on an IFRS 9 transitional basis. All other tables report numbers on the basis of full adoption of IFRS 9.

Table EU which is presented in accordance with Article 438 (c) to (f) of the CRR provides an overview of the total RWA as well as the capital requirements for credit risk, including capital for operational risk, foreign exchange risk, and credit valuation adjustment risk, which are segregated into the various exposure classes and are derived from the RWA using a capital ratio of 8%.

Table 3: Overview of RWAs (OV1)[1]

		At				
		30 Jun 2023	31 Mar 2023	31 Dec 2022	**30 Jun 2023**	31 Mar 2023
		Risk-weighted assets^	Risk-weighted assets	Risk-weighted assets	**Minimum capital requirements^**	Minimum capital requirements
		€000	€000	€000	**€000**	€000
1	Credit risk (excluding CCR)	**1,986,144**	2,011,031	1,970,625	**158,892**	160,882
2	*– of which: the standardised approach*	***1,986,144***	*2,011,031*	*1,970,625*	***158,892***	*160,882*
3	*– of which: the Foundation IRB (F-IRB) approach*	**—**	—	—	**—**	—
4	*– of which: slotting approach*	**—**	—	—	**—**	—
EU 4a	*– of which: equities under the simple risk weighted approach*	**—**	—	—	**—**	—
5	*– of which: the Advanced IRB (A-IRB) approach*	**—**	—	—	**—**	—
6	Counterparty credit risk – CCR	**24,109**	20,265	23,179	**1,929**	1,621
7	*– of which: the standardised approach*	***21,922***	*17,644*	*20,254*	***1,754***	*1,412*
8	*– of which: internal model method (IMM)*	**—**	—	—		
EU 8a	*– of which: exposures to a CCP*	**—**	—	—		
EU 8b	*– of which: credit valuation adjustment – CVA*	***2,187***	*2,621*	*2,925*	***175***	*210*
9	*– of which: other CCR*	**—**	—	—	**—**	—
10	Not applicable					
11	Not applicable					
12	Not applicable					
13	Not applicable					
14	Not applicable					
15	Settlement risk	**—**	—	—	**—**	—
16	Securitisation exposures in the non-trading book (after the cap)	**—**	—	—	**—**	—
17	*– of which: SEC-IRBA approach*	**—**	—	—	**—**	—
18	*– of which: SEC-ERBA (including IAA)*	**—**	—	—	**—**	—
19	*– of which: SEC-SA approach*	**—**	—	—	**—**	—
EU 19a	*– of which: 1250%/deduction*	**—**	—	—	**—**	—
20	Position, foreign exchange and commodities risks (Market risk)	**390**	187	765	**31**	15
21	*– of which: the standardised approach*	***390***	*187*	*765*	***31***	*15*
22	*– of which: IMA*	**—**	—	—	**—**	—
EU	Large exposures	**—**	—	—	**—**	—
23	Operational risk	**225,956**	225,956	225,956	**18,076**	18,076
EU 23a	*– of which: basic indicator approach*	**—**	—	—	**—**	—
EU 23b	*– of which: standardised approach*	***225,956***	*225,956*	*225,956*	***18,076***	*18,076*
EU 23c	*– of which: advanced measurement approach*	**—**	—	—	**—**	—
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)[2]**	**82,862**	81,307	88,073	**6,629**	6,505
25	Not applicable	**—**	—		**—**	—
26	Not applicable	**—**	—		**—**	—
27	Not applicable	**—**	—		**—**	—
28	Not applicable	**—**	—		**—**	—
29	**Total**	**2,236,599**	2,257,439	2,220,525	**178,928**	180,594

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *'Capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
2 *Amounts are presented for information only and excluded from the Total.*

Linkage to the Interim Report and Accounts 2023

Basis of consolidation

The basis of consolidation for the purpose of financial accounting is based on the IFRS requirements. The IFRS requirements differ from the requirements used for regulatory purposes. IFRS provides a point in time value of all on balance sheet assets, while the regulatory exposure value includes an estimation of risk, and is expressed as the amount expected to be outstanding when the counterparty defaults. Moreover, the regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Table 4: – EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance sheet as in published financial statements	De-consolidation of insurance entity	Regulatory balance sheet
	€000	€000	€000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash	1,565,609	—	1,565,609
Items in course of collection from other banks	7,991	—	7,991
Financial assets mandatorily measured at fair value through profit or loss	683,938	(683,938)	—
Derivatives	24,889	—	24,889
Loans and advances to banks	698,509	(1,845)	696,664
Loans and advances to customers	3,147,133	—	3,147,133
Financial investments	1,101,387	—	1,101,387
Prepayments and accrued income	24,143	(2,743)	21,400
Current tax assets	2,207	(2,175)	32
Reinsurance assets	15,386	(15,386)	—
Other non-current assets held for sale	4,723	—	4,723
Investment in subsidiaries	—	28,578	28,578
Right-of-use assets	2,182	—	2,182
Property, plant and equipment	45,201	(3)	45,198
Intangible assets	20,037	(505)	19,532
Deferred tax assets	36,283	(3,138)	33,145
Other assets	10,741	1,460	12,201
Total assets at 30 Jun 2023	7,390,359	(679,695)	6,710,664
Liabilities and equity			
Deposits by banks	6,317	—	6,317
Customer accounts	5,930,117	30,186	5,960,303
Items in the course of transmission to other banks	19,890	—	19,890
Derivatives	8,419	—	8,419
Accruals and deferred income	30,700	(3,841)	26,859
Current tax liabilities	19,732	—	19,732
Liabilities under investment contracts	156,662	(156,662)	—
Liabilities under insurance contracts	514,806	(514,806)	—
Provisions	19,169	(1,130)	18,039
Deferred tax liabilities	4,126	(569)	3,557
Borrowings from a group undertaking	90,000	—	90,000
Subordinated liabilities	62,000	—	62,000
Other liabilities	35,910	(27,316)	8,594
Total liabilities at 30 Jun 2023	6,897,848	(674,138)	6,223,710
Equity			
Called up share capital	108,092	—	108,092
Revaluation reserve	3,633	—	3,633
Retained earnings	380,786	(5,557)	375,229
Total equity at 30 Jun 2023	492,511	(5,557)	486,954
Total liabilities and equity at 30 Jun 2023	7,390,359	(679,695)	6,710,664

Table 4: – EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements (continued)

	Balance sheet as in published financial statements[1]	De-consolidation of insurance entity[1]	Regulatory balance sheet
	€000	€000	€000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash	1,584,861	—	1,584,861
Items in course of collection from other banks	6,921	—	6,921
Financial assets mandatorily measured at fair value through profit or loss	660,282	(660,282)	—
Derivatives	25,745	—	25,745
Loans and advances to banks	732,493	(6,276)	726,217
Loans and advances to customers	3,175,167	—	3,175,167
Financial investments	1,004,770	—	1,004,770
Prepayments and accrued income	20,126	(2,239)	17,887
Current tax assets	3,496	(2,028)	1,468
Reinsurance assets	12,488	(12,488)	—
Other non-current assets held for sale	5,173	—	5,173
Investment in subsidiaries	—	28,578	28,578
Investment property	—	—	—
Right-of-use assets	2,459	—	2,459
Property, plant and equipment	44,627	(4)	44,623
Intangible assets	19,169	(565)	18,604
Deferred tax assets	38,555	(2,935)	35,620
Other assets	10,523	(558)	9,965
Total assets at 31 Dec 2022	7,346,855	(658,797)	6,688,058
Liabilities and equity			
Deposits by banks	2,861	—	2,861
Customer accounts	5,970,958	38,619	6,009,577
Items in the course of transmission to other banks	27,397	—	27,397
Derivatives	10,252	—	10,252
Accruals and deferred income	27,300	(4,383)	22,917
Current tax liabilities	2,104	—	2,104
Liabilities under investment contracts	162,676	(162,676)	—
Liabilities under insurance contracts	518,433	(518,433)	—
Provisions	20,080	(1,250)	18,830
Deferred tax liabilities	3,529	40	3,569
Borrowings from a group undertaking	60,000	—	60,000
Subordinated liabilities	62,000	—	62,000
Other liabilities	15,642	(6,226)	9,416
Total liabilities at 31 Dec 2022	6,883,232	(654,309)	6,228,923
Equity			
Called up share capital	108,092	—	108,092
Revaluation reserve	64	—	64
Retained earnings[2]	355,467	(4,488)	350,979
Total equity at 31 Dec 2022	463,623	(4,488)	459,135
Total liabilities and equity at 31 Dec 2022	7,346,855	(658,797)	6,688,058

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.*

2 *The retained earnings also includes other movements in the equity. The balance sheet components are used in the calculation of the regulatory capital in table 6 (Own funds disclosure EU CC1). This table shows items at their accounting values which might be subject to adjustments in the calculation of regulatory capital.*

Capital and Leverage

Capital management

Approach and policy

HSBC Bank Malta p.l.c.'s objective in managing the bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory requirements at all times.

HSBC Bank Malta p.l.c. manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2023 HSBC Bank Malta p.l.c. complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan which is approved by the Board of Directors of HSBC Bank Malta p.l.c. ('the Board') and which determines the appropriate amount and mix of capital.

The policy on capital management is underpinned by the HSBC Group capital management framework, which enables a consistent management of the capital.

The Internal Capital Adequacy Assessment Process ('ICAAP') which aims at assessing the adequacy of the bank's capital resources with regards to its risk and requirements, incorporates different assessment methods of the capital needs. These capital measures include economic capital and regulatory capital defined as follows:

- Economic capital is the internally calculated capital requirement which is deemed necessary by HSBC Bank Malta p.l.c. to support the risks to which it is exposed to; and,
- Regulatory capital is the level of capital which HSBC Bank Malta p.l.c. is required to hold in accordance with the rules set by the legislation and the ECB.

The following risks managed through the capital management framework have been identified as material:

- Credit risk;
- Operational risk;
- Interest rate risk in the banking book;
- Climate Risk;
- Liquidity Risk; and
- Insurance risk.

The Basel III framework introduces other capital buffers which include the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), Sectoral Systemic Risk Buffer ('sSyRB'), Pillar 2 Guidance ('P2G') and other systemic buffers such as the Globally/ Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD legislations implemented Basel III in the EU.

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the resilience of HSBC Bank Malta p.l.c. to a given scenario based on a set of risk factors. The scenarios are extreme but plausible events. Stress testing allows senior management to assess the bank's vulnerabilities and to formulate its response including risk mitigating actions based on the conditions reflected in the identified stress scenarios.

The actual market stresses experienced by the financial system in recent years have been used to inform the capital planning process and further develop the stress scenarios employed within HSBC Bank Malta p.l.c.

Regulatory stress tests (carried out at the request of regulators using their prescribed assumptions), internal stress tests (using internally defined scenarios defined to capture the specific risks faced by HSBC Bank Malta p.l.c.), reverse stress tests and sensitivity analysis are performed. HSBC Bank Malta p.l.c. takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond the stress testing framework, a list of risks with associated potential impacts on HSBC Bank Malta p.l.c.'s capital ratios is reviewed regularly. These risks are identified as possibly affecting Risk-Weighted Assets ('RWAs') and/or the capital position. These risks are monitored regularly within the Asset, Liability & Capital Management Committee ('ALCO') and the Risk Management Meetings ('RMM'). Scenario analysis is performed for the relevant categories of risk. The downside scenario is assessed against our capital management objectives and embedded in the capital risk appetite.

HSBC Bank Malta p.l.c.'s approach to managing its capital position is to ensure that the bank complies with current regulatory requirements and internal risk appetite as well as to ensure that future regulatory requirements are considered.

Regulatory capital framework

For regulatory purposes capital base can be divided into three main categories, namely Common Equity Tier 1, Additional Tier 1, and Tier 2 capital, depending on the degree of permanence and loss absorbency exhibited. HSBC Bank Malta p.l.c.'s capital base is divided into two main categories, namely Common Equity Tier 1 and Tier 2 capital, as it holds no instruments under Additional Tier 1. The main features of capital issued by HSBC Bank Malta p.l.c. are described in the annual Pillar 3 disclosures report.

Common Equity Tier 1 ('CET1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRR/CRD various capital deductions and regulatory adjustments are made against these items; these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability as well as prudential recognition for Non-Performing Exposures in line with latest regulations and requirements.

Tier 2 ('T2') capital comprises eligible subordinated debt and any related share premiums.

T2 capital instruments are either perpetual subordinated instruments or dated instruments on which there is an obligation to pay coupons. These instruments or subordinated loans comprise dated loan capital repayable at par on maturity and must have an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer subject to prior consent from the ECB. It is a regulatory requirement that Tier 2 instruments are amortised on a straight line basis in their final five years to maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

Our T2 capital consists of subordinated debt with HSBC Bank plc which is repayable at par on maturity, and may be called and redeemed by the issuer, subject to prior consent from the ECB.

The own funds disclosure template ('EU CC1') is presented in accordance with Article 437 of the CRR.

Table 5: Composition of regulatory own funds (EU CC1)

		At	
		30 Jun 2023	31 Dec 2022
Ref		**€000**	€000
	Common equity tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**108,092**	108,092
	– *of which: ordinary shares*	***108,092***	*108,092*
2	Retained earnings[1]	**331,564**	310,331
3	Accumulated other comprehensive income (and other reserves)	**3,633**	64
3a	Funds for general banking risk (related to BR09)[2]	**6,209**	6,209
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	**—**	—
5	Minority interests (amount allowed in consolidated CET1)	**—**	—
EU-5a	Independently reviewed profits net of any foreseeable charge or dividend	**—**	21,300
6	**Common equity tier 1 capital before regulatory adjustments**	**449,498**	445,996
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments[3]	**(811)**	(918)
8	Intangible assets (net of related tax liability) (negative amount)	**(13,135)**	(8,283)
9	Not applicable	**—**	—
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	**—**	—
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair	**—**	—
12	Negative amounts resulting from the calculation of expected loss amounts	**—**	—
13	Any increase in equity that results from securitised assets (negative amount)	**—**	—
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**—**	—
15	Defined-benefit pension fund assets (negative amount)	**—**	—
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	**—**	—
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**—**	—
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
20	Not applicable	**—**	—
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	**—**	—
EU-20b	– *of which: qualifying holdings outside the financial sector (negative amount)*	**—**	—
EU-20c	– *of which: securitisation positions (negative amount)*	**—**	—
EU-20d	– *of which: free deliveries (negative amount)*	**—**	—
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	**—**	—
22	Amount exceeding the 17,65% threshold (negative amount)	**—**	(704)
23	– *of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	**—**	*(313)*
24	Not applicable	**—**	—
25	– *of which: deferred tax assets arising from temporary differences*	**—**	*(391)*
EU-25a	Losses for the current financial year (negative amount)		—
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	**—**	—
26	Not applicable	**—**	—
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	**—**	—
27a	Other regulatory adjustments	**(37,481)**	(25,941)
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**(51,427)**	(35,846)
29	**Common equity tier 1 (CET1) capital**	**398,071**	410,150
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	**—**	—
31	– *of which: classified as equity under applicable accounting standards*	**—**	—
32	– *of which: classified as liabilities under applicable accounting standards*	**—**	—
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	**—**	—
EU-33a	Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1	**—**	—
EU-33b	Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1	**—**	—
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	**—**	—
35	– *of which: instruments issued by subsidiaries subject to phase out*	**—**	—
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**—**	—
	Additional Tier 1 (AT1) capital: regulatory adjustments		

Table 5: Composition of regulatory own funds (EU CC1) (continued)

Ref		At 30 Jun 2023 €000	31 Dec 2022 €000
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	**—**	—
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**—**	—
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	**—**	—
41	Not applicable	**—**	—
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	**—**	—
42a	Other regulatory adjustments to AT1 capital	**—**	—
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**—**	—
44	**Additional Tier 1 (AT1) capital**	**—**	—
45	**Tier 1 capital (T1 = CET1 + AT1)**	**398,071**	410,150
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	**62,000**	62,000
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR		—
EU-47a	Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2	**—**	—
EU-47b	Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2	**—**	—
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	**—**	—
49	– *of which: instruments issued by subsidiaries subject to phase out*	**—**	—
50	Credit risk adjustments	**—**	—
51	**Tier 2 (T2) capital before regulatory adjustments**	**62,000**	62,000
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	**—**	—
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**—**	—
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
54a	Not applicable	**—**	—
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	**—**	—
56	Not applicable	**—**	—
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	**—**	—
56b	Other regulatory adjustments to T2 capital	**—**	—
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**—**	—
58	**Tier 2 (T2) capital**	**62,000**	62,000
59	**Total capital (TC = T1 + T2)**	**460,071**	472,150
60	Total Risk exposure amount	**2,236,599**	2,220,525
	Capital ratios and buffers		
61	Common equity tier 1	**17.8%**	18.5%
62	Tier 1	**17.8%**	18.5%
63	Total capital	**20.6%**	21.3%
64	Institution specific buffer requirement	**9.5%**	9.8%
65	– *of which: capital conservation buffer requirement*	***2.5%***	*2.5%*
66	– *of which: counter cyclical buffer requirement*	***—%***	*—%*
67	– *of which: systemic risk buffer requirement*[4]	***—%***	*—%*
EU-67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*[5]	***1.3%***	*1.5%*

Table 5: Composition of regulatory own funds (EU CC1) (continued)

Ref		At 30 Jun 2023 €000	31 Dec 2022 €000
EU-67b	*– of which: additional own funds requirements to address the risks other than the risk of excessive leverage*	***1.3%***	*1.3%*
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	**10.1%**	10.8%
69	Not applicable	**—**	—
70	Not applicable	**—**	—
71	Not applicable	**—**	—
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**—**	—
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**28,578**	28,265
74	Not applicable	**—**	—
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**33,145**	35,229
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**—**	—
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**—**	—
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**—**	—
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**—**	—
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	**—**	—
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	**—**	—
82	Current cap on AT1 instruments subject to phase out arrangements	**—**	—
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**—**	—
84	Current cap on T2 instruments subject to phase out arrangements	**—**	—
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**—**	—

1 *The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiary engaged in insurance activities from the regulatory consolidation. Furthermore, the amount represents the closing Retained Earnings excluding Profit for the Year after proposed dividends.*
2 *The local group is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'. This reserve refers to the amount allocated by the bank from its retained earnings, to a non-distributable reserve against potential risks linked to the local group's non-performing loans and advances.*
3 *Additional value adjustments are deducted from CET1. These are calculated on all assets and liabilities measured at fair value.*
4 *The bank does not have any systemic risk buffer as at 30 June 2023.*
5 *The Other Systematically Important Institution buffer was reduced to 1.25% in 2023 in line with the parent company HBCE.*

Table 6: Reconciliation between accounting and regulatory scope of consolidation

	At 30 Jun 2023 €000	31 Dec 2022 €000[1]
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**380,786**	355,467
Revaluation reserve	**3,633**	64
Adjustments		
– depositor compensation scheme	**(12,629)**	(11,111)
– intangible assets	**(13,135)**	(8,283)
– expected final dividend	**—**	(13,139)
– retained earnings-HSBC Life Assurance (Malta) Ltd	**(5,557)**	(4,488)
– unverified profits for the period/year	**(37,456)**	—
– prudential valuation adjustment	**(811)**	(918)
– IFRS 9 transitional adjustments	**3,966**	9,279
– single resolution fund	**(1,760)**	(1,513)
– non performing loans	**(27,058)**	(22,596)
(-) Amount exceeding the 17.65% threshold	**—**	(704)
	398,071	410,150
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
	62,000	62,000
Total own funds	**460,071**	472,150

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

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total weighted on and off balance sheet exposures, with further netting possibilities on market instruments.

The risk of excess leverage is managed as part of HSBC Bank Malta p.l.c.'s risk management framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC Bank Malta p.l.c. is willing to accept in its business activities in order to achieve its strategic business objectives.

The RAS is monitored via the risk appetite profile report, which is presented monthly to the RMM.

The leverage exposure measure is also presented to the Asset and Liability Management Committee ('ALCO') every month.

The following is the local group's leverage ratio determined in accordance with the requirements stipulated by implementing regulation EU 2016/200 and ratified under regulation EU 2019/876.

Table EU LR1 gives a summary of the reconciliation between accounting assets and the leverage ratio exposures, whereas table EU LR2 gives a comprehensive disclosure of the leverage ratio.

Table 7: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1)

		At	
		30 Jun 2023 €000	31 Dec 2022 €000[1]
1	Total assets as per published financial statements	**7,390,359**	7,346,855
	Adjustments for:		
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(679,695)**	(658,797)
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	**—**	—
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	**—**	—
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with point (i) of Article 429a(1) CRR)	**—**	—
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**—**	—
7	Adjustment for eligible cash pooling transactions	**—**	—
8	Adjustment for derivative financial instruments	**34,897**	34,689
9	Adjustment for securities financing transactions ('SFTs')	**—**	—
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**218,686**	194,318
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	**—**	—
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	**—**	—
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	**—**	—
12	Other adjustments	**(52,692)**	(21,953)
13	**Total exposure measure**	**6,911,555**	6,895,112

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

Table 8: Leverage ratio common disclosure (EU LR2)

		At	
		30 Jun 2023 €000	31 Dec 2022 €000[1]
	On-balance sheet exposures (excluding derivatives)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**6,684,509**	6,676,205
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**—**	—
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**—**	—
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**—**	—
5	(General credit risk adjustments to on-balance sheet items)	**—**	—
6	(Asset amounts deducted in determining Tier 1 capital)	**(51,427)**	(35,846)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,633,082**	6,640,359
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**34,845**	37,039
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**—**	—
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**24,942**	23,396
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	**—**	—
EU-9b	Exposure determined under Original Exposure Method	**—**	—
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**—**	—
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**—**	—
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original Exposure Method)	**—**	—
11	Adjusted effective notional amount of written credit derivatives	**—**	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**—**	—
13	**Total derivative exposures**	**59,787**	60,435
	Securities financing transaction ('SFT') exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**—**	—

Table 8: Leverage ratio common disclosure (EU LR2) (continued)

		At 30 Jun 2023 €000	At 31 Dec 2022 €000[1]
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	Counterparty credit risk exposure for SFT assets	—	—
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	—	—
17	Agent transaction exposures	—	—
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	—	—
18	Total securities financing transaction exposures	—	—
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**1,054,223**	1,002,415
20	(Adjustments for conversion to credit equivalent amounts)	**(835,537)**	(808,097)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	—	—
22	**Off-balance sheet exposures**	**218,686**	194,318
	Excluded exposures		
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	—	—
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet))	—	—
EU-22c	(Excluded exposures of public development banks (or units) – Public sector investments)	—	—
EU-22d	(Excluded exposures of public development banks (or units) – Promotional loans): – Promotional loans granted by a public development credit institution – Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State – Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	—	—
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units)): – Promotional loans granted by a public development credit institution – Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State – Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	—	—
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	—	—
EU-22g	(Excluded excess collateral deposited at triparty agents)	—	—
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	—	—
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	—	—
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	—	—
EU-22k	(Total exempted exposures)	—	—
	Capital and total exposure measure		
23	**Tier 1 capital**	**398,071**	410,150
24	**Total exposure measure**	**6,911,555**	6,895,112
	Leverage ratios		
25	Leverage ratio (%) – transitional	**5.8**	5.9
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	**5.8**	5.9
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**5.8**	5.9
26	Regulatory minimum leverage ratio requirement (%)	**3.0**	3.0
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	—	—
EU-26b	– *of which: to be made up of CET1 capital (percentage points)*	—	—
27	Leverage ratio buffer requirement (%)	—	—
EU-27a	Overall leverage ratio requirement (%)	**3.0**	3.0
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	**Transitional**	Transitional
	Disclosure of mean values		
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	—	—
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	—	—
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**6,911,555**	6,895,112
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**6,911,555**	6,895,112
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**5.8**	5.9
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**5.8**	5.9

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

Table EU LR3 provides the split of the on balance sheet exposures; derivatives are excluded from the calculation.

Table 9: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives and exempted exposures) – (EU LR3)

		At	
		30 Jun 2023	31 Dec 2022
		€000	€000[1]
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**6,684,509**	6,676,205
EU-2	*Trading book exposures*	**—**	—
EU-3	*Banking book exposures, – of which:*	***6,684,509***	*6,676,205*
EU-4	Covered bonds	**—**	—
EU-5	Exposures treated as sovereigns	**2,147,077**	2,143,293
EU-6	Exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**674,381**	610,756
EU-7	Institutions	**648,670**	675,864
EU-8	Secured by mortgages of immovable properties	**2,108,438**	2,120,661
EU-9	Retail exposures	**347,597**	367,726
EU-10	Corporates	**524,342**	510,835
EU-11	Exposures in default	**90,354**	103,071
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**143,650**	143,999

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

Capital buffers

The local group is compliant with the CRD capital requirements. Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act 1994, requires additional buffers, namely the 'capital conservation buffer ('CCb')', the 'countercyclical buffer ('CCyB')', 'other systemically important institutions ('O-SII') buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD combined buffer – Minimum Distributable Amount ('MDA') threshold.

In addition to the CET1 capital, the local group is required to keep a capital conservation buffer equal to 2.5% in accordance with Article 129 of Directive 2013/36/EU, an O-SII buffer of 1.25% as determined by the competent authority under Article 131 of Directive 2013/36/EU and the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU. These three capital buffers are to be composed of CET1 capital as a percentage of the Risk Weighted Assets.

The countercyclical capital buffer is an additional capital buffer introduced by Basel III and is designed to counter pro-cyclicality in the financial system. When cyclical systemic risk is judged to be increasing, the national authorities would increase the CCyB rate so institutions would accumulate capital to create buffers that strengthen the resilience of the banking sector during period of stress when losses materialise.

CRD contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. Given that the local group's exposures are contained within Malta, this buffer results in a marginal percentage.

The tables below disclose the geographical distribution of the bank's credit exposure relevant to the calculation of the institution-specific countercyclical buffer rate and the amount of institution-specific countercyclical capital buffer. The disclosures are performed in accordance with Article 440 of Regulation (EU) 575/2013.

Table 10: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (EU CCyB1)

		Group						
		General credit exposures		Own funds requirement				
		Exposure value for SA^,1	Total exposure value	Relevant credit risk exposures – Credit risk	Total	Risk-weighted exposure amounts	Own funds requirements weights	Counter-cyclical capital buffer rate
10	**Breakdown per country**	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**
	Malta	**3,197,148**	**3,197,148**	**134,027**	**134,027**	**1,675,338**	**96.0**	**—**
	United Kingdom	**62,766**	**62,766**	**2,514**	**2,514**	**31,425**	**2.0**	**1.0**
	France	**39,272**	**39,272**	**3,142**	**3,142**	**39,275**	**2.0**	**1.0**
	Germany	**54**	**54**	**2**	**2**	**25**	**—**	**1.0**
	Ireland	**36**	**36**	**3**	**3**	**38**	**—**	**1.0**
	Croatia	**18**	**18**	**1**	**1**	**13**	**—**	**1.0**
	Luxembourg	**8**	**8**	**—**	**—**	**—**	**—**	**1.0**
	Norway	**2**	**2**	**—**	**—**	**—**	**—**	**3.0**
	Bulgaria	**1**	**1**	**—**	**—**	**—**	**—**	**2.0**
	Romania	**1**	**1**	**—**	**—**	**—**	**—**	**1.0**
	Hong Kong[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Netherlands[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Australia[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Others	**1,643**	**1,643**	**36**	**36**	**450**	**—**	**—**
20	**Total at 30 Jun 2023**	**3,300,949**	**3,300,949**	**139,725**	**139,725**	**1,746,563**	**100.0**	**—**
10	Breakdown per country	€000	€000	€000	€000	€000	%	%
	Malta	3,258,284	3,258,284	134,916	134,916	1,686,450	98.0	—
	United Kingdom	64,893	64,893	2,568	2,568	32,100	1.9	1.0
	Czech Republic	21	21	1	1	13	—	1.5
	Bulgaria	7	7	1	1	13	—	1.0
	Norway	3	3	—	—	—	—	2.0
	Romania	1	1	—	—	—	—	0.5
	Luxembourg[2]	—	—	—	—	—	—	0.5
	Sweden[2]	—	—	—	—	—	—	1.0
	Others	2,748	2,748	162	162	2,025	0.1	—
20	Total at 31 Dec 2022	3,325,957	3,325,957	137,648	137,648	1,720,601	100.0	—

^ *Figures have been prepared on an IFRS 9 transitional basis.*

1 *Column 'Exposure value for SA' represents the exposure at default ('EAD') amounts and is disclosed as per the EBA guidelines; EAD is the value of exposures after deducting provisions and credit risk mitigants.*

2 *Exposures to this country are less than €1000*

Table 11: Amount of institution-specific countercyclical capital buffer (EU CCyB2)

		Group^	
		2023	2022
		€000	€000
1	Total risk exposure amount	**2,236,599**	2,220,525
2	Institution specific countercyclical capital buffer rate	**0.03**	0.02
3	Institution specific countercyclical capital buffer requirement	**654**	416

^ *Figures have been prepared on an IFRS 9 transitional basis.*

Credit risk

Overview and Responsibilities

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and treasury business, mainly through the holdings of debt securities, but also from off-balance sheet products such as guarantees. Credit risk represents our largest regulatory capital requirement.

The principal objectives of our credit risk functions are:

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

The credit risk functions within Wholesale Credit Risk ('WCR') and Wealth and Personal Banking ('WPB') Risk are the constituent parts that support the Chief Risk Officer ('CRO') in overseeing credit risks. The major duties comprise undertaking independent reviews of large and high-risk credit proposals, overseeing large exposure policy and reporting on our wholesale and retail credit risk management disciplines. These functions also own our credit policy and credit systems programmes, oversee portfolio management and report on risk matters to senior executive management and regulators.

These credit risk functions work closely with other parts of Risk, for example with Operational Risk on the internal control framework and with the Country Head of Enterprise Risk Management on the risk appetite process. In addition, they work jointly with Finance on stress testing and impairments under IFRS9.

The credit risk functions fulfil an essential role as independent risk control units that are distinct from business line management, as they provide objective scrutiny of risk rating assessments, credit proposals for approval and other risk matters.

Our credit risk procedures operate through a hierarchy of personal credit limit approval authorities. Credit approval authorities are allocated to the CEO, CRO and relevant staff. HSBC Bank Malta p.l.c. is responsible for the quality and performance of its credit portfolios in accordance with the HSBC Group standards. Where lending facilities are proposed in excess of local credit approval authorities, concurrence must be sought from the regional credit risk and/or the global credit risk function as appropriate.

Credit quality of exposures by exposures class and instruments

We form part of a universal bank with a conservative approach to credit risk. This is reflected in our credit risk profile being diversified across a number of asset classes with a credit quality profile mainly concentrated in the lower risk classes. The following table provides information on the gross carrying amount of exposures and related impairment with further detail on the IFRS 9 stage, accumulated partial write off and collateral.

Table 12: Performing and non-performing exposures and related provisions (EU CR1)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			of which: stage 1	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*
005	**Cash balances at central banks and other demand deposits**	1,736,444	1,736,444	—	—	—	—	(22)	(22)	—	—	—	—
010	**Loans and advances**	3,377,501	3,115,474	262,027	117,237	—	117,237	(27,075)	(11,469)	(15,606)	(24,621)	—	(24,621)
020	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	147,130	147,130	—	—	—	—	(14)	(14)	—	—	—	—
040	Credit institutions	281,574	281,574	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	271	270	1	—	—	—	(2)	(1)	(1)	—	—	—
060	Non-financial corporations	738,386	580,928	157,458	58,197	—	58,197	(12,679)	(4,112)	(8,567)	(12,569)	—	(12,569)
070	– *of which: SMEs*	372,396	306,039	66,357	57,325	—	57,325	(7,498)	(2,290)	(5,208)	(11,697)	—	(11,697)
080	Households	2,210,140	2,105,572	104,568	59,040	—	59,040	(14,380)	(7,342)	(7,038)	(12,052)	—	(12,052)
090	**Debt securities**	1,330,308	1,330,308	—	—	—	—	(95)	(95)	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	979,280	979,280	—	—	—	—	(81)	(81)	—	—	—	—
120	Credit institutions	351,028	351,028	—	—	—	—	(14)	(14)	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**[1]	1,053,319	729,910	51,304	7,742	—	6,325	(1,012)	(613)	(158)	(562)	—	(255)

Table 12: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			of which: stage 1	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
170	General governments	84,655	*84,572*	—	—	—	—	(4)	*(4)*	—	—	—	—
180	Credit institutions	32,537	*22,674*	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	6,304	*5,084*	*47*	—	—	—	(15)	*(9)*	*(3)*	—	—	—
200	Non-financial corporations	594,045	*294,103*	*48,663*	7,608	—	*6,191*	(933)	*(571)*	*(155)*	(562)	—	*(255)*
210	Households	335,778	*323,477*	*2,594*	134	—	*134*	(60)	*(29)*	—	—	—	—
220	**Total at 30 Jun 2023**	**7,497,572**	***6,912,136***	***313,331***	**124,979**	**—**	***123,562***	**(28,204)**	***(12,199)***	***(15,764)***	**(25,183)**	**—**	***(24,876)***

Table 12: Performing and non-performing exposures and related provisions (EU CR1) (continued)

			Collateral and financial guarantees received[2]	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
005	**Cash balances at central banks and other demand deposits**	—	—	—
010	**Loans and advances**	(10,979)	2,679,729	61,654
020	Central banks	—	—	—
030	General governments	—	147,071	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	95	—
060	Non-financial corporations	(10,979)	418,045	15,004
070	– *of which: SMEs*	*(10,979)*	*185,092*	*15,004*
080	Households	—	2,114,518	46,650
090	**Debt securities**	—	203,589	—
100	Central banks	—	—	—
110	General governments	—	175,629	—
120	Credit institutions	—	27,960	—
130	Other financial corporations	—	—	—
140	Non-financial corporations	—	—	—
150	**Off-balance-sheet exposures**	—	—	—
160	Central banks	—	—	—
170	General governments	—	—	—
180	Credit institutions	—	—	—
190	Other financial corporations	—	—	—
200	Non-financial corporations	—	—	—
210	Households	—	—	—
220	**Total at 30 Jun 2023**	**(10,979)**	**2,883,318**	**61,654**

1 *As shown in the above table EU CR1, during the current financial period ended 30 June 2023, the Bank revised the disclosure reported under 'Off-balance sheet exposures' to exclude from the respective heading of which stage 1, stage 2 and stage 3, those exposures which are out-of-scope for IFRS 9, which are mainly non-financial guarantees. As at 30 June 2023 this amounted to €273,522,000 (2022: €227,591,000). Comparative information for 2022 in the Pillar 3 disclosures has not been restated.*

2 *As shown in the above table EU CR1 during the current financial period ended 30 June 2023 the Bank refined the disclosure reported under the 'Collateral and financial guarantees received' to include the explicit financial guarantees received on the debt securities holding for specific counterparties. As at 30 June 2023 this amounted to €203,589,000 (2022: €219,213,000). Comparative information for 2022 in the Pillar 3 disclosures has not been restated.*

Table 12: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, negative changes in fair value due to credit risk and provisions		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	€000	€000
005	Cash balances at central banks and other demand deposits	1,620,647	*1,620,647*	—	—	—	—	(14)	*(14)*	—	—	—	—
010	Loans and advances	3,499,035	*3,205,933*	*293,102*	127,766	—	*127,766*	(28,926)	*(10,182)*	*(18,744)*	(24,372)	—	*(24,372)*
020	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	152,565	*152,565*	—	—	—	—	(19)	*(19)*	—	—	—	—
040	Credit institutions	384,972	*384,972*	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	59,211	*17,144*	*42,067*	5,283	—	*5,283*	(2,097)	*(235)*	*(1,862)*	(490)	—	*(490)*
060	Non-financial corporations	674,866	*534,416*	*140,450*	55,327	—	*55,327*	(11,460)	*(3,255)*	*(8,205)*	(11,421)	—	*(11,421)*
070	– *of which: SMEs*	*356,932*	279,314	77,618	*54,434*	—	54,434	*(7,330)*	(1,987)	(5,343)	*(10,527)*	—	(10,527)
080	Households	2,227,421	*2,116,836*	*110,585*	67,156	—	*67,156*	(15,350)	*(6,673)*	*(8,677)*	(12,461)	—	*(12,461)*
090	Debt securities	1,291,416	*1,291,416*	—	—	—	—	(83)	*(83)*	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	1,044,147	*1,044,147*	—	—	—	—	(70)	*(70)*	—	—	—	—
120	Credit institutions	247,269	*247,269*	—	—	—	—	(13)	*(13)*	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	999,904	*898,666*	*101,238*	9,732	—	*9,732*	(860)	*(618)*	*(242)*	(884)	—	*(884)*
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
170	General governments	84,070	*84,070*	—	—	—	—	(5)	*(5)*	—	—	—	—
180	Credit institutions	13,462	*12,302*	*1,160*	—	—	—	—	—	—	—	—	—
190	Other financial corporations	26,662	*18,501*	*8,161*	1,437	—	*1,437*	(26)	*(20)*	*(6)*	(1)	—	*(1)*
200	Non-financial corporations	512,216	*428,830*	*83,386*	7,915	—	*7,915*	(773)	*(537)*	*(236)*	(883)	—	*(883)*
210	Households	363,494	*354,963*	*8,531*	380	—	*380*	(56)	*(56)*	—	—	—	—
220	Total at 31 Dec 2022	7,411,002	*7,016,662*	*394,340*	137,498	—	*137,498*	(29,883)	*(10,897)*	*(18,986)*	(25,256)	—	*(25,256)*

Table 12: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		Accumulated partial write-off	Collaterals and financial guarantees received	
			On performing exposures	On non-performing exposures
		€000	€000	€000
005	Cash balances at central banks and other demand deposits	—	—	—
010	Loans and advances	(10,979)	2,745,813	74,510
020	Central banks	—	—	—
030	General governments	—	152,485	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	45,355	1,072
060	Non-financial corporations	(10,979)	418,280	19,126
070	*– of which: SMEs*	*(10,979)*	*189,139*	*19,126*
080	Households	—	2,129,693	54,312
090	Debt securities	—	—	—
100	Central banks	—	—	—
110	General governments	—	—	—
120	Credit institutions	—	—	—
130	Other financial corporations	—	—	—
140	Non-financial corporations	—	—	—
150	Off-balance-sheet exposures	—	—	—
160	Central banks	—	—	—
170	General governments	—	—	—
180	Credit institutions	—	—	—
190	Other financial corporations	—	—	—
200	Non-financial corporations	—	—	—
210	Households	—	—	—
220	Total at 31 Dec 2022	(10,979)	2,745,813	74,510

The above table provides information on the gross carrying amount of exposures and related impairment with further detail on the IFRS 9 stage, accumulated partial write off and collateral. The IFRS 9 stages have the following characteristics:

- Stage 1: These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for expected credit loss ('ECL') is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.
- Purchased or originated credit-impaired ('POCI'): Financial assets purchased or originated at a deep discount are seen to reflect incurred credit losses. A lifetime ECL is recognised. These exposures are included in Stage 3 in this table.

The net credit exposure based on maturity and financial instrument is shown in table EU CR1-A. The term 'exposures' refers to items on the balance sheet whose 'net value of exposure' is determined by subtracting the gross amount from the credit risk adjustments. On the basis of the residual contractual maturity, the net exposure is divided into five categories featuring in the table.

Table 13: EU CR1-A: Maturity of exposures

		Net exposure value[1]					
		On demand	**<= 1 year**	**> 1 year <= 5**	**> 5 years**	**No stated maturity**	**Total**
		€000	**€000**	**€000**	**€000**	**€000**	**€000**
1	Loans and advances	**121,560**	**324,612**	**518,903**	**2,480,868**	**—**	**3,445,943**
2	Debt securities	**—**	**386,578**	**917,968**	**25,797**	**—**	**1,330,343**
3	**Total at 30 Jun 2023**	**121,560**	**711,190**	**1,436,871**	**2,506,665**	**—**	**4,776,286**
1	Loans and advances	112,033	465,941	467,057	2,536,031	—	3,581,062
2	Debt securities	—	502,626	762,808	25,975	—	1,291,409
3	Total at 31 Dec 2022	112,033	968,567	1,229,865	2,562,006	—	4,872,471

1 Cash balances at central banks and other demand deposits are not included in the above table.

The table below analyses the change in stock of specific credit risk adjustment for the financial period/year ended 30 June 2023 and 31 December 2022 respectively.

Table 14: Changes in the stock of non-performing loans and advances (EU CR2)

		At 30 Jun 2023	At 31 Dec 2022
		Gross carrying amount	Gross carrying amount
		€000	€000
010	Initial stock of non-performing loans and advances	**127,766**	183,242
020	Inflows to non-performing portfolios	**5,118**	15,641
030	Outflows from non-performing portfolios	**(15,647)**	(71,117)
040	– *of which: Outflows due to write-offs*	***(331)***	*(15,204)*
050	– *of which: Outflow due to other situations*	***(15,316)***	*(55,913)*
060	**Final stock of non-performing loans and advances**	**117,237**	127,766

Impaired loans and advances

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

Impaired loans and advances also include renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a financial concession which the bank would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Impaired loans and advances can also arise from when a non-financial concession is granted, which may trigger an Unlikely to Pay ('UTP') assessment, the outcome of which may result in the exposure being re-classified as CRR9.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses for credit derivatives, where appropriate) to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor. For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and in the case of eligible debt securities, their credit quality) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

Table 15: Credit risk mitigation techniques – overview (CR3)

		Exposures unsecured: carrying amount	**Exposures secured: carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**
		€000	**€000**	**€000**	**€000**
1	Loans and advances	**2,438,081**	**2,741,383**	**2,488,580**	**252,803**
2	Debt securities	**1,126,624**	**203,589**	**—**	**203,589**
3	**Total at 30 Jun 2023**	**3,564,705**	**2,944,972**	**2,488,580**	**456,392**
4	– *of which: non-performing exposure*	***30,962***	***61,654***	***61,654***	**—**
EU-5	– *of which: defaulted*	***30,962***	***61,654***	***61,654***	**—**
1	Loans and advances	2,373,813	2,820,323	2,537,763	282,560
2	Debt securities	1,291,333	—	—	—
3	Total at 31 Dec 2022	3,665,146	2,820,323	2,537,763	282,560
4	– *of which: non-performing exposure*	*28,884*	*74,510*	*74,510*	—
EU-5	– *of which: defaulted*	*28,884*	*74,510*	*74,510*	—

^ *Comparative information for 2022 has been restated.*

Credit risk exposures and credit risk mitigant techniques

The following table illustrates the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in the application of Article 222 and Article 223 of the same regulation on standardised approach capital requirements' calculations. RWA density provides a synthetic metric on the riskiness of each portfolio.

Table 16: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
		€000	€000	€000	€000	€000	%
	Asset classes[1]						
1	Central governments or central banks	**2,147,077**	**—**	**2,397,431**	**48,971**	**82,862**	**3.4**
2	Regional government or local authorities	**—**	**—**	**—**	**—**	**—**	**—**
3	Public sector entities	**351,137**	**84,646**	**204,019**	**1,500**	**—**	**—**
4	Multilateral development banks	**122,616**	**—**	**122,616**	**—**	**—**	**—**
5	International organisations	**200,628**	**—**	**200,628**	**—**	**—**	**—**
6	Institutions	**648,670**	**29,202**	**648,670**	**23,287**	**171,246**	**25.5**
7	Corporates	**524,342**	**530,350**	**405,660**	**65,099**	**433,992**	**92.2**
8	Retail	**347,597**	**324,540**	**345,681**	**189**	**259,216**	**74.9**
9	Secured by mortgages on immovable property	**2,108,438**	**68,892**	**2,108,438**	**3,332**	**768,358**	**36.4**
10	Exposures in default	**90,354**	**7,267**	**89,849**	**87**	**110,205**	**122.5**
11	Exposures associated with particularly high risk	**7,878**	**7,609**	**7,721**	**3,543**	**16,895**	**150.0**
12	Covered bonds	**—**	**—**	**—**	**—**	**—**	**—**
13	Institutions and corporates with a short-term credit assessment	**—**	**—**	**—**	**—**	**—**	**—**
14	Collective investment undertakings	**—**	**—**	**—**	**—**	**—**	**—**
15	Equity	**89**	**—**	**89**	**—**	**89**	**100.0**
16	Other items	**135,683**	**—**	**135,683**	**—**	**143,281**	**105.6**
17	**Total at 30 Jun 2023**	**6,684,509**	**1,052,506**	**6,666,485**	**146,008**	**1,986,144**	**29.2**
	Asset classes[1]						
1	Central governments or central banks	2,143,293	—	2,423,814	43,976	87,734	3.6
2	Regional government or local authorities	—	—	—	—	—	—
3	Public sector entities	372,128	84,063	219,563	—	—	—
4	Multilateral development banks	166,509	—	166,509	—	—	—
5	International organisations	72,119	—	72,119	—	—	—
6	Institutions	675,864	7,567	675,864	3,412	174,911	25.7
7	Corporates	510,835	525,388	370,113	65,506	381,606	87.6
8	Retail	367,726	364,742	365,854	168	274,497	75.0
9	Secured by mortgages on immovable property	2,120,661	—	2,120,661	—	767,578	36.2
10	Exposures in default	103,071	9,648	102,607	151	125,268	121.9
11	Exposures associated with particularly high risk	6,585	9,667	6,410	4,600	16,515	150.0
12	Covered bonds	—	—	—	—	—	—
13	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
14	Collective investment undertakings	—	—	—	—	—	—
15	Equity	83	—	83	—	83	100.0
16	Other items	137,331	—	137,331	—	142,433	103.7
17	Total at 31 Dec 2022	6,676,205	1,001,075	6,660,928	117,813	1,970,625	29.1

1 *Derivative instruments exposures are not included in the above table, on which RWA's amounted to €21,922,000 in 2023 (2022: €20,254,000).*

Table 17: Credit quality of forborne exposures (EU CQ1)

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	*of which: defaulted*	*of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*of which: forborne non-performing exposures*
		€000	€000	*€000*	*€000*	€000	€000	€000	*€000*
005	Cash balances at central banks and other demand deposits	—	—	—	—	—	—	—	—
010	**Loans and advances**	**40,283**	**76,250**	***76,250***	***76,250***	**(1,811)**	**(11,794)**	**65,402**	***34,408***
020	Central banks	—	—	—	—	—	—	—	—
030	General governments	—	—	—	—	—	—	—	—
040	Credit institutions	—	—	—	—	—	—	—	—
050	Other financial corporations	—	—	—	—	—	—	—	—
060	Non-financial corporations	**8,968**	**52,828**	***52,828***	***52,828***	**(526)**	**(8,896)**	**15,128**	***14,075***
070	Households	**31,315**	**23,422**	***23,422***	***23,422***	**(1,285)**	**(2,898)**	**50,274**	***20,333***
080	Debt securities	—	—	—	—	—	—	—	—
090	Loan commitments given	—	—	—	—	—	—	—	—
100	**Total at 30 Jun 2023**	**40,283**	**76,250**	***76,250***	***76,250***	**(1,811)**	**(11,794)**	**65,402**	***34,408***
005	Cash balances at central banks and other demand deposits	—	—	—	—	—	—	—	—
010	Loans and advances	58,849	82,016	*82,016*	*82,016*	(5,125)	(12,790)	86,605	*42,066*
020	Central banks	—	—	—	—	—	—	—	—
030	General governments	—	—	—	—	—	—	—	—
040	Credit institutions	—	—	—	—	—	—	—	—
050	Other financial corporations	7,477	5,280	*5,280*	*5,280*	(584)	(488)	1,072	*1,072*
060	Non-financial corporations	20,383	48,793	*48,793*	*48,793*	(2,465)	(8,381)	32,881	*17,166*
070	Households	30,989	27,943	*27,943*	*27,943*	(2,076)	(3,921)	52,652	*23,828*
080	Debt securities	—	—	—	—	—	—	—	—
090	Loan commitments given	—	—	—	—	—	—	—	—
100	Total at 31 Dec 2022	58,849	82,016	*82,016*	*82,016*	(5,125)	(12,790)	86,605	*42,066*

Table 18 presents an analysis of performing and non-performing exposures by days past due. The gross NPL ratio at 30 June 2023 was 3.35% (3.52% in 2022) calculated in line with the EBA guidelines.

Table 18: Credit quality of performing and non-performing exposures by past due days EU CQ3

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*of which: defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
5	Cash balances at central banks and other demand deposits	1,736,444	1,736,444	—	—	—	—	—	—	—	—	—	—
10	**Loans and advances**	3,377,501	3,375,326	2,175	117,237	80,023	3,741	8,184	6,246	8,100	2,095	8,848	*117,237*
20	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
30	General governments	147,130	147,130	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	281,574	281,574	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	271	271	—	—	—	—	—	—	—	—	—	—
60	Non-financial corporations	738,386	738,321	65	58,197	43,761	70	3,999	2,322	5,713	655	1,677	*58,197*
70	– *of which: SMEs*	*372,396*	*372,331*	*65*	*57,325*	*43,761*	*70*	*3,999*	*2,322*	*5,713*	*655*	*805*	57,325
80	Households	2,210,140	2,208,030	2,110	59,040	36,262	3,671	4,185	3,924	2,387	1,440	7,171	*59,040*
90	**Debt securities**	1,330,308	1,330,308	—	—	—	—	—	—	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	979,280	979,280	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	351,028	351,028	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**	1,053,319			7,742								*7,742*
160	Central banks	—			—								—
170	General governments	84,655			—								—
180	Credit institutions	32,537			—								—
190	Other financial corporations	6,304			—								—
200	Non-financial corporations	594,045			7,608								*7,608*
210	Households	335,778			134								*134*
220	**Total at 30 Jun 2023**	7,497,572	6,442,078	2,175	124,979	80,023	3,741	8,184	6,246	8,100	2,095	8,848	*124,979*

Table 18: Credit quality of performing and non-performing exposures by past due days EU CQ3 (continued)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*of which: defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
5	Cash balances at central banks and other demand deposits	1,620,647	1,620,647	—	—	—	—	—	—	—	—	—	—
10	Loans and advances	3,499,035	3,495,975	3,060	127,766	89,003	5,662	6,086	4,132	11,437	3,275	8,171	*127,766*
20	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
30	General governments	152,565	152,565	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	384,972	384,972	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	59,211	59,211	—	5,283	5,280	3	—	—	—	—	—	*5,283*
60	Non-financial corporations	674,866	674,733	133	55,327	43,760	834	2,396	188	6,069	514	1,566	*55,327*
70	*– of which: SMEs*	*356,932*	*356,799*	*133*	*54,434*	*43,760*	*834*	*2,396*	*188*	*6,069*	*514*	*673*	54,434
80	Households	2,227,421	2,224,494	2,927	67,156	39,963	4,825	3,690	3,944	5,368	2,761	6,605	*67,156*
90	Debt securities	1,291,416	1,291,416	—	—	—	—	—	—	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	1,044,147	1,044,147	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	247,269	247,269	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	999,904			9,732								*9,732*
160	Central banks	—			—								—
170	General governments	84,070			—								—
180	Credit institutions	13,462			—								—
190	Other financial corporations	26,662			1,437								*1,437*
200	Non-financial corporations	512,216			7,915								*7,915*
210	Households	363,494			380								*380*
220	Total at 31 Dec 2022	7,411,002	6,408,038	3,060	137,498	89,003	5,662	6,086	4,132	11,437	3,275	8,171	*137,498*

Table 19: Quality of non-performing exposures by geography (EU CQ4)

		Gross carrying/nominal amount						
			of which: non-performing	*of which: defaulted*	*of which: subject to impairment*	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		€000	€000	€000	€000	€000	€000	€000
010	**On-balance-sheet exposures[1,2]**	**4,825,046**	***117,237***	***117,237***	***4,825,046***	**(51,791)**		**—**
020	Malta	**3,800,104**	***110,722***	***110,722***	***3,800,104***	**(50,059)**		**—**
030	France	**446,064**	**—**	**—**	***446,064***	**(20)**		**—**
040	Germany	**165,736**	**—**	**—**	***165,736***	**(50)**		**—**
050	United Kingdom	**67,676**	***3,077***	***3,077***	***67,676***	**(704)**		**—**
060	United Arab Emirates	**5,487**	***1,745***	***1,745***	***5,487***	**(180)**		**—**
070	Other countries	**339,979**	***1,693***	***1,693***	***339,979***	**(778)**		**—**
080	**Off-balance-sheet exposures[2]**	**1,061,061**	***7,742***	***7,742***			**1,574**	
090	Malta	**997,766**	***7,735***	***7,735***			**1,573**	
100	France	**42,407**	**—**	**—**			**—**	
110	United Kingdom	**8,747**	**—**	**—**			**—**	
120	United States	**4,356**	**—**	**—**			**—**	
130	Belgium	**2,010**	**—**	**—**			**—**	
140	Other countries	**5,775**	***7***	***7***			**1**	
150	**Total at 30 Jun 2023**	**5,886,107**	***124,979***	***124,979***	***4,825,046***	**(51,791)**	**1,574**	**—**

1 *Cash balances at central banks and other demand deposits are not included in the above table.*
2 *Amounts shown by geographical region and country/territory in this table are based on the country/territory of residence of the counterparty except for financial investments with international organisations and multilateral developments which are assigned to the geographical area 'Other countries'.*

Table 19: Quality of non-performing exposures by geography (EU CQ4) (continued)

		Gross carrying/nominal amount						
			of which: non-performing	*of which: defaulted*	*of which: subject to impairment*	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		€000	€000	€000	€000	€000	€000	€000
010	On-balance-sheet exposures	4,918,217	*127,766*	*127,766*	*4,918,217*	(53,381)		—
020	Malta	3,975,701	*121,064*	*121,064*	*3,975,701*	(51,375)		—
030	France	446,620	—	—	*446,620*	(14)		—
040	Germany	164,540	—	—	*164,540*	(51)		—
050	United Kingdom	68,374	*2,923*	*2,923*	*68,374*	(746)		—
060	United Arab Emirates	5,872	*1,783*	*1,783*	*5,872*	(171)		—
070	Other countries	257,110	*1,996*	*1,996*	*257,110*	(1,024)		—
080	Off-balance-sheet exposures	1,009,636	*9,732*	*9,732*			1,744	
090	Malta	987,498	*9,718*	*9,718*			1,744	
100	United Kingdom	8,378	*8*	*8*			—	
110	United States	4,029	—	—			—	
120	France	2,483	—	—			—	
130	Belgium	1,700	—	—			—	
140	Other countries	5,548	*6*	*6*			—	
150	Total at 31 Dec 2022	5,927,853	*137,498*	*137,498*	*4,918,217*	(53,381)	1,744	—

Table 20: Credit quality of loans and advances to non-financial corporations by industry (EU CQ5)

		Gross carrying amount					
			of which: non-performing	of which: defaulted	of which: loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		€000	€000	€000	€000	€000	€000
010	Agriculture, forestry and fishing	**320**	***168***	***168***	***320***	**(38)**	**—**
020	Mining and quarrying	**39,265**	***—***	***—***	***39,265***	**—**	**—**
030	Manufacturing	**66,150**	***3,533***	***3,533***	***66,150***	**(1,145)**	**—**
040	Electricity, gas, steam and air conditioning supply	**79,282**	***—***	***—***	***79,282***	**(368)**	**—**
050	Water supply	**18,307**	***—***	***—***	***18,307***	**(9)**	**—**
060	Construction	**23,870**	***2,179***	***2,179***	***23,870***	**(2,034)**	**—**
070	Wholesale and retail trade	**157,113**	***7,361***	***7,361***	***157,113***	**(7,253)**	**—**
080	Transport and storage	**6,091**	***5***	***5***	***6,091***	**(95)**	**—**
090	Accommodation and food service activities	**67,078**	***20,987***	***20,987***	***67,078***	**(4,568)**	**—**
100	Information and communication	**29,068**	***88***	***88***	***29,068***	**(1,181)**	**—**
110	Real estate activities	**94,784**	***11,596***	***11,596***	***94,784***	**(2,585)**	**—**
120	Financial and insurance activities[1]	**51,558**	***5,933***	***5,933***	***51,558***	**(1,620)**	**—**
130	Professional, scientific and technical activities	**125,899**	***9***	***9***	***125,899***	**(1,538)**	**—**
140	Administrative and support service activities	**15,880**	***764***	***764***	***15,880***	**(765)**	**—**
150	Public administration and defense, compulsory social security	**—**	***—***	***—***	***—***	**—**	**—**
160	Education	**3,550**	***3,008***	***3,008***	***3,550***	**(792)**	**—**
170	Human health services and social work activities	**16,653**	***2,442***	***2,442***	***16,653***	**(1,186)**	**—**
180	Arts, entertainment and recreation	**142**	***67***	***67***	***142***	**(2)**	**—**
190	Other services	**1,573**	***57***	***57***	***1,573***	**(69)**	**—**
200	**Total at 30 Jun 2023**	**796,583**	***58,197***	***58,197***	***796,583***	**(25,248)**	**—**
010	Agriculture, forestry and fishing	319	*137*	*137*	*319*	(9)	—
020	Mining and quarrying	—	*—*	*—*	*—*	—	—
030	Manufacturing	62,378	*3,628*	*3,628*	*62,378*	(1,180)	—
040	Electricity, gas, steam and air conditioning supply	87,526	*—*	*—*	*87,526*	(336)	—
050	Water supply	24,069	*—*	*—*	*24,069*	(6)	—
060	Construction	22,434	*2,279*	*2,279*	*22,434*	(1,909)	—
070	Wholesale and retail trade	183,360	*8,684*	*8,684*	*183,360*	(4,699)	—
080	Transport and storage	5,827	*8*	*8*	*5,827*	(51)	—
090	Accommodation and food service activities	80,437	*21,845*	*21,845*	*80,437*	(6,652)	—
100	Information and communication	27,867	*1*	*1*	*27,867*	(1,239)	—
110	Real estate activities	88,492	*11,681*	*11,681*	*88,492*	(2,017)	—
120	Financial and insurance activities	—	*—*	*—*	*—*	—	—
130	Professional, scientific and technical activities	108,964	*13*	*13*	*108,964*	(1,512)	—
140	Administrative and support service activities	14,070	*751*	*751*	*14,070*	(762)	—
150	Public administration and defense, compulsory social security	—	*—*	*—*	*—*	—	—
160	Education	3,819	*3,252*	*3,252*	*3,819*	(792)	—
170	Human health services and social work activities	18,140	*2,435*	*2,435*	*18,140*	(1,520)	—
180	Arts, entertainment and recreation	292	*69*	*69*	*292*	(1)	—
190	Other services	2,199	*544*	*544*	*2,199*	(196)	—
200	Total at 31 Dec 2022	730,193	*55,327*	*55,327*	*730,193*	(22,881)	—

1 *As shown in the above table EU CQ5 during the period ended 30 June 2023 the Bank has revised the disclosures in accordance with the EBA Q&A 2022_6673 dated 28 April 2023 whereby holding companies whose subsidiary corporations are non-financial corporations would be considered as non-financial corporations and classified in row 120 'Financial and insurance activities'. Comparative information has not been restated.*

The table below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet, whilst the accumulated negative change is the accumulated impairment or negative change in the initial recognition value of the collateral obtained, including amortisation in the case of property plant and equipment ('PP&E') and investment properties.

Table 21: EU CQ7: Collateral obtained by taking possession and execution processes

		At 30 Jun 2023		At 31 Dec 2022	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
		€000	**€000**	€000	€000
010	Property Plant and Equipment (PP&E)				
020	Other than PP&E	**3,330**	**(511)**	3,372	(103)
030	Residential immovable property	**1,302**	**(430)**	1,314	(42)
040	Commercial Immovable property	**2,028**	**(81)**	2,036	(39)
050	Movable property (auto, shipping, etc.)	**—**	**—**	—	—
060	Equity and debt instruments	**—**	**—**	—	—
070	Other collateral	**—**	**—**	22	(22)
080	**Total**	**3,330**	**(511)**	3,372	(103)

Counterparty credit risk

Overview

Counterparty Credit Risk ('CCR') is the credit risk associated with contracts to exchange value such as derivatives and securities financing transactions (including repos and reverse repos), and securities lending and borrowing. CCR exposures relating to derivatives and securities financing transactions create a bilateral risk of loss because the market value of the transaction can be positive or negative to either counterparty to the transaction. An economic loss to the local group would occur on derivatives and securities financing transactions if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

The table on the following page sets out details of the local group's counterparty credit risk exposures through its over the counter ('OTC') derivative exposures.

Four approaches may be used under CRD to calculate exposure values for CCR: mark-to-market, original exposure, standardised and IMM. Exposure values calculated under these approaches are used to determine RWAs. HSBC Bank Malta p.l.c. applies the mark-to-market approach. Under the mark-to-market approach, the EAD is calculated as current exposure plus regulatory add-ons.

Credit exposure monitoring is performed by the Risk function.

Credit authority for CCR

HSBC Bank Malta p.l.c. WCR has a delegated approval authority for corporates. Depending on the level of the credit limit and customer risk rating ('CRR'), credit approval might require concurrence from the Group or Regional WCR when HSBC Bank Malta p.l.c.'s delegated approval authority threshold is exceeded. Sovereigns, intra-group and banks limits require the region's or group WCR's concurrence irrespective of the amount of the facility.

All corporate credit limits are reviewed at least once a year. At the request of the local relationship manager and potentially the global relationship manager, HSBC Bank Malta p.l.c. WCR may recommend credit limit application to the relevant credit authority for specific limit requests. WCR's recommendations highlight the main risk drivers and are based on the in-depth analysis of the existing portfolio which includes views on contingent market risk and stress exposure and potentially include proposals to reduce the portfolio risk or mitigate proposed transactions.

Credit limit set up for CCR management

Two groups of limits are used in the management of CCR:

- Counterparty-level limits, and,
- Portfolio-level traded credit risk limits.

Counterparty-level limits

Category A ('Cat A') limits

Cat A limits are those for which a credit limit is typically recorded at the full notional amount of the facility, the bank being actually or potentially at risk for 100% of the facility. Cat A facilities include on-balance sheet assets such as loans or lines of credit, as well as bond investments and trading lines. They may be either funded (loans, money market advances, bond trading) or unfunded such as guarantees and underwriting limits. Cat A limits are set according to maturity bands.

Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off-balance sheet products and are used for the monitoring of the Potential Future Exposure ('PFE'). Usage under Cat B represents the cost of replacement of the OTC contracts. In most instances Cat B limits are set at entity level (known as the parent level) according to maturity bands. Some complex corporates are mainly controlled at entity level but may have shared limits under the total relationship.

Category S ('Cat S') limits

Cat S limits cover the risk that counterparties will fail to meet their delivery obligations, either through payment systems ('PSL'), or through settlement processes for treasury and securities transactions ('TSL').

Portfolio-level limits

Risk has established a number of portfolio-level limits to monitor risk at an aggregate level. These are formalised through a mandate shared with the Head of Global Markets ('GM'), subject to annual review and ongoing monitoring routines.

Table 22: Analysis of counterparty credit risk ('CCR') exposure by approach (EU CCR1)

		Replacement cost €000	Potential future exposure €000	EEPE €000	Alpha used for computing regulatory exposure value €000	Exposure value pre-CRM €000	EAD post-CRM €000	Exposure value €000	RWAs €000
EU1	EU-Original Exposure Method (for derivatives)	**—**	**—**		**1.4**	**—**	**—**	**—**	**—**
EU2	EU-Simplified SA-CCR (for derivatives)	**—**	**—**		**1.4**	**—**	**—**	**—**	**—**
1	SA-CCR (for derivatives)	**24,889**	**15,507**		**1.4**	**56,555**	**56,555**	**56,555**	**21,922**
2	IMM (for derivatives and SFTs)			**—**	**—**	**—**	**—**	**—**	**—**
2a	– *of which: securities financing transactions netting sets*			**—**		**—**	**—**	**—**	**—**
2b	– *of which: derivatives and long settlement transactions netting sets*			**—**		**—**	**—**	**—**	**—**
2c	– *of which: from contractual cross-product netting sets*			**—**		**—**	**—**	**—**	**—**
3	Financial collateral simple method (for SFTs)					**—**	**—**	**—**	**—**
4	Financial collateral comprehensive method (for SFTs)					**—**	**—**	**—**	**—**
5	VaR for SFTs					**—**	**—**	**—**	**—**
6	**Total at 30 Jun 2023**					**56,555**	**56,555**	**56,555**	**21,922**
EU1	EU-Original Exposure Method (for derivatives)	—	—		1.4	—	—	—	—
EU2	EU-Simplified SA-CCR (for derivatives)	—	—		1.4	—	—	—	—
1	SA-CCR (for derivatives)	26,456	13,732		1.4	56,263	56,263	56,263	20,254
2	IMM (for derivatives and SFTs)			—	—	—	—	—	—
2a	– *of which: securities financing transactions netting sets*			—		—	—	—	—
2b	– *of which: derivatives and long settlement transactions netting sets*			—		—	—	—	—
2c	– *of which: from contractual cross-product netting sets*			—		—	—	—	—
3	Financial collateral simple method (for SFTs)					—	—	—	
4	Financial collateral comprehensive method (for SFTs)					—	—	—	—
5	VaR for SFTs					—	—	—	—
6	Total at 31 Dec 2022					56,263	56,263	56,263	20,254

Table 23: Transactions subject to own funds requirements for CVA risk – EU CCR2

		At 30 Jun 2023		At 31 Dec 2022	
		Exposure value	**RWEA**	Exposure value	RWEA
1	Total transactions subject to the Advanced method	**—**	**—**	—	—
2	(i) VaR component (including the 3× multiplier)		**—**	—	—
3	(ii) stressed VaR component (including the 3× multiplier)		**—**	—	—
4	Transactions subject to the Standardised method	**10,010**	**2,187**	10,784	2,925
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	**—**	**—**	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**10,010**	**2,187**	10,784	2,925

Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the bank's income or portfolio value.

There were no material changes to the policies and practices for the management of market risk during the first six months of 2023. A summary of our current policies and practices for the management of market risk is set out in Note 4(e) of the *Annual Report and Accounts*.

Exposure to Market risk

Exposure to market risk is split into two portfolios:

- Trading portfolios: these comprise positions held for client servicing and market-making, with the intention of short-term resale and / or to hedge risks resulting from such positions.
- Non-trading portfolios: these comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, debt instruments measured at amortised cost, and exposures arising from our insurance operations.

The local group operates in non-trading portfolios, with the objective of managing and controlling market risk exposures, to optimise return on risk while maintaining a market risk profile consistent with our established risk appetite.

The table below reflects the market risk RWAs under the standardised approach.

Table 24: Market risk under standardised approach (MR1)

		At	
		30 Jun 2023	31 Dec 2022
		RWAs	RWAs
		€000	€000
	Outright products		
1	Interest rate risk (general and specific)	**—**	—
2	Equity risk (general and specific)	**—**	—
3	Foreign exchange risk	**390**	765
4	Commodity risk	**—**	—
	Options		
5	Simplified approach	**—**	—
6	Delta-plus approach	**—**	—
7	Scenario approach	**—**	—
8	Securitisation (specific risk)	**—**	—
9	**Total**	**390**	765

Liquidity risk

Liquidity risk is the risk that HSBC Bank Malta p.l.c. does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required. In accordance with Article 451a(4) CRR, a qualitative assessment of the Liquidity risk management is being disclosed. To complement the qualitative assessment, the following table has been defined to provide the quantitative LCR information and complements Article 435 (1) (f) of the CRR.

Liquidity coverage ratio

The LCR metric was designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets ('HQLA') that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar days liquidity stress scenario.

HSBC Bank Malta p.l.c.'s LCR computed in respect of the EU Delegated act was 441.3% as at 30 June 2023. The table below presents the average of the previous twelve month-end balances for each reporting date. As such, the LCR values reported below do not represent the point-in-time ratios at the end of each period.

Table 25: Quantitative information of LCR (EU LIQ1)

		Total unweighted value (average)				Total weighted value (average)			
		Jun'23	Mar'23	Dec'22	Sep'22	**Jun'23**	Mar'23	Dec'22	Sep'22
		€000	€000	€000	€000	**€000**	€000	€000	€000
EU 1a	Quarter ending on 30 Jun 2023								
EU 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
High-Quality Liquid Assets									
1	Total high-quality liquid assets ('HQLA'), after application of haircuts in line with Article 9 of regulation (EU) 2015/61					**2,533,116**	2,429,309	2,412,674	2,207,581
Cash – Outflows									
2	Retail deposits and deposits from small business customers	**4,616,213**	4,599,542	4,563,997	4,514,402	**340,161**	338,425	334,641	329,870
3	*– of which: Stable deposits*	***3,167,448***	*3,161,826*	*3,150,016*	*3,128,838*	***158,372***	*158,091*	*157,501*	*156,442*
4	*– of which: Less stable deposits*	***1,448,765***	*1,437,716*	*1,413,981*	*1,385,564*	***181,789***	*180,334*	*177,140*	*173,428*
5	Unsecured wholesale funding	**1,298,224**	1,318,175	1,315,015	1,263,500	**620,671**	625,342	621,193	600,900
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	***443,292***	*447,865*	*452,183*	*443,248*	***105,674***	*106,778*	*107,821*	*105,591*
7	*Non-operational deposits (all counterparties)*	***854,932***	*870,310*	*862,832*	*820,252*	***514,997***	*518,564*	*513,372*	*495,309*
8	Unsecured debt	**—**	—	—	—	**—**	—	—	—
9	Secured wholesale funding					**—**	—	—	—
10	Additional requirements	**886,359**	906,792	911,128	924,319	**124,278**	129,993	128,237	122,215
11	*Outflows related to derivative exposures and other collateral requirements*	***29,925***	*35,517*	*34,404*	*26,288*	***29,925***	*35,517*	*34,404*	*26,288*
12	*Outflows related to loss of funding on debt products*	**—**	—	—	—	**—**	—	—	—
13	*Credit and liquidity facilities*	***856,434***	*871,275*	*876,724*	*898,031*	***94,353***	*94,476*	*93,833*	*95,927*
14	Other contractual funding obligations	**57,178**	55,387	54,421	53,909	**44,444**	42,439	42,136	42,276
15	Other contingent funding obligations	**190,828**	180,129	185,391	189,680	**9,541**	9,006	9,270	9,484
16	Total Cash Outflows					**1,139,095**	1,145,205	1,135,477	1,104,745
Cash – Inflows									
17	Secured lending (e.g. reverse repos)	**—**	—	—	—	**—**	—	—	—
18	Inflows from fully performing exposures	**568,237**	587,653	569,783	579,910	**542,524**	565,491	550,333	564,003
19	Other cash inflows	**30,316**	33,354	35,352	24,979	**30,316**	33,354	35,352	24,979
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**—**	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					**854,321**	858,904	851,606	828,559
20	Total Cash Inflows	**598,553**	621,007	605,135	604,889	**572,840**	598,845	585,685	588,982
EU-20a	Fully exempt inflows	**—**	—	—	—	**—**	—	—	—
EU-20b	Inflows subject to 90% cap	**—**	—	—	—	**—**	—	—	—
EU-20c	*Inflows subject to 75% cap*[1]	***598,553***	*621,007*	*605,135*	*604,889*	**572,840**	*598,845*	*585,685*	*588,982*
Total Adjusted Value									
EU-21	Liquidity Buffer					**2,533,116**	2,429,309	2,412,674	2,207,581
22	Total Net Cash Outflows					**566,255**	546,360	589,490	546,804
23	Liquidity Coverage Ratio[1]					**449.1 %**	457.0 %	420.3 %	425.5 %

1 *Liquidity Coverage Ratio figures for September and December 2022 are being restated in accordance with current period reporting.*

HSBC Bank Malta p.l.c. is largely funded through retail deposits. Despite the short-term contractual nature of retail deposits, these are observed as sticky in nature and are expected to remain on balance sheet for an extended period of time. Such funding is deemed to be a reliable source of stable funding.

The bank operates a structural liquidity surplus with the excess liquidity being either invested in high quality bonds, deposits with the Central Bank or placed with other HSBC Group entities. The high level of deposits compared to the level of loans results in excess liquidity, which explains the high level of NSFR and LCR ratios.

The key functions supporting liquidity management are the following:

- Asset Liability and Capital Management which manages the balance sheet to achieve efficient allocation and utilisation of all resources. Asset Liability and Capital Management function reviews the risk arising from the Liquidity and Funding, as well as Interest Rates, Foreign Exchange and Capital. It serves as the First Line of Defence and ensures prudent management of the above mentioned risk.
- Markets Treasury manages the liquidity of the bank in line with ALCM, Group and regulatory norms. It is also responsible for executing the management of the Interest Rate Risk in the Banking Book and forms part of the First Line of Defence.
- Risk function through the RMM is the formal governance committee established to provide recommendation and advice to HSBC Bank Malta p.l.c.'s CRO on enterprise-wide management of all risks. The Risk function is the Second Line of Defence for risk matters including liquidity.
- Asset and Liability Management Committee is the primary senior management committee for considering liquidity adequacy within the bank.
- The Board represents the bank's administrative, management and supervisory body.

Liquidity risk is largely managed locally, however local Markets Treasury interacts with other Group entities to deploy the excess liquidity and with HSBC Continental Europe on strategy of its EUR assets.

HSBC Bank Malta p.l.c.'s liquidity reporting includes LCR, NSFR, AMM (maturity ladder, concentration of funding by counterparty, concentration of funding by product type, prices for various maturities, rollover of funding, concentration of counterbalancing capacity), and PRA110. HSBC Bank Malta p.l.c. has also an Internal Liquidity Metric, which is a 90-day dual stress liquidity reporting metric. The Internal Liquidity Metric provides improved analysis of the liquidity of the bank. The metric also includes details of the management actions possible under the baseline scenario and the recovery scenario. HSBC Bank Malta p.l.c. ensures adequacy through HSBC's liquidity and funding management framework which ensures that all foreseeable funding commitments and deposit withdrawals can be met when due or in case of stress. The HSBC Group framework requires operating entities to maintain strong liquidity positions in line with regulatory and internal requirements. These requirements ensure the maintenance of:

- A diversified and stable funding base comprising core retail and corporate customer deposits and institutional balances, and long-term funding, while discouraging reliance on short-term professional funding; and
- A liquid assets portfolio that enables HSBC Bank Malta p.l.c. to respond to unforeseen liquidity requirements.

HSBC Bank Malta p.l.c. has a strong liquidity surplus, however it also has set-up a Contingency Funding Plan which are expected to document procedures for:

- Identifying when a liquidity stress is starting;
- Managing liquidity during a liquidity stress; and
- Remediating the liquidity position once a liquidity stress has stabilised.

Stress testing serves to identify certain scenarios that could cause liquidity outflows to increase and inflows to slow or cease. The liquidity stress testing for HSBC Bank Malta p.l.c. takes the following forms:

- Calculation of the LCR, which is a 30-day combined stress;
- Calculation of the Internal Liquidity Metric which is both a market wide and idiosyncratic ninety-day stress; and
- Internal Liquidity Adequacy Assessment ('ILAA') which uses a series of scenarios to assess the suitability of the HSBC Bank Malta p.l.c.'s liquidity position under stress.

On an annual basis the management provides a declaration on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the bank's profile and strategy. The Liquidity Adequacy Statement as per ILAAP signed by the banks Chairman and CEO states: "HSBC Bank Malta p.l.c. maintains liquidity resources which are adequate in both amount and quality at all times to support the business activity, and ensures there is no significant risk that its liabilities cannot be met as they fall due". During 2023 only five counterparties had a deposit greater than 1% of the total liabilities and equated to 8% of the total customer deposits.

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding. It is designed to give a picture of the bank's long-term funding profile (that is, funding with a term of over one year) and is therefore used as a complement to the LCR.

HSBC Bank Malta p.l.c.'s NSFR was 205.4% as at 30 June 2023. The below table shows NSFR ratio for 31 March 2023 and 30 June 2023 respectively.

Table 26: Net Stable Funding Ratio (EU LIQ2)

		30 Jun 2023					31 Mar 2023				
		Unweighted value by residual maturity					Unweighted value by residual maturity				
		No maturity	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	Available stable funding ('ASF') Items	**€000**	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000
1	Capital items and instruments				**554,511**	**554,511**				541,730	541,730
2	Own funds	**—**	**—**	**—**	**460,071**	**460,071**	—	—	—	465,866	465,866
3	Other capital instruments		**—**	**—**	**94,440**	**94,440**		—	—	75,864	75,864
4	Retail deposits		**4,637,345**	**—**	**—**	**4,296,646**		4,653,133	—	—	4,309,393
5	Stable deposits		**3,187,865**	**—**	**—**	**3,028,472**		3,187,328	—	—	3,027,962
6	Less stable deposits		**1,449,480**	**—**	**—**	**1,268,174**		1,465,805	—	—	1,281,431
7	Wholesale funding:		**1,380,669**	**6,058**	**30,033**	**514,216**		1,290,052	7,504	90,003	577,920
8	Operational deposits		**409,060**	**—**	**—**	**204,530**		432,261	—	—	216,130
9	Other wholesale funding		**971,609**	**6,058**	**30,033**	**309,686**		857,792	7,504	90,003	361,790
10	Interdependent liabilities		**—**	**—**	**—**	**—**		—	—	—	—
11	Other liabilities:	**—**	**100,552**	**—**	**—**	**—**	—	95,013	—	—	—
12	NSFR derivative liabilities	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
13	All other liabilities and capital		**100,552**	**—**	**—**	**—**		95,013	—	—	—
14	Total available stable funding ('ASF')					**5,365,372**					5,429,043

Table 26: Net Stable Funding Ratio (EU LIQ2) (continued)

		30 Jun 2023					31 Mar 2023				
		Unweighted value by residual maturity					Unweighted value by residual maturity				
		No maturity	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	Required stable funding ('RSF') Items	**€000**	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000
15	Total high-quality liquid assets ('HQLA')		**—**	**—**	**—**	**6,392**		—	—	—	7,662
EU-15a	Assets encumbered for more than 12m in cover pool		**—**	**—**	**—**	**—**		—	—	—	—
16	Deposits held at other financial institutions for operational purposes		**—**	**—**	**—**	**—**		—	—	—	—
17	Performing loans and securities:		**787,681**	**146,118**	**2,928,414**	**2,384,566**		884,586	154,267	2,923,771	2,393,388
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		**—**	**—**	**—**	**—**		—	—	—	—
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		**578,411**	**16,700**	**101,715**	**167,906**		680,354	17,834	100,000	176,952
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		**98,339**	**58,694**	**944,747**	**2,216,415**		69,273	64,043	966,421	2,216,161
21	*– of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***13,897***	***8,043***	***232,918***	***1,222,249***		*10,645*	*13,617*	*234,542*	*1,218,893*
22	Performing residential mortgages		**108,490**	**70,723**	**1,881,952**	**—**		132,210	72,390	1,857,350	—
23	*– of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***59,607***	***59,333***	***1,539,095***	**—**		*59,736*	*59,271*	*1,530,472*	—
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		**2,440**	**—**	**—**	**—**		2,749	—	—	—
25	Interdependent assets		**—**	**—**	**—**	**—**		—	—	—	—
26	Other assets:	**—**	**51,431**	**—**	**133,672**	**169,114**	—	52,106	—	136,665	173,223
27	Physical traded commodities		**—**	**—**	**—**	**—**		—	—	—	—
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		**—**	**—**	**—**	**—**		—	—	—	—
29	NSFR derivative assets										
30	NSFR derivative liabilities before deduction of variation margin posted		**8,419**			**421**		8,991			450
31	All other assets not included in the above categories		**43,012**	**—**	**133,672**	**168,693**		43,115	—	136,665	172,773
32	Off-balance sheet items		**—**	**—**	**1,034,329**	**51,526**		—	—	1,028,156	51,230
33	**Total RSF**					**2,611,599**					2,625,503
34	**Net Stable Funding Ratio (%)**					**205.4%**					206.8%

Table 26: Net Stable Funding Ratio (EU LIQ2) (continued)

		Unweighted value by residual maturity at 31 Dec 2022				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding ('ASF') Items		€000	€000	€000	€000	€000
1	Capital items and instruments				521,135	521,135
2	Own funds	—	—	—	472,150	472,150
3	Other capital instruments		—	—	48,985	48,985
4	Retail deposits		4,619,290	—	—	4,277,702
5	Stable deposits		3,162,235	—	—	3,004,123
6	Less stable deposits		1,457,055	—	—	1,273,579
7	Wholesale funding:		1,442,661	5,712	60,016	617,410
8	Operational deposits		447,374	—	—	223,687
9	Other wholesale funding		995,287	5,712	60,016	393,723
10	Interdependent liabilities		—	—	—	—
11	Other liabilities:	—	30,879	—	—	—
12	NSFR derivative liabilities	—				
13	All other liabilities and capital instruments not included in the above categories		30,879	—	—	—
14	Total available stable funding ('ASF')					5,416,247
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					5,555
EU-15a	Assets encumbered for more than 12m in cover pool		—	—	—	—
16	Deposits held at other financial institutions for operational purposes		—	—	—	—
17	Performing loans and securities:		754,431	215,081	2,936,919	2,411,638
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		—	—	—	—
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		577,140	67,129	100,206	191,484
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		105,645	77,578	907,018	2,219,961
21	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*10,084*	*10,348*	*1,705,480*	*1,216,192*
22	Performing residential mortgages		69,719	70,374	1,929,695	—
23	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*59,039*	*58,795*	*1,521,882*	—
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		1,927	—	—	—
25	Interdependent assets		—	—	—	—
26	Other assets:	—	158,666	—	33,330	124,181
27	Physical traded commodities				—	—
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		—	—	—	—
29	NSFR derivative assets		—	—	—	—
30	NSFR derivative liabilities before deduction of variation margin posted		10,252	—	—	513
31	All other assets not included in the above categories		148,413	—	33,330	123,669
32	Off-balance sheet items		—	—	1,004,913	58,389
33	Total RSF					2,599,764
34	Net Stable Funding Ratio (%)					208.3

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') is the risk of an adverse impact to earnings or capital due to changes in market interest rates that affect the bank's banking book positions. It is generated by our non-traded assets and liabilities, specifically loans, deposits, and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury to be managed within Market Risk limits and in accordance with internal transfer pricing rules. All interest rate risks must be identified, measured, monitored, managed and controlled within metrics and limits. Key metrics to monitor IRRBB are projected net interest income ('NII') and economic value of equity ('EVE') sensitivities ('Δ') under varying interest rate scenarios as prescribed by the regulators.

ALCM monitors and controls interest rate risk in the banking book. This includes reviewing and challenging the lines of business prior to the release of new products and proposed behavioural assumptions used. ALCM is also responsible for maintaining and updating the transfer pricing framework, informing the ALCO of the banking book interest rate risk exposure and managing the balance sheet in conjunction with Markets Treasury. EVE and NII sensitivities are monitored against limits and triggers. Group IRRBB as part of Group Treasury, Markets Treasury and ALCO performs oversight over the management of IRRBB. IRRBB is also subject to independent oversight and challenge from Market Risk, Internal Audit and Model governance.

A principal part of the management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income ('NII') under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. Sensitivity of net interest income reflects the bank's sensitivity of earnings due to changes in market interest rates. This is assessed over 1 year and 5 years and is calculated on a quarterly basis.

An ΔEVE represents the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant. EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This equates to the current book value of equity plus the present value of future NII in this scenario. EVE can be used to assess the economic capital required to support interest rate risk in the banking book and provides a comprehensive view of the potential long-term effects of changes in interest rates. HSBC Bank Malta p.l.c. monitors EVE sensitivities as a percentage of capital resources on a quarterly basis.

Hold-to-collect-and-sell ('HTC&S') stressed value at risk ('VaR') is a quantification of the potential losses to a 99% confidence level of the portfolio of securities held under a held-to-collect-and-sell business model in the Markets Treasury. The portfolio is accounted for at fair value through other comprehensive income. This is quantified based on the worst losses over a one-year period going back to the beginning of 2007 with an assumed holding period of 60 days. Hold-to-collect-and-sell stressed VaR uses the same models as those used for trading book capitalisation and covers only the portfolio managed by Markets Treasury under this business model. Markets Treasury sensitivities are measured and monitored daily against risk limits which includes breakdown by currency, tenor basis, curve and asset class whilst HTC&S Stress VaR is measured weekly.

The results of annual regulatory stress testing and our internal stress tests are used when assessing our internal capital requirements through the ICAAP for credit, market, operational, pension, non-foreign book foreign exchange risk and interest rate risk in the banking book.

The ΔNII is indicative and based on scenarios and assumptions prescribed by the EBA Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). This hypothetical base case projection of our NII (excluding insurance) is performed under the following scenarios:

- an immediate shock of +/-25 basis points ('bps') to the current market-implied path of interest rates across all currencies (effects over one year and five years)
- an immediate shock of +/-100bps to the current market-implied path of interest rates across all currencies (effects over one year and five years). This scenario includes the effect of flooring the interest rates curve.

The ΔEVE is based on EBA Standard Outlier Test (SOT) +/-200bps and the six BCBS Outlier Test shocks:

- Parallel Up,
- Parallel Down,
- Steepener,
- Flattener,
- Short rates shock up, and
- Short rates shock down.

Interest rate risk that can be economically hedged is transferred to the Markets Treasury. Hedging is generally executed through natural hedging or through interest rate derivatives. Any interest rate risk that Markets Treasury cannot economically hedge remains within the business.

Key modelling and parametric assumptions used in calculating ΔEVE and ΔNII include:

- For ΔEVE commercial margins and other spread components have been excluded from the interest cash flows calculation and all balance sheet items are discounted at the risk free rate; all CET1 instruments are excluded; liability products are floored at 0%.
- For ΔNII a constant balance sheet is assumed; a commercial margin is used; all forecasted market rates are based on implied forward rates from the loaded spot curves at each quarter-end; assumptions applied for managed rate products are used; customer pricing include flooring where there is contractual obligations and customer optionality including prepayment and early redemption risk assumed.
- The repricing maturity of non-maturing deposits is assessed using both:
  - a historical analysis at product level to confirm the stable part of deposits in respect of past interest rate environment; and
  - the business expectations of customer behaviour and product characteristics with respect to stressed scenarios.

Behavioural assumptions are reviewed and challenged at least on an annual basis in line with the bank's policy and procedures.

An EVE value represents the present value of future banking book cashflows that could be distributed to equity providers under a managed run off scenario. EVE is a regulatory metric and limit of sensitivity as prescribed against Total Capital and Standard outlier test.

Interest rate risk in the banking book will give rise to volatility in expected NII due to movements in interest rates. One way to measure interest rate risk in the banking book is to assess this volatility using NII sensitivity analysis. There are no regulatory prescribed limits on NII sensitivity.

HSBC Bank Malta p.l.c. is exposed to a change of Eurozone interest rates on banking operations and structural elements of the balance sheet. Out of the set of interest rates scenarios that are run, the two most adverse ones are a decrease of 100 basis points with respect to NII and an increase of 200 basis points with respect to EVE. HSBC Bank Malta p.l.c. would see its Net Interest Income on a 1Y horizon decrease by EUR 29 million for an immediate decrease of 100 basis points. As at 30 June 2023 the bank would see a fall of EUR 42.4 million in the EVE in a '200 basis point up' scenario.

Table 27: Interest Rate Risk in the Banking Book (EU-IRRBB1)

		ΔEVE		ΔNII	
		Jun-23	Dec-22	**Jun-23**	Dec-22[1]
	Supervisory shock scenarios	**€000**	€000	**€000**	€000
1	Parallel up	**(42,385)**	(9,432)	**32,906**	32,596
2	Parallel down	**64,495**	17,231	**(28,538)**	(35,621)
3	Steepener	**(19,815)**	(725)		
4	Flattener	**14,605**	(401)		
5	Short rates up	**(1,028)**	(4,154)		
6	**Short rates down**	**1,757**	3,818		

1 ΔNII Parallel down was incorrectly quoted as 35,621 instead of (35,621) in December 2022 report. Amount re-stated in the current period reporting.

In accordance with Article 448 CRR, the average and longest repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties is 3 years.

ESG Risks

Qualitative information on environmental risk

Strategy & Business processes

The HSBC Group's ('the Group') or ('HSBC') strategy centres around four pillars: i) focus on areas of strengths; ii) digitise at scale; iii) energise for growth; and iv) support the transition to a net zero global economy. As part of the net zero ambition, the HSBC Group is on a journey to integrate environmental, social and governance ('ESG') principles throughout its organisation, and important steps have been taken to embed sustainability into corporate strategy, financial planning and business model.

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. Characterised by a deep and progressive ESG regulatory landscape, Europe as a region has a growing need to expand risk management and disclosure beyond climate to environmental risks (e.g. biodiversity) as well as other aspects of ESG beyond the environment (e.g. human rights).

One of the Group's strategic pillars is to support the transition to a net zero global economy. The Group's ambition is to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. The transition to net zero is one of the biggest challenges for this generation. Success will require governments, customers and finance providers to work together. The Group's global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that the Group's transition will be challenging, but is an opportunity to make an impact. The Group recognises that, to achieve its climate ambition it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on this ambition, it requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources and skills, and to develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are enhanced, certain aspects of the Group's reporting will rely on manual sourcing and categorisation of data. In 2023, the Group continues to review its approach to disclosures. Reporting will need to evolve to keep pace with market developments. HSBC Bank Malta p.l.c.'s ('HBMT') approach to sustainability is aligned with that of HSBC Group as well as HBCE.

HBMT shares this ambition to help individuals, governments and businesses achieve their aims of developing a sustainable future for all. In this context, HBMT as part of HBCE supports the Group's ambition to transition to net zero and has developed a sustainability framework anchored on the HSBC Group's public commitments and aligned to local regulatory requirements.

Become a Net Zero bank in the bank's portfolio

In 2020, the HSBC Group set out ambitions to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To align with its net zero ambition, HBMT implements the science-based sustainability risk policies published by the HSBC Group, that define its appetite for business in specific sectors and encourage customers to meet international standards. Recently, the HSBC Group published two policies including the Coal Policy to phase out the financing of coal-fired power and thermal coal mining (by 2030 in the EU and in the Organisation for Economic Cooperation and Development ('OECD'), and by 2040 in all other markets); and the Energy Policy where HSBC Group states it will no longer provide new finance or advisory services for the specific purpose of projects pertaining to new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields.

In addition to following HSBC Group's policies, HSBC Bank Malta p.l.c seeks to analyse and track its financed emissions. Financed emissions link the financing provided to customers and their activities in the real economy and provide an indication of the greenhouse gas emissions associated with those activities. They form part of the bank's scope 3 emissions, which include emissions associated with the use of a company's products and services. HSBC Bank Malta p.l.c. as part of HBCE will adopt such methodologies as they are rolled out where applicable.

Financed emissions for the shipping sector were analysed to establish a baseline. During the analysis data gaps were noted in reported emissions and modelled data from external vendors at the company level. The HSBC Group has chosen to defer setting a baseline and target for this sector until there is sufficient reliable data to support the work, allowing the Group to accurately set a baseline and track progress towards net zero. In line with Group, HBMT will continue to engage with strategic clients within the sector to encourage disclosure.

HSBC analysis of financed emissions is based upon the availability of quality data and industry standards which inform its approach. The HSBC Group continues to engage with industry initiatives to help formulate a methodology for assessing and measuring financed emissions such as the Science Based Targets Initiative ('SBTI') and the Net-Zero Banking Alliance ('NZBA'), which seeks to reinforce, accelerate, and support the implementation of decarbonisation strategies and targets for the banking sector.

Support customers on their transition to Net Zero

The HSBC Group aims to provide and facilitate between $750 billion and $1 trillion of sustainable finance and investment by 2030 to support customers in their transition to net zero and a sustainable future. Since 2020 when a suite of Green and Sustainability Linked products was launched and made available to corporate customers, HSBC Malta has supported customers' transition to net zero and helped build a sustainable future by providing a number of sustainable lending facilities - this financing contributes towards the HSBC Group's ambition mentioned above.

We have also added a new sustainable investment fund to our product shelf of ESG products that had a total subscription into the sustainable funds offered exceeding €18 million.

To understand the impact of climate change on corporate customers, HBMT, as part of an HBCE initiative, is working with customers to capture holistic information on their exposure to the transition to net zero emissions, and the risks and opportunities in 5 key areas (emissions, reduction targets, plans, transition risks, physical risks). Together with external data sources, responses will feed into a new Climate Score element of the overall ESG score. The score will be used to support commercial decision-making and will provide a quantitative value that will help embed climate risk into credit assessments.

To support this, HBMT Relationship Managers and other staff members, undergo training under an HBCE plan which aims to build the culture and capabilities needed and to successfully embed climate considerations into daily decision making. The Sustainability Academy, which gathers all learning resources to develop the right skill set, was launched by HBCE in 2022 and is available to all HBMT employees.

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

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

Become a Net Zero bank in its operations and supply chain by 2030 or sooner

In line with HSBC Group's ambition to reduce its energy consumption by 50% by 2030 and to achieve 100% renewable power across its operations by 2030, HSBC Bank Malta p.l.c. is focusing its action on four objectives: reduce operational greenhouse gas ('GHG') emissions, including those related to business travel, improve energy efficiency, reduce production of non-recycled waste and reduce paper consumption. The biggest impact on our carbon footprint is maintaining our property portfolio and during the year we have commenced major works on our HSBC Hub at Qormi, to redevelop and fully refurbish the campus, replacing all the plant and equipment to achieve operational efficiency levels to meet our targets. The redevelopment includes energy saving measures and the creation of a solar farm, which will potentially provide 75% of HSBC Bank Malta's electricity needs in future years. The project is aiming for Gold status LEED accreditation and is already well on track to meet these requirements.

We rolled out PVC cards made up of 85% recycled material, issuing them to customers needing new or replacement cards. The recycled PVC plastic card action is expected to reduce CO2 emissions and save tons of plastic waste per year as part of our net zero strategy.

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

Governance

Responsibilities of the management body

The Board of HSBC Bank Malta p.l.c. has overall accountability for determining the strategy, including the environmental and climate transition strategy and oversight of the risk management framework including climate-related and environmental risks. The Board oversees the development of the approach, execution and associated reporting by the executive management. The HSBC Bank Malta p.l.c. Risk Committee, a subcommittee of the HSBC Bank Malta p.l.c. Board, is responsible for overseeing and advising the Board on risk-related matters, including climate-related and environmental risks.

From an executive perspective, the Executive Committee recommend climate and environmental transition strategy and climate risk appetite to the Board for approval.

Integration of environmental factors, organisational structure both within business lines and internal control functions

The local group approach to climate and environmental risk management is aligned to the group-wide risk management framework and three lines of defence model, which sets out how HSBC Bank Malta p.l.c. identifies, assesses and manages its risks.

This approach ensures the Board and senior management have visibility and oversight of the key environmental and climate risks.

The Risk Appetite Statement has been enhanced in 2023 with the addition of new ESG key risk indicators and will continue to be reinforced with the implementation of new additional indicators.

The initial measures are focused on the oversight and management of the key climate-related risks for the bank relative to transition risks (wholesale credit risk and retail credit risk) and physical risks throughout 2023.

Integration of measures to manage environmental risk

Significant improvements have been made throughout 2023 to further embed climate-related and environmental risks within governance. The governance framework has been strengthened to ensure that all upcoming sustainable finance regulations and obligations are understood and implemented whilst supporting the implementation of the net zero and business strategy. The ESG and Climate Governance Framework builds on existing governance structures with the addition of dedicated committees at executive level and working groups.

The HSBC Bank Malta p.l.c. governance replicates that in place at the Group's and HSBC Bank plc's level as appropriate, noting the Group's ambition to include ESG into the existing business framework where possible:

a. The Head of Climate Change Europe was appointed to cover commercial and external engagements, reporting to the HBEU CEO and Group Chief Sustainability Officer ('CSO').

b. The Head of Sustainability Europe leads internal execution and transformation, reporting to the HBEU Chief of Staff ('CoS') and the Group Sustainability CoS.

c. HSBC Bank Malta's Head of Enterprise Risk Management is designated as the ESG and climate risk manager for with responsibility for climate-related and environmental risks.

Role of committees and lines of reporting

The Board and its committees have received regular updates on the climate-related and environmental risks in the overall business strategy and risk management framework.

At the management level, the climate and ESG governance has been enhanced with the setup of two new Committees: the Climate and ESG Risk Oversight Forum and the Climate Business Council. This governance has been designed to ensure the HSBC Bank Malta p.l.c. Executive Committee and Board are fully aware of ESG topics and to strengthen the governance and management information ('MI') on climate-related risks.

Climate & ESG Risk Oversight Forum ('CESGROF')

The CESGROF which has been established in 2022, is chaired by the Chief Risk Officer, to shape and oversee HSBC Bank Malta p.l.c.'s approach to managing climate-related and environmental risks. The forum ensures a regular review of climate-related and environment risks across HSBC Bank Malta p.l.c. through the three lines of defence enabling an assessment of the risks involved in the HSBC Bank Malta p.l.c. perimeter and how they are controlled and monitored, giving clear, explicit and dedicated focus to current and forward-looking aspects of risks. This committee has an escalation path to the HSBC Bank Malta p.l.c. Risk Management Meeting.

Climate Business Council ('CBC')

The CBC was set up in 2021 with the aim of facilitating collaboration and knowledge sharing, and supporting the Group's Sustainable Finance and Climate related initiatives. The CBC drove and monitored the implementation of the bank's sustainable finance strategy, it also ensured that the strategy is fit for purpose and is updated as required. The CBC provided guidance and resolved issues in developing the sustainable finance business across the bank. It also determined the objectives of agreed initiatives and appropriate ownership as well as ensured measurement and reporting of progress. The CBC was chaired by the Chief Executive Officer of the bank and updates on progress were provided to stakeholders including the local Board and regional committees for oversight and endorsement of the strategies and actions.

In 2023, CBC was amalgamated with CESGROF to enable stronger oversight of climate and environmental risks.

The roles and responsibilities of the governance structure for climate-related and environmental risks are defined in the terms of reference of each governance forum.

Climate Action Network ('CAN')

The bank also supports the Climate Action Network ('CAN'). This is a network led by employees of the bank where different teams from across business lines and functions drive sustainable projects inside and outside the bank. We had two climate action network teams in 2022 thanks to the commitment of our employees ranging from environmental to future skills topics. The CAN teams drive various internal learning initiatives to increase the capabilities of our own employees and also within the community. All these initiatives were led ably by our people who use a central platform where they share their achievements and successes of their projects.

Risk Committee Terms of Reference

On the non-executive side, the Risk Committee's Terms of Reference was updated in 2022 to specifically mention the climate and environmental risks among risks related matters that are overseen by this committee. ESG governance approach will continue to develop in line with the evolving approach to ESG matters and stakeholders' expectations.

Alignment of remuneration policy

A number of climate-related metrics are used in HSBC Bank Malta p.l.c. within annual incentive scorecards, including those of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, and other senior managers in business and global functions. The completion of these weighted climate-related goals forms part of the annual performance assessment and the associated performance rating basis of the variable remuneration. The goals are linked to the climate ambition of the bank of achieving net zero in its operations and supply chain by 2030, developing sustainable finance and supporting clients in their transition to net zero and a sustainable future.

This approach is currently expanded more widely across the organisation in all businesses and functions with specific climate/ environmental/social objectives assigned to all or part of the employees.

Risk management

Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework including definitions, methodologies, and international standards

The initial approach to managing climate risk was focused on understanding physical and transition impacts across five priority risk types: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk.

Climate risk is managed across all HSBC businesses and climate considerations have been integrated into the bank risk taxonomy in line with HSBC Group-wide risk management framework (via the policies and controls for the existing risks, where appropriate) and the three lines of defence model.

Greenwashing is considered to be an important emerging risk that is likely to increase over time, as HSBC looks to develop capabilities and products to achieve its net zero commitments, and work with its clients to help them transition to a low-carbon economy.

Stress testing and scenario analysis support the local group strategy by assessing its position under a range of climate scenarios. It helps to build the bank's awareness of the potential impact of climate change, plan for the future and meet growing regulatory requirements.

In 2022, HSBC Group (including HSBC Bank Malta p.l.c.) delivered its first internal climate scenario analysis exercise where four bespoke scenarios have been used. It was designed to articulate HSBC view of the range of potential outcomes for global climate change.

These scenarios, reflect different levels of physical and transition risk and are varied by severity and probability, where:

a. the Net Zero scenario aligns with HSBC net zero strategy and is consistent with the Paris Agreement;

b. the Current Commitments scenario assumes that climate action is limited to the current governmental commitments and pledges;

c. the Downside Transition Risk scenario assumes that climate action is delayed until 2030; and

d. the Downside Physical Risk scenario assumes climate action is limited to current governmental policies.

Climate scenario analysis allows HSBC Bank Malta p.l.c. to model how different potential climate pathways may affect its customers and portfolios, particularly in respect of credit losses.

In 2022, climate considerations were incorporated into HSBC mortgage origination processes for the retail business and new money request processes for the wholesale business. Climate risk scoring tool also continued to be enhanced for wholesale business, which will enable the bank to assess its customers' exposures to climate risk.

HSBC Bank Malta p.l.c. climate risk appetite supports the oversight and management of the financial and non-financial risks from climate change and supports the business to deliver its climate ambition in a safe and sustainable way.

This approach gives the Board and senior management visibility and oversight of the climate risks impacting HSBC Bank Malta p.l.c. and helps in the identification of opportunities to deliver sustainable growth in support of the bank's climate ambition.

Description of the link between environmental risks and traditional banking risks

HSBC Bank Malta p.l.c. ran a qualitative entity level assessment of how climate and environmental risks may impact risk types within the HSBC taxonomy over short (12 months) , medium (5 years) and long terms (10 years). The most material risks identified are driven by regulatory and/or reputational impacts in the following risk area: Wholesale Credit Risk, Retail Credit Risk, Strategic Risk/Reputational Risk; Regulatory compliance/Breach of Regulatory Duty to Clients and Other Counterparties; Resilience risk/Third Party Risk and Financial Reporting Risk.

The next steps are for HSBC Bank Malta p.l.c. to enhance the definition of environmental-related risks within this framework and consider further within day-to-day risk management practices.

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

All these activities will ensure nature related issues are embedded into the HSBC Bank Malta transition plan and the definition of the risk management framework.

Activities, commitments and exposures contributing to mitigate environmental risks

The HSBC Group is accelerating in the deployment of new solutions to the climate crisis and supporting the transition of industries and markets to a net zero future, moving to net zero at its own level as HSBC helps its customers do so too.

Achieving net zero goes hand in hand with halting and reversing nature loss. Nature loss, which refers to the decline of natural capital, ecosystem services and biodiversity, is one of the greatest systemic risks to the global economy and the health of people and the planet.

In taking steps to halt nature loss, the HSBC Group will continue to make progress with the investment and financing of biodiversity and nature-based solutions through client products and services and partnerships.

The HSBC Group published in October 2022 a Statement on Nature[1]. This reconfirms the intent to integrate Nature-related actions into the HSBC transition plan and to publish a new deforestation policy informed by scientific and international guidance in 2023.

1 https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/221019-hsbc-statement-on-nature.pdf?download=1

Implementation of tools and processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels

The HSBC Group recognises that businesses can have an impact on the environment and has developed, implemented and refined its approach to working with its business customers to understand and manage these issues.

The sectors identified as priorities, and for which an internal policy has been developed, are forestry and its derivative products, agricultural commodities, mining and metals, chemicals, energy, defence, UNESCO world heritage sites and Ramsar wetlands.

These policies define the appetite of the bank for business in these sectors and seek to encourage customers to meet good international standards of practice. Where HSBC identifies activities that could cause material negative impacts, it will only provide finance if it can confirm clients are managing these risks responsibly. Such customers are subject to greater due diligence and generally require additional approval by sustainability risk specialists. The bank's sustainability policies continue to be aligned with its approach to climate risk, and its net zero ambition.

In 2003, HSBC Holdings became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects.

Climate risk is managed in HSBC Bank Malta p.l.c. banking portfolios through its risk appetite and policies for financial and non-financial risks. For wholesale customers, a corporate questionnaire is used as part of HSBC transition risk framework to understand the customer's climate strategies and risk. The local group's climate change stress testing and scenario analysis are also used to provide insights on the long-term effects of transition and physical risks across retail and wholesale banking portfolios. In December 2022, the Group announced its revised energy policy which will be used to engage with customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.

The HSBC Group sustainability risk policies restrict financing activities which have a negative impact on nature. Whilst a number of Group sectoral policies have such restrictions, HSBC Forestry and Agricultural Commodities policies focus specifically on a key impact: deforestation. As already mentioned, the Group plans to strengthen its current policy protections in this area, and will release a revised Deforestation Policy, informed by scientific and international guidance, in 2023.

Relationship managers are the primary point of contact for the local group customers and are responsible for checking annually whether customers meet applicable policies. A network of Sustainability Risk Managers (based in the HSBC Group) provides local expertise, support, and guidance to the Businesses and to Risk (credit approvers). The sustainability risk analysis must be undertaken annually or more frequently if risk increases, with trigger events leading to re-assessment of sustainability risk.

Risk function takes into account the Sustainability Risk Rating when approving the overall risk in relation or transaction.

A wide-ranging stress testing programme is also deployed and is a key part of the HSBC Bank Malta p.l.c. risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on HSBC.

The local group's stress testing programme assesses its capital and liquidity strength through a rigorous examination of its resilience to external shocks. As well as undertaking regulatory-driven stress tests, internal stress tests are conducted in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Climate scenario analysis is used to enrich HSBC Bank Malta p.l.c.'s understanding of the risks and opportunities, drivers, dependencies, and challenges the local group faces in future climate pathways.

Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile

The local group's liquidity risk profile has been analysed in 2023. During the first quarter, a qualitative assessment of the impacts that climate change risk could have on the Liquid Asset Buffer ('LAB') and net outflows, has been performed. Overall, the initial assessment is that the risk of climate change to liquidity and funding is low, meaning only minor expected impact with low likelihood.

In Q1 2023, a quantitative assessment of how climate-related liquidity risks can arise and impact HSBC Bank Malta p.l.c. has been developed. The analysis showed that impacts are limited over a liquidity timeframe considering the market footprint of the bank combined with the relative limited exposure to risky sectors. This is a first step in the calibration of climate in HSBC Bank Malta p.l.c. risk testing framework and additional enhancement will be provided in 2023.

Data availability, quality and accuracy, and efforts to improve these aspects

The local group has a holistic approach to data governance which includes all of risk as well as, other business lines and functions. This is set out within the Group Data Management Policy and Controls which covers Environmental Risk data. The HSBC Group's data management commitments are captured within its Data Management Procedures and also align to Basel Committee on Banking Supervision "Principles for Effective Risk Data Aggregation and Risk Reporting ('BCBS 239')" requirements. Further, Environmental Risk Data is also in scope for BCBS 239. The BCBS 239 compliance plan for environmental risk data will conclude at the end of 2023.

The Group Data Management Procedure seeks to embed effective data management in business activities and processes by articulating the activities that must be incorporated across the Group (including HSBC Bank Malta p.l.c.). The Procedure applies to all users and providers of data in the HSBC Group and assigns responsibility to all staff for managing the quality of data in the processes and systems that they own. Complementing the Data Management Procedure is the BCBS 239 Compliance Framework. This defines the minimum standards to be met when aggregating and reporting environmental risk data. The documents have been designed to reflect and implement the BCBS 239 principles, and adherence to the standards within the Framework is mandatory for all applicable local group areas.

Guidance is progressively provided in terms of reporting environmental risk which can be built with current data. Current internal data does not allow proper identification of green products under the EU taxonomy until the data is aligned (2023). Lists of green bonds and loans are gathered from specific teams, including prospectus documents for green bonds, allowing to identify the use of proceeds. Energy Performance Certificate ('EPC') ratings are mostly not available in internal local group systems; therefore, a calculation model is used to estimate the energy efficiency information. From Q4 2022, we have started collating EPC certificates for new mortgage lending. Such information is being kept manually but we aim to start capturing the information in internal systems.

Qualitative information on social risk

HSBC Bank Malta p.l.c., as a major banking and financial services organisation, faces social risks. Social risks, as defined by the Official Journal of the European Union (Article 1, Amendments to Implementing Regulation (EU) 2021/637, p. 16), are understood as the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of social factors on the institution's counterparties or invested assets. As defined by the European Banking Authority ('EBA'), social aspects include human rights violation, labour rights, income inequality, lack of human rights, customer safety and protection, privacy, poverty and non-discrimination. Furthermore, climate change and transition to a low carbon economy have social impacts that include changes to the job market. These include the decrease in the demand for certain jobs and skills, the emergence of new jobs and skills, consumers' changing preferences, shareholders' willingness to swiftly integrate climate, environmental and social changes in their companies.

HSBC Bank Malta p.l.c.'s Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. Progress against ESG ambitions is reviewed through Board discussion and review of key topics such as update on net zero, customer experiences and employee sentiments. The Board receives an update on Sustainable Finance initiatives driven by HSBC Bank Malta on a regular basis. Board members receive ESG-related training as part of their ongoing development. Given the wide-ranging remit of ESG matters, the governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, where appropriate.

Human Rights

Strategy and business processes

The local group, as part of the HSBC Group, takes into account in its strategy, local contexts, laws and regulations of the countries in which it operates. Relevant international standards are used to determine appropriate framework to comply with human rights. HSBC Bank Malta p.l.c. seeks to raise awareness of human rights by promoting good practice through its business conduct.

As a financial services organisation, the local group can have an impact on the human rights of a range of stakeholders, including as an employer, a provider of financial services, a buyer of goods and services and an investor.

From an employee perspective, the local group requires its employees to treat colleagues with dignity and respect, creating an inclusive environment. Employees are made aware of their employment rights and duties through a variety of channels, including written employment contracts and policies, procedures in employee handbooks, on employee websites and a code of conduct. Employees are trained on a range of human rights related topics including but not limited to diversity and inclusion, bullying and harassment, racism, data privacy. In addition, employees receive regular training as part of HSBC's broader financial crime control framework, covering anti-money laundering, anti-bribery and corruption and financial sanctions. Each of these interests intersects with human rights risk.

From a customer standpoint, the HSBC Group has developed sustainability risk policies which are also used at HSBC Bank Malta p.l.c. level. The policies apply to main financing products offered to customers. Customers are engaged, where appropriate, and supported in adopting more sustainable practices. The sustainability risk policies on forestry, agricultural commodities, metals and mining, and energy specifically refer to human right considerations. They include issues such as land rights, harmful or exploitative child labour or forced labour, rights of local communities, workers' rights and the health and safety of communities. An annual review is carried out of Commercial Banking clients operating in sectors covered by the Group's sector policies, and all transactions in these sectors are also reviewed.

Finally, regarding suppliers, the code of conduct, revised in 2022, sets out HSBC's commitments to the environment, diversity and human rights, and which outlines the minimum commitments expected by suppliers on these issues. Commitment to the code is formalised with clauses in supplier contracts, which support the right to audit and act if a breach is discovered.

HSBC's Duty of Care Plan is supported by the framework defined by HSBC related to human rights. Commitments have been made and rules and procedures adopted at HSBC Group level to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment.

Policies and risk management

In 2022, the process of adapting internal risk management procedures has begun to reflect key learnings from the work on salient human rights issues described above. This included the development of global guidance on human rights, which incorporates the salient human rights issues assessment and provides colleagues with clear principles and practical advice, including case studies, on how to identify, prevent, mitigate and account for how impacts on human rights are addressed. Additional human rights elements have been incorporated into existing procurement processes and supplier code of conduct, and existing human rights due diligence processes have been extended for suppliers and business customers.

HSBC Bank Malta p.l.c. has defined employment practices and relation policy set in Human Resources ('HR') procedure guideline within a Functional Instruction Manual ('FIM'). This manual aims to ensure that HSBC Bank Malta p.l.c. as an employer takes all appropriate steps to meet employment laws, regulatory commitments and obligations to workforce. These include and are not limited to human rights violation, labour rights, income inequality, lack of human rights, privacy, poverty and non-discrimination matters.

Failure to comply with the policy could result in financial loss, legal or regulatory action, reputational damage or impacts on employees. In addition to employee impacts, failure to comply with the requirements in this policy could indirectly lead to negative impacts on the outcomes for customers. A set of controls has been defined under the Non-Financial Risk Framework and in line with non-financial risk management principles. These allow the local group to identify and manage Risks and controls arising from social risks/aspects. The policy contains the minimum expectations and controls to manage non-financial risks within risk appetite.

Employee matters

Strategy and business processes

The HSBC Group promotes an inclusive organisation that values differences, takes responsibility and seeks different perspectives for the overall benefit of HSBC's customers.

A dynamic culture is encouraged where employees can expect to be treated with dignity and respect. Understanding the experience of employees is critical. To do so, an annual employee survey Snapshot is conducted. This survey allows measurement of employee engagement score and captures views their perception, from strategy to wellbeing.

HSBC Bank Malta p.l.c. encourages people to speak up in particular when observing unlawful or unethical behaviour. A range of speak-up channels is offered to listen to concerns of employees. Nevertheless, it has been recognised that at times people may not feel comfortable speaking up through the usual channels. As a result, a global whistleblowing platform has been implemented. This platform allows employees to raise any concerns in confidence and, where preferred, anonymously. HSBC Confidential can be accessed in various ways, including telephone outlines, online portals and email. In this context, a yearly check is conducted on the way employees use the local group channel from a performance and remuneration standpoint. Concerns are investigated proportionately and independently, and can result in the invoking of disciplinary actions.

Under the Exchange Meeting programme, agenda-free consultation meetings are held which managers attend without any seniority-based privileges. Employees are free to discuss any issues they wish. Where appropriate feedback from the meetings is shared with the HSBC Group. Since the programme was launched in 2012, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.

Difference among colleagues is valued to build an inclusive workforce. In 2022, 53% of our senior leadership roles were held by women and 83.5% of internal appointments were from our female population.

The bank works on unconscious bias by launching Inclusion workshops for all and continues to deliver the 'Inclusive Leadership' training programme for managers. In addition, part of the mandatory 'The Code of Conduct & me' training session deals with workplace bias and discrimination.

Our Diversity and Inclusion Committee continues to ensure that we drive our Diversity and Inclusion policies and principles through all activities including recruitment processes, learning programmes and various initiatives across the bank and Malta. In addition, employees are offered internal and external tutoring and mentoring roles under voluntary programmes, giving them experience outside the confines of their day-to-day work and enabling them to develop new skills.

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

Staff are recruited from a variety of backgrounds to contribute to the bank's various business lines and functions. In addition, every year, succession plans for positions considered as key are developed. There are clear guidelines to ensure that robust succession plans are in place and to promote gender balance and internal promotions.

Developing the skills of employees is critical to energising the organisation in a context where technology is developing at a rapid pace, where employability is key and a range of new and different skills (resilience, financial capability, climate knowledge, etc.) are now needed to succeed in the workplace. A culture of learning is encouraged through a range of resources, providing employees with a breadth of educational materials and opportunities. Digital, data, sustainability and personal skills are explored as part of future skills campaign. Employees identify specific skills they want to develop and assess them through a skills platform (HSBC University, Degreed learning platform, LinkedIn learning) to shape their development plan. A community of referents has been set up to share best practices and support the adoption of the platform within each business line in HSBC.

The learning department is offering a wide range of awareness-raising and training activities for employees in order to contribute to the ambition of a net-zero transition by 2050. The new Sustainability Academy was launched with a dedicated online portal on HSBC University that brings together all sustainability learning, communications and policies in one central resource. This new Academy has been created to enable transformation and growth by creating a shared mindset, developing the right skills-set and building confidence by providing current HSBC actions.

Other actions will be proposed throughout the year in order to encourage employees to learn more about these sustainable development topics and to share several best practices within the organisation and with customers. For instance, Commercial Banking has created a region-wide Sustainable Finance Country Representative Network. These representatives and ambassadors obtain privileged access to information, training, and specific events. In turn, they are expected to drive the strategy on the ground and act as local experts within their countries and teams.

Employees' wellbeing remains a top priority. As an example, new ways of working have been implemented, enabling more employees to work flexibly and remotely. In addition, new tools and training have been launched to support mental, physical and financial health, remote management, appropriate use of digital tools, to encourage work life balance. Helping employees to be healthy and happy is a key enabler of HSBC Bank Malta p.l.c. strategy. Reason why, wellbeing questions have been added in the annual Snapshot survey to get feedback from employees and continue to improve the approach on this topic.

In a highly connected environment, and given the massive uptake of remote working, appropriate use of professional communication tools is a key challenge for maintaining quality of life at work.

Governance

HSBC encourages a speak up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels without fear of reprisal or retaliation. HSBC provides a number of channels to speak up, however it is recognised that in certain circumstances it may be necessary for individuals to raise concerns through more targeted and confidential channels. For this purpose, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing. Our whistleblowing channel, HSBC Confidential is open to all colleagues to raise concerns in line with local laws. All whistleblowing reports received are investigated in a detailed and independent manner and remedial action is taken where appropriate. The prevalent themes raised are in relation to allegations on staff behaviour. The oversight of the policy falls within the responsibilities of one of the Non-Executive Directors and within the remit of the bank's Audit Committee.

Remuneration policy, being neutral and inclusive, is designed to motivate and retain the best employees and to make sure each and every employee is treated fairly. The bank's Remuneration and Nomination Committee (the 'Committee' or 'RemNom') within its remuneration oversight remit, is responsible for overseeing the implementation and operation of the bank's remuneration framework, satisfying itself that the remuneration framework is aligned with local law, rules or regulations, as well as with the risk appetite, business strategy culture and values, and long-term interests of the bank. The Committee also seeks to satisfy itself that the remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the bank. It ensures that the remuneration policy is consistent with and promotes sound and effective risk management.

The local group is committed to managing change while maintaining a regular dialogue with bodies representing staff, supporting managers, redeploying impacted colleagues when possible, proposing, where appropriate, adapted financial and supporting measures.

Policies and Risk Management

Global principles overlay all group policies and procedures, connecting the organisation's purpose, values, strategy and approach to risk management. They guide the local group in the decisions it takes and how it operates. The Risk management framework is underpinned by the group's values and governs the HSBC Group's overall approach to managing risk. In addition, a number of internal entity led controls are in place to ensure that risk management and corporate governance activities are carried out effectively across the bank. HSBC Bank Malta p.l.c. uses defined framework: the '4Cs' (Capacity, Capability, Conduct and Culture), and associated Employment practices and relations to manage employee matters. Two of the risks defined in HSBC Risk Taxonomy have been identified and considered as supporting the remediation of some of the social risks given their overarching coverage of people management guiding principles:

- Failure to comply with employment law and regulations. The risk of failing to comply with employment legislation, regulation or requirements throughout the employee journey, from hiring to leaving, which could result in local group being in breach of employment law by not treating employees in line with legislation and regulations. Following the policy will manage the risk of legal action, regulatory censure, reputational damage and financial loss.
- Failure to manage poor employee behaviours and employee concerns. The risk that concerns raised by employees or employees who demonstrate poor behaviours are not effectively managed. Where employee to employee behaviours are not in accordance with HSBC's values, code of conduct etc. or whereby employee concerns are not appropriately managed.

In the context of the 2022 analysis of the most material ESG-related risks impacting the local group, two risks involving human capital have been identified:

- Risk of failure to recruit and retain talent – In a rapidly changing banking industry (digitalisation, regulatory developments, changes in the macroeconomic environment etc.), HSBC aims to accompany the shift in occupations by attracting, recruiting and integrating the best talent. Against a backdrop of global competition, organisations are predominantly focused on talent risks relating to capability and capacity. Capability and capacity-related talent risks include: a lack of depth of internal candidates for critical roles, an insufficient pipeline of future leaders, difficulties in retaining key people and in recruiting top talent, a failure to develop the skills and capabilities required by the business in the near future, a lack of compelling development opportunities for top talent.
- Risk of deterioration in the quality of life at work and psychosocial risks. Psycho-social risks are created by a poor working environment inadequate working conditions, insufficient human resources or inadequate managerial practices, leading to absenteeism. Work-related stress has the potential to negatively affect an individual's psychological and physical health, as well as an organisation's effectiveness. Mental health problems and other stress-related disorders are recognised to be among the leading

causes of early retirement from work, high absence rates, overall health impairment and low organizational productivity.

The Functional Instruction Manual, which describes the employment practices and employee relations policy set in Human Resources procedure guideline, ensures that the local group effectively manages cases where employees demonstrate poor behaviours towards each other (Personal Conduct cases). Personal Conduct Cases are taken into account in the performance review for HSBC Bank Malta p.l.c.'s employees.

Compliance is required with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which the local group operates. A global anti-bribery and corruption policy exists, which requires compliance with the spirit of laws and regulations to demonstrate commitment to ethical behaviours and conduct as part of environmental, social and corporate governance.

The controls below are operated to ensure compliance with labour laws and regulations and anti-discrimination rules. The Policy applies to all Businesses, Functions, Digital Business Services ('DBS'). The minimum control requirements set out in the policy and detailed in the Operational Risk Control Library specifically relate to the HR Function. However, all HSBC employees and other worker groups have responsibility to adhere to and enforce this policy.

The following Human Resources owned entity level controls ('ELCs') are used to support the local group's internal control environment as per the Risk Management Framework and may reflect control activities, which if not managed could impact the conduct outcomes linked to customers and markets. See below for some of the controls in place:

- Employment practices and relations: complying with employment laws, regulations and commitments to workforce;
- Conduct: managing poor behaviours and employee concerns;
- Permissions to work: completeness of work permission records;
- Employment law and regulatory developments: implementation of legislative or regulatory changes;
- External reporting submissions: quality checks on external reporting submissions;
- Employee representative bodies: inventory of agreements and authority to create binding agreements;
- Material risk taker remuneration: completeness of MRT population and accuracy of remuneration delivered;
- Working hours and overtime: completeness and accuracy of working hours and overtime records;
- Employee concerns and complaints handling procedure: annual review to confirm it remains valid and authorisation of changes;
- Employee investigations: closure accuracy and completeness checks; and
- Performance and reward sanctions: accurate capture of performance and reward adjustments aligned to the conduct and consequence management guidelines.

There is low risk appetite with regards to regulatory requirements.

Customer matters

Strategy and business processes

The conduct approach helps to focus on the impact HSBC Bank Malta p.l.c. has on its customers and financial markets. It focuses on five clear outcomes:

- understanding customers' needs,
- providing products and services that offer a fair exchange of value,
- serving customers' ongoing needs, and putting things right in case of mistake,
- acting with integrity in the local financial markets HSBC Bank Malta p.l.c. operates in,
- operating with resilience and security to avoid harm to customers and markets.

The conduct approach is embedded into the way the local group develops, distributes, structures and delivers products and services. The approach to product design and development – including how products are advertised – is set out in HSBC Bank Malta p.l.c. policies and provides a clear basis from which strategic product and service decisions can be made. Global businesses each take the following approach:

- carrying out robust testing during the design and development of a product to help ensure there is an identifiable need in the market;
- considering the complexity of products and the possible financial risks to customers when determining the target market;
- offering a carefully selected range of products that are managed through product inventories, helping to ensure they continue to meet customers' needs and continue to deliver a fair exchange of value;
- disconnecting variable pay of Relationship Managers from the volume of customers' sales;
- regularly reviewing products to help ensure they remain relevant and perform in line with expectations set;
- where products do not meet customers' needs or no longer meet high standards, improvements are made or they are withdrawn from sale;
- wherever possible, acting on feedback from customers to provide better and more accessible products and services; and
- considering impact on the integrity of markets when introducing new products.

The strategy to support customers with enhanced care needs continues to be a core focus. Guidelines and procedures have been developed to ensure that the right outcomes are provided for customers who may require enhanced care. A number of improvements have been made to products, services, governance and oversight, as well as development of employees' skills and capabilities. To support this approach, post-sale controls and calls are performed with a sample of customers to ensure that needs have been fairly identified and supported.

Governance

Oversight of product design and sales is provided by governance committees chaired and attended by senior executives who are accountable for ensuring that risks are managed appropriately, and within appetite, to ensure fair customer outcomes. HSBC Malta businesses continue to focus on the development of HSBC's ESG product suite across all asset classes, ensuring that the position as an innovator of ESG products is maintained, and remain committed to helping mitigate against greenwashing risks.

Policies and risk management

Customers' interests are at the heart of the local group's business, and policies and procedures are in place that set the standards required to protect them. These include:

- providing information on products and services that is clear, fair and not misleading;
- enabling customers to understand the key features, the risks, exclusions and limitations for all products and services including ESG-related products;
- enabling customers to make informed decisions before purchasing a product or service; and
- checking that customers are offered appropriate products and, where relevant, receive the right advice.

For example, in WPB, customers' financial needs and personal circumstances are considered to offer suitable product recommendations. This is achieved through measures such as:

- a globally consistent risk rating methodology for investment products, which is customised for local regulatory requirements; and

- a thorough customer risk profiling methodology to assess customers' financial objectives, attitudes towards risk, financial ability to bear investment risk, and knowledge and experience.

In addition, sales quality and mystery shopping reviews assess whether customers receive a fair outcome.

In CMB, focused sales outcome testing is operated to ensure that product features and pricing are correctly explained.

The net promoter score ('NPS') system is used to provide a consistent measure of the performance. NPS is measured by subtracting the percentage of Detractors from the percentage of Promoters. Customer feedback is managed when things go wrong and actions against key customer complaints are reported.

Tracking, recording and complaints management aim to be open and consistent. A consistent set of principles enables HSBC Bank Malta p.l.c. to remain customer focused throughout the complaints process. As an example, HSBC Bank Malta p.l.c. has adapted quickly to support customers facing new challenges and new ways of working. In addition, studies are run that allow HSBC Bank Malta p.l.c. to benchmark the performance on customer satisfaction against other banks.

Community and society

The Group has a long-standing commitment to support the communities in which it operates through charitable partnerships and volunteering opportunities. The HSBC Group aims to provide people with the skills and knowledge needed to thrive in the post pandemic environment, and through the transition to a sustainable future.

Through the HSBC Malta Foundation, the bank seeks to work with numerous stakeholders in the community with the aim of creating a sustainable future. Every year, the HSBC Malta Foundation earmarks part of its funding for causes that are important to our community. In 2023, the HSBC Malta Foundation continued to support a number of projects including the Prince's Trust International Achieve Programme, the JAYE (Young Enterprise) Malta Foundation, The Malta Chamber of Commerce, the Malta Community Chest Fund Foundation and Fondazzjoni Patrimonju Malti amongst others.

The HSBC Malta Foundation continued to work with ĠEMMA Know, Plan, Act within the Ministry for Social Justice and Solidarity, The Family and Children's Rights to deliver financial literacy sessions to various audiences including SME's and people living in the community with mental health issues. The sessions focus on helping the various audiences to learn how to make good financial and lifestyle choices. The HSBC Malta Foundation has a long track record of supporting ĠEMMA and its financial literacy initiatives. This is part of our commitment to helping young people acquire the skills they need to live a fulfilling and successful life.

Currently the HSBC Malta Foundation is sponsoring two major transformative projects in line with its strategic priorities. The first project is linked to Future Skills which is aimed at looking into the skills required in the future of work. This three-year research project aims to identify the skills needed for the future of work in Malta and to embed these skills in the national curriculum. The second project is linked with our climate ambition and net zero strategy. The objective of the project is to establish the requirements and guidelines for a net zero carbon commercial buildings in the Maltese context.

Qualitative information on Governance risk

The information in this section describes the governance in place relating to HSBC Bank Malta p.l.c.'s counterparties, as opposed to its own internal governance. To this end, the local group includes disclosure relating to two things, covering governance and risk management. Firstly, the way that local group manages reputational risk and secondly financial crime risk.

Reputational risk

The Group Reputational Risk Committee oversees global executive support for identification, management and ongoing monitoring of reputational risks, including those related to ESG matters. The responsibility is held by the Group Chief Risk and Compliance Officer.

The Sustainability Risk Oversight Forum, made up of senior members of the Global Risk and Compliance function and global businesses, continued to oversee the development and implementation of policies that identify, manage and mitigate the Group's sustainability risk, including an assurance framework. This framework has been designed to take a more holistic view of the ESG risks faced in HSBC sustainability risk policies, including:

- monitoring ESG news across the sustainability risk policies;
- overseeing clients considered to be of higher risk or under exit;
- reviewing client files across the sustainability risk policies; and
- setting and reporting against a defined set of key control indicators aligned to HSBC's risk appetite.

The framework is used to monitor the in-scope portfolio and keep track if there is any deterioration in the risk ratings. With the respective risk rating assigned, sustainability risk specialists will take the necessary actions to mitigate unacceptable risks. If necessary, client relationship can be proactively ended.

At HSBC Bank Malta level, Reputational Risk & Client Selection Committees ('RRCSC') are regular committees, established to provide recommendations and advice on clients and non-clients (e.g. third parties) with a focus on wider reputational risks for both Commercial Banking ('CMB') and Retail and Wealth. Cases with significant impact are escalated to the regional/Global equivalent of this committees as required.

Within the Global Risk and Compliance function, reputational and sustainability risk specialists are responsible for reviewing, implementing and managing sustainability risk policies. Local risk managers continued to be supported by regional reputational risk managers across the Group who have taken on additional oversight responsibilities for sustainability risk.

Financial crime risk

Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. HSBC Bank Malta p.l.c. aligns to the Group and have a financial crime risk management framework that is applicable across all global businesses. The financial crime risk framework, which is overseen by the Group Board, is supported by financial crime policies that are designed to enable adherence to applicable laws and regulations.

Annual mandatory training is provided to all employees, with additional targeted training tailored to certain individuals. Regular risk assessments are carried out, to identify where a response is needed to evolving financial crime threats, as well as monitoring and testing the financial crime risk management programme.

The HSBC Group global anti-bribery and corruption policy requires that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority. The global anti-bribery and corruption policy requires that the risk of customers and third parties committing bribery or corruption is identified and mitigated. Among other controls, the customer due diligence and transaction monitoring is used to identify and help mitigate the risk that the customers are involved in bribery or corruption. Anti-bribery and corruption risk assessments are performed third parties that expose HSBC to this risk.

Scope of ESG reporting

The information reported in below tables relates to the principal operating entities within HSBC Bank Malta p.l.c.'s prudential scope of consolidation at 30 June 2023. The subsidiary engaged in insurance activities is excluded from the prudential consolidation. Within this scope, due to operational limitations, the bank entity has been selected on the basis of it's relative exposure to achieve overall material disclosure coverage at local group level. Consequently, the exposures of HSBC Bank Malta p.l.c.'s asset management subsidiary is not included in the tables below. These tables provide information on non-trading book exposures; assets held for trading are excluded.

Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity

In accordance with Article 449a of CRR, HSBC Bank Malta p.l.c. has disclosed those exposures which are more exposed to risks from the transition to a low-carbon and climate resilient economy as specified in Recital 6 of the Commission Delegated Regulation (EU) 2020/1818; and a subtotal for exposures to 'other sectors' not mentioned therein.

The table sets out information on HSBC Bank Malta p.l.c. exposures to non-financial corporates operating in carbon-related sectors, and the quality of those exposures, including non-performing status, stage 2 classification, and related provisions, as well as maturity buckets. Counterparty NACE sector allocation is based on the nature of the immediate counterparty.

Identification of companies excluded from Paris aligned benchmark

HSBC Bank Malta p.l.c. is required to report the gross carrying amount of exposures to counterparties that are excluded from the EU Paris-aligned Benchmarks as specified in Article 12.1, points (d) to (g), and Article 12.2 of Commission Delegated Regulation (EU) 2020/1818.

Counterparties are excluded based upon the criteria listed in Articles 12.1 and 12.2 of the Climate Benchmark Standards Regulation. The relevant articles and approach are set out below:

Approach to article 12.1

#12.1 Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:

(a) – (c) companies involved in any activities related to controversial weapons; companies involved in the cultivation and production of tobacco; companies that benchmark administrators find in violation of the United Nations Global Compact ('UNGC') principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;

(d) companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;

(e) companies that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;

(f) companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and

(g) companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.

To identify companies under criteria (d) to (f), an external data source, Urgewald, has been used. Urgewald is a non-profit environmental and human rights organisation, which tracks and reports on corporates engaging in Coal and Oil & Gas. Counterparties have been reported against the two following lists: Global Coal Exit List ('GCEL'); Global Oil & Gas Exit List ('GOGEL').

A two-step approach has been used to identify companies under criterion (g): i) a sector analysis to identify companies allocated to the electricity generation sector based on NACE code, and; ii) companies which declare their activities as fully renewable were removed from the list (based on publicly available third-party data). The remaining population is reported in the relevant column of the table.

Approach to article 12.2

#12.2 Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council (8), in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.

HSBC Bank Malta p.l.c. has not applied this in its interim 2023 reporting as counterparty alignment data under EU Taxonomy Regulation 2020/852.

Determination of clients excluded from with the EU Paris-Benchmark is done on a best-efforts basis either based on available third-party data or relevant sector classification. The coverage of available information on counterparty exposures is expected to improve over time and could result in further counterparties being identified as excluded.

Identification of environmentally sustainable exposures (CCM)

In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Bank Malta p.l.c. is only expected to disclose information from 31 December 2023.

GHG financed emissions

The disclosure requirement for information on GHG financed emissions is voluntary in the first year of reporting. HSBC Bank Malta p.l.c. does not currently disclose GHG financed emissions split by sector. HSBC Bank Malta p.l.c.'s plans to implement methodologies to disclose financed emissions will evolve; regular reassessment of methodology and data is needed to take account of new and upcoming regulatory requirements and climate science.

The Group announced in October 2020 its ambition to become a net zero bank, including an aim to align its financed emissions to net zero by 2050 or sooner. In May 2021, shareholders approved a climate change resolution at the Annual General Meeting ('AGM') that commits to set, disclose and implement a strategy with short- and medium-term targets to align provision of finance with the goals and timelines of the Paris Agreement.

The analysis of financed emissions considers on-balance sheet financing, including project finance and direct lending.

Financed emissions link the financing provided to customers with their activities in the real economy to help provide an indication of the greenhouse gas emissions associated with those activities. They form part of the HSBC Group's scope 3 emissions, which include emissions associated with the use of a company's products and services.

The HSBC Group is using the Net Zero Emissions ('NZE') by 2050 scenario provided by the International Energy Agency ('IEA') as a single-scenario reference benchmark to assess its financed emissions. It provides with industry specific emissions projections from which HSBC constructs benchmark pathways. This benchmark helps the HSBC Group set targets that align the provision and facilitation of finance with the goals and timelines of the Paris Agreement at a portfolio level globally.

The HSBC Group have set interim 2030 targets for on-balance sheet financed emissions for eight sectors. These include six sectors for which HSBC Group have reported 2019 and 2020 emissions: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. The HSBC Group focused its analysis on the sectors that are most material in terms of emissions, and those where HSBC believes engagement and climate action have the greatest potential to effect change.

HSBC Bank Malta p.l.c.'s total exposure to non-financial corporates stands at €797 million at 30th June 2023 compared to €730 at 31 December 2022.

The exposure towards companies excluded from Paris-aligned Benchmarks stands at €90 million compared to €40 million at 31 December 2022 and is mainly driven by the inclusion of additional counterparty exposure due to evolving methodologies and data quality.

Table 28: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1)

		Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	30 Jun 2023		*of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which stage 2 exposures*	*of which non-performing exposures*		*of which Stage 2 exposures*	*of which non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/Subsector	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	years
1	**Exposures towards sectors that highly contribute to climate change***	552,260	115,752	89,857	45,829	(18,095)	(5,086)	(10,211)	419,521	66,300	66,439	—	3.3
2	**A – Agriculture, forestry and fishing**	320	—	123	168	(38)	(2)	(36)	320	—	—	—	0.3
3	**B – Mining and quarrying**	39,265	39,265	—	—	—	—	—	39,265	—	—	—	0.1
4	B.05 – Mining of coal and lignite	—	—	—	—	—	—	—	—	—	—	—	—
5	B.06 – Extraction of crude petroleum and natural gas	39,265	39,265	—	—	—	—	—	39,265	—	—	—	0.1
6	B.07 – Mining of metal ores	—	—	—	—	—	—	—	—	—	—	—	—
7	B.08 – Other mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—
8	B.09 – Mining support service activities	—	—	—	—	—	—	—	—	—	—	—	—
9	**C – Manufacturing**	66,150	—	8,066	3,533	(1,145)	(231)	(465)	58,110	806	7,234	—	2.9
10	C.10 – Manufacture of food products	8,868	—	4,182	—	(78)	(26)	—	6,180	121	2,567	—	4.7
11	C.11 – Manufacture of beverages	9,557	—	2,047	—	(121)	(102)	—	9,557	—	—	—	1.5
12	C.12 – Manufacture of tobacco products	—	—	—	—	—	—	—	—	—	—	—	—
13	C.13 – Manufacture of textiles	8,013	—	—	—	(20)	—	—	8,013	—	—	—	4.0
14	C.14 – Manufacture of wearing apparel	3	—	—	—	—	—	—	3	—	—	—	—
15	C.15 – Manufacture of leather and related products	—	—	—	—	—	—	—	—	—	—	—	—
16	C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	12	—	—	—	—	—	—	12	—	—	—	—
17	C.17 – Manufacture of pulp, paper and paperboard	467	—	384	38	(11)	(4)	(6)	467	—	—	—	0.5
18	C.18 – Printing and service activities related to printing	1,947	—	1,240	—	(96)	(90)	—	1,947	—	—	—	1.4

Table 28: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

	30 Jun 2023	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	*of which stage 2 expo-sures*	*of which non-perfor-ming expo-sures*		*of which Stage 2 expo-sures*	*of which non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/Subsector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
19	C.19 – Manufacture of coke oven products	—	—	—	—	—	—	—	—	—	—	—	—
20	C.20 – Production of chemicals	1,130	—	—	—	(8)	—	—	1,130	—	—	—	1.7
21	C.21 – Manufacture of pharmaceutical preparations	2	—	*1*	—	(1)	*(1)*	—	2	—	—	—	—
22	C.22 – Manufacture of rubber products	1,287	—	—	—	(9)	—	—	1,287	—	—	—	0.1
23	C.23 – Manufacture of other non-metallic mineral products	20,569	—	—	—	(248)	—	—	17,436	189	2,944	—	3.7
24	C.24 – Manufacture of basic metals	10,401	—	—	*3,086*	(471)	—	*(414)*	9,905	496	—	—	0.6
25	C.25 – Manufacture of fabricated metal products, except machinery and equipment	49	—	*12*	—	(5)	*(4)*	—	49	—	—	—	1.4
26	C.26 – Manufacture of computer, electronic and optical products	1	—	—	—	—	—	—	1	—	—	—	—
27	C.27 – Manufacture of electrical equipment	364	—	—	—	(2)	—	—	364	—	—	—	0.2
28	C.28 – Manufacture of machinery and equipment n.e.c.	—	—	—	—	—	—	—	—	—	—	—	—
29	C.29 – Manufacture of motor vehicles, trailers and semi-	—	—	—	—	—	—	—	—	—	—	—	—
30	C.30 – Manufacture of other transport equipment	—		—	—	—	—	—	—	—	—	—	—
31	C.31 – Manufacture of furniture	1,723	—	*59*	*258*	(63)	*(1)*	*(45)*	—	—	1,723	—	9.2
32	C.32 – Other manufacturing	1,443	—	*141*	—	(11)	*(3)*	—	1,443	—	—	—	0.1
33	C.33 – Repair and installation of machinery and equipment	314	—	—	*151*	(1)	—	—	314	—	—	—	0.2
34	**D – Electricity, gas, steam and air conditioning supply**	79,282	*76,487*	*1,970*	—	(368)	*(133)*	—	35,654	584	43,044	—	6.3
35	D35.1 – Electric power generation, transmission and distribution	76,487	*76,487*	—	—	(221)	—	—	33,443	—	43,044	—	6.4
36	D35.11 – Production of electricity	—	—	—	—	—	—	—	—	—	—	—	—

Table 28: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

	30 Jun 2023	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	*of which stage 2 exposures*	*of which non-performing exposures*		*of which Stage 2 exposures*	*of which non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/Subsector	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	years
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	2,795	—	*1,970*	—	(147)	*(133)*	—	2,211	584	—	—	2.9
38	D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	—
39	**E – Water supply; sewerage, waste management and remediation activities**	18,307	—	*414*	—	(9)	*(4)*	—	18,307	—	—	—	3.0
40	**F – Construction**	23,870	—	*2,738*	*2,179*	(2,034)	*(86)*	*(1,768)*	20,314	46	3,510	—	2.8
41	F.41 – Construction of buildings	6,636	—	*477*	*647*	(716)	*(15)*	*(626)*	3,211	31	3,394	—	7.5
42	F.42 – Civil	9,563	—	*1,831*	*276*	(252)	*(43)*	*(162)*	9,535	—	28	—	1.2
43	F.43 – Specialised construction activities	7,671	—	*430*	*1,256*	(1,066)	*(28)*	*(980)*	7,568	15	88	—	0.8
44	**G – Wholesale and retail trade; repair of motor vehicles and motorcycles**	157,113	—	*35,000*	*7,361*	(7,253)	*(2,781)*	*(3,756)*	149,671	4,254	3,188	—	0.8
45	**H – Transportation and storage**	6,091	—	*2,375*	*5*	(95)	*(62)*	*(5)*	6,076	—	15	—	0.9
46	H.49 – Land transport and transport via pipelines	519	—	*12*	—	(6)	*(3)*	—	519	—	—	—	1.5
47	H.50 – Water	8	—	—	—	—	—	—	8	—	—	—	—
48	H.51 – Air transport	10	—	*3*	—	—	—	—	10	—	—	—	—
49	H.52 – Warehousing and support activities for transportation	5,554	—	*2,360*	*5*	(89)	*(59)*	*(5)*	5,539	—	15	—	0.8
50	H.53 – Postal and courier activities	—	—	—	—	—	—	—	—	—	—	—	—
51	**I – Accommodation and food service activities**	67,078	—	*33,648*	*20,987*	(4,568)	*(1,203)*	*(3,089)*	59,555	6,402	1,121	—	3.1
52	**L – Real estate activities**	94,784	—	*5,523*	*11,596*	(2,585)	*(584)*	*(1,092)*	32,249	54,208	8,327	—	5.7
53	**Exposures towards sectors other than those that highly contribute to climate change**[1]	244,323		*67,601*	*12,368*	(7,153)	*(3,481)*	*(2,358)*	194,323	44,500	5,500		3.6
54	**K – Financial and insurance activities**	51,558	—	*26,641*	*5,933*	(1,620)	*(827)*	*(489)*	44,568	3,970	3,020	—	3.1
55	**Exposures to other sectors (NACE codes J, M-U)**	192,765	—	*40,960*	*6,435*	(5,533)	*(2,654)*	*(1,869)*	149,755	40,530	2,480	—	3.7
56	**TOTAL**	796,583	*115,752*	*157,458*	*58,197*	(25,248)	*(8,567)*	*(12,569)*	613,844	110,800	71,939	—	3.2

1 *In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks – Climate Benchmark Standards Regulation – Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.*

Table 28: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

	31 Dec 2022	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	*of which stage 2 expo-sures*	*of which non-perfor-ming expo-sures*		*of which Stage 2 expo-sures*	*of which non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/Subsector	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	years
1	Exposures towards sectors that highly contribute to climate change*	554,842	*84,875*	*95,710*	*48,262*	(16,859)	*(4,915)*	*(9,459)*	393,521	85,042	76,279	—	3.5
2	A – Agriculture, forestry and fishing	319	—	*131*	*137*	(9)	*(2)*	*(6)*	319	—	—	—	0.4
3	B – Mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—
4	B.05 – Mining of coal and lignite	—	—	—	—	—	—	—	—	—	—	—	—
5	B.06 – Extraction of crude petroleum and natural gas	—	—	—	—	—	—	—	—	—	—	—	—
6	B.07 – Mining of metal ores	—	—	—	—	—	—	—	—	—	—	—	—
7	B.08 – Other mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—
8	B.09 – Mining support service activities	—	—	—	—	—	—	—	—	—	—	—	—
9	C – Manufacturing	62,378	—	*8,258*	*3,628*	(1,180)	*(314)*	*(504)*	55,028	1,258	6,092	—	3.1
10	C.10 – Manufacture of food products	6,717	—	*3,582*	—	(95)	*(54)*	—	4,436	188	2,093	—	4.7
11	C.11 – Manufacture of beverages	7,180	—	*2,409*	—	(157)	*(132)*	—	7,180	—	—	—	2.8
12	C.12 – Manufacture of tobacco products	—	—	—	—	—	—	—	—	—	—	—	—
13	C.13 – Manufacture of textiles	9,014	—	—	—	(22)	—	—	9,014	—	—	—	4.5
14	C.14 – Manufacture of wearing apparel	2	—	—	—	—	—	—	2	—	—	—	—
15	C.15 – Manufacture of leather and related products	—	—	—	—	—	—	—	—	—	—	—	—
16	C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	65	—	*10*	—	—	—	—	65	—	—	—	—
17	C.17 – Manufacture of pulp, paper and paperboard	614	—	*317*	*37*	(14)	*(7)*	*(6)*	614	—	—	—	0.6
18	C.18 – Printing and service activities related to printing	2,331	—	*1,429*	—	(109)	*(106)*	—	2,331	—	—	—	1.6
19	C.19 – Manufacture of coke oven products	—	—	—	—	—	—	—	—	—	—	—	—
20	C.20 – Production of chemicals	1,372	—	—	—	(9)	—	—	1,372	—	—	—	2.1
21	C.21 – Manufacture of pharmaceutical preparations	—	—	—	—	—	—	—	—	—	—	—	—

Table 28: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022		*of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which stage 2 exposures*	*of which non-performing exposures*		*of which Stage 2 exposures*	*of which non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/Subsector	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	years
22	C.22 – Manufacture of rubber products	2,253	—	—	—	(6)	—	—	2,253	—	—	—	0.6
23	C.23 – Manufacture of other non-metallic mineral products	16,727	—	—	—	(180)	—	—	14,391	200	2,136	—	3.4
24	C.24 – Manufacture of basic metals	11,031	—	*201*	*3,109*	(465)	*(3)*	*(412)*	10,161	870	—	—	0.7
25	C.25 – Manufacture of fabricated metal products, except machinery and equipment	63	—	*11*	—	(4)	*(3)*	—	63	—	—	—	1.8
26	C.26 – Manufacture of computer, electronic and optical products	—	—	—	—	—	—	—	—	—	—	—	—
27	C.27 – Manufacture of electrical equipment	101	—	—	—	(1)	—	—	101	—	—	—	1.5
28	C.28 – Manufacture of machinery and equipment n.e.c.	—	—	—	—	—	—	—	—	—	—	—	—
29	C.29 – Manufacture of motor vehicles, trailers and semi-trailers	—	—	—	—	—	—	—	—	—	—	—	—
30	C.30 – Manufacture of other transport equipment	48	—	—	*48*	—	—	—	48	—	—	—	—
31	C.31 – Manufacture of furniture	3,453	—	*88*	*275*	(94)	*(2)*	*(74)*	1,590	—	1,863	—	7.3
32	C.32 – Other manufacturing	1,014	—	*209*	—	(11)	*(7)*	—	1,014	—	—	—	0.2
33	C.33 – Repair and installation of machinery and equipment	393	—	*2*	*159*	(13)	—	*(12)*	393	—	—	—	0.6
34	D – Electricity, gas, steam and air conditioning supply	87,526	*84,875*	*2,058*	—	(336)	*(132)*	—	44,371	—	43,155	—	6.0
35	D35.1 – Electric power generation, transmission and distribution	84,875	*84,875*	—	—	(202)	—	—	41,720	—	43,155	—	0.9
36	D35.11 – Production of electricity	—	—	—	—	—	—	—	—	—	—	—	—
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	2,651	—	*2,058*	—	(134)	*(132)*	—	2,651	—	—	—	10.2
38	D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	—
39	E – Water supply; sewerage, waste management and remediation activities	24,069	—	*217*	—	(6)	*(1)*	—	24,069	—	—	—	2.8
40	F – Construction	22,434	—	*1,720*	*2,279*	(1,909)	*(63)*	*(1,669)*	18,787	50	3,597	—	3.4

Table 28: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

	31 Dec 2022	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	*of which stage 2 expo-sures*	*of which non-perfor-ming expo-sures*		*of which Stage 2 expo-sures*	*of which non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/Subsector	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	years
41	F.41 – Construction of buildings	6,591	—	*449*	*726*	(696)	*(6)*	*(632)*	3,079	33	3,479	—	8.0
42	F.42 – Civil	9,915	—	*64*	*261*	(220)	—	*(143)*	9,888	—	27	—	1.6
43	F.43 – Specialised construction activities	5,928	—	*1,207*	*1,292*	(993)	*(57)*	*(894)*	5,820	17	91	—	1.4
44	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	183,360	—	*36,672*	*8,684*	(4,699)	*(816)*	*(3,263)*	168,218	7,259	7,883	—	1.3
45	H – Transportation and storage	5,827	—	*570*	*8*	(51)	*(22)*	*(8)*	5,792	—	35	—	1.4
46	H.49 – Land transport and transport via pipelines	591	—	*29*	—	(7)	*(2)*	—	591	—	—	—	1.8
47	H.50 – Water transport	5	—	—	—	—	—	—	5	—	—	—	—
48	H.51 – Air transport	5	—	—	—	—	—	—	5	—	—	—	—
49	H.52 – Warehousing and support activities for transportation	5,226	—	*541*	*8*	(44)	*(20)*	*(8)*	5,191	—	35	—	1.3
50	H.53 – Postal and courier activities	—	—	—	—	—	—	—	—	—	—	—	—
51	I – Accommodation and food service activities	80,437	—	*41,019*	*21,845*	(6,652)	*(3,209)*	*(3,094)*	51,047	28,224	1,166	—	3.9
52	L – Real estate activities	88,492	—	*5,065*	*11,681*	(2,017)	*(356)*	*(915)*	25,890	48,251	14,351	—	6.0
53	Exposures towards sectors other than those that highly contribute to climate change*	175,351		*44,740*	*7,065*	(6,022)	*(3,290)*	*(1,962)*	132,026	40,457	2,868	—	3.7
54	K – Financial and insurance activities	—	—	—	—	—	—	—	—	—	—	—	—
55	Exposures to other sectors (NACE codes J, M - U)	175,351		*44,740*	*7,065*	(6,022)	*(3,290)*	*(1,962)*	132,026	40,457	2,868	—	3.7
56	TOTAL	730,193	*84,875*	*140,450*	*55,327*	(22,881)	*(8,205)*	*(11,421)*	525,547	125,499	79,147	—	3.6

Banking book – climate change transition risk: loans collateralised by immovable property – energy efficiency of collateral

This table presents the gross carrying amount[1] of loans collateralized with commercial and residential immovable property and of repossessed real estate collateral. The table also includes information on the level of energy efficiency of the underlying collateral measured in kWh/m² energy consumption and in terms of the label of the energy performance certificates ('EPC')[2] – where a mapping to the EU EPC label exists. In the absence of an EPC label, the energy consumption is estimated. This estimation methodology is set out below.

In Malta, 88% of exposures on loans collateralised by property are related to residential property while 12% of them are related to commercial property. The share of repossessed collaterals is non-significant.

As from Q4 2022, EPCs are being requested from customers on new residential mortgages to enable reporting of the level of energy. EPCs collected account for less than 2% of total exposure on loans collateralised by property. The collected EPCs only show the level of energy and do not include a label. In order to keep a conservative approach, it has been decided to break down the relative exposures in row 5 allowing estimations.

The level of energy has been estimated based on a mapping of property types with government statistics. In this context, the information published in the paper 'Long Term Renovation Strategy 2050', issued by Maltese Ministry for the environment-climate change and planning has been leveraged. The average level of energy consumption has been computed for each type of commercial asset (offices, education, restaurants, etc) to map and allocate them to the appropriate bucket of level of energy consumption:

1 *As defined in Part 1 of Annex V of Commission Implementing Regulation (EU) 2021/451.*

2 *As defined in Article 2(12) of 2010/31/EU for EU countries, or in the relevant regulation for those exposures outside the EU. Energy Performance of Buildings Directive 2010/31/EU10 ('EPBD') and the Energy Efficiency Directive 2012/27/EU promote policies that aim to achieve a highly energy efficient and decarbonised building stock by 2050. The EPBD introduced energy performance certificates ('EPC') as instruments for improving the energy performance of buildings.*

The methodology used for determining energy efficiency is primarily based on estimations and is mainly dependent on external sources (Malta Government Statistics). This approach has limitations, as the existing Maltese energy efficiency statistics are based on a reporting date of 2019 and energy levels may have changed subsequently, for example where refurbishments have been made.

The EBA periodically releases Q&As which clarify the requirements of the regulation. An ongoing review of this additional guidance is undertaken to ensure compliance. As a result of this, the presentation of some columns in the table have been amended. Specifically, the column 'Without EPC label of collateral' now presents the exposure rather than percentage of exposures without EPC label, and the column 'Of which level of energy efficiency estimated' presents the percentage, rather than amount, of exposures without EPC label where the energy level has been estimated. This change in presentation has been reflected in the prior period table.

HSBC Bank Malta p.l.c. aims to continue to engage with customers for the information needed and seeks to refine its methodology to align with the requirements.

Table 29: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2)

		Total gross carrying amount						
			Level of energy efficiency (EP score in kWh/m² of collateral)					
	30 Jun 2023		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500
	Counterparty sector	€000	€000	€000	€000	€000	€000	€000
1	**Total EU area**	2,513,511	45,715	2,201,720	3,156	11,122	381	251,417
2	*– of which: Loans collateralised by commercial immovable property*	*298,073*	*27,313*	*9,950*	—	*10,943*	—	*249,867*
3	*– of which: Loans collateralised by residential immovable property*	*2,212,108*	*17,924*	*2,190,468*	*3,156*	*179*	*381*	—
4	*– of which: Collateral obtained by taking possession: residential and commercial*	*3,330*	*478*	*1,302*	—	—	—	*1,550*
5	*– of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated**	*2,513,511*	*45,715*	*2,201,720*	*3,156*	*11,122*	*381*	*251,417*
6	**Total non-EU area**	—	—	—	—	—	—	—
7	*– of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—
8	*– of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—
9	*– of which: Collateral obtained by taking possession: residential and commercial*	—	—	—	—	—	—	—
10	*– of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—

Table 29: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2) (continued)

		Total gross carrying amount								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
	30 Jun 2023	**A**	**B**	**C**	**D**	**E**	**F**	**G**		***of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated***
	Counterparty sector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**%**
1	**Total EU area**	—	—	—	—	—	—	—	2,513,511	100
2	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	*298,073*	100
3	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	*2,212,108*	100
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	*3,330*	100
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*[1]								*2,513,511*	100
6	**Total non-EU area**	—	—	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*								—	—

1 *Include the gross carrying amount of loans collateralised by residential property where an actual EPC was collected (without EPC label) which amounted to €42,910,000 (2022: €11,264,000).*

Table 29: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2) (continued)

		Total gross carrying amount						
			Level of energy efficiency (EP score in kWh/m² of collateral)					
	31 Dec 2022		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500
	Counterparty sector	€000	€000	€000	€000	€000	€000	€000
1	Total EU area	2,569,995	61,828	2,102,628	147,931	12,473	340	244,795
2	– *of which: Loans collateralised by commercial immovable property*	*332,157*	*57,294*	*18,800*	*525*	*12,293*	—	*243,245*
3	– *of which: Loans collateralised by residential immovable property*	*2,234,488*	*4,048*	*2,082,514*	*147,406*	*180*	*340*	—
4	– *of which: Collateral obtained by taking possession: residential and commercial*	*3,350*	*486*	*1,314*	—	—	—	*1,550*
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*[*]	*2,569,995*	*61,828*	*2,102,628*	*147,931*	*12,473*	*340*	*244,795*
6	Total non-EU area	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial*	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—

Table 29: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2) (continued)

		Total gross carrying amount								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
	31 Dec 2022	A	B	C	D	E	F	G		*of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated*
	Counterparty sector	€000	€000	€000	€000	€000	€000	€000	€000	%
1	Total EU area	—	—	—	—	—	—	—	2,569,995	100
2	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	*332,157*	100
3	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	*2,234,488*	100
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	*3,350*	100
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated**								*2,569,995*	100
6	Total non-EU area	—	—	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*								—	—

Banking book – Climate change transition risk: Exposures to top 20 carbon-intensive firms

This table provides information on exposures to the top 20 most carbon-intensive firms in the world by comparing the corporate counterparties of the operating entities in the loan book against a list of top 20 most carbon-intensive firms, compiled using data from reports of the Climate Accountability Institute ('CAI'). The disclosure seeks to include exposures to any company that belongs to the group of any of the top 20 emitters. The top 20 Carbon emitters have been identified using the CAI's Carbon Majors 2018 data set, specifically the 'TopTwenty CO2e 2018' table.

The gross carrying amount of exposure to the top 20 carbon emitting companies is given as a proportion of the total gross carrying amount of exposures in the banking book. The gross carrying amount includes loans and advances, debt securities and equity instruments, excluding financial assets held for trading and held for sale assets.

Following a review of the methodology adopted in identifying the top 20 carbon emitting companies, the primary data source has been amended for this disclosure from CDP (previously known as the Carbon Disclosure Project), used at year-ended 2022, to the Climate Accountability Institute ('CAI'). Due to the voluntary nature of the CDP data, the data available from the CAI is thought to be a more complete dataset. This has resulted in no impact in comparison with year-end 2022.

The methodology for determining exposures to the top 20 carbon emitting companies is expected to evolve as data availability, industry guidance and market practice changes over time. We will seek to be transparent in our disclosures about the methodologies applied, but results may not be comparable year on year.

Table 30: Banking book – climate change transition risk: Exposures to top 20 carbon-intensive firms (Template 4)

	Gross carrying amount €000 (aggregate)	Gross carrying amount to the counterparties compared to total gross carrying amount as % (aggregate)[1]	*of which: environmentally sustainable (CCM)*[2]	Weighted average maturity in years	Number of top 20 polluting firms included
30 Jun 2023	**39,265**	**0.8**	**—**	**0.1**	**1**

1 For counterparties among the top 20 carbon emitting companies in the world.
2 In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Bank Malta p.l.c. is only expected to disclose information from 31 December 2023.

Banking book – Climate change physical risk: Exposures subject to physical risk

Scope

This table provides information on exposures subject to climate change physical risk (chronic and acute risks) and includes a sectoral breakdown of gross exposures to non-financial corporations and by geography of location of the activity of the counterparty or of the collateral.

The exposures include loans and advances, debt securities and equity instruments other than those held for trading or for sale. In addition, loans secured by residential and commercial property and repossessed real estate, including exposures to both financial and non-financial counterparties, have been separately disclosed. Collateralised loans to non-financial counterparties are also included in the sectoral breakdown.

For those exposures identified as subject to climate change physical risk, the template provides further details on type of physical risk (acute, chronic or both), the quality of those exposures, including non-performing status, stage 2 classification, related provisions and relevant maturity buckets.Those exposures identified as subject to both acute and chronic physical risk are required to be reported only in the combined column, covering both types of climate-related hazards.

The counterparty sector classification disclosed in the template is aligned to the local group FINREP reporting.

Repossessed collateral is classified as held for sale under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations and as such is reported in the <=5 years maturity bucket with an average weighted maturity of one year since we expect it to be sold within 12 months.

Methodology

The data source to assess whether exposures are subject to climate change physical risk was based on an internal risk assessment of the geographical locations which are considered as having a higher climate-related risk. The climate-related risk assessment is primarily driven by an increase in sea level in Malta and the inclusion of high flood risk areas for June 2023 period end.

Data limitations

For Corporate loans, the disclosure is dependent on the availability of location information for one of the following three things: the collateral securing the loans (where relevant), the counterparties activities, or the head office. Where the location of collateral is not available or where loans are not secured by property, the location of both counterparty operations, as well as, head office was taken into consideration for assessment of physical risk. In addition, for retail loans, residential addresses were also considered.

Based on the available data, the geographical location of the collateral or activity of the counterparty or head office location was mapped at the most granular level where possible. For exposures in Malta, the physical risk impact data from the Think Hazard! database was overlaid with local risk assessment based on the location of buildings in these localities.

Availability and quality of data will evolve over time and may lead to differences in the data reported in future years.

Assumptions

In the absence of further guidance, the methodology adopted relies on a number of assumptions which may not be consistent with the approach adopted by other financial institutions and therefore lead to non-comparable results. These concern, for example, the following:

- The selection of acute and chronic risks;
- The inclusion of both climate and geophysical risks;
- The threshold for determining a location is subject to high physical risk.

In Article 18a of Commission Implementing Regulation (EU) 2021/637 on prudential disclosure of ESG risks in accordance with Article 449a CRR, physical risk is defined thus: 'As part of the overall environmental risk, the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of the physical effects of environmental factors on the institution's counterparties or invested assets'. Based on this, HSBC considers both climate and geophysical hazards as meeting the definition of physical risk. Climate hazards are weather-related, hydro-meteorological events including floods, wildfire, cyclone, landslide, water scarcity and extreme heat. The geophysical hazards considered – earthquakes, tsunamis and volcanoes – originate from within the Earth and are not much influenced by climate variables or human actions.

Acute and chronic risks have been defined in accordance with European Bank for Reconstruction and Development ('EBRD') guidance produced for the Task Force on Climate-Related Financial Disclosures ('TCFD') in 2018, resulting in the following categorisation:

(a) Acute risks (event-driven risks that last for a few days) – extreme weather events such as storms and cyclones, extreme rainfall and heatwaves;

(b) Chronic risks (those due to longer-term shifts in climate patterns) – variability in precipitation, temperature, water stress and sea-level rise.

Acute risks refer to events or specific episodes that have the potential to inflict significant physical damage. The following climate and geophysical hazards are assumed to be acute: floods, wildfire, cyclone, landslide, earthquake, tsunami and volcanos.

Chronic risks are those that carry a range of physical impacts of considerably longer duration than those posed by acute risks. They are best understood as processes, not events. The following climate hazards are assumed to be chronic: water scarcity (dry ground) and extreme heat from sustained long-term increase in air temperature.

An assessment to identify exposures which are sensitive to impact from climate change physical events was carried out on the following basis:

- An immediate 1m rise in sea level (Climate Change Post states a 1m rise in sea level for Malta by year 2100).
- Taking into consideration the locations (towns/ villages) in proximity and touching the island's low shoreline.
- Exposure to any location which has the higher % risk from the rise of sea level is sufficient to expose all assets in that location to High physical risk. This is a conservative but rational approach as, in most cases, any location which has higher risk would be expected to impact fully the value of a physical asset.

During 2023 we have taken additional factors namely Flood Risk in respect of high risk localities. Flooding in Malta occurs due to the surface water run-off flows along the roads constructed along the valley bed. There are areas that experience some problems as a result of the uncontrolled street surface water runoff.

Most areas are considered to be subject to 'normal risk', whilst some areas are considered to be subject to 'high risk' and are more prone to the probability of being submerged under water due to flash floods.

It is anticipated that HSBC's methodology will evolve over time to align with changes in market practice and regulation.

Table 31: Banking book-Climate change physical risk: Exposures subject to physical risk (Template 5)

		Gross carrying amount					
			of which exposures sensitive to impact from climate change physical events				
			Breakdown by maturity bucket				
	Variable: Geographical area subject to climate change physical risk – acute and chronic events		**<= 5 years**	**> 5 year <= 10 years**	**> 10 year <= 20 years**	**> 20 years**	**Average weighted maturity**
	30 Jun 2023	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
1	A – Agriculture, forestry and fishing	**320**	**19**	—	—	—	—
2	B – Mining and quarrying	**39,265**	—	—	—	—	—
3	C – Manufacturing	**66,150**	**19,501**	—	**6,003**	—	**5.2**
4	D – Electricity, gas, steam and air conditioning supply	**79,282**	**33,458**	—	**43,043**	—	**6.4**
5	E – Water supply; sewerage, waste management and remediation activities	**18,307**	—	—	—	—	—
6	F – Construction	**23,870**	**7,256**	—	—	—	**1.4**
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	**157,113**	**64,882**	**1,310**	**121**	—	**0.4**
8	H – Transportation and storage	**6,091**	**5,042**	—	**15**	—	**0.5**
9	L – Real estate activities	**94,784**	**2,043**	**489**	**511**	—	**4.2**
10	Loans collateralised by residential immovable property	**2,212,108**	**4,101**	**6,326**	**42,548**	**155,980**	**24.9**
11	Loans collateralised by commercial immovable property	**298,073**	**3,118**	**631**	**5,005**	—	**3.0**
12	Repossessed collaterals	**3,330**	**2,878**	—	—	—	**1.0**
13	**Other relevant sectors (breakdown below where relevant)**	**311,401**	**89,054**	**35,419**	**1,243**	—	**4.3**
14	I – Accommodation and food service activities	**67,078**	**4,858**	—	—	—	**2.0**
15	J – Information and communication	**29,068**	**28**	—	—	—	—
16	K – Financial and insurance activities	**51,558**	**8,894**	—	—	—	**3.1**
17	M – Professional scientific and technical activities	**125,899**	**66,179**	**35,419**	—	—	**4.8**
18	N – Administrative and support service activities	**15,880**	**8,481**	—	—	—	**3.1**
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—
20	P – Education	**3,550**	**296**	—	**1,243**	—	**9.0**
21	Q – Human health and social work	**16,653**	**11**	—	—	—	—
22	R – Arts entertainment and recreation	**142**	**67**	—	—	—	**0.2**
23	S – Other services activities	**1,573**	**240**	—	—	—	—

Table 31: Banking book – Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		Gross carrying amount							
		of which exposures sensitive to impact from climate change physical events							
							Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk - acute and chronic events	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
	30 Jun 2023	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	A – Agriculture, forestry and fishing	—	19	—	—	5	(6)	—	(5)
2	B – Mining and quarrying	—	—	—	—	—	—	—	—
3	C – Manufacturing	—	25,504	—	2,892	48	(304)	(120)	(6)
4	D – Electricity, gas, steam and air conditioning supply	—	76,501	—	—	—	(224)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	—	—	—	—	—	—	—	—
6	F – Construction	—	7,256	—	—	240	(188)	—	(136)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	—	66,313	—	18,930	899	(2,429)	(2,171)	(31)
8	H – Transportation and storage	—	5,057	—	2,360	—	(83)	(60)	—
9	L – Real estate activities	—	3,043	—	961	312	(168)	(22)	(102)
10	Loans collateralised by residential immovable property	—	208,955	—	10,372	7,280	(2,979)	(592)	(1,587)
11	Loans collateralised by commercial immovable property	—	8,754	—	9,958	639	(886)	(409)	(138)
12	Repossessed collaterals	—	2,878	—			(511)		
13	**Other relevant sectors (breakdown below where relevant)**	—	125,716	—	9,333	2,184	(1,841)	(407)	(732)
14	I – Accommodation and food service	—	4,858	—	410	64	(72)	(11)	—
15	J – Information and communication	—	28	—	—	—	—	—	—
16	K – Financial and insurance activities	—	8,894	—	5,208	496	(312)	(299)	—
17	M – Professional scientific and technical activities	—	101,598	—	2	9	(599)	(10)	(9)
18	N – Administrative and support service activities	—	8,481	—	3,696	8	(132)	(87)	(2)
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—	—	—
20	P – Education	—	1,539	—	—	1,539	(720)	—	(720)
21	Q – Human health and social work	—	11	—	11	—	—	—	—
22	R – Arts entertainment and recreation	—	67	—	—	67	—	—	—
23	S – Other services activities	—	240	—	6	1	(6)	—	(1)

Table 31: Banking book-Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	Variable: Geographical area subject to climate change physical risk – acute and chronic events	Gross carrying amount					
			of which exposures sensitive to impact from climate change physical events				
			Breakdown by maturity bucket				
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	31 Dec 2022	€000	€000	€000	€000	€000	years
1	A – Agriculture, forestry and fishing	319	—	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—
3	C – Manufacturing	62,378	8,616	412	1,529	—	4.2
4	D – Electricity, gas, steam and air conditioning supply	87,526	2,581	—	43,155	—	10.6
5	E – Water supply; sewerage, waste management and remediation activities	24,069	—	—	—	—	—
6	F – Construction	22,434	6,695	—	—	—	1.2
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	183,360	29,120	117	—	—	0.5
8	H – Transportation and storage	5,827	1,449	—	—	—	2.3
9	L – Real estate activities	88,492	794	693	188	—	4.6
10	Loans collateralised by residential immovable property	2,234,488	3,626	5,637	38,990	124,546	24.5
11	Loans collateralised by commercial immovable property	332,157	26,242	693	1,717	—	3.3
12	Repossessed collaterals	3,372	2,277	—	—	—	1.0
13	Other relevant sectors (breakdown below where relevant)	255,788	30,808	35,232	—	—	5.8
14	I – Accommodation and food service activities	80,437	4,093	—	—	—	2.3
15	J – Information and communication	27,867	—	—	—	—	—
16	K - Financial and insurance activities	—	—	—	—	—	—
17	M – Professional scientific and technical activities	108,964	19,660	35,232	—	—	6.4
18	N – Administrative and support service activities	14,070	6,998	—	—	—	2.6
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—
20	P – Education	3,819	7	—	—	—	—
21	Q – Human health and social work	18,140	10	—	—	—	2.5
22	R – Arts entertainment and recreation	292	—	—	—	—	—
23	S – Other services activities	2,199	40	—	—	—	1.4

Table 31: Banking book – Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		Gross carrying amount							
		of which exposures sensitive to impact from climate change physical events							
							Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk - acute and chronic events	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
	31 Dec 2022	€000	€000	€000	€000	€000	€000	€000	€000
1	A – Agriculture, forestry and fishing	—	—	—	—	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—	—	—
3	C – Manufacturing	—	*10,557*	—	*287*	—	(121)	*(11)*	—
4	D – Electricity, gas, steam and air conditioning supply	—	*45,736*	—	—	—	(196)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	—	—	—	—	—	—	—	—
6	F – Construction	—	*6,695*	—	—	*233*	(149)	—	*(118)*
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	—	*29,237*	—	*2,612*	*81*	(158)	*(27)*	*(18)*
8	H – Transportation and storage	—	*1,449*	—	—	—	(7)	—	—
9	L – Real estate activities	—	*1,675*	—	*891*	*188*	(51)	*(41)*	—
10	Loans collateralised by residential immovable property	—	*172,799*	—	*8,268*	*6,764*	(2,207)	*(401)*	*(1,265)*
11	Loans collateralised by commercial immovable property	—	*28,652*	—	*11,901*	*483*	(930)	*(645)*	*(118)*
12	Repossessed collaterals	—	*2,277*	—			(103)		
13	Other relevant sectors (breakdown below where relevant)	—	*66,040*	—	*5,439*	*15*	(368)	*(254)*	*(15)*
14	I – Accommodation and food service	—	*4,093*	—	*6*	—	(37)	—	—
15	J – Information and communication	—	—	—	—	—	—	—	—
16	K – Financial and insurance activities	—	—	—	—	—	—	—	—
17	M – Professional scientific and technical activities	—	*54,892*	—	*150*	*13*	(35)	*(3)*	*(13)*
18	N – Administrative and support service activities	—	*6,998*	—	*5,272*	—	(293)	*(250)*	—
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—	—	—
20	P – Education	—	*7*	—	*7*	—	—	—	—
21	Q – Human health and social work	—	*10*	—	—	—	—	—	—
22	R – Arts entertainment and recreation	—	—	—	—	—	—	—	—
23	S – Other services activities	—	*40*	—	*4*	*2*	(3)	*(1)*	*(2)*

Other climate change mitigating actions that are not covered in the EU Taxonomy

The table on the following page below reports other climate change mitigating actions that support counterparties in the transition and adaptation process for the objectives of climate change mitigation and adaptation. These mitigating actions include green bonds, sustainable bonds, sustainability-linked bonds, green loans and sustainability-linked loans, that are linked to aspects of climate change. The exposures reported in this table do not need to be aligned with the criteria laid out in the EU Taxonomy Regulation 2020/852 and would not be considered under the Green Asset Ratio ('GAR').

We have set out below our assessment of the actions to mitigate climate-related risks, and reported these balance sheet exposures in the table. These include loans invested in energy efficiency, green buildings, clean transportation, reduction of greenhouse gas emissions and renewable energy. Related exposures have been included where the use of proceeds is determined to be investments in projects that aim to mitigate climate transition or physical risk. Where it was not possible to fully determine whether sustainability-linked products are linked to aspects of climate change, these exposures have been excluded.

HSBC Bank Malta p.l.c. aims to continue to engage with business customers to increase contribution in projects which help to support the transition to a lower-carbon economy.

Table 32 – Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)

Type of financial instrument	Type of counterparty	Gross carrying amount €000	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
At 30 Jun 2023					
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	—	—	—	
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Other counterparties	31,552	Y	Y	The proceeds from these bonds are invested in projects with a climate change transition risk and/or physical risk mitigation objective. Financings are intended to be deployed to transition projects such as energy efficient buildings, clean transportation and renewable energy. Some bonds support projects which contribute to mitigate climate physical risk, including water management and soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	6,149	Y	N	These loans are part of the ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They finance green buildings projects (buildings refurbishments), renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Households	4,261	Y	N	These loans are invested in housing refurbishment and renewable energy projects in order to improve energy efficiency, which contributes to mitigate transition risk.
	– *of which: Loans collateralised by residential immovable property*	—	—	—	
	– *of which: building renovation loans*	*386*			
	Other counterparties	—	—	—	

Table 32 – Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10) (continued)

Type of financial instrument	Type of counterparty	Gross carrying amount €000	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
At 31 Dec 2022					
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	—	—	—	
	– of which: Loans collateralised by commercial immovable property	—	—	—	
	Other counterparties	28,077	Y	Y	These bonds are invested in projects whose aim is to mitigate both transition and physical risks. They finance renewable energy projects, energy efficient buildings, green transportation (electric rail infrastructure, electric buses), research & development and deployment of innovative low carbon technology, which help to reduce dependency on fossil fuel intensive energy and then highly contribute to mitigate transition risk. Some bonds support projects which contribute to mitigate climate physical risk, such as soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	8,134	Y	N	These loans are part of the ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They finance green buildings projects (buildings refurbishments), renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
	– of which Loans collateralised by commercial immovable property	—	—	—	
	Households	4,207	Y	N	These loans are invested in housing refurbishment and renewable energy projects in order to improve energy efficiency, which contributes to mitigate transition risk.
	– of which Loans collateralised by residential immovable property	—	—	—	
	– of which building renovation loans	*404*			
	Other counterparties	—	—	—	

Appendix I

Summary of disclosures withheld

CR2-A: Changes in the stock of general and specific credit risk adjustments	The Bank's NPE ratio is less than 5% threshold.
EU CCR3: Standardised approach – CCR exposures by regulatory exposure class and risk weights	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR4: IRB approach – CCR exposures by exposure class and PD scale	The Bank does not apply the IRB approach. In addition, being a subsidiary of HSBC Continental Europe, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR5: Composition of collateral for CCR exposures	The bank does not have collateral on CCR exposures. As a subsidiary of HSBC Continental Europe, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR6: Credit derivatives exposures	The bank does not have credit derivatives. As a subsidiary of HSBC Continental Europe, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR7: RWEA flow statements of CCR exposures under the IMM	The Bank does not apply the IMM approach.
EU CCR8: Exposures to CCPs	The bank does not engage in exposures to CCPs. As a subsidiary of HSBC Continental Europe, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CR5 – standardised approach	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CR6: IRB approach – Credit risk exposures by exposure class and PD range	The Bank does not apply the IRB approach.
EU CR6-A: Scope of the use of IRB and SA approaches	The Bank does not apply the IRB approach.
EU CR7: IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	The Bank does not apply the IRB approach.
EU CR7-A: IRB approach – Disclosure of the extent of the use of CRM	The Bank does not apply the IRB approach.
EU CR8: RWEA flow statements of credit risk exposures under the IRB	The Bank does not apply the IRB approach.
EU CR9: IRB approach – Back-testing of PD per exposure class (fixed PD scale)	The Bank does not apply the IRB approach.
EU CR9.1: IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The Bank does not apply the IRB approach.
EU CR10: Specialized lending and equity exposures under the simple risk weighted approach	The Bank does not apply the IRB approach.
EU-SEC1 – Securitisation exposures in the non-trading book	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC2: Securitisation exposures in the trading book	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC5 – Exposures securitised by the institution – Exposures in default and specific credit risk adjustments	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU CQ2: Quality of forbearance	The Bank's NPE ratio is less than the 5% threshold.
EU CQ6: Collateral valuation – loans and advances	The Bank's NPE ratio is less than the 5% threshold.
EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown	The Bank's NPE ratio is less than the 5% threshold.
EU MR2-A: Market risk under the internal Model Approach ('IMA')	The Bank does not apply the IMA approach.
EU MR2-B: RWA flow statements of market risk exposures under the IMA	The Bank does not apply the IMA approach.
EU MR3: IMA values for trading portfolios	The Bank does not apply the IMA approach.
EU PV1: Prudent valuation adjustments ('PVA')	The Bank's absolute fair value of asset and liabilities is less than the €15 billion threshold.
EU AE1: Encumbered and unencumbered assets	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU AE2: Collateral received and own debt securities issued	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU AE3: Sources of encumbrance	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU REM3: Deferred remuneration	The Bank does not have deferred remuneration.
EU REM4: Remuneration of EUR 1 million or more per year	The bank does not have remuneration exceeding these thresholds.
ESG Template 3: Banking book – Climate change transition risk: Alignment metrics	The disclosure will become effective from June 2024
ESG Template 6: Summary of GAR KPIs	The disclosure will become effective from year end 2023
ESG Template 7: Mitigating actions: Assets for the calculation of GAR	The disclosure will become effective from year end 2023
ESG Template 8: GAR (%)	The disclosure will become effective from year end 2023
ESG Template 9: Mitigating actions: BTAR	The disclosure will become effective from June 2024

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A	
AGM	Annual General Meeting
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1	Additional tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
bps	basis points
C	
CCM	Environmentally sustainable
CCP	Central counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CESGROF	Environmental, Social and Governance Risk
CET1	Common Equity Tier 1
CRD IV	Capital Requirements Directive
CRE	Commercial real estate
CRM	Credit risk mitigation/mitigant
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EL	Expected loss
EPBD	Energy Performance of Building Directive
EPC	Energy Performance Certificate
ESG	Environmental, Social and Governance
EU	European Union
EVE	Economic value of equity
F	
FIM	Functional Instruction Manual
G	
GAR	Green Asset Ratio
GHG	Greenhouse gas
Group	HSBC Holdings together with its subsidiary
H	
HBMT	HSBC Bank Malta p.l.c.
HR	Human Resources
HSBC	HSBC Holdings together with its subsidiary
HTC&S SVaR	Hold-to-collect-and-sell stressed value at risk
I	
IAA	Internal Assessment Approach
ICAAP	Internal Capital Adequacy Assessment Process
IEA	International Energy Agency
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
IMA	Internal Models Approach
IMM	Internal Model Method
IRB	Internal ratings based approach
ITS	Implementing Technical Standard
L	
LCR	Liquidity Coverage Ratio
M	
MFSA	Malta Financial Services Authority
MI	Management Information
MREL	Minimum requirements for own funds and eligible
MRT	Material Risk Taker

N	
NACE	The Statistical Classification of Economic Activities
NSFR	Net Stable Funding Ratio
NZE	Net-Zero Emission
O	
OECD	Organisation for Economic Cooperation and
OTC	Over-the-counter
P	
P2G	Pillar 2 guidance
PFE	Potential future exposure
PP&E	Property plant and equipment
R	
RAS	Risk appetite statement
RMM	Risk Management Meeting
RWA	Risk-weighted asset
S	
SOT	Standard Outlier Test
SA-CCR	Standardised approach for counterparty credit risk
SFT	Securities Financing Transactions
SME	Small and medium-sized enterprise
SREP	Supervisory Review and Evaluation Process
T	
TCFD	Task Force on Climate-related Financial Disclosure
The Board	Board of Directors of HSBC Bank Malta p.l.c.
T2	Capital Tier 2 capital
U	
UNGC	United Nations Global Compact
W	
WPB	Wealth Management and Private Banking

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