HSBC Bank Malta p.l.c.

Annual Report and Accounts 2023

HSBC

The HSBC Group

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

HSBC Bank Malta p.l.c.
Registered in Malta: C3177
Registered Office and Head Office:
116 Archbishop Street
Valletta VLT 1444
Malta
Telephone: 356 2380 2380
www.hsbc.com.mt

HSBC Holdings plc
Registered Office and Group Head Office:
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8888
www.hsbc.com

HSBC Bank Malta p.l.c.
Head Office,
116, Archbishop Street, Valletta VLT1444
Malta

Tel: (+356) 2380 2380

www.hsbc.com.mt

21 February 2024

DIRECTORS' DECLARATION ON ESEF ANNUAL REPORT AND ACCOUNTS 2023

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

i. That the Annual Report and Accounts 2023 ("ARA") for the year ended 31 December 2023 has been approved by the Board of Directors of the Company and is hereby being made available to the public.

ii. That the ARA has been prepared in terms of the applicable rules and regulations, including the Commission Delegated Regulation on the European Single Electronic Format ("ESEF")[1] and the Capital Markets Rules[2] .

iii. That the Audit Report on the ESEF ARA is an exact copy of the original signed by the auditor and that no alterations have been made to the audited elements of the ARA including the annual financial statements.

iv. That the ARA shall serve as the official document for the purposes of the Capital Markets Rules and the Companies Act (Chapter 386 of the Laws of Malta).

John Bonello
Chairman

Geoffrey Fichte
Director / Chief Executive Officer

[1] Commission Delegated Regulation 2019/815 on the European Single Electronic Format, as may be further amended from time to time.

[2] Capital Markets Rules as issued by the Malta Financial Services Authority (MFSA).

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Readers are reminder that the official statutory Annual Report and Account 2023, authorised for issue by the Board of Directors, is in European Single Electronic Formant (ESEF) and is published on https://www.about.hsbc.com.mt/investor-relations. A copy of the Independent auditor's report issued on the official statutory Annual Report and Accounts 2023 is included within this printed document and comprises the auditor's report on compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the ESEF RTS), by reference to Capital Markets Rule 5.55.6.

Chairman's Statement

John Bonello, HSBC Bank Malta p.l.c. Chairman

We are happy to be announcing a very satisfactorily level of profits and proposed dividends for 2023. This was the result of the bank benefitting from both a full year of favourable interest rates and from the hard work that has been put in to managing the risks of our business and the efficiency of our operations and costs. The local economy has also performed remarkably well despite the turbulent international environment which has seen a worrying increase in negative geopolitical events. The dominant sentiment continues to be uncertainty. Good news regarding falling inflation rates in the major economies is quickly dampened by concerns over trade disruptions and the increased costs those bring with them. Locally, inflation has become an issue that is receiving attention, however the economic outlook remains good.

Our bank remains fully focused on providing an enhanced experience for our customers and our employees. We will not lose sight of the fact that we are committed to remain a safe and compliant bank and our determination to combat financial crime will continue for the benefit of the bank, our customers, our people and the jurisdiction in general. At the same time, we will continue to invest in our customer experience through our digital offerings, in a completely new ATM network, and in our new offices the first phase of which was opened in early 2024. We are very proud of the innovative environment our new offices present for our people and customers.

A new Collective Agreement was signed after a detailed collaborative process with the MUBE which had a fair and satisfactory conclusion in early 2024.

In 2024, we will be working hard to meet our reporting obligations under the Corporate Sustainability Reporting Directive ('CSRD') regulations which will oblige the market to report on the progress we all have to make to meet our sustainability responsibilities.

Results

The reported profit before tax for the year ended 31 December 2023 was €133.9m, or 141% compared to 2022. This represents an increase of €78.3m when compared with the prior year. The bank's improvement in performance was driven by increasing net interest income and higher profits from the insurance subsidiary. We continued experiencing improvement in the credit quality of our loan portfolio resulting in releases of expected credit losses. Operating cost increased mainly driven by investment in people and technology.

More details on the financial results can be found in the CEO's review.

Profit attributable to shareholders amounted to €86.8m, resulting in earnings per share of 24.1 cent compared with 10.0 cent in 2022.

The bank's capital ratios improved marginally with CET1 increasing from 18.5% to 20.6% and the total capital ratio increasing from 21.3% to 23.5%. This improvement was driven by increased profits for the year and higher revaluation reserves on our Hold-to-Collect investment portfolio partially offset by higher capital deductions for non-performing loans as we continue to gradually implement the capital requirements. The bank maintain a strong capital base and is fully compliant with the regulatory capital requirements.

Whilst we continue to strengthen our capital base, we recognise the importance of dividends to our shareholders. The Board has thus recommended a dividend pay-out ratio of 40% on reported profits.

The final gross dividend will be 15.0 cents per share (9.75 cents per share net of tax).

Our regulatory environment

During the course of 2023, the focus on prudential risk management by the regulatory and supervisory authorities continued, focusing mainly on the bank's governance and risk management activities as well as credit risk. The bank's business model remained aligned to the principle of sustainable growth, strict but safer prudential risk buffers, and robust compliance standards.

The regulatory engagement with the bank's principal regulators has continued in a transparent manner, covering various risk themes and assessments, including credit risk, which was undertaken as a result of the European Central Bank's direct supervision and its supervisory priorities. During this period, regulatory engagement was mainly focused on ensuring that governance and prudential risk management structures, procedures and internal controls are operating effectively. This work continues to be pivotal to the regulators' supervisory evaluation process.

The Regulatory Development Programme of the bank has progressed on a number of new and enhanced requirements relating to the Sustainable Finance Disclosure Regulation ('SFDR'). Furthermore, preparatory work is underway in order to ensure compliance with upcoming new EU Regulations in relation to payments, namely, the Payments Services Regulations and Instant Payments, as well as the Digital Operational Resilience Act.

Throughout 2023, the bank remained in close engagement with regulators and industry bodies during the consultation and ongoing implementation processes of other regulatory changes. The bank will continue to observe and monitor all of the upcoming relevant regulatory developments in order to fully adhere to its legal and regulatory obligations, and to contribute to the European and local jurisdiction's evolving regulatory agenda and consultation process.

Our responsibility towards the community

Through the HSBC Malta Foundation, the bank seeks to work with numerous stakeholders in the community with the aim of creating a sustainable future. Drawing from HSBC Group resources and a network of partners, we work to tackle critical problems in key areas of sustainable finance, climate and future skills. We also remain committed to making a difference in other areas, such as, but not limited to, youth education and the protection of our environment and heritage. We take pride in HSBC colleagues who contribute to the charities and causes that they feel passionate about. In this regard, we grant all our employees a paid day to take leave and volunteer for work in the community. The Foundation is, furthermore, immensely grateful for the support and guidance of our highly experienced HSBC Malta Foundation Board members.

During 2023, the bank focused on creating a more sustainable planet and society, both internationally and locally. The bank has set out a series of commitments to contribute to the global transition to a low-carbon economy and to become a net-zero bank. We are committed to reducing our footprint through our operations, supply chain and financing portfolio. Our aim is to achieve net zero in our own operations and supply chain by 2030 or sooner. We make regular and transparent disclosures to communicate our progress in line with guidelines set out by the Taskforce on Climate-related Financial Disclosures guidelines. We encourage our customers and clients to do the same. HSBC Bank Malta p.l.c. is also one of the founding members of the Malta ESG Alliance. The objectives of MESGA are to share a common vision for societal change and a competitive Malta; bring benefits to the community; commit to credible, tangible and quantifiable initiatives; tap ESG market opportunities for businesses and the Maltese Islands; regular measuring and reporting progress on initiatives; and motivate businesses sharing the same values to follow and join.

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. This project which is being driven by the HSBC Malta Foundation in partnership with The Malta Chamber of Commerce, Enterprise, and Industry, is entitled 'Maximising energy efficiency through building renovation: HSBC Case Study'. Through this foundational study, HSBC is paving the way for more advanced research and policymaking and is leading the transition towards more sustainable Maltese buildings. Featuring its offices in Qormi as a pivotal case study, HSBC is taking a leadership role in the transition to high energy efficiency and low-carbon office buildings in Malta. It's a ground-breaking project.

Every year, the HSBC Malta Foundation earmarks part of its funding for causes that are important to our community. During 2023, the Foundation supported a number of projects including the Prince's Trust International Achieve Programme, the JAYE (Young Enterprise) Malta Foundation, The Malta Chamber of Commerce, the Malta Community Chest Fund Foundation and Fondazzjoni Patrimonju Malti amongst others. I take this opportunity to thank all our employees whose support and dedication towards these initiatives and projects for the benefit of the community we serve.

We concluded the year with another demonstration of community spirit and holiday generosity, thus bringing essential support and festive cheer to those in need. Collaborating with 34 non-governmental organizations (NGOs) across Malta, the Foundation has ensured that the joy and warmth of the festive season reach many, particularly those who are most vulnerable. This year's initiative, larger and more encompassing than ever, involved the collection and distribution of a diverse range of items. The donations spanned from basic necessities such as food and personal care items to more specific requests like children's gifts and educational materials. The collective effort of HSBC employees, alongside contributions from some of our top clients and various local schools was a testament to the power of community involvement.

Representatives from the HSBC Malta Foundation and the NGOs which brought essential support and festive cheer to those who are most vulnerable

The HSBC Malta Foundation's Christmas initiative stands as a shining example of the community and solidarity achievable when individuals and organizations unite to make a positive difference during the festive season. Participating NGOs included The Maltese Association of the Sovereign Order of Malta, Dar Frate Jacoba, Smiling with Jerome, Dar Bjorn, Suret il-Bnieden, The National Foster Care Association, RISe, The Ursuline Sisters, Dar Hosea, the MCAST Student Services, Caritas Malta, The Life Network Foundation, FSWS – Aġenzija Sedqa, St Jean Antide Foundation, SOAR, Richmond Foundation, YMCA, The Soup Kitchen in Valletta, The Malta Trust Foundation, Building Bridges, S.T.A.N.D., Loop Malta, Hospice Malta, Fondazzjoni Sebħ, Fidem, Dar il-Kaptan, Osanna Pia Home, Inspire, Kummissjoni Djakonija Żurrieq, The Foodbank Lifeline Foundation and Fondazzjoni Dar il-Hena, each contributing significantly to the welfare of different groups within the community.

Our Board of Directors

During 2023, Henri Mizzi relinquished his post of Non-Executive Director of the bank with effect from 31 October 2023, following his appointment as a Judge in the Superior Courts of Malta. His replacement will be announced in due course. In 2023, the process to obtain regulatory approval for Alexiei Dingli, a Professor of Artificial Intelligence (AI), to become a member of the Board of HSBC Bank Malta p.l.c. commenced. He was then formally appointed upon receipt of his regulatory approval in January 2024. This is reflective of the bank's efforts in digitalisation and to modernise its approach. Alexiei Dingli replaced Yiannos Michaelides who had reached the end of his tenure with the Bank. The Board of Directors is grateful for Yiannos' contributions over the years with his technical knowledge and commercial experience.

The Board of Directors of the bank is composed of colleagues whose varied areas of expertise and experiences contribute unparalleled insights into the varied agendas debated during meetings through the year, thereby ensuring that all decisions taken are based on the highest ethical standards and knowledge of the banking sector.

I feel privileged to serve as the Chairman of this outstanding group of people. On your behalf, I want to express to them my gratitude for their focus and dedication to the work of the Board.

Our People

The success of our bank will always be largely down to the quality of our people and I have to congratulate and thank all our employees for the effort they put in to serve our customers. I must firstly congratulate management for their outstanding leadership through the year.

Our bank is led by a highly professional, multi-skilled and committed management team. But it does not stop there. Throughout the organisation we are fortunate to have people who are equally professional and proud to be part of HSBC and the global brand it represents. I would therefore like to express my gratitude and that of our Board to all our people who work diligently every day to deliver HSBC's services to our customers in compliance with the highest standards.

Looking ahead

Despite the uncertainties that the global situation presents, I have no doubt that our customers will continue to build on past success and will be seeking investment opportunities to grow their business. We will continue to eagerly support those opportunities that are aligned to our values. We will also continue to leverage our unique ability to connect Maltese companies to the global economy.

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

Signed by John Bonello (Chairman) on 21 February 2024

Chief Executive Officer's review

Geoffrey Fichte, CEO, HSBC Bank Malta p.l.c.

2023 was characterised by economic and geo-political uncertainty which was exacerbated by prevailing inflationary pressures as a result of the Russia-Ukraine war and the tumultuous and tragic situation in the Middle East. Shock waves were, and to a large extent, are still being felt globally and nationally.

Thankfully, Malta's economy has been resilient despite the volatile international environment and it is encouraging to note that the European Commission is forecasting that Malta will continue its strongest economic growth among EU countries this year as well. Malta's economy is robust with the lowest unemployment and fastest population growth in Europe. Key sectors remain strong. Nevertheless, we should be cautious given heightened external threats.

In these uncertain times, the role of HSBC Bank Malta p.l.c. as a key player in the banking industry, and the leading international financial institution in Malta, is even more pronounced. HSBC Bank Malta p.l.c. remains an active participant in the local economy and we are committed to continue offering the best service both to our customers and to the community we serve.

Despite the external economic environment, we succeeded in delivering innovative solutions to our customers and have invested time, effort and capital in identifying and realising opportunities to grow the business for the long-term and offering a world of opportunity to our customers.

We are proud that in 2023, during the Interim financial results in August, the dividend pay-out was higher than the full dividend paid in 2022. Our share price was the top performer in the Malta Stock Exchange in 2023, increasing by over 80%. Our annualized dividend yield was the highest amongst listed banks in Malta.

The financial results being presented show a strong performance which clearly demonstrates that our strategy is delivering tangible results and I'm confident that our future-focused and customer-centric strategy positions HSBC Bank Malta p.l.c. well for long-term success. The bank achieved strong growth in profit in 2023 and the bank's fundamentals remain robust and underlying performance was resilient.

We remain focused on the future, with a very strong appetite to grow our bank in a sustainable manner. We will continue to invest in our business to meet the dynamic and evolving needs of our customers.

Our lines of business, Commercial Banking and Wealth, Personal Banking and Global Markets, continue to grow from their respective areas of strength and are looking to grow by maximising sustainable finance opportunities, leveraging our international advantage, maintaining proactive cost management and robust risk management. We continue to adhere to the compliance standards aligned to local regulations and the HSBC Group which are a source of strength, stability and competitive advantage. We work diligently to support growth in Malta’s economy by facilitating new business and cross-border trade.

Our people are the cornerstone of the bank so we will continue to empower our employees to reach their full potential and be the best versions of themselves by investing in opportunities for colleagues to develop skills, learn new capabilities and adapt to the future, whilst reducing complexity and bureaucracy.

It is to their collective credit that in 2023 HSBC Bank Malta p.l.c. was the recipient of renowned awards like Banker of the Year from the Financial Times (December 2023), Market Leader and Best Service from Euromoney Cash Management Survey (November 2023) and Market Leader and Best Service Provider from Euromoney Trade Finance Survey (March 2023).

From left: Jesmond Apap, Head of Global Markets; Michel Cordina, Executive Director and Head of Business Development; Joyce Grech, Head of Commercial Banking; John Bonello, Chairman; Charlotte Cilia, Chief Financial Officer; Geoffrey Fichte, Chief Executive Officer

The work of the HSBC Malta Foundation, extensively detailed in the Chairman’s Statement, is profoundly impactful for all the beneficiaries in our community. In Malta, the bank fulfils the Group’s Corporate Sustainability strategy primarily through the HSBC Malta Foundation. The three pillars of the HSBC Malta Foundation, aim to improve the quality of life and education for children, especially those disadvantaged, to promote and work towards a more sustainable environment and to preserve Malta’s rich and unique historical heritage.

Currently the HSBC Malta Foundation is supporting five key initiatives :-

- The Human Capital Research Project with a donation of €135,000;
- The maximising energy efficiency through building renovation: ‘HSBC Case Study’, a research project with a donation of €120,000;
- The Prince’s International Achieve Programme with a donation of €121,000 (we have been supporting this programme for the last eight years);
- The JAYE Young Enterprise Programmes with a donation of €150,000 (we have been supporting this programme since 1999);
- The Nature Based Solutions Project with a donation of €160,000.

Lastly, but equally important, I am immensely proud of our newly refurbished offices in Qormi – HSBC Hub. We have significantly invested in the transformation of the Qormi complex to turn it into a state of the art office for colleagues and customers. With a capital investment of €30 million, the HSBC Hub was the largest workplace investment project in HSBC Europe for 2022 and 2023, that will now facilitate flexible working and maximise user experience – employees and customers alike. The completion of the first phase of the project saw a percentage of our workforce working from the new premises on 22 January 2024, as we look forward to welcoming the rest in 2025.

In conclusion, I would like to express my sincere thanks and gratitude to our Board and my colleagues for their dedication, hard work and support in 2023.

Performance

We delivered strong revenue growth across all three global businesses, supported by increasing net interest income, which enabled us to deliver our best return on equity in more than a decade. As well as improving financial performance, our strategy is increasing shareholder returns. The reported profit before tax for the year ended 31 December 2023 was €133.9m. This represents an increase of €78.3m or 141% compared to prior year.

Reported profit attributable to shareholders was €86.8m, resulting in earnings per share of 24.1 cents compared with 10.0 cents in the same period in 2022.

Net interest income increased by 81% to €195.8m compared to prior year due to the higher interest rate environment. The increase in net interest income is largely driven by higher interest on placement of excess liquidity.

Net fee income decreased by €2.2m compared to 2022 to €19.5m. This was driven by the removal of the high balance fee in July 2022, which was a customer-driven decision taken by the bank in view of the rising interest rate environment. We have seen good growth in transaction banking and higher volumes of international payments.

Net trading income was in line with 2022 income at €7.6m as we continue to strengthen and deepen our relationships with our corporate and retail customers. As the leading international bank in the market, we have continued to offer a comprehensive range of award winning transaction banking services, including foreign exchange and other hedging products.

Operating costs for the year increased by 3% and amounted to €102.4m. The increase in expenses is mainly attributable to an increase in staff costs of €3.7m as we continue to invest in our people, being our main asset. This was partially offset by an insurance refund received in 2023 and costs savings on our real estate portfolio.

During the year, we reported a release of expected credit losses (ECL) of €4.6m, compared to a release of €9.6m in 2022. In 2022, our Commercial Banking business reported a net release of €12.3m which was mainly attributable to a significant recovery on a commercial non-performing loan which was largely provided for in prior years. The release in 2023 is across retail and commercial banking driven by an improvement in the credit quality of our customers as well as improved forward economic outlook.

The effective tax rate was 35.2%. This translated into a tax expense of €47.1m, €27.7m higher than the expense for 2022. The increase in tax expense resulted mainly from increased profits.

HSBC Life Assurance (Malta) Ltd reported a profit before tax of €6.2m compared to a profit of €3.9m in 2022. On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, we applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. The positive variance in profitability of €2.3m is mainly attributable to a positive variance on the mark to market gains of the insurance asset portfolio.

Net loans and advances to customers decreased by €91.3m to €3,084m. Commercial balances decreased by €19.8m while retail balances decreased by €71.5m. The bank retained a prudent credit policy to ensure long term sustainability of its service proposition while also delivering value for its shareholders. It also continued to improve asset quality by reducing commercial non-performing loans by 14% and retail non-performing loans by 20%.

Customer deposits grew by 3% to €6,142m driven by an increase in commercial deposits. The bank maintained a healthy advance to deposit ratio of 50.2% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio increased by 31% to €1,316m. In 2023, we increased the size and duration of our structural hedges to reduce the sensitivity of banking net interest income to interest rate movement and stabilise future earnings. We also see a number of opportunities from our existing strategy to continue to grow revenue.

The bank's common equity tier 1 capital was 20.6% at 31 December 2023, compared to 18.5% at the end of 2022. The total capital ratio increased to 23.5% compared to 21.3% at 31 December 2022. The improvement in the capital ratios was driven by increased profits and higher revaluation reserves on our Hold-to-Collect investment portfolio partially offset by higher capital deductions for non-performing loans as we continue to gradually implement the capital requirements. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The bank is determined to maintain a strong capital base, at the same time recognising the importance of dividends to our shareholders. In view of the strong results, the Board has recommended a dividend pay-out ratio of 40% on reported profits. The final gross dividend will be 9.0 cents per share (5.85 cents per share net of tax) which brings the total dividend for 2023 to 15.0 cents (9.75 cents net of tax). This is the highest annual dividend paid in the last decade. The final dividend will be paid on 25 April 2024 to shareholders who are on the bank's register of shareholders on 19 March 2024, subject to approval at the Annual General Meeting scheduled for 18 April 2024.

Wealth and Personal Banking ('WPB')

2023 has brought various challenges impacting the business through rising cost of living pressures, an increasingly tight labour market and a volatile macro-environment. Despite having to navigate through these challenges, we have managed to deliver and exceed our financial projections, delivering strong results also helped by the favourable interest rate environment.

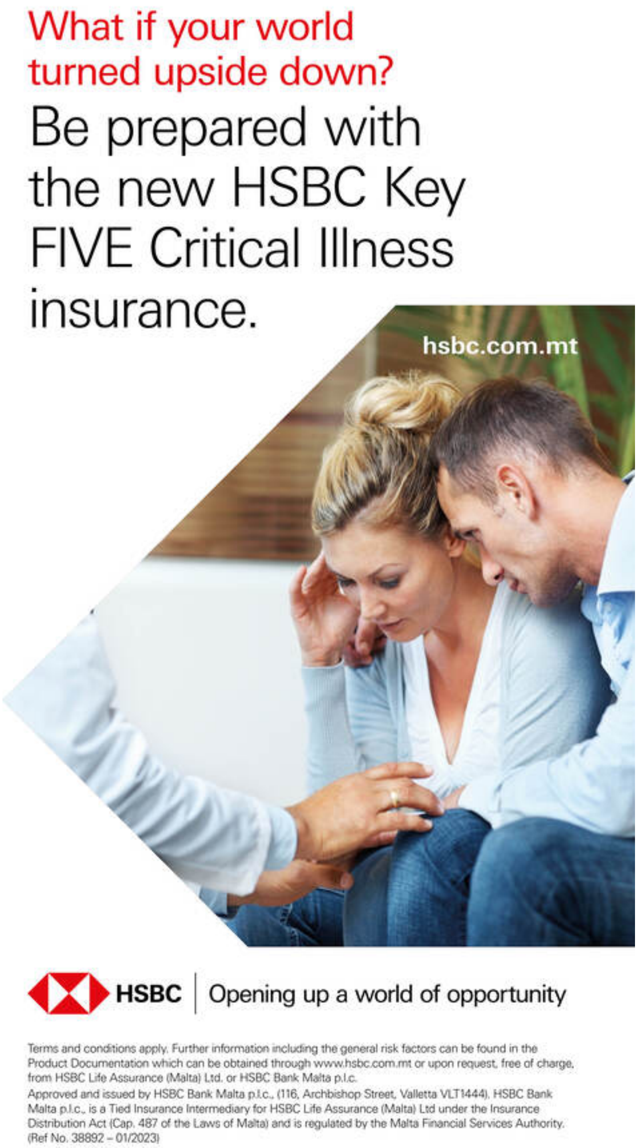
We have continued to focus on our customer strategy by improving our Premier and Advance customer propositions through enhanced customer features and benefits, which has led us to increase the number of customers that trust us with their day-to-day banking relationship, choosing HSBC as their main Bank.

2023 Premier and Advance billboard campaign ads.

We have continued to grow digital channel usage, with over 96% of basic transactions now carried out through our internet and mobile banking platforms. During 2023, customer adoption of HSBC Malta's Mobile Banking App increased by 9% and mobile logins increased by 14% on previous year. We have also deployed the Soft Token for internet and mobile banking, delivering simpler digital banking tools. Our mobile banking platform features were also enhanced to provide customers with a better user experience.

Helping our customers in providing them with best-in-class credit facilities remains key to HSBC. Given the external environment, a prudent credit policy was retained for both secured and unsecured lending to ensure the long-term sustainability of our service proposition.

In 2023, we continued to launch new products, journeys and initiatives, primarily in Wealth Management. Product launches include the Key Five Critical Illness Cover, which is a unique stand-alone protection product in the market and the Fixed Maturity Portfolio investment fund providing our customers exposure to euro corporate bonds in a low-risk fund with a fixed maturity date and income paid annually. There were strong marketing campaigns throughout the year which have contributed to enhanced activity and market presence.



We have also launched a non-Advisory guided journey for the Group Employee Pension Plan product as well as embedding an enhanced advisory journey to meet the sustainability preferences of our customers and our regulatory obligations as part of the MIFID II sustainability requirements.

We have continued to implement a number of transformational regulatory projects following new legislations that came into force, safeguarding the interests of our customers. During 2023, we have deployed a new front-end insurance quotation system helping to improve customer journey. We have also continued to invest in our new Card Management System and a New Mortgage Management System which will be deployed in 2024 bringing about an improved offering with online access for customers to view related transactions. We have also embarked on a new project to replace our ATM fleet by 2025.

The well-being of our people remains the pillar of our performance and success, and in 2023 we have sustained this through technical and soft-skill training held both online and face-to-face. We have continued to empower our people by investing in their development and recognising achievements throughout the year which is essential to the continued motivation and engagement of our teams.

As we look ahead to 2024, we remain focused on growing our bank sustainably for the future, centred around our customers, connecting them to the highest growth potential and providing them with best-in class customer service whilst we continue to embed our Environmental, Social and Governance strategy.

Commercial Banking (‘CMB’)

In a year characterised by concerns about inflation, increasing market interest rates and threats of global recession, businesses across the world continued to face uncertain times. In this environment, we remained close to our customers with a view to supporting them with any financing needs as well as by giving them access to the wealth of knowledge and resources offered by the HSBC Group.

Through our various services and products, we helped customers find ways of addressing these challenges. This included an in-person event held for customers where a senior HSBC Global Economist gave his views and insights on the World economy in 2023. During the year, we noted higher demand for lending and again experienced an increase in the total value of new loans and other facilities approved to customers, which were up by c.17% on prior year. We expect drawdown of these facilities in the coming year. This healthy level of new lending included a facility to an international, blue chip company, which was agreed jointly with another European office of HSBC. This was the first time HSBC Malta participated in such a facility – we have put in place the necessary structures to participate in similar facilities in the future, allowing us to utilise our surplus liquidity while diversifying our lending portfolio. We were very pleased to increase our collaboration with the Malta Development Bank with the launch of the SME Guarantee Scheme (SGS) and the Guaranteed Co-Lending Scheme (GCLS). These business lending schemes, which remain available until the end of 2024, are designed to address applications the market is not always able to accommodate by providing financing facilities to support productive and viable operations.

Our Trade and Receivables Finance area continued to perform strongly and again generated increased revenue following the growth seen in 2022, thanks to our focus on providing our customers with our award winning products and solutions which enable them to trade internationally and domestically. Revenues were up by c. 8%, with growth emanating from all areas including guarantees, core trade and structured funding products. Funded balances under our Trade Loan and Receivables Finance portfolios increased by c. 30% year on year, thanks to our continued focus on these forms of structured lending. We have continued to leverage on our strength as members of the HSBC Group, which was named Global Best Bank for Trade Finance for the 6th consecutive year in the Euromoney Trade Finance Survey 2023. We were delighted to be awarded Market Leader and best service provider for Trade Finance in Malta in the same survey and are grateful to our customers who participated and expressed their views. Foreign exchange revenue also grew by c. 7%, thanks to a growth in volumes resulting from a strong collaboration with our Global Markets team and close interactions with our customers.

In the past year, we continued to see an increase in deposit balances held with us and are very encouraged by the confidence placed in us by our customers who trust us with their deposits. The volume of payments routed through our customers’ accounts continued to increase, driving up revenues from this source. International payments were up by c. 17% while we processed c. 25% more direct debits than prior year. This was achieved thanks to a good number of newly onboarded customers, including international ones, where we saw c. 40% increase in the volume of new accounts opened compared to 2022. We also continued with our activity to foster deeper relationships with existing customers leading to increasing account usage, coupled with a focus on digitisation of payments and reduction in cheque volumes. We were delighted that we were named as the overall Market Leader and Best Service for Non-Financial Institutions in the prestigious Euromoney Cash Management Survey 2023. These accolades underscore HSBC Malta's strong commitment to excellence in cash management services and its leadership overall in the sector.

In an ongoing effort to increase usage of our HSBCnet online banking platform, we hosted a number of training webinars for our customers on key topics. Such training enables customers to make more use of the various functionalities of this platform, saving time when making payments and processing other transactions and gaining access to the information they need instantly. HSBCnet and mobile penetration and usage remained fairly stable. During the year we launched BBX, a simplified, user friendly interface of the HSBCnet landing page aimed at Small and Medium Sized businesses (SMEs). Following this launch, we are reaching out to customers who are currently non-HSBCnet users in order to outline the benefits and functionalities of the platform, and ultimately drive up penetration.

At the end of the year, we again launched an online survey where customers were asked to rate their experience with the service that we provide. This survey is now run annually and its results help us address areas where our customers would like to see improvement. The level of customer satisfaction remained strong, and on a par with the prior year. We were again very pleased that customers continued to value the quality of their Relationship Managers and scored them highly with respect to knowledge and proactivity. We will take additional steps to improve certain customer processes and thereby increase the ease of doing business with us.

Late in the year, as part of our ongoing support to TradeMalta, we sponsored a further edition of TradeMalta's popular Go Global programme, which is aimed at companies that are seeking to expand internationally. We also continued supporting the Malta Chamber's ongoing operations, following the renewal of a Gold Partnership agreement for a further three years announced in 2022. We are pleased to have the opportunity to further support local businesses and the economy through these activities and sponsorships.

In July 2023, TradeMalta launched an HSBC-backed Go Global Programme fostering internationalisation of Malta-based companies

As we did throughout 2023, we will continue to focus on adding value to our customers and giving them access to all that the HSBC Group has to offer. We can only do this thanks to our dedicated and professional Relationship Managers and other team members, who are committed to help their customers address challenges and take their businesses forward. We continue to provide our teams with the required tools and with the ongoing training needed to enable them to understand customer needs and stay informed about issues that have an impact on the ever-changing business environment.

Global Markets ('GM')

2023 has been another challenging year for Global Markets. GM continues to successfully deliver on its strategy to provide best in class services to local and international customers, leveraging on the expertise available across the HSBC Group's worldwide network.

Revenues from foreign exchange are in line with that of last year as we continued to face external market challenges. Collaboration with CMB and WPB remains one of GM's strategic priorities. It allows CMB and WPB clients to benefit from GM's product expertise, in particular for foreign exchange and interest rate risk management solutions, where we continue to see good potential. CMB clients also continue to benefit from digital solutions for foreign exchange. Throughout the year GM has organised a number of seminars for CMB and WPB clients, inviting industry leading specialists. The highlight for the year was the one delivered by our Global Economist.

James Pomeroy, Global Economist during a breakfast meeting organised by HSBC Bank Malta p.l.c.

Corporate Centre (‘CC’)

Markets Treasury (Corporate Centre), which manages Interest Rate Risk on the bank’s balance sheet and deploys surplus liquidity, delivered excellent results in line with the prevailing interest rate environment with revenues substantially up on last year. The bank continues to have significant surplus liquidity which is mainly invested in securities and money market placements. Both the Hold to Collect and Sell as well as the Hold to Collect securities portfolio are mainly invested in high quality liquid assets, reflecting our conservative risk appetite.

Digital Business Services (‘DBS’)

The COO and DBS are playing a pivotal role in supporting our business to deliver on the strategic commitments by managing the day-to-day operations and enabling uninterrupted services to our customers, driving transformation and regulatory changes through digital solutions, focusing on improving customer journeys and internal processes, safeguarding our customers and business resilience through robust framework of controls and monitoring. DBS teams are also positioned at the forefront of driving the Sustainability and Net Zero initiatives for the bank.

Throughout 2023, Digital Banking Services remained committed to implementing critical strategic transformation initiatives, fostering digitisation, automation, and heightened efficiency in pivotal customer experiences associated with Payments, Cards and Mortgages. Achievements included the improvements in the way the new and replacement cards are issued, providing faster card-issuing services for our customers; the deployment of the new mortgages system which will enable customers to view their mortgage transactions online; and the automation of internal card processes, releasing valuable time for our colleagues to focus on value adding activities. This was possible by continuous investment in the new technology and improvements of the existing systems functionality.

During 2023, we continued to focus on Sustainability and driving our Net Zero targets and achieved material progress in the reduction of Carbon Emissions, Energy Consumption, Waste and Paper Consumption through ongoing initiatives, such as using low carbon materials for construction (saving of 89.7 tonnes of CO_2e through innovative concrete production), reusing of existing HSBC furniture from other sites (saving of 71 tonnes of CO_2e), and encouraging customers to switch from paper correspondence to using digital channels (reduction of yearly paper consumption by 183 thousand sheets of paper).

The HSBC HUB project to transform our office buildings in Qormi is the largest capital expenditure project for HSBC in Europe, creating innovative, sustainable, and modern space for our customers and HSBC colleagues, with one of the largest single floor office spaces in Malta (over 2,330sqm). The project has successfully progressed with the first phase of the project opening its doors on the 22nd of January 2024, welcoming 230 colleagues and offering multi use meeting rooms and conference spaces. In addition to delivering a number of Net Zero initiatives, HSBC HUB interior design and supporting technological investment enables our colleagues to adapt new ways of working with open plan shared collaborative spaces, flexible system of booking the time in the office and facilities for organising team and customer events.

HSBC Hub - Main Reception

HSBC Hub - Customer Reception

DBS teams are part of wider HSBC European DBS team, leveraging on the knowledge, expertise and support of our colleagues across 12 countries. In summer 2023, colleagues from IT and the Chief Controls Office teams have won awards under two different categories, 'Believe in our Vision' and 'Take Pride in what we do' at the DBS Europe awards ceremony.

Looking ahead to 2024, DBS Malta strategy is focused around supporting the growth of our business by running seamless operations, delivering innovative, digital customer journeys, delivering on Net Zero targets and supporting our people by maintaining engaging and motivating work environment. Key deliverables in plan for 2024 are commencing the project to modernise our ATM fleet and completion of the second phase of HSBC HUB in Qormi.

Our people

Our people and the community we serve remain at the heart of our business. We champion inclusion and diversity and firmly believe that employee engagement and personal growth are key drivers for the provision of excellent customer service. Throughout 2023, we renewed our overall people focus and provided our people with opportunities to realise their career aspirations and tools to safeguard their well-being. Shortly following his appointment, we hosted a series of face to face discussions with all senior managers in the presence of HR, articulating strategy and listening to feedback and any concerns keeping the main focus on "our people". These meetings established a close connection across senior management and a commitment to maintain open two-way communication which is so important for our people.

2023 was also important from an Industrial Relations perspective. Collective Agreement negotiations with the Malta Union of Bank Employees (MUBE) for the new Collective Agreement (effective from January 2024) commenced in April and progressed throughout the year. In January 2024, the Bank announced the signing of a new collective agreement with MUBE for the period 2024-2026. The agreement was signed in Malta, and then validated at HSBC Continental Europe's HQ in Paris by its CEO, Andrew Wild, and the CEO of HSBC Bank Malta p.l.c., with representatives of MUBE present. HSBC Continental Europe is the majority shareholder of HSBC Bank Malta p.l.c. This ambitious and ground-breaking agreement is characterised by significant enhancements to employee pay, benefits and retirement pension plans.

From left: Nadianne Azzopardi, Human Resources Advisory, HSBC Bank Malta p.l.c.; David Perotti, Head of Human Resources, HSBC Bank Malta p.l.c.; Andrew Wild, CEO, HSBC Continental Europe; William Portelli, MUBE President; Geoffrey Fichte, CEO, HSBC Bank Malta p.l.c.; Josef Figallo, Chair of MUBE Group Committee; Amanda Camenzuli, Secretary of MUBE Group Committee

Snapshot 2023 (internal bank-wide employee survey) registered a significant improvement in participation and in key engagement indexes. Flexible (including remote) working practices continue to be engrained in our business thereby facilitating a healthy work/life balance for our people.

Our Internship proposition was again successfully implemented throughout 2023 in collaboration with the University of Malta and other educational institutions to recruit students and provide them with a rich working experience. This year we again welcomed back several students who returned to HSBC as full time employees after completing their studies. We strongly believe in the importance of engaging with our future talent, thereby providing future pipeline for the business.

Opportunities for career development continued throughout 2023 with employees applying for job opportunities across the bank and its subsidiaries. Many were promoted in the process. Succession planning for key roles is also ongoing. Three of our senior managers were selected to join the 2023 intake of HSBC's prestigious Inspire Programme tailored for individuals recognised as having the potential to become senior leaders within HSBC Continental Europe.

Throughout the year we organised various sessions for our employees focusing on topics of interest including mental, physical and financial well-being. Employees actively participated in these sessions and further such initiatives are planned for 2024.

We submitted 13 nominations for the HBCE Energy Awards and won an award for International Collaboration. A great achievement for our people to be recognised alongside HBCE colleagues.

We will continue investing in our people and look forward to celebrating together during the upcoming HSBC Bank Malta p.l.c. 25th anniversary celebrations.

Majority shareholder

HSBC Continental Europe (HBCE) holds a direct shareholding of c. 70.03% in HSBC Bank Malta p.l.c. Ultimate control of the HSBC Malta Group remains vested in HSBC Holdings plc.

Outlook

I am cautiously optimistic of the economic outlook for 2024 in view of volatile inflationary pressures and geopolitical tensions.

HSBC Malta is committed to the local economy and will continue to invest to provide its customers, shareholders and the community at large the highest standards in banking services.

As a systemic bank and the leading international bank in Malta, HSBC remains fully committed to continue its digitalisation journey and to offer local and global products and services to our customers, supporting them to realise their personal and business ambitions.

We will pursue our growth strategy in a sustainable manner and will continue to focus on our net zero ambitions, aiming to be net zero ourselves by 2030. Sustainability represents the biggest transformation in the banking sector. We are already taking action to reduce our carbon footprint but recognise that our biggest impact comes from working with customers to help them transition to a net zero economy and become more sustainable through our green loan offers.

I sincerely thank our colleagues for their fortitude, dedication and commitment to the HSBC brand and in particular for giving our esteemed customers the best products and services that HSBC has to offer.

Despite the challenging external environment, there are many opportunities ahead for a bank with HSBC's competitive strengths and international capabilities and we shall continue to deliver these unique advantages to the Maltese market, as we strive to open up a world of opportunity.

Signed by Geoffrey Fichte (Chief Executive Officer) on 21 February 2024

Board of Directors and Company Secretary

John Bonello, CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in July 2013 and Chairman in August 2019. Member of the bank's Remuneration and Nomination Committee, former Chairman of the bank's Audit Committee and former Member of the bank's Risk Committee. Mr Bonello is a Chartered Accountant and a Certified Public Accountant. He was formerly the Chairman and Senior Partner of PricewaterhouseCoopers in Malta from where he retired in December 2009. He is a Fellow of the Malta Institute of Accountants, Chairman of the Disciplinary Committee of the Institute and a Member of the Joint Disciplinary Board of the Accountancy Board. He is also a fellow member of the Institute of Chartered Accountants in England and Wales.

Geoffrey Fichte, EXECUTIVE DIRECTOR and CHIEF EXECUTIVE OFFICER

Appointed CEO and Executive Director of HSBC Bank Malta p.l.c. in May 2023. He is also Chairman of HSBC Life Assurance (Malta) Ltd and HSBC Global Asset Management (Malta) Limited. Mr Fichte has over 20 years of experience in financial services: banking, insurance, asset management and global strategy across Hong Kong, London, New York and Mexico City. He previously held several senior international positions within the HSBC Group, including President and CEO of HSBC Bank Uruguay, Head of Business Banking, HSBC Mexico; Senior Executive, Corporate Development & Global Strategy, HSBC Group, London; and Senior Manager International (Asia), Hong Kong. He holds a Bachelor of Science in Economics from Wharton School, University of Pennsylvania, Philadelphia, USA.

Michel Cordina, EXECUTIVE DIRECTOR

Appointed Executive Director in April 2019. Mr Cordina, formerly Head of Commercial Banking, is presently Head of Business Development and also heads the bank's Corporate Sustainability arm and is the Deputy Chair of the HSBC Foundation. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 42 years ago. He has worked in various areas of banking in both Personal Banking and Commercial Banking. He has also led a number of operational and support functions of the bank. He has occupied various executive roles within HSBC Bank Malta including Deputy Head of Operations and Head of Business Transformation. He was also the Programme Manager on a number of key projects executed by the bank. In 2010, he was seconded to HSBC Commercial Banking in London where he performed the role of Head of Sales Performance. He is an Associate of the Chartered Institute of Bankers ('ACIB').

Alexiei Dingli, NON-EXECUTIVE DIRECTOR

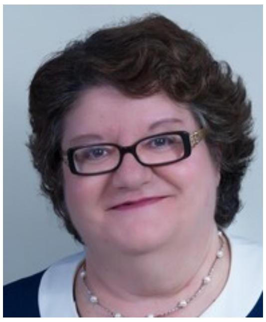
Appointed Director of the bank in January 2024. Presently Member of the bank's Risk Committee. He is a Professor of Artificial Intelligence (AI) at the University of Malta. He has been conducting research and working in the field of AI for more than two decades, assisting different companies to implement AI solutions. His work has been rated World Class by international experts and he has won various local and international awards. He has also published several peer-reviewed publications and formed part of the Malta AI task-force which was setup by the Maltese government, aimed at making Malta one of the top AI countries in the world. He is a B.Sc.IT (honours) graduate, which degree was obtained in 2001, from the University of Malta, has a Ph.D in Artificial Intelligence from the University of Sheffield, UK and an MBA in Technology Management from the Grenoble Business School, France.

Ingrid Azzopardi, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in August 2019. She is a Chartered Director and is the Chairperson of the bank's Audit Committee and Member of the bank's Risk Committee. A former Director of HSBC Life Assurance (Malta) Ltd and former Chairperson of the Audit and Risk Committee of said company. Ms Azzopardi is presently the Group Internal Auditor of GO p.l.c., a position she has occupied since November 2000. She also leads GO Green and sits on the Board of Administrators of the Malta ESG Alliance. She has chaired various committees at GO p.l.c., including the Group Fraud Forum and the Gender Equality Committee. She holds a certificate in Business Sustainability Management from the University of Cambridge. She is a Certified Public Accountant and Auditor, a Fellow of the Malta Institute of Accountants, a Fellow of the UK Institute of Directors, and also a Member of the Institute of Internal Auditors - Malta Chapter.

Maria Micallef, NON-EXECUTIVE DIRECTOR

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



Manfred Galdes, NON-EXECUTIVE DIRECTOR

Appointed Director of the bank in January 2021. Dr Galdes is the Chairman of the bank's Risk Committee. He is the managing partner of the ARQ Group, a multi-disciplinary advisory firm. After graduating as a lawyer (LL.D.) from the University of Malta, he obtained a Masters Degree (LL.M.) in European (Commercial) Law at the University of Leicester. Dr Galdes has spent the last 23 years practicing in the area of regulatory and financial crime compliance having held various leading roles both in the private and public sector. Between 2008 and 2016, Dr Galdes headed the FIAU, Malta's financial intelligence unit and principal AML/CFT supervisory authority.

Terecina Kwong, NON-EXECUTIVE DIRECTOR

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

Paula Mamo, COMPANY SECRETARY

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

Executive Committee and Head of Internal Audit

Geoffrey Fichte, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed CEO and Executive Director of HSBC Bank Malta p.l.c. in May 2023. He is also Chairman of HSBC Life Assurance (Malta) Ltd and HSBC Global Asset Management (Malta) Limited. Mr Fichte has over 20 years of experience in financial services: banking, insurance, asset management and global strategy across Hong Kong, London, New York and Mexico City. He previously held several senior international positions within the HSBC Group, including President and CEO of HSBC Bank Uruguay, Head of Business Banking, HSBC Mexico; Senior Executive, Corporate Development & Global Strategy, HSBC Group, London; and Senior Manager International (Asia), Hong Kong. He holds a Bachelor of Science in Economics from Wharton School, University of Pennsylvania, Philadelphia, USA.

Svetlana Maslova, CHIEF OPERATING OFFICER

Ms Maslova joined HSBC Bank Malta p.l.c. in July 2023. She has 15 years' experience with the Group and has worked in several Group entities across Europe and Asia. Svetlana has held a number of key roles in Retail and Wealth Management and Digital Business Services, and previously worked in Malta for 8 years. Svetlana holds a Bachelor's Degree in Philology and English Language. She also holds certificates for Financial Advice and Management Accounting. Through HSBC, Svetlana is also an accredited career coach.

Charlotte Cilia, CHIEF FINANCIAL OFFICER

Appointed Chief Financial Officer in December 2020. Mrs Cilia is a certified public accountant and auditor with over 20 years of varied experience across audit and banking finance. She joined the HSBC Finance team as a senior manager in 2010 where she worked for four years and re-joined the bank in 2018 as Chief Accounting Officer and Deputy Chief Financial Officer. She served as Deputy Chief Financial Officer during her four years at MeDirect Group until 2018. Previously an auditor at KPMG in Malta and the UK where she performed key roles on various international engagements. She is a Director on the Board of HSBC Life Assurance (Malta) Ltd.

Muriel Rutland, Designate HEAD OF WEALTH AND PERSONAL BANKING

Ms Rutland's appointment as Head of Wealth and Personal Banking will be effective upon receipt of regulatory approval. During her 22-year career with HSBC Malta, she has built extensive experience in the WPB business through various senior management positions including CEO of HSBC Life Insurance (Malta) Limited, WPB Chief Operating Officer and Managing Director of HSBC Global Asset Management (Malta) Limited. She graduated in Bachelor of Commerce Honours in Banking & Finance from the University of Malta in 2001.

Michel Cordina, EXECUTIVE DIRECTOR AND HEAD OF BUSINESS DEVELOPMENT

Appointed Executive Director in April 2019. Mr Cordina, formerly Head of Commercial Banking, is presently Head of Business Development and also heads the bank's Corporate Sustainability arm and is the Deputy Chair of the HSBC Foundation. Mr Cordina is a seasoned banker and has a wealth of experience having started his banking career 42 years ago. He has worked in various areas of banking in both Personal Banking and Commercial Banking. He has also led a number of operational and support functions of the bank. He has occupied various executive roles within HSBC Bank Malta including Deputy Head of Operations and Head of Business Transformation. He was also the Programme Manager responsible for bringing the HSBC Contact Centre to Malta. In 2010, he was seconded to HSBC Commercial Banking in London where he performed the role of Head of Sales Performance. He is an Associate of the Chartered Institute of Bankers ('ACIB').

Jesmond Apap, HEAD OF GLOBAL MARKETS

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

David Perotti, HEAD OF HUMAN RESOURCES

Mr Perotti was appointed Head of Human Resources in August 2023. He has 42 years' experience in banking, 25 of which within virtually all areas in HR. During the past few years, David has headed Employee & Industrial Relations for HBMT, working closely with our union stakeholders. He is an active member of HSBC's Global Employee Relations (ER) Forum and has supported Regional ER on a number of important projects.

Joyce Grech, HEAD OF COMMERCIAL BANKING

Ms Grech has had a 27-year career with HSBC, during which she has occupied a number of roles, primarily in Malta. She has been heading Commercial Banking for four years, during which she has embedded various changes, reshaping the team to ensure there is a focus on meeting customer needs. She has been a member of EXCO for 10 years, having served as the bank's Chief Risk Officer for 6 years. In previous roles, she gained experience in various areas of Risk, most notably as Deputy Head of Credit. She also worked in the Personal Banking area, leading Customer Value Management for a number of years. She had also worked in the Trade Finance and Commercial Banking areas.

A strong supporter of diversity and inclusion in its various forms, she is the chairperson of the bank's Diversity and Inclusion Committee. She is particularly involved in gender diversity and aims to support female colleagues through mentoring and other initiatives and activities.

Steven Beddow, CHIEF RISK OFFICER

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

Joseph Sammut, GENERAL COUNSEL

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

Mandy Falzon, CHIEF COMPLIANCE OFFICER

Appointed as Chief Compliance Officer in March 2021, leading the Regulatory Compliance and Financial Crime Compliance teams at HSBC Bank Malta p.l.c. She graduated as a Doctor of Laws from the University of Malta in 2005, and has 17 years' experience in banking and financial services at HSBC. Dr Falzon held managerial positions within the HSBC Malta Legal Office prior to joining the Regulatory Compliance function in 2015 in a senior management position. She is a Director on the Board of HSBC Global Asset Management (Malta) Limited.

Carine Arpa, HEAD OF COMMUNICATIONS

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

Paula Mamo, COMPANY SECRETARY

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

Morgan Carabott, HEAD OF INTERNAL AUDIT

In September 2021, the Bank announced the appointment of Morgan Carabott as Head of Internal Audit. Ms Carabott joined the Bank as Deputy Head of Internal Audit in 2018. Prior to joining the Bank she spent seven years as a Senior Internal Auditor within the Insurance industry and was an external auditor with one of the big four audit firms. Ms Carabott is a warranted Accountant and Auditor and is also a Certified Information Systems Auditor and Certified Anti-Money Laundering Specialist. She is a Fellow of the Malta Institute of Accountants and a member of the Information Systems Audit and Control Association (ISACA) and Association of Certified Anti-Money Laundering Specialists (ACAMS). She has strong auditing and risk management skills, sound industry and regulatory knowledge coupled with extensive experience in leading and managing numerous audits across different sectors.

Report of the Directors

The bank provides a comprehensive range of banking and financial related services. The bank is authorised to carry on the business of banking, under the Banking Act, 1994 as a credit institution. It is also a licensed financial intermediary in terms of the Financial Markets Act, 1990. The bank is also licensed by the Malta Financial Services Authority to carry out investment services in terms of the Investment Services Act, 1994. These licences authorise the bank to provide investment services to third parties and custodian services for collective investment schemes respectively. As at 31 December 2023 the bank had 12 branches in Malta, one of which is located in Gozo.

The local group comprised the following subsidiaries at 31 December 2023: HSBC Life Assurance (Malta) Ltd and HSBC Global Asset Management (Malta) Limited.

Principal activities of subsidiaries

HSBC Life Assurance (Malta) Ltd is authorised by the Malta Financial Services Authority to carry on the business of insurance in Malta under the Insurance Business Act (chapter 403, Laws of Malta). It offers a range of protection and investment life assurance products distributed through HSBC Bank Malta p.l.c. which is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Ltd under the Insurance Distribution Act (chapter 487, Laws of Malta).

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

Business and strategy

HSBC Malta is part of HSBC Group, which has an unrivalled global position which serves customers worldwide from offices in 62 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$ 3 trillion at 31 December 2023, HSBC is one of the world's largest banking and financial services organisations. Approximately 42 million customers bank with the HSBC Group and the Group employs around 221,000 full-time equivalent staff. The Group has around 172,000 shareholders. HSBC Malta is Malta's leading international bank. No international bank has our presence in Malta and no domestic bank has our international reach.

HSBC Group's purpose statement is: Opening up a world of opportunity. HSBC is here to provide our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunities for our customers. Our purpose is to bring together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.

Our values define who we are as an organisation and make us distinctive. We are dependable, by succeeding together, we make the connections that allow us to realise the full potential of those opportunities. We are open, we value difference and actively take a broader perspective, and so are alert to more opportunities for our customers. We are connected by taking personal responsibility and ensuring we leverage those opportunities with integrity. We get it done by committing to tenaciously follow through the actions that make those opportunities a reality.

Our customers range from individual savers and investors to large international companies. We aim to connect our customers to opportunities and help them to achieve their ambitions. The products and services we offer vary widely according to customers' needs. We provide individuals and families with mortgages that help them buy their own home, as well as savings accounts, insurance solutions and wealth management products that help personal banking customers to plan and invest for the future. For our commercial customers, we offer loans to invest in growth, and transaction banking products such as foreign exchange, trade financing and cash management services that enable businesses to expand both locally and internationally. For large companies and organisations operating across borders, we also offer tailored advice on decisions such as financing major projects or making acquisitions.

Our local strategy is aimed at growing safely whilst sustaining a robust risk management environment and maintaining a strong financial crime compliance culture. We take a long term view in terms of our customer relationships and we aim to build a bank that is fit for the future which is centred around our customers. Our Growth strategy is aligned and consistent with the HSBC Group's strategy. We aim to generate stable returns for our shareholders, increase operational efficiency and simplify processes making it easier for our customers to do business with us and for our staff to serve our customers.

Group Strategy

Our strategy supports our ambition of being the preferred international financial partner for our clients, centred around four key areas.

Focus

- Maintain leadership in the scale markets.
- Double-down on international connectivity
- Diversify our revenue
- Maintain cost discipline and reshape our portfolio.

Digitise

- Deliver seamless customer experiences.
- Ensure resilience and security.
- Embrace disruptive technologies and partners with innovators.
- Automate and simplify at scale.

Energise

- Inspire leaders to drive performance and delivery.
- Unlock our edge to enable success.
- Deliver a unique and exceptional colleague experience.
- Prepare our workforce for the future.

Transition

- Support our customers.
- Embed net zero into the way we operate.
- partner for systemic change.
- Become net zero in our own operations and supply chain by 2030,and our financed emissions by 2050.

In 2023, the bank continued to enhance its premium propositions for retail customers, as well as launched new Insurance and Investment products, such as the 'Key Five Critical Illness' providing cover against five of the most common critical illnesses in the Maltese population, and the 'Fixed Maturity Portfolio fund', providing customers exposure to euro corporate bonds in a diversified fund with income generation.

We have continued to embed our Environmental, Social and Governance strategy through the acceleration of Retail sustainable solutions by rolling out PVC cards made up of 100% recycled material, the migration of more customer documentation from paper to digital, as well as through the strong growth in digital service adoption. Additionally, investments into sustainable funds continued to grow through the range of Socially Responsible Investments held and through the implementation of a new Wealth advisory solution, ensuring more granular sustainability preferences are taken into consideration during the provision of investment advice.

Supporting the transition to net zero and engaging with our corporate clients to help them diversify and decarbonise is a key priority for us. In 2023, we expanded our portfolio of Green and Sustainability Linked lending products and now offer a comprehensive suite of products, all of which meet industry standards and practice. Investment by businesses in order to reduce their emissions needs to gather momentum in the short term in order to enable global goals to be reached and we will therefore continue with our focus in this area in the coming year.

During the year we continued improving our digital cash management services. The main development was the launch of BBX, a simplified, user friendly interface of the HSBCnet landing page aimed at Small and Medium Sized businesses (SMEs). BBX will give more customers access to the various functionalities of our HSBCnet, allowing them to save time when making payments and processing other transactions and to gain access to the information they need instantly.

Looking ahead to 2024, we seek to continue embedding our Climate Change efforts, actively supporting the local economy to achieve the Paris Agreement goal of net zero by 2050.

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

Research and development

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

Events occurring after the end of the accounting period

There were no significant events affecting the bank or any of its subsidiary undertakings which have occurred after 31 December 2023.

Conduct

Within HSBC, best practice consists of taking actions and making decisions that are fair for its customers and do not disrupt the proper and transparent operation of financial markets. These principles are essential to ensure long-term success and provide the best service to our customers. To achieve this, the Bank has a clear framework and governance principles covering its culture and behaviour, the design of products and services, training and remuneration of employees, interactions with customers and internal communication.

The Conduct framework is the central reference to guide colleagues to understand the consequences of good or poor decisions for customers and other stakeholders.

The renewed Conduct Approach has been aligned to one of the refreshed values 'We Take Responsibility', and now structured around five outcomes to be achieved for customers and markets in a simplest and understandable approach. In 2023, all lines of businesses and functions have conducted a conduct self-assessment ensuring to be well-aligned with the Purpose Led Conduct Approach.

Employees received a Group mandatory conduct training launched during the last quarter of 2023.

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

Results for 2023

HSBC Bank Malta p.l.c. ('the bank') and its subsidiaries (collectively referred to as the local group), reported a profit before tax of €133.9m for the year under review. The local group's profit attributable to shareholders was €86.8m.

The Directors have proposed a gross final dividend of 9.00 cent per ordinary share. The final dividend will be payable to shareholders on the bank's register as at 19 March 2024.

Further information about the results of the local group is provided in the Income Statements and the Statements of Comprehensive Income on pages 69 and 70 respectively.

A detailed review of the financial performance including important events affecting the local group's results and an indication of future developments are included in the Chief Executive Officer's Review.

Key performance indicators

The Board of Directors tracks the local group's progress in implementing its strategy with a range of financial measures or Key Performance Indicators ('KPIs'). Progress is assessed by comparison with the local group strategic priorities, operating plan targets and historical performance. The local group reviews its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC's strategy and strategic priorities.

	2023	2022
Profit before tax (reported) (€m)	**133.9**	55.6
Profit before tax (adjusted) (€m)	**133.9**	57.1
Cost efficiency ratio (reported) (%)	**44.2**	68.4
Cost efficiency ratio (adjusted) (%)	**44.2**	67.4
Post-tax return on equity (reported) (%)	**17.1**	7.7
Post-tax return on equity (adjusted) (%)	**17.1**	7.9
Common Equity Tier 1 ratio (%)	**20.6**	18.5

Profit before tax (reported/adjusted): Reported profit before tax is the profit as reported under IFRS. Adjusted profit before tax excludes the impact of notable items as detailed in the Chief Executive Officer's Review.

Outcome (reported): Reported profit before tax was higher year-on-year as a result of revenue growth across all three global businesses, supported by a higher interest rate environment . 2022 includes a one-off restructuring provision to deliver future cost savings.

Outcome (adjusted): The adjusted profit before tax for 2023 is the same as reported since there were no significant items. It is higher than 2022 due to factors mentioned in the Outcome (reported). In 2022, adjusted costs related to a one-off restructuring provision as mentioned above.

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

Outcome: The adjusted cost efficiency ratio decreased from 67% in 2022 to 44% in 2023. Adjusted costs increased by 4.3% year on year. This increase is mainly due to increase in staff costs as the bank continued to invest in people.

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

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

Outcome (adjusted): The adjusted return on equity excludes the notable items and is significantly better than 2022.

Common Equity Tier 1 capital ratio ('CET1'): represents the ratio of Common Equity Tier 1 capital comprising shareholders' equity less regulatory deductions and adjustments, to total risk-weighted assets. The group seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

Outcome: The Common Equity Tier 1 ratio improved compared to 2022 due to increased profits and higher revaluation reserves partially offset by higher capital deductions for non-performing loans as capital requirements continue to be gradually implemented.

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

Employees

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

Diversity and Inclusion

We strive to value diversity and inclusion ('D&I') to reflect our customers and community. Our values are the foundation of how we operate by valuing differences, succeeding together, taking responsibility and getting it done. We are committed to an inclusive culture where our people can be confident that their views matter, their workplace is an environment free from bias, discrimination and harassment, and where they can see that advancement is based on merit.

Our Diversity and Inclusion Committee continues to ensure that we drive our Diversity and Inclusion policies and principles through all activities including recruitment processes, learning programmes and various initiatives across the bank and Malta. In 2023, 50% of our senior leadership roles were held by women. We delivered regular career sessions to support employee development and career progression. This year HSBC Bank Malta p.l.c. was once again a proud sponsor of Pride, where again we showed our commitment to promoting and supporting the LGBTI+ community.

Well-being

Throughout the year we organised various sessions for our employees focusing on topics of interest including mental, physical and financial well-being. Flexible (including remote) working have been engrained in our work practice thereby facilitating a healthy work/life balance for our people. The employee "wellbeing allowance" through which employees can claim reimbursement for expenditure related to wellbeing initiatives was increased significantly and the breath of eligible initiatives widened.

Learning and Development

We continued to capitalise on our employee platforms and tools to facilitate employee personal development and the enhancing of skills and abilities. This was achieved through various virtual-led programs including career progression sessions, HSBC's Degreed platform, and future skills training.

Opportunities for career development continued throughout 2023 with employees applying for job opportunities across the bank and its subsidiaries. Many were promoted in the process. Succession planning for key roles is also ongoing. Three of our senior managers were selected to join the 2023 intake of HSBC's prestigious Inspire Programme tailored for individuals recognised as having the potential to become senior leaders within HSBC Continental Europe.

We submitted 13 nominations for the HBCE Energy Awards and won an award for International Collaboration. A great achievement for our people to be recognised alongside HBCE colleagues.

Attraction and retention of quality employees

The attraction and retention of talent was high on our agenda throughout 2023. Our Internship proposition was again successfully implemented throughout 2023 in collaboration with the University of Malta and other educational institutions to recruit students and provide them with a rich working experience. This year we again welcomed back several students who returned to HSBC as full time employees after completing their studies. We strongly believe in the importance of engaging with our future talent, thereby providing future pipeline for the business. Flexible (including remote) working have been engrained in our work practice thereby facilitating a healthy work/life balance for our people.

Listening to our People

Shortly following his appointment in May, the CEO hosted a series of face to face discussions with all senior managers in the presence of HR, articulating strategy and listening to feedback and any concerns keeping main focus on "our people". These meetings established a close connection across senior management and a commitment to maintain open two-way communication which is so important for our people.

We continue to run a Snapshot Survey every year to have a better understanding about our employees' needs. During 2023 , the Snapshot response rate rose to 71% from 46% in the previous year. All key indices (including overall employee engagement) registered an improvement over the previous year. A clear indication that our people focused strategy is yielding results. We will continue to focus on further improvements for 2024.

We promote a speak up culture where employees have various tools and channels they can use to speak up. In the 2023 employee survey, 72 % of colleagues stated that they are confident to speak up when they see behaviours which they consider are wrong. Furthermore 76 % of our employees stated having trust in line management. Our conduct framework and policies ensure that we deliver fair outcomes for our people to foster a healthy working environment.

Industrial Relations

Collective Agreement negotiations with the Malta Union of Bank Employees (MUBE) for the new Collective Agreement (progressed throughout the year. Agreement in principle was reached in December. Both HSBC and MUBE worked closely to secure a fair and balanced agreement incorporating enhanced pay and benefits for the 3 year period 2024-2026. HSBC and MUBE are also collaborating on a salary benchmarking exercise to ensure that pay levels across the bank compare favourably against the external market characterised by a strong demand for employees in financial services.

Guiding Principles

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

Whistleblowing

HSBC encourages a speak up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels without fear of reprisal or retaliation. However, in certain circumstances it may be necessary for individuals to raise concerns through more targeted and confidential channels. For this purpose, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing. Our whistleblowing channel, HSBC Confidential allows 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 remit of the bank's Audit Committee.

Health and safety

The maintenance of a safe place of work and business for our employees, customers and visitors is a key responsibility for all managers. The local group is committed to proactively manage health and safety risk through the identification, assessment and mitigation of hazards that may otherwise result in injury, fire events and operational failure.

Group policies, standards and guidance for the management of health and safety are set by the Global Corporate Services function. Achieving these in the local group is the responsibility of the Chief Operating Officer, with support and coordination provided by the Health and Safety Coordinator, together with Global and Regional Corporate Services.

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

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

Sustainability

Statement on Non-Financial Reporting

HSBC Bank Malta p.l.c.'s business model

Activities and strategy

The business model for HSBC Bank Malta p.l.c., showing its scope, main resources, main business areas and activities, its strategy and its prospects is set out in the presentation of activity and strategy on page 21.

Our approach to Sustainability

Our approach to Environmental, Social and Governance (ESG)

The local group as part of HSBC Group is on a journey to incorporate environmental, social and governance principles throughout the organisation, and is taking steps to embed sustainability into HSBC purpose and corporate strategy.

HSBC is guided by its purpose: to open up a world of opportunity for colleagues, customers and communities. HSBC purpose is underpinned by its values: we value difference; we succeed together; we take responsibility; and we get it done. HSBC purpose and values help the bank to deliver its strategy and unlock long-term value for its stakeholders. HSBC approach to ESG is shaped by its purpose and values and a desire to create sustainable long-term value for its stakeholders. As an international bank with significant breadth and scale, HSBC understands that economies, societies, supply chains and people's lives are interconnected. HSBC recognises that an important role can be played in helping to tackle ESG challenges. Bank efforts are focused on three areas: the transition to net zero, building inclusion and resilience and acting responsibly. The local group is fully committed to the course of action adopted by Group and presented in its strategy report - https://www.hsbc.com/investors/results-and-announcements

The local group's sustainability approach, is aligned with Group's approach which is described in the non-financial information presented in the Environmental, Social and Governance chapter which forms part of the Group Annual report and Accounts available on the Group website: https://www.hsbc.com/who-we-are/esg-and-responsible-business

Our HSBC Malta Foundation is supporting a number of projects which focus on Future Skills. The objective of Future Skills is on helping people develop their employability and financial skills in order to thrive in the modern world.

In 2023 we supported a number of Future Skills Projects. The launch of the Human Capital Research Project together with the Minister for Education and the Malta Chamber of Commerce will assist to review the local curriculum. The HSBC Malta Foundation is supporting the Human Capital Research Project through a donation of €135K. The three-year long research project, is focusing to identify current and future skills in financial services and banking, information technology, communication, professional, scientific and technical services. Once concluded, the project will contribute to Malta's ongoing competitiveness in the global economy by delivering a series of evidence-based policy recommendations.

We continued to support the Prince's Trust International Achieve Programme which has surpassed our targeted reach this year, supporting 299 newly enrolled students.

The HSBC Malta Foundation continues to support- The Maximising energy efficiency through building renovation: HSBC Case Study project with a donation of €120K. Through this foundational study, HSBC is paving the way for more advanced research and policymaking and is leading the transition towards more sustainable Maltese buildings. This project sets a precedent locally, where data on utility usage and building efficiency has been scarce compared to other European countries. Featuring its offices in Qormi as a pivotal case study, HSBC is taking a leadership role in the transition to high energy efficiency and low-carbon office buildings in Malta.

Additionally 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.

During the year, the bank continued to support the Climate Action Network ('CAN'). This is a network led by employees of the bank where different teams from across business lines and functions drive sustainable projects inside and outside the bank. We had two climate action network teams in 2023 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.

Wholesale banking activity

The potential environmental and social impacts caused by customers conducting business in any of the sectors concerned by HSBC Bank Malta p.l.c sustainability risk policies are assessed by account managers from Commercial Banking and by HSBC's designated Sustainability Risk Managers from the Credit Department, whether for risky project finance or lending transactions. Since 2020, regional Reputational Risk Managers also have had responsibility for supervising management of sustainability risks.

The sectors identified from the HSBC Group 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. Sustainability risk policies set up by the local group are regularly reviewed to improve the bank's risk management.

More information on HSBC sustainability risk policies https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk

Energy policy

The Energy policy, refreshed in January 2024, covers the Oil & Gas and Power & Utilities sectors as well as hydrogen activities. The Energy policy seeks to balance three related objectives:

Drive down global greenhouse gas emissions; enable an orderly transition that builds resilience in the long term; and support a just and affordable transition.

HSBC reviews the Energy policy annually to ensure it remains aligned with its net zero by 2050 commitment and strategic objectives. The annual review includes considerations of changes in relevant external factors.

HSBC Bank Malta p.l.c. forms part of HSBC Continental Europe and adopts the same policies and practices insofar as they are applicable to its business model. There is no Global Banking activity in Malta, all wholesale banking activity is carried out by Commercial Banking.

For more details, visit HSBC's website:

https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk

Thermal coal phase-out policy

HSBC Group is committed to phasing out the financing of coal-fired power and thermal coal mining in EU and OECD markets by 2030, and globally by 2040. The thermal coal phase-out policy is reviewed annually to ensure it remains aligned with HSBC Bank Malta p.l.c.'s commitments and takes into consideration any changes in external factors.

For more details, visit HSBC's website:https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk

Exposure to thermal coal

HSBC Group intends to reduce thermal coal financing drawn balance exposure by at least 25 per cent by 2025 and is aiming for 50 per cent reduction by 2030.

Its approach to screening clients and transactions is designed to capture and report its exposure to thermal coal, in alignment with its thermal coal policy. HSBC Bank Malta p.l.c. is in scope of this reporting but it has no exposure to this sector.

Measuring our financed emissions

HSBC Group announced its ambition to become a net zero bank in October 2020, including an aim to align its financed emissions to net zero by 2050 or sooner. It plans to publish initial financed emissions targets for 2030, and in five-year increments thereafter. It remains committed to working with its customers to support their journey towards a net zero future, and deploying capital towards decarbonisation solutions for the most emissions-intensive sectors.

For further details on our approach to financed.emissions, see https://www.hsbc.com/who-we-are/our-climate-strategy/tracking-the-emissions-we-finance#:~:text=Our%20net%20zero%20ambition%20means,zero%20by%202050%20or%20sooner.

Evolving approach

HSBC Bank Malta p.l.c. as part of HSBC Group believes methodologies for calculating financed emissions and setting targets should be transparent and comparable, and should provide science-based insights that focus engagement efforts, inform capital allocation and develop solutions that are both timely and impactful. The Group continues to engage with regulators, standard setters and industry bodies to shape its approach to measuring financed emissions and managing portfolio alignment to net zero. It also works with data providers and its clients to help it gather data from the real economy to improve its analysis. Scenarios used in the analysis are modelled upon assumptions of the available carbon budget and actions that need to be taken to limit the long-term increase in average global temperatures to 1.5°C. HSBC expects scenarios will continue to evolve based on assumptions including technology development and adoption, shifts in the energy mix, behavioural changes, and implementation of policy levers. Scenario updates will also reflect progress in the real economy and improvements in the usability, accuracy and granularity of pathways.

HSBC plans to refine its own analysis of financed emissions as industry guidance on scenarios, and data and methodologies more broadly, evolve in the years ahead.

For further details of the Group's approach and methodology, see the HSBC net zero Aligned Finance Approach Update and Financed Emissions Methodology available on the Group website at https://www.hsbc.com/who-we-are/esg-and-responsible-business.

Embedding net zero transition into the wholesale business

HSBC Bank Malta p.l.c. as part of HSBC Group is working with customers to capture holistic information on their exposure to the transition to net zero emissions, and the risks and opportunities in five key areas (emissions, reduction targets, plans, transition risks, physical risks). Higher risk customers are assessed through a Transition Engagement Questionnaire that feeds into a new Climate Score together with external data sources, and supports commercial decision-making and credit assessments, pricing and capital allocation. Lower risk customers are given a proxy score and Financial Institutions Group ('FIG') / Intermediate Capital Group ('ICG') customers a composite score. The score is used to support commercial decision-making and provides a quantitative value that helps embed climate risk into credit assessments.

More information in "HSBC Bank Malta p.l.c. - Pillar 3 Report 2023"

Building employees' expertise in sustainable finance

Commercial Banking has maintained the region-wide Sustainable Finance Country Representative Network. These representatives obtain access to information, training and external certification, 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. In 2023, Commercial Banking also pursued dedicated training pathways with an external partner: one on European Taxonomy (5 modules) and one on Energy transition and sustainable finance (12 modules). For all employees, Commercial Banking also introduced additional support materials, an interactive instructor-led workshop, and a 'Commercial Banking Sustainability Leader Certification' scheme to further support and recognise employee upskilling.

Insurance activity

HSBC Life Assurance (Malta) Ltd. ("HSBC Life") adheres to the HSBC Insurance Sustainability Policy which during H2 2023 this was turned into procedures set out at the level of HSBC Group Insurance. These procedures are reflected into HSBC Life's Investment Policy, where these are geared towards ensuring that sustainability risks are integrated into the investment decision-making process.

In so far as direct investments are being made by HSBC Life and/or HSBC Global Asset Management (Malta) Ltd ("HSBC Asset Management") for and on behalf of HSBC Life pursuant to an investment management agreement entered into to this effect (thereby excluding mutual funds, or passive strategies replicating an index, etc.), HSBC Life adopts and implements negative screening practices which are intended to restrict or prohibit investments in selected securities where these do not meet the sustainability standards established in the Sustainability Procedures. These restrictions / prohibitions in turn align with the HSBC Group's stand-alone Sustainability Risk Policies which relate to: Agricultural Commodities, Chemicals Industry, Energy, Forestry, Mining and Metals, Thermal Coal Phase Out, World Heritage Sites and Ramsar Wetlands, and Defence Equipment Policies.

In addition, HSBC Life's appointed asset manager, HSBC Asset Management abides by the Responsible Investment Policy which outlines its approach to responsible investing. Also, HSBC Asset Management abides to the Engagement Policy, which outlines the approach to monitor and engage with issuers, and applicable voting guidelines / restrictions implemented.

As for those instances where HSBC Life is directly investing in collective investment schemes (which are in turn administered by asset managers exercising exclusive discretion to invest in other underlying securities and/or funds), HSBC Life seeks to primarily, but not necessarily exclusively, engage and work with those asset managers who are signatories to the Principles for Responsible Investment ("PRI") and/or others who have sustainability integration and investment stewardship practices in place. These asset managers need to be able to demonstrate, to Group Management Solution's satisfaction, the adoption and implementation of sustainability principles and standards in the course of their respective investment decision-making processes.

HSBC Life has taken steps to comply with the Sustainable Finance Disclosure Regulation (SFDR), by updating the SFDR Entity disclosure and published the Principal Adverse Impact (PAI) statement. The PAI statement provides detailed insights into our approach, metrics, impacts, explanations, and any planned actions for each adverse sustainability indicator identified. This comprehensive disclosure covers a wide range of environmental, social, and governance risks, with particular emphasis on climate and environment-related concerns, employee well-being, human rights, and anti-corruption measures.

Integrating sustainability criteria into compensation

As in the preceding year, the programs ranged from raising awareness, to developing technical skills for front line and specialist roles within our control functions and business lines. The programs also focused on building a network for participants to promote intra Group collaboration in transforming HSBC into a net zero bank. Employees were also encouraged to personally participate in any one sustainability initiative to effectively connect theory with hands-on experience. For the second year running, members of the Climate Committee delivered several webinars in relation to Sustainability as well as direct engagement in HSBC Continental Europe led Sustainability initiatives. Furthermore, a few of our colleagues studied for relative qualifications including the Award in Environmental, Social and Corporate Governance (ESG) (Institute of Financial Services – Malta) and the Chartered Banker Certificate in Green & Sustainable Finance.

Leadership and Soft Skills training were also delivered throughout 2023 in addition to technical training related to specific roles. In addition, the bank also continues to support the upskill of its people through external education.

In a rapidly changing banking landscape, HSBC Bank Malta p.l.c. aims to respond to the shift in employment patterns by attracting, recruiting, and integrating the best talent. To support its development and the creation of a stronger workforce, the bank hires employees from a variety of backgrounds to contribute to the bank's various business lines. Attrition rate for HSBC Bank Malta p.l.c. has stabilised at 6.5% throughout 2023 which is within the target attrition rate of 7% for HSBC Continental Europe. In this context, strong succession plans are reviewed on an annual basis for senior management/critical roles and talent future leaders.

Job opportunities are initially advertised internally, in line with the Collective Agreement with the recognised union, enabling employees to develop their career across HSBC Bank Malta p.l.c., its subsidiaries or group.

In 2023 we continued to offer internships in collaboration with MCAST/University/JAYE. These programmes encourage students to discover various roles within our various business areas while acquiring cutting-edge skills.

Flexible working culture across HSBC Bank Malta p.l.c. intends to continue taking broader initiatives to foster a hybrid working culture across all the countries in which it operates. The goal for the bank is to cultivate flexibility, collaboration, learning and staff wellbeing in on-site and remote workplaces, while ensuring that the social and collaborative bond within the team is preserved and developed.

As one of the leading employers, our main aim is to build an HR policy that helps to develop the employability of staff members, while helping them to achieve their full potential for the bank. In an environment where potential expresses itself in many ways, HSBC Bank Malta p.l.c. is convinced that managing difference and integrating it into the organisation can truly add value. It places a particular emphasis on diversity in all its various forms, particularly regarding gender, age, skin colour, social origin, religion, disability, sexual orientation, appearance, and opinions. All employees should be able to be themselves, in an organisation that values different profiles and opinions. Making this diversity a real strength is a major priority for the local group.

HSBC Bank Malta p.l.c. believes that diversity makes our business stronger. The challenge is to foster and make the most of those differences with the aim of creating internal cohesion, increasing motivation and engagement, and making employees proud to be part of the Group.

Retail banking activity

Retail sustainable solutions have been accelerated by rolling out PVC cards made up of 100% recycled material, issuing them to customers needing new or replacement cards. The recycled PVC plastic card action is expected to reduce CO2 emissions and save tonnes of plastic waste per year as part of our net zero strategy.

In addition, investment in our digital platforms supported strong growth in digital service adoption with 95% of retail transactions executed through online banking channels. We continued to deliver on our commitment to migrate more customer documentation from paper to digital with over 20,000 customers migrated from paper to digital statements.

Contribution from the Retail banking to sustainable financing

HSBC Bank Malta p.l.c. has been active in sustainable finance for almost 20 years and offers attractive rates on Energy Efficiency Loans. In 2023, the Retail Credit Risk function has continued to consider, incorporate and assess climate risk for the Retail real estate portfolio in consideration of the European Central Bank's: Guide on climate related and environmental risks. For transition risk, the property energy performance details were integrated into the information recording process and now allow for monitoring of the Energy Performance Certificate Rating distribution within new lending.

For the physical climate risk impact, flooding risk-based metrics were incorporated into the regular internal reporting and the policy was enhanced to take into consideration this potential risk.

The local group also offers a range of Socially Responsible Investments (SRI). The multi asset funds in the HSBC Responsible Investment Fund (HSBC RIF) range which are offered locally are house in a single French registered SICAV. They cater for various risk profiles and are all certified with the French SRI label.

This diversified SRI range combines an SRI investment process with multi-asset investment expertise. The best-in-class SRI approach is led by managers and analysts who use proprietary tools and a comprehensive Global ESG research platform to ensure the consistency in investment decisions.

Through our Investments and Wealth Solutions team, HSBC Bank Malta p.l.c. implemented a new financial advisory solution to ensure more granular sustainability preferences are taken into consideration during the provision of investment advice. The Strategic Financial Planning tool, which is used during the provision of financial advice has been enabled to automatically filter ESG products that meet customer sustainability preferences. HSBC Bank Malta p.l.c. is actively campaigning through letters, emails, social media etc., to encourage customers to undertake a financial planning review and provide us with their sustainability preferences. Investments into sustainable funds continued to grow, and as of 31 December 2023, Assets Under Management in Sustainable Funds have exceeded €34 million.

In addition, HSBC Bank Malta p.l.c. offers funds, such as the HSBC GIF Global Lower Carbon and Equity Funds, with the aim of reducing exposure to intensive carbon activities and reducing exposure to intensive carbon activities and reducing the carbon footprint. The investment process enables the assessment of a portfolio of companies, the identification and classification of the most attractive firms in the investment world.

HSBC Asset Management's approach to ESG

HSBC Global Asset Management (Malta) Limited as part of HSBC Global Asset Management continues to strengthen its sustainability proposition, globally driven by the Sustainability Office and Responsible Investment teams across both traditional assets and Alternatives.

The Sustainability Office, established in 2021, is responsible for the delivery of HSBC Asset Management's global sustainability strategy including voluntary commitments, policy, implementation, assurance and the business-wide transition to sustainable investing. The team also drives the people-focused initiatives, including Diversity, Equity and Inclusion (DE&I), as part of its ambition to embed a human sustainability culture.

Within the investments function, the Responsible Investment team oversees the integration of ESG risks and opportunities into the investment process (as applicable depending on the product), the climate investment strategy, as well as the firm's Stewardship and Engagement activity for investment management teams globally. It also leads the development of new ESG, climate change and thematic products and solutions, working closely with the Sustainability Office and the investment platform. An addition to its investment capabilities is the creation of the Sustainable Investment Solutions Lab (SISL). SISL will co-ordinate and lead the development of sustainability and climate metrics and tools supporting solutions for clients and products, and will become operational at the start of 2024. The Alternatives Responsible Investment team is responsible for ESG integration across non-traditional asset classes and works closely with the above three teams to ensure alignment and cross-fertilisation of best practices.

In addition to ESG-focused governance meetings for traditional asset classes, sustainability is included in the agenda of global and local forums such as Executive Committees, Risk Management Meetings and New Business Committees.

Policies and engagement

In November 2023, HSBC Asset Management published its own energy policy. The policy aligns with its commitment under the Net Zero Asset Managers initiative to support investing aligned with net zero greenhouse gas emissions by 2050 or sooner. Under the policy, HSBC Asset Management will engage with and assess the transition plans of oil and gas, and power and utilities companies held in its portfolios, amongst those responsible for around 70 per cent of greenhouse gas emissions related to its holdings. Its Alternatives business will not undertake new direct investments in projects associated with energy activities that are identified as excluded from new finance or advisory services under the HSBC Group energy policy. For its range of active fundamental sustainable named funds, HSBC Asset Management will exclude listed issuers whose overall operations are largely in unconventional oil and gas activities, subject to data availability, due diligence and with the level and scope of exclusions to be set out in fund prospectuses. Data relating to unconventional oil and gas activities is available for arctic oil and gas, oil sands and shale oil. HSBC Asset Management completed an annual review of its thermal coal policy, publishing an updated policy which included additional metallurgical coal requirements.

HSBC Global Asset Management (Malta) Limited adopts the global policies and standards for investee companies on its stewardship priority list, engaging to better understand and support their practices in terms of climate reporting, the management of risks and opportunities related to climate change.

HSBC Asset Management's engagement approach applies to both equity and fixed income issuer companies. Prioritisation of engagement activity is made on the basis of scale of holdings, importance of the issues concerned, and the overall exposure to ESG issues, as set out in HSBC Asset Management's Global Stewardship plan.

* *For the Global Stewardship Plan, see https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/-/media/files/attachments/uk/policies/stewardship-plan-uk.pdf*

HSBC Asset Management's sustainable investment offerings

HSBC Asset Management is committed to its strategic focus on climate products and solutions and on its net zero commitment.

HSBC Asset Management is committed to further developing its sustainable product range across asset classes and strategies as well as enhancing its existing product set for ESG criteria where it is in the investor's interests to do so.

Disclosures

HSBC Asset Management as a Group was an early Principles for Responsible Investment ('PRI') signatory in 2006 and thus report annually on responsible investment activities and how PRI principles are covered as part of the HSBC Asset Management investment processes. This has enhanced the firm's management and understanding of material ESG issues and has provided transparency for clients. As required under the Net Zero Asset Managers ('NZAM') initiative commitment, HSBC Asset Management reported an update through the PRI annual submission.

HSBC Asset Management through its global Sustainable Office seeks appropriate disclosure by the entities in which its portfolio invest. For example, HSBC Asset Management has engaged with relevant companies on its priority list on climate disclosure since 2020 and encouraged them to disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD'). This not only allows companies to better manage and ultimately reduce emissions but has also enhanced HSBC Asset Management's ESG investment analysis.

ESG integration process

Consideration of relevant ESG factors, and stewardship across HSBC Asset Management's equity and fixed income holdings, can help support risk mitigation and long-term value creation for HSBC clients. Investment analysts and portfolio managers identify and manage ESG risks and opportunities and consider ESG issues within HSBC Asset Management's research and active investment processes. Locations within HSBC Asset Management will be guided by the principles set our, however the level of application may vary and is dependable on the availability of the data of local issues and applicability to the Fund's strategy. ESG considerations are typically part of HSBC Asset Management's security analysis alongside fundamental financial analysis. HSBC Asset Management strives to identify E, S and G factors which may have a potential material impact today or in the future.

Voting and shareholder engagement

HSBC Asset Management has publicly available global responsible investment policies and publishes its stewardship and voting approach. Through understanding how companies and issuers manage their environmental and social impact, and how they operate and interact with stakeholders, HSBC Asset Management aims to add value by identifying important ESG risks and opportunities. Effective use of voting rights also incentivise positive corporate development, drive behavioural change, and hold company directors accountable when they do not meet its expectations. Engagement with companies set out in the HSBC Asset Management Global Stewardship Plan priority list is part of the research process and long-term investment approach at HSBC Asset Management. Equity and credit analysts from the active management teams, together with portfolio managers, are in direct contact with relevant issuers and follow up ESG issues as part of their research and discussions.

- Different investment approaches have very different associated ESG risks and opportunities. Implementation of ESG integration will therefore depend on the investment strategy employed alongside the fund prospectus and/or client agreement. For passive and equity indexing funds & mandates, ESG activity is principally focused on stewardship as security selection is determined by the index. For quantitative strategies, ESG factors may be amongst those included in security selection but ESG activity is otherwise limited to stewardship. In addition, local market data availability limitation is much higher than in other countries. Multi asset portfolios invest in a range of asset classes and strategies, including third party funds, that have various levels of ESG activity from security selection to stewardship. For Liquidity, HSBC Asset Management offers specific strategies which incorporate ESG factors in security selection through a combination of positive and negative screening. Liquidity strategies rely on HSBC Asset Management's credit process which incorporates ESG risks alongside other factors in the fundamental credit analysis.

Building employees' expertise in sustainable finance issues

To encourage employees to develop their expertise around sustainable finance and investment challenges, HSBC Asset Management has organised a series of global initiatives:

- HSBC Asset Management collaborated with Fitch Learning and rolled out ESG Investing Fundamentals and Advanced certifications and assigned these to a number of colleagues within Asset Management.
- HSBC Asset Management also supports its employees in obtaining external certifications, such as the CFA Certificate in ESG Investing.
- Responsible Investment Talks led by the Global office were held with internal experts and external speakers, aimed at educating HSBC Asset Management's employees on sustainability issues. Topics covered in 2023 were Sustainability Governance and ESG Regulation Developments and Global Greenwashing Risk.
- Mandatory Sustainability Objectives were set for staff in Investments alongside a dedicated upskilling Degreed training programme.

Operational carbon footprint and pathway to net zero

During 2023, HSBC continued to focus on Sustainability and driving our Net Zero targets. Material progress was achieved in the reduction of Carbon Emissions (16% reduction from 2022 levels) , Energy Consumption (10% lower than 2022) and Paper Consumption (11% reduction from 2022 levels) through ongoing initiatives. These include using low carbon materials for construction through innovative concrete production, reusing existing HSBC furniture from other sites, and encouraging customers to switch from paper correspondence to using digital channels. Our ESG and Net zero strategy also includes a Green Travel plan and Eat Well Live Well initiatives for employees among others.

The biggest impact on our carbon footprint is our property portfolio management and during the past year we have continued major works on the HSBC HUB which is transforming our office buildings in Qormi. The HSBC HUB is the largest capital expenditure project for HSBC in Europe, creating innovative, sustainable, and modern space for our customers and HSBC colleagues, with one of the largest single floor office spaces in Malta (over 2,330sqm). The project has successfully progressed with the first phase of the project opening its doors on the 22nd of January 2024, welcoming 230 colleagues and offering multi-use meeting rooms and conference spaces. As part of the HSBC HUB project we are delivering a number of Net Zero initiatives, such as hybrid working which reduces our office portfolio by 30%, energy saving installations including ambient temperature control setting, LED lighting, sensors across the floors and meeting rooms and double glazing windows, measures to reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings, waste and paper reducing initiatives and electric car charging facilities. The upcoming HSBC HUB Phases (in 2024-2025) will include a solar farm which will potentially provide for the largest part of our electricity needs in future years. The project is aiming for Gold or Platinum status LEED accreditation and is already well on track to meet these requirements.

Greenwashing and unfair business practices

Greenwashing approach

The risk of greenwashing is considered at HSBC as an important evolving risk which is likely to increase over time in an evolving regulatory environment context mainly in Europe resulting from an increase of expectations and scrutiny in relation of ESG risk.The risk of greenwashing is defined as knowingly, or unknowingly misleading stakeholders in relation to the bank's sustainability commitment or targets, products or services offered to clients stated sustainability objectives, or the climate commitments or performance of HSBC customers which are not aligned to HSBC commitments. It can materialize across all businesses, and functions and can lead to reputational damage, regulatory censure and/or litigation.

Business practices framework

For HSBC, best practice consists of taking actions and making decisions that are fair for its customers and do not disrupt the proper and transparent operation of financial markets. These principles are essential to ensure long-term success and provide the best service to HSBC Bank Malta p.l.c. customers. To achieve this, the bank has clear directives, frameworks and governance principles covering its culture, its behaviour, the design of products and services, training and remuneration of employees, interactions with customers and internal communication.

All HSBC employees have to act with integrity, take responsibility and accountability as detailed in HSBC Conduct Approach which is the central reference to guide colleagues to understand the consequences of good or poor decisions for customers and other stakeholders. In 2022, the refreshed Conduct Approach was aligned to one of the refreshed values 'We Take Responsibility' and structured around five outcomes to be achieved for customers and markets in a simplest and understandable approach.

In 2023, all lines of businesses and functions have conducted a conduct self-assessment ensuring to be well-aligned with the Purpose Led Conduct Approach. Employees performed a Group mandatory conduct training "Creating value Together" launched during the last quarter of 2023, achieving a rate of complexion of 97 per cent.

Preventing the risk of corruption

HSBC is committed to high standards of ethical behaviour and operates a zero-tolerance approach to bribery and corruption. We consider such activity to be unethical and contrary to good corporate governance and require compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which we operate. We have a Global Anti-Bribery and Corruption Policy which gives practical effect to global initiatives such as the Organisation of Economic Cooperation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact. In regard to combating corruption, HSBC Continental Europe is committed to complying with France's Sapin 2 Law and to adopting a zero-tolerance attitude to corruption.

HSBC Bank Malta p.l.c. has implemented a Compliance programme applying to all its activities with the objective to strengthen the HSBC Bank Malta p.l.c.'s anti-bribery and corruption ('AB&C') framework and align it with the requirements established by the Law. The programme enabled the enhancement of the HSBC Bank Malta p.l.c.'s corruption risk mapping, the identification and deployment of accounting controls to prevent and detect bribery and corruption, the implementation of AB&C Customer and Third-Party Due Diligences,the update of local Policy and procedures or the publication of specific Codes of conduct.

More information about HSBC anti-bribery and corruption policies at https://www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies

Preventing the risk related to tax evasion

HSBC is committed to complying with the letter and spirit of all acceptable tax laws. The Global Anti-Tax Evasion Facilitation Policy sets out the key principles and minimum control requirements to apply a consistent and standardised approach to both managing the risk of customer tax evasion. In this regard HSBC has reasonable procedures in place designed to prevent tax evasion facilitation by any third party acting on behalf of HSBC.

HSBC Bank Malta p.l.c. is committed to acting with integrity and conducting activities in accordance with all applicable laws and regulations relating to financial crime risks as well as the standards set out by HSBC in its Global Tax Anti-Facilitation Policy.

The bank's Risk Management Framework ('RMF') sets out the responsibilities of employees, depending on whether they are Risk Owners, Control Owners, Risk Stewards, or other, for managing risk, including tax evasion risk. The RMF makes it clear that there must be a clear segregation between risk ownership, i.e. First Line of Defence, risk oversight and stewardship, and independent assurance to help support effective identification, assessment, management, and reporting of risks. The material tax evasion risks that the bank faces are:

- Customer tax evasion – the risk that the bank's products or services are associated with customer tax evasion and the risk that employees facilitate customer tax evasion;
- Facilitation by third parties and Associated Persons ('APs') – The risk that third party APs (excluding employees) facilitate tax evasion while acting for or on behalf of the bank;
- Product risk – The risk that the bank's products or services are designed, or could be seen as designed, to facilitate customer tax
- evasion;
- Payments to employees – The risk that the bank (or the bank acting through its third party APs) assists in structuring remuneration, allowances, benefits or business expenses in a way which facilitates evasion of tax by the employee;
- Payments to third parties – The risk that the bank (or the bank acting through its third party APs) assists in structuring payments to third parties for products or services in a way which facilitates the third party (including non-APs) to evade tax. The scope includes contractors, personal service companies, and 'umbrella' companies;
- Strategic transactions including acquisitions or disposals of shares, securities or partnership interests by HSBC Group entities – The risk that employees or other APs appointed by the bank assist in structuring a transaction in a way which facilitates tax evasion by a counterparty.

The bank's Global Anti-Tax Evasion Facilitation Policy aims to ensure that HSBC's banking services are not associated with any arrangement known or suspected to be designed to facilitate tax evasion.

Key controls to mitigate these risks include assessing the integrity of customers, third parties, new or significantly modified products, and strategic transactions to identify and assess these risks. the drafting of contractual clauses in contracts with third parties, the implementation of controls on supplier processes, the training of employees at the global level supplemented, where appropriate, by training of local teams, and incentives for whistleblowers. In addition, the bank maintains a dashboard dedicated to the risk of tax evasion to monitor the management of this risk. This dashboard includes a series of control indicators and key risk indicators related to tax evasion and is monitored on a monthly basis.

Cybersecurity and IT attacks

HSBC Bank Malta p.l.c., in common with other organisations, is subject to a growing number of increasingly sophisticated cyberattacks that can in some instances affect its operations, including the availability of digital facilities for customers. The bank's IT security system is crucial for the proper functioning of its banking services, the protection of its customers and of the HSBC brand. With the aim of maintaining it at its best possible level, HSBC Bank Malta p.l.c. continues to strengthen its technical resources, its monitoring systems and its governance to prevent and withstand the growing threat from cyber-attacks.

The cyber threat is a top priority for the management team and is the subject of regular communication and discussion in order to ensure the appropriate visibility, governance and support for HSBC cybersecurity programme. HSBC Bank Malta p.l.c. did not disclose moderate, major or extreme incidents in 2023. The Bank achieved its goal to prevent any significant cybersecurity incidents, However, in 2023, whilst not significant as per HSBC Risk Prioritisation Matrix, 2 Cyber incidents in scope for Malta were notified to the European Central Bank ('ECB'). All were impacting HSBC third parties.

EU Taxonomy economic performance indicators[1,3]

Climate change mitigation and climate change adaptation objectives and the non-climate environmental objectives[1,3]

In order to meet the European Union's ('EU') climate and energy targets for 2030, the European Commission ('EC') has created the EU Taxonomy classification system for environmentally sustainable economic activities. The EU Taxonomy provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In 2021, the EC adopted the Delegated Act Supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act')[2,3] followed by an amendment to the Delegated Act in 2022 to include certain energy sectors and in 2023 the EC amended the Disclosures Delegated Act to align the disclosure requirements with the Environmental Delegated Act. Under these regulations, HSBC Bank Malta p.l.c. is therefore required to provide information to investors about the environmental performance of its assets and economic activities.

In the first two years of disclosure from 2021, information was provided on the bank's counterparty exposures towards Taxonomy 'eligible' economic activities, in respect of total on-balance sheet assets. This was reported on the basis of the local group's prudential consolidation in each respective reporting period.

In this disclosure, as required from 1 January 2024, information is presented on Taxonomy-alignment of economic activities (i.e. disclosure of the key performance indicators) where Taxonomy 'eligible' economic activities are assessed to determine whether they are environmentally sustainable (i.e. Taxonomy 'aligned') against technical screening criteria.

In 2024, under the Disclosures Delegated Act, the bank is not required to report KPIs with comparative information in the first year of reporting. Accordingly, comparative information has not been reported.

Scope of consolidation

The Taxonomy KPIs in the templates presented are calculated based on exposures and balances within the local group's prudential scope of consolidation as at 31 December 2023. Therefore, the Bank's EU Taxonomy KPIs comprise assets and activities relating to HSBC Bank Malta p.l.c. and HSBC Global Asset Management (Malta) Ltd. HSBC Life Assurance (Malta) Ltd is excluded from the scope of prudential consolidation.

EU Taxonomy KPIs disclosed and Reporting Limitations

The following KPIs are reported in the templates presented.

The green asset ratio ('GAR') is a ratio calculated as the percentage of EU Taxonomy-aligned assets as a proportion of total covered assets.

- The numerator of the GAR includes loans and advances, debt securities, equities and repossessed collateral financing taxonomy-aligned economic activities based on turnover KPI and CapEx KPI of underlying assets.
- The denominator of the GAR includes total loans and advances, total debt securities, total equities and total repossessed collaterals and all other covered on-balance sheet assets.

The calculation of KPIs for off-balance sheet exposures includes financial guarantees granted by the bank and assets under management, reported both in Template 1 relating to GAR as off-balance sheet items and also in Template 5 as off-balance sheet items in their own right. Other off-balance sheet exposures such as commitments are excluded from both KPIs.

The green ratio for financial guarantees to financial and non-financial undertakings ('FinGuar KPI') is calculated as the percentage of guarantees supporting loans and advances and debt securities financing Taxonomy-aligned economic activities as a proportion of total financial guarantees.

The green ratio for assets under management ('AuM KPI') is calculated as a percentage of assets under management from undertakings financing Taxonomy-aligned economic activities.

On 21st December 2023, the European Commission published a Draft Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation. This notice includes a number of clarifications on and for the implementation of the requirements provided for by the Disclosures Delegated Act. These requirements have been complied with as far as possible, however, this notice is still in a draft form and is not yet applicable and binding for the 2023 disclosure. Given the very short period between the publication of such notice and the publication date of the HSBC Bank Malta p.l.c.'s results, it has not been operationally possible to implement all aspects of the notice in time for this reporting year. As a result, the following KPIs are excluded from this report:

- Separate KPIs for the local group's respective asset management and insurance activities, pertaining to Annex III and Annex IX of the Disclosures Delegated Act respectively, in addition to the bank's activities as a credit institution.
- The inclusion of a consolidated group-level KPI in the form of a weighted average of the corresponding KPIs for each business segment in the contextual disclosures.

In addition, Template 4 'GAR KPI Flow', and Template 5 'KPI off-balance sheet exposures', on a 'flow' basis, of Annex VI of the Disclosures Delegated Act have also not been disclosed given the recency of the above-mentioned Draft Commission Notice.

KPI: Green Asset Ratio

Total covered assets

The calculation of the Taxonomy on-balance sheet KPIs include on-balance exposures covering loans and advances, debt securities and equity instruments not held for trading and repossessed collateral. This includes exposures to undertakings such as large EU banks, asset managers, insurance companies and issuers that are in scope of Articles 19a or 29a of Directive 2013/34/EU4 ('NFRD').

Retail exposures except for the mortgage lending portfolios, credit consumption loans for cars and building renovations loans are excluded from the Taxonomy framework and not assessed for Taxonomy eligibility. On this basis, these exposures are included within the category of "Other assets''.

Taxonomy-eligible and aligned economic activities.

Taxonomy-eligible economic activities are those activities which can be assessed as environmentally sustainable. Taxonomy-aligned economic activities are those activities which have been assessed as environmentally sustainable.

Eligibility and alignment of general purpose lending where the use of proceeds is unknown, have been assessed using the turnover and CapEx eligibility and alignment ratios published in the most recently available annual reports by the bank's counterparties in scope of NFRD.

Eligibility and alignment of specific purpose lending, where the use of proceeds is known, such as retail loans collateralised by residential immovable property, building renovation loans, and motor vehicle loans, have been assessed in line with the technical screening criteria established in the EU Taxonomy, comprising 'substantial contribution' and 'do no significant harm' criteria, along with compliance with minimum safeguards, the latter not applicable to households and public authorities.

In certain cases, the bank is unable to obtain the required information from counterparties. For example, financial undertakings are only required to disclose KPIs in accordance with the EU Taxonomy for the first time in 2024, therefore at the time of publication, such counterparty data is not available and exposures to financial undertakings can only be assessed for eligibility and not alignment.

In all templates, 'Environmentally sustainable assets' refers to Taxonomy aligned assets.

Taxonomy non-eligible economic activities

Taxonomy non-eligible economic activities are those activities which cannot be assessed as environmentally sustainable. This relates to exposures towards activities which are not covered by the EU Taxonomy framework.

Assets excluded from the numerator for GAR calculation (covered in the denominator)

Exposures to undertakings not in scope of NFRD

Exposures to undertakings that are not obliged to publish Non-Financial Reporting information have been excluded from the assessment of Taxonomy-eligible economic activities. These exposures are excluded from the numerator of the GAR but included in the denominator.

Derivatives

Derivatives in the banking book are excluded from the numerator but included in the denominator of the total GAR.

On demand interbank loans

On demand interbank loans are on-demand loan exposures with other credit institutions. These are excluded from the numerator but included in the denominator of the total GAR.

Cash and cash-related assets

Cash and cash-related assets are excluded from the numerator but included in the denominator except for cash with central banks which is not covered by the GAR calculation.

Other assets

Other assets include other retail exposures not covered by the Taxonomy framework, cash, tangible and intangible assets, all of which are excluded from the Taxonomy framework and therefore cannot be assessed for Taxonomy eligibility. Other assets are included in the total assets used in the denominator for the calculation of the ratios.

Assets not covered for GAR calculation

Assets not covered in the GAR calculation are excluded from both the numerator and denominator.

Central governments and Supranational issuers

Exposures to central governments and supranational issuers are out of scope for the GAR calculation. Lending to or financing of local governments where the use of proceeds is unknown (i.e. general purpose lending) is also excluded from the numerator and the denominator of the GAR and these exposures have been included as part of Central governments and supranational issuers.

Central banks

Exposures to Central banks includes cash held and all other banking exposures with central banks. These are out of scope for the GAR calculation.

Trading book

Trading derivatives are included in the Trading book, as are trading exposures to central governments, central banks and supranational issuers. These are out of scope for the GAR calculation.

Data limitations

HSBC Bank Malta p.l.c. is dependent on several data sources to determine exposures subject to NFRD and calculate Taxonomy ratios. Availability of data and improvements in data quality over time, as firms adopt the Taxonomy requirements for their own disclosures, could lead to differences in the data reported in future years as compared to the current year.

The local group will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as we develop our capabilities to assess the Taxonomy alignment of our portfolios.

Eligibility by environmental objective

Prior to the release of amended templates published by the EC in June 2023, non-financial undertakings were not required to report taxonomy eligibility of an economic activity by environmental objective. However, since the publication of revised templates, non-financial undertakings will be required to report taxonomy eligibility split by environmental objective from 1 January 2024. As a result, at the time of publication, taxonomy eligible KPIs by environmental objective for the bank's non-financial counterparties are not available. In order to meet the requirement to report based on actual information provided by counterparties, only total eligibility (CCM+CCA) will be reported in the relevant templates without disclosing separately in the columns for each of the environmental objectives.

Non-financial counterparty eligibility and alignment data

HSBC Bank Malta p.l.c. is highly reliant on published counterparty eligibility and alignment ratios to assess eligibility and alignment of exposures. The bank places reliance on 3rd party data vendors to collect the majority of the eligibility and alignment data used in KPI calculations. A number of checks and controls are operated to validate any data used and this has identified that counterparty data quality and consistency is variable. Controls in place include checking for template mathematical accuracy, checking enabling and transitional activities reported are consistent with the EU Taxonomy framework, checking for incomplete data, and checking for consistency of calculations across counterparties. For issues identified with incomplete data, where sufficient data is available, reasonable assumptions are made. Otherwise reporting is simplified where required or, as a last resort, the data is not used. Where there is sufficient information to identify the cause of a mathematical error, or a reasonable assumption can be taken, mathematical errors are corrected. Some counterparties calculate ratios using a different calculation methodology and, in these cases, where sufficient information is available to do so, the data is normalised so that data between counterparties is comparable and can be used consistently across calculations.

Exposures subject to the Non Financial Reporting Directive[2,3]

In determining the methodology for identifying exposures subject to NFRD it has been necessary to make some judgements, considering data availability. Methodologies will develop over time to align with changes in market practice and regulation. In particular, detailed below are key judgments and assumptions made:

Counterparties which are subject to NFRD are large public interest undertakings with more than an average of 500 employees during the financial year and incorporated within the European Union. Due to data limitations, for some of counterparties, it has not been possible to assess all the criteria required to determine the NFRD status. Instead, reliance has been placed upon a simplification using the available internal data, as well as data provided by third party vendors. The counterparty data considered in making an assessment included, where available: country of incorporation, customer group by global business segment, turnover, balance sheet size, number of employees, and ultimately, availability of NFRD and Taxonomy reporting.

For NFRD counterparties that have taken the exemption to report at subsidiary level because they are included in the consolidated reporting of their parent, the parent's Taxonomy KPIs have not been relied upon unless the parent undertaking has clearly stated that the relevant subsidiary has taken the exemption option to report Taxonomy KPIs.

Household exposures

Loans to households collateralised by residential property and loans to households for building renovations have been assessed as eligible under the Climate Change Mitigation objective in accordance with the definition of activities 7.1 to 7.7 in the Climate Delegated Act. Loans to households for the purchase of motor vehicles, where granted after 1 January 2022, have been assessed as eligible under the Climate Change Mitigation objective in accordance with the definition of activity 6.5 of the Climate Delegated Act. However, there is insufficient data available to fully assess any of these exposures for alignment against the technical screening criteria and in particular, the do no significant harm criteria.

Business strategy

The HSBC Group places climate and sustainability at the heart of its engagement with customers, and in particular those customers with the greatest potential to effect change. HSBC Group has designed and implemented a process, application and framework to gather client's transition plan data in a structured, governed way, to summarise it, and to assess it consistently and effectively. The transition plan assessment highlights potential opportunities to engage with clients and support them in their transition to net zero. (More details on how the HSBC Group assesses corporate customers' transitions to net zero can be found in the HSBC Net Zero Transition Plan 2024. As a Group, HSBC aims to provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030 to support customers in their transition to net zero and a sustainable future.

HSBC Bank Malta p.l.c. is in the early stages of integrating EU Taxonomy considerations into the broader climate strategy. The bank aims to support customers who are at differing stages in their transition journey; for example, supporting clients in high emissive sectors to reduce their GHG emissions. Consequently, not all sustainable finance provided by the bank, and in particular transition finance, will meet the strict criteria for EU Taxonomy alignment.

The composition of the local group's banking book is a key driver of the GAR. With NFRD counterparties only making up a small fraction of the overall book, the majority of wholesale exposures are outside the scope of eligibility assessment under the EU Taxonomy framework. Furthermore, for those exposures where the use of proceeds is known to be applied to eligible activities, such as green bonds and property-related lending, data limitations result in limited ability to comprehensively assess against the alignment criteria.

As the scope of the EU Taxonomy expands to cover counterparties reporting under the CSRD, and as data capabilities and market data availability improves, it is expected that reporting and strategy will evolve.

Non-climate environmental objectives

In 2023, the EC enacted into law the Commission Delegated Regulation (EU) 2023/2486 ('Environmental Delegated Act') and amendments to the Disclosures Delegated Act introducing new reporting requirements for the four non-climate environmental objectives. This requires both financial and non-financial undertakings to disclose Taxonomy-eligibility information for the non-climate remaining environmental objectives from 1 January 2024.

As the timing for the introduction of these new disclosure requirements for financial undertakings coincides with the application timeline for non-financial undertakings, the required counterparty data is not available at the time of publication for reporting under mandatory disclosures. Accordingly, the columns requiring disclosure information related to the remaining environmental objectives have been excluded in all templates.

1 *Taxonomy Regulation (EU) 2020/852.*
2 *Commission Delegated Regulation (EU) 2021/2178.*
3 *Commission Delegated Regulation (EU) 2023/2486 supplementing Taxonomy Regulation and amending Disclosures Delegated Act.*
4 *The CSRD amends the Non-Financial Reporting Directive (NFRD) - Directive 2013/34/EU.*

Summary of KPIs (Template 0)

This template sets out a summary of KPIs required to be disclosed by HSBC Bank Malta p.l.c. as a credit institution, under Article 8 of the Taxonomy regulation. The template disclosed is provided in Annex VI to the Disclosures Delegated Act but has been modified by adding additional columns and clarifying column headings to clearly distinguish KPIs calculated using counterparty Turnover ratios versus KPIs calculated using counterparty CapEx ratios, both of which are required to be reported by credit institutions.

As the Trading book KPI and Fees and Commissions KPI are required to be disclosed from 1January 2026, the applicable rows for these KPIs have not been included in the Summary template.

Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

		Total environmentally sustainable assets (Based on Turnover)	KPI Based on Turnover KPI of the counterparty	Total environmentally sustainable assets (Based on CapEx)	KPI Based on CapEx KPI of the counterparty	% coverage (over total assets)	% of assets excluded from the numerator of the GAR (Article 7 (2) and (3) and Section 1.1.2. of Annex V)	% of assets excluded from the denominator of the GAR (Article 7 (1)) and Section 1.2.4 of Annex V)
		€000	%	€000	%	%	%	%
Main KPI	**Green asset ratio (GAR) stock**	—	—	—	—	61.57	25.40	38.43

		Total environmentally sustainable activities	KPI		KPI	% coverage (over total assets)	% of assets excluded from the numerator of the GAR (Article 7 (2) and (3) and Section 1.1.2. of Annex V)	% of assets excluded from the denominator of the GAR (Article 7 (1)) and Section 1.2.4 of Annex V)
		€000	%	€000	%	%	%	%
Additional KPIs	Financial guarantees	—	—	—	—			
	Assets under management	2,294	0.58	—	—			

Assets for the calculation of GAR - Covered assets (GAR,off-bal) (Template 1)

This template presents assets used in the calculation of the GAR disaggregated by counterparty type and asset class. Total assets are further categorised between covered assets in the numerator, covered assets in the denominator, and assets excluded from the GAR calculation, with eligible and aligned covered assets presented by environmental objective. This template is provided in Annex VI to the Disclosures Delegated Act.

Row 1 of Template 1 'Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation' relates to the numerator of the GAR, whilst row 48 of Template 1 'Total GAR assets' relates to the denominator of the GAR.

This template has been duplicated to present the information based on each of Turnover and CapEx KPIs reported by HSBC Bank Malta p.l.c.'s counterparties.

The gross carrying amount column excludes impairment allowances for all banking exposures. As a result, Total Assets reported in this template is not equal to Total Assets reported in HSBC Bank Malta p.l.c.'s balance sheet with the difference due to impairment allowances on banking exposures.

Row 34 'SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations' includes non-NFRD financial and non-financial undertakings in the EU, whether or not they are classified as SMEs.

Financial guarantees represent financial guarantees granted by HSBC Bank Malta p.l.c. to support an underlying loan or debt security. The assessment of eligibility and alignment is based on the reported KPIs of the obligor in relation to the underlying loan since information on specific use of proceeds for these loans is not available.

The gross carrying amount presented for Financial Guarantees and Assets Under Management forms the denominator of the respective KPIs and includes exposures with both NFRD and non-NFRD counterparties while excluding exposures to central governments, central banks and supranational issuers.

Assets for the calculation of GAR-Based on Counterparty Turnover

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*								
				of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*				*of which: environmentally sustainable (Taxonomy-aligned)*			
		Total [gross] carrying amount			*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*			*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	**2,544,575**		—	—	—	—		—	—	—	**2,294,676**	—	—	—	—
2	**Financial undertakings**	**229,300**		—	—	—	—		—	—	—	**22,257**	—	—	—	—
3	Credit institutions	**229,300**		—	—	—	—		—	—	—	**22,257**	—	—	—	—
4	Loans and advances	**207,043**		—	—	—	—		—	—	—	—	—	—	—	—
5	Debt securities, including UoP	**22,257**		—	—	—	—		—	—	—	**22,257**	—	—	—	—
6	Equity instruments	—		—		—	—		—		—	—	—		—	—
7	Other financial corporations	—		—	—	—	—		—	—	—	—	—	—	—	—
8	– *of which: investment firms*	—		—	—	—	—		—	—	—	—	—	—	—	—
9	Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—
10	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—
11	Equity instruments	—		—		—	—		—		—	—	—		—	—
12	– *of which: management companies*	—		—	—	—	—		—	—	—	—	—	—	—	—
13	Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—
14	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—
15	Equity instruments	—		—		—	—		—		—	—	—		—	—
16	– *of which: insurance undertakings*	—		—	—	—	—		—	—	—	—	—	—	—	—
17	Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—
18	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—
19	Equity instruments	—		—		—	—		—		—	—	—		—	—
20	**Non-financial undertakings**	**33,928**		—	—	—	—		—	—	—	**1,444**	—	—	—	—
21	Loans and advances	**33,928**		—	—	—	—		—	—	—	**1,444**	—	—	—	—
22	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—

Assets for the calculation of GAR-Based on Counterparty Turnover (continued)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
				of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*							
					of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*				*of which: environmentally sustainable (Taxonomy-aligned)*		
		Total [gross] carrying amount				*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*		*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
23	Equity instruments	—		—		—	—		—		—	—	—		—	—
24	**Households**	2,160,409		—	—	—	—		—	—	—	2,150,436	—	—	—	—
25	– *of which: loans collateralised by residential immovable property*	2,137,020		—	—	—	—		—	—	—	2,137,020	—	—	—	—
26	– *of which: building renovation loans*	2,291		—	—	—	—		—	—	—	2,291	—	—	—	—
27	– *of which: motor vehicle loans*	21,098		—	—	—	—					11,125	—	—	—	—
28	**Local governments financing**	117,717		—	—	—	—		—	—	—	117,717	—	—	—	—
29	Housing financing	—		—	—	—	—		—	—	—	—	—	—	—	—
30	Other local government financing	117,717		—	—	—	—		—	—	—	117,717	—	—	—	—
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	3,221		—	—	—	—		—	—	—	2,822	—	—	—	—
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)**	1,786,860		—	—	—	—		—	—	—	—	—	—	—	—
33	**Financial and Non-financial undertakings**	1,018,640														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	1,017,091														
35	Loans and advances	726,008														
36	– *of which: loans collateralised by commercial immovable property*	293,476														
37	– *of which: building renovation loans*	4,679														
38	Debt securities	291,040														
39	Equity instruments	43														

Assets for the calculation of GAR-Based on Counterparty Turnover (continued)

	a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
	Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*							
				of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*			*of which: environmentally sustainable (Taxonomy-aligned)*			
	Total [gross] carrying amount				*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*		*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
40 Non-EU country counterparties not subject to NFRD disclosure obligations	1,549														
41 Loans and advances	629														
42 Debt securities	920														
43 Equity instruments	—														
44 **Derivatives**	7,483														
45 **On demand interbank loans**	518,531														
46 **Cash and cash-related assets**	33,582														
47 **Other categories of assets (e.g. Goodwill, commodities etc.)**	208,624														
48 **Total GAR assets**	4,331,435		—	—	—	—		—	—	—	2,294,676	—	—	—	—
49 **Assets not covered for GAR calculation**	2,703,804														
50 **Central governments and Supranational issuers**	1,439,811														
51 **Central banks exposure**	1,257,899														
52 **Trading book**	6,094														
53 **Total assets**	7,035,239		—	—	—	—		—	—	—	2,294,676	—	—	—	—
Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations															
54 Financial guarantees	10,279		—	—	—	—		—	—	—	3	—	—	—	—
55 Assets under management	395,000		2,294	—	880	—		—	—	—	8,623	2,294	—	880	—
56 – *of which: debt securities*	254,057		*2,294*	—	*880*	—		—	—	—	7,731	*2,294*	—	*880*	—
57 – *of which: equity instruments*	87,225		—	—	—	—		—	—	—	892	—	—	—	—

Assets for the calculation of GAR-Based on Counterparty CapEx

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
				of which: towards taxonomy relevant sectors (Taxonomy-eligible)					***of which: towards taxonomy relevant sectors (Taxonomy-eligible)***							
					of which: environmentally sustainable (Taxonomy-aligned)					***of which: environmentally sustainable (Taxonomy-aligned)***				***of which: environmentally sustainable (Taxonomy-aligned)***		
		Total [gross] carrying amount				***of which: Use of Proceeds***	***of which: transitional***	***of which: enabling***			***of which: Use of Proceeds***	***of which: enabling***			***of which: Use of Proceeds***	***of which: transitional***	***of which: enabling***
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	2,544,575		–	–	–	–		–	–	–	2,297,626	–	–	–	–
2	**Financial undertakings**	229,300		–	–	–	–		–	–	–	22,257	–	–	–	–
3	Credit institutions	229,300		–	–	–	–		–	–	–	22,257	–	–	–	–
4	Loans and advances	207,043		–	–	–	–		–	–	–	–	–	–	–	–
5	Debt securities, including UoP	22,257		–	–	–	–		–	–	–	22,257	–	–	–	–
6	Equity instruments	–		–		–	–		–		–	–	–		–	–
7	Other financial corporations	–		–	–	–	–		–	–	–	–	–	–	–	–
8	– *of which: investment firms*	–		–	–	–	–		–	–	–	–	–	–	–	–
9	Loans and advances	–		–	–	–	–		–	–	–	–	–	–	–	–
10	Debt securities, including UoP	–		–	–	–	–		–	–	–	–	–	–	–	–
11	Equity	–		–		–	–		–		–	–	–		–	–
12	– *of which: management companies*	–		–	–	–	–		–	–	–	–	–	–	–	–
13	Loans and advances	–		–	–	–	–		–	–	–	–	–	–	–	–
14	Debt securities, including UoP	–		–	–	–	–		–	–	–	–	–	–	–	–
15	Equity	–		–		–	–		–		–	–	–		–	–
16	– *of which: insurance undertakings*	–		–	–	–	–		–	–	–	–	–	–	–	–
17	Loans and advances	–		–	–	–	–		–	–	–	–	–	–	–	–
18	Debt securities, including UoP	–		–	–	–	–		–	–	–	–	–	–	–	–
19	Equity instruments	–		–		–	–		–		–	–	–		–	–
20	**Non-financial undertakings**	33,928		–	–	–	–		–	–	–	4,394	–	–	–	–

Assets for the calculation of GAR-Based on Counterparty CapEx (continued)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*								
				of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*				*of which: environmentally sustainable (Taxonomy-aligned)*			
		Total [gross] carrying amount			*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*			*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Loans and advances	33,928		—	—	—	—		—	—	—	4,394	—	—	—	—
22	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—
23	Equity instruments	—		—		—	—		—		—	—	—		—	—
24	**Households**	2,160,409		—	—	—	—		—	—	—	2,150,436	—	—	—	—
25	– *of which: loans collateralised by residential immovable property*	2,137,020		—	—	—	—		—	—	—	2,137,020	—	—	—	—
26	– *of which: building renovation loans*	2,291		—	—	—	—		—	—	—	2,291	—	—	—	—
27	– *of which: motor vehicle loans*	21,098		—	—	—	—					11,125	—	—	—	—
28	**Local governments financing**	117,717		—	—	—	—		—	—	—	117,717	—	—	—	—
29	Housing financing	—		—	—	—	—		—	—	—	—	—	—	—	—
30	Other local government financing	117,717		—	—	—	—		—	—	—	117,717	—	—	—	—
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	3,221		—	—	—	—		—	—	—	2,822	—	—	—	—
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)**	1,786,860		—	—	—	—		—	—	—	—	—	—	—	—
33	**Financial and Non-financial undertakings**	1,018,640														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	1,017,091														
35	Loans and advances	726,008														

Assets for the calculation of GAR-Based on Counterparty CapEx (continued)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					***of which: towards taxonomy relevant sectors (Taxonomy-eligible)***								
				of which: environmentally sustainable (Taxonomy-aligned)					***of which: environmentally sustainable (Taxonomy-aligned)***				***of which: environmentally sustainable (Taxonomy-aligned)***			
		Total [gross] carrying amount			***of which: Use of Proc-eeds***	***of which: trans-itional***	***of which: enab-ling***			***of which: Use of Proc-eeds***	***of which: enab-ling***			***of which: Use of Proc-eeds***	***of which: trans-itional***	***of which: enab-ling***
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
36	– *of which: loans collateralised by commercial immovable property*	**293,476**														
37	– *of which: building renovation loans*	**4,679**														
38	Debt securities	**291,040**														
39	Equity instruments	**43**														
40	Non-EU country counterparties not subject to NFRD disclosure obligations	**1,549**														
41	Loans and advances	**629**														
42	Debt securities	**920**														
43	Equity instruments	**—**														
44	**Derivatives**	**7,483**														
45	**On demand interbank loans**	**518,531**														
46	**Cash and cash-related assets**	**33,582**														
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	**208,624**														
48	**Total GAR assets**	**4,331,435**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**2,297,626**	**—**	**—**	**—**	**—**
49	**Assets not covered for GAR calculation**	**2,703,804**														
50	**Central governments and Supranational issuers**	**1,439,811**														
51	**Central banks exposure**	**1,257,899**														
52	**Trading book**	**6,094**														
53	**Total assets**	**7,035,239**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**2,297,626**	**—**	**—**	**—**	**—**

Assets for the calculation of GAR-Based on Counterparty CapEx (continued)

	a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
	Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*								
			of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*				*of which: environmentally sustainable (Taxonomy-aligned)*			
	Total [gross] carrying amount			*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*			*of which: Use of Proceeds*	*of which: transitional*	*of which: enabling*
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations															
54 Financial guarantees	**10,279**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**3**	**—**	**—**	**—**	**—**
55 Assets under management	**395,000**		**4,558**	**—**	**2,356**	**—**		**—**	**—**	**—**	**21,213**	**4,558**	**—**	**2,356**	**—**
56 – *of which: debt securities*	**254,057**		**4,558**	**—**	**2,356**	**—**		**—**	**—**	**—**	**17,525**	***4,558***	**—**	***2,356***	**—**
57 – *of which: equity instruments*	**87,225**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**3,688**	**—**	**—**	**—**	**—**

GAR Sector information (Template 2)

This template presents eligible and aligned exposures in the banking book to non-financial counterparties, broken down by sector of economic activities based on the NACE code of the principal activity of the immediate counterparty. The values reported under gross carrying amount represents the taxonomy-eligible amount.

This template has been duplicated to present the information based on each of Turnover and CapEx KPIs reported by HSBC Bank Malta p.l.c.'s counterparties.

GAR sector information - Based on Counterparty Turnover

	a	b	c	d	e	f	g	h	y	z	aa	ab
	Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
	Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
Breakdown by sector - NACE 4 digits level (code and label)	[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount	
	€000	*of which: environmentally sustainable (CCM)*	€000	*of which: environmentally sustainable (CCM)*	€000	*of which: environmentally sustainable (CCA)*	€000	*of which: environmentally sustainable (CCA)*	€000	*of which: environmentally sustainable (CCM + CCA)*	€000	*of which: environmentally sustainable (CCM + CCA)*
1 C11.05 - Manufacture of beer	—	—			—	—			**6**	—		
2 J61.10 - Wired telecommunications activities	—	—			—	—			**1,302**	—		
3 M70.10 - Activities of head offices	—	—			—	—			**136**	—		

GAR sector information - Based on Counterparty CapEx

Breakdown by sector - NACE 4 digits level (code and label)		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount	
			of which: environ-mentally sustain-able		*of which: environ-mentally sustain-able*		*of which: environ-mentally sustain-able*		*of which: environ-mentally sustain-able*		*of which; environ-mentally sustain-able*		*of which: environ-mentally sustain-able*
		€000	*(CCM)*	€000	*(CCM)*	€000	*(CCA)*	€000	*(CCA)*	€000	*(CCM + CCA)*	€000	*(CCM + CCA)*
1	C11.05 - Manufacture of beer	—	—			—	—			**1,466**	—		
2	J61.10 - Wired telecommunications activities	—	—			—	—			**1,610**	—		
3	M70.10 - Activities of head offices	—	—			—	—			**1,318**	—		

GAR KPI stock (Template 3)

This template presents eligible and aligned exposures as a proportion of total covered assets. This template has been duplicated to present the information based on each of Turnover and CapEx KPIs reported by HSBC Bank Malta p.l.c.'s counterparties.The bank's approach towards disclosing GAR KPI ratios in this template is based on the amounts of covered assets disclosed in Template 1, whereby each ratio's denominator is equal to the bank's total covered assets. This is in line with both guidance provided in the headers to Template 3, and also in line with section 1.2.1.1 of the Disclosures Delegated Act, applicable to exposures to non-financial undertakings. In this respect, it is specified that the denominator of the GAR should be extended to include "all other covered on-balance sheet assets". This approach has been applied throughout Template 3 towards all relevant ratios disclosed.

GAR KPI stock - Based on Counterparty Turnover

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date T														
% (compared to total covered assets in the denominator)		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					Propor-tion of total assets cove-red
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				of which: Use of Proc-eeds	*of which: transi-tional*	*of which: enabl-ing*			*of which: Use of Proc-eeds*	*of which: enabl-ing*			*of which: Use of Proc-eeds*	*of which: transi-tional*	*of which: enabl-ing*	
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation		—	—	—	—		—	—	—	**52.98**	—	—	—	—	**36.17**
2	**Financial undertakings**		—	—	—	—		—	—	—	**0.51**	—	—	—	—	**3.26**
3	Credit institutions		—	—	—	—		—	—	—	**0.51**	—	—	—	—	**3.26**
4	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	**2.94**
5	Debt securities, including UoP		—	—	—	—		—	—	—	**0.51**	—	—	—	—	**0.32**
6	Equity instruments		—		—	—		—		—	—	—		—	—	—
7	Other financial corporations		—	—	—	—		—	—	—	—	—	—	—	—	—
8	– *of which: investment firms*		—	—	—	—		—	—	—	—	—	—	—	—	—

GAR KPI stock - Based on Counterparty Turnover (continued)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
% (compared to total covered assets in the denominator)		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total assets covered
				of which: Use of Proceeds	***of which: transitional***	***of which: enabling***			***of which: Use of Proceeds***	***of which: enabling***			***of which: Use of Proceeds***	***of which: transitional***	***of which: enabling***	
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
9	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
11	Equity instruments		—		—	—		—		—	—	—		—	—	—
12	– *of which: management companies*		—	—	—	—		—	—	—	—	—	—	—	—	—
13	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
15	Equity instruments		—		—	—		—		—	—	—		—	—	—
16	– *of which: insurance undertakings*		—	—	—	—		—	—	—	—	—	—	—	—	—
17	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
18	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
19	Equity instruments		—		—	—		—		—	—	—		—	—	—
20	**Non-financial undertakings**		—	—	—	—		—	—	—	**0.03**	—	—	—	—	**0.48**
21	Loans and advances		—	—	—	—		—	—	—	**0.03**	—	—	—	—	**0.48**
22	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
23	Equity instruments		—		—	—		—		—	—	—		—	—	—
24	**Households**		—	—	—	—		—	—	—	**49.65**	—	—	—	—	**30.71**
25	– *of which: loans collateralised by residential immovable property*		—	—	—	—		—	—	—	**49.34**	—	—	—	—	***30.38***
26	– *of which: building renovation loans*		—	—	—	—		—	—	—	**0.05**	—	—	—	—	***0.03***
27	– *of which: motor vehicle loans*		—	—	—	—										
28	**Local governments financing**		—	—	—	—		—	—	—	**2.72**	—	—	—	—	**1.67**
29	Housing financing		—	—	—	—		—	—	—	—	—	—	—	—	—
30	Other local government financing		—	—	—	—		—	—	—	**2.72**	—	—	—	—	**1.67**
31	**Collateral obtained by taking possession: residential and commercial immovable properties**		—	—	—	—		—	—	—	**0.07**	—	—	—	—	**0.05**
32	**Total GAR assets (in the numerator)**		—	—	—	—		—	—	—	**52.98**	—	—	—	—	**61.57**

GAR KPI stock - Based on Counterparty CapEx

% (compared to total covered assets in the denominator)	Disclosure reference date T														
	Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**					
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					**Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)**				**Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)**					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					**Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)**				**Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)**				
			of which: Use of Proc-eeds	***of which: transi-tional***	***of which: enabl-ing***			***of which: Use of Proc-eeds***	***of which: enabl-ing***			***of which; Use of Proc-eeds***	***of which: transi-tional***	***of which: enabl-ing***	**Propor-tion of total assets cove-red**
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
GAR - Covered assets in both numerator and denominator															
1 Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation		—	—	—	—		—	—	—	**53.05**	—	—	—	—	**36.17**
2 **Financial undertakings**		—	—	—	—		—	—	—	**0.51**	—	—	—	—	**3.26**
3 Credit institutions		—	—	—	—		—	—	—	**0.51**	—	—	—	—	**3.26**
4 Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	**2.94**
5 Debt securities, including UoP		—	—	—	—		—	—	—	**0.51**	—	—	—	—	**0.32**
6 Equity instruments		—		—	—		—		—	—	—		—	—	—
7 Other financial corporations		—	—	—	—		—	—	—	—	—	—	—	—	—
8 – *of which: investment firms*		—	—	—	—		—	—	—	—	—	—	—	—	—
9 Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
10 Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
11 Equity instruments		—		—	—		—		—	—	—		—	—	—
12 – *of which: management companies*		—	—	—	—		—	—	—	—	—	—	—	—	—
13 Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
14 Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
15 Equity instruments		—		—	—		—		—	—	—		—	—	—
16 – *of which: insurance undertakings*		—	—	—	—		—	—	—	—	—	—	—	—	—
17 Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
18 Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
19 Equity instruments		—		—	—		—		—	—	—		—	—	—
20 **Non-financial undertakings**		—	—	—	—		—	—	—	**0.10**	—	—	—	—	**0.48**
21 Loans and advances		—	—	—	—		—	—	—	**0.10**	—	—	—	—	**0.48**
22 Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
23 Equity instruments		—		—	—		—		—	—	—		—	—	—
24 **Households**		—	—	—	—		—	—	—	**49.65**	—	—	—	—	**30.71**
25 – *of which: loans collateralised by residential immovable property*		—	—	—	—		—	—	—	**49.34**	—	—	—	—	***30.38***
26 – of which: building renovation loans		—	—	—	—		—	—	—	**0.05**	—	—	—	—	**0.03**
27 – of which: motor vehicle loans		—	—	—	—										

GAR KPI stock - Based on Counterparty CapEx (continued)

% (compared to total covered assets in the denominator)		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				of which: Use of Proc-eeds	*of which: transi-tional*	*of which: enabl-ing*			*of which: Proc-eeds*	*of which: enabl-ing*			*of which; Use of Proc-eeds*	*of which: transi-tional*	*of which: enabl-ing*	Propor-tion of total assets cove-red
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
28	**Local governments financing**		—	—	—	—		—	—	—	**2.72**	—	—	—	—	**1.67**
29	Housing financing		—	—	—	—		—	—	—	—	—	—	—	—	—
30	Other local government financing		—	—	—	—		—	—	—	2.72	—	—	—	—	1.67
31	**Collateral obtained by taking possession: residential and commercial immovable properties**		—	—	—	—		—	—	—	**0.07**	—	—	—	—	**0.05**
32	**Total GAR assets (in the numerator)**		—	—	—	—		—	—	—	**53.05**	—	—	—	—	**61.57**

KPI off-balance sheet exposures (Template 5)

This template presents eligible and aligned off-balance sheet exposures as a proportion of covered assets by Taxonomy environmental objective. The covered assets forming the denominator of each ratio is the respective off-balance sheet exposure (financial guarantees or assets under management) including exposures with both NFRD and non-NFRD counterparties while excluding exposures to central governments, central banks and supranational issuers.

For these managed funds, a look through to the underlying investments has been undertaken to identify those that are NFRD where eligibility and alignment can be assessed. Where the underlying investments are themselves funds, information regarding the underlying investments is not available and these funds are treated as non-NFRD.

This template has been duplicated to present the information based on each of Turnover and CapEx KPIs reported by HSBC Bank Malta p.l.c.'s counterparties.

KPI off-balance sheet exposures - Based on Counterparty Turnover

% (compared to total eligible off-balance sheet assets)		Disclosure reference date T													
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				of which: Use of Proceeds	*of which: transit-ional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*			*of which: Use of Proceeds*	*of which: transit-ional*	*of which: enabling*
		%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	Financial guarantees (FinGuar KPI)		—	—	—	—		—	—	—	0.03	—	—	—	—
2	Assets under management (AuM KPI)		0.58	—	—	—		—	—	—	2.18	0.58	—	—	—

KPI off-balance sheet exposures - Based on Counterparty CapEx

	% (compared to total eligible off-balance sheet assets)	Disclosure reference date T													
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				of which: Use of Proceeds	*of which: transit-ional*	*of which: enabling*			*of which: Use of Proceeds*	*of which: enabling*			*of which: Use of Proceeds*	*of which: transit-ional*	*of which: enabling*
		%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	Financial guarantees (FinGuar KPI)		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**0.03**	**—**	**—**	**—**	**—**
2	Assets under management (AuM KPI)		**1.15**	**—**	**0.60**	**—**		**—**	**—**	**—**	**5.37**	**1.15**	**—**	**0.60**	**—**

Nuclear and fossil gas - related activities (Template 1)

This template indicates whether, or not, the local group has exposures to Nuclear and Gas activities, based on non-financial counterparties' Nuclear and Gas disclosures. As at 31 December 2023, the local group does not have any exposures to non-financial counterparties which carry out nuclear energy and fossil gas related activities and are required to disclose templates introduced by the Complementary Climate Delegated Act. The local group consequently does not disclose the remainder of the dedicated templates introduced by the Complementary Climate Delegated Act (Templates 2 - 5) as regards such activities in certain energy sectors.

Template 1 Nuclear and fossil gas related activities

Row	Nuclear energy related activities	
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	NO
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	NO
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	NO
	Fossil gas related activities	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	NO
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels	NO
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	NO

Financial Crime Compliance

In 2023 the bank continued to apply a strong financial crime risk management control framework, and sustain its capability through ongoing training, oversight and governance. We believe that the enforcement of high compliance standards is a competitive advantage, and is essential to our success and that of the jurisdiction.

Anti-bribery and corruption

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

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

All HSBC entities and individuals are required by Group Policy to apply controls in order to protect against bribery and corruption risks. All HSBC staff undergo mandatory Anti-Bribery and Corruption training annually. HSBC also maintains clear whistle blowing policies and processes, to ensure that individuals can confidentially report concerns with no fear of retribution, confident that they will be investigated and remediated appropriately.

As part of its risk management, HSBC Malta performs an annual assessment of the anti-bribery and corruption inherent and residual risk to understand if any new risks have been identified and ratings revisited accordingly. Risk evaluation takes into consideration various pillars related to anti-bribery and corruption including Employee, Third Party, Strategic and Customer Risks.

Risk management

Our Approach to Risk Management

We recognise the importance of a strong risk culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transitional, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide the local group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

We aim to maintain a strong capital position, defined by regulatory and internal capital ratios. We carry out liquidity and funding management on a stand-alone basis.

Operating model

We seek to generate returns in line with our risk appetite and strong risk management capability. We aim to deliver sustainable and diversified earnings as well as consistent returns for shareholders.

Business practice

We have zero tolerance for any of our people knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated. We have no appetite for deliberately or knowingly causing detriment to consumers or incurring a breach of the letter or spirit of regulatory requirements. We have no appetite for inappropriate market conduct by any member of staff. We are committed to managing the climate risks that have an impact on our financial position and delivering on our net zero ambition.

Enterprise-wide application

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

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

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

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

Risk Management

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported by our three lines of defence model.

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

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

The local group is exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on the financial performance and position of the local group. An established risk governance framework and ownership structure ensures oversight of accountability for the effective management of risk. This framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. This framework is designed to provide appropriate risk monitoring and assessment.

Risk appetite

Our risk appetite defines our desired forward-looking risk profile and informs the strategic and financial planning process. It provides an anchor between our lines of business and the Risk and Finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks. It also helps to develop aligned people and system capabilities.

The Board sets the local group's strategy, risk appetite, operating plans and performance targets, thereby playing an essential role in embedding a risk culture within the organisation. The Board delegates the day-to-day risk management responsibilities to individuals within the senior management team. These individuals are accountable for their assigned risks, and report and escalate as necessary through the risk governance structures.

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

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

Our risk appetite is expressed in both quantitative and qualitative terms.

The Board reviews and approves the bank's risk appetite to make sure it remains fit for purpose. Risk appetite is considered, developed and enhanced through:

- risks that we accept as part of doing business, such as credit risk, market risk, and treasury risk, which are controlled through both active risk management and our risk appetite;
- risks that we incur as part of doing business, such as non-financial risks, which are actively managed to remain within an acceptable appetite;
- an alignment with our strategy, purpose, values and customer needs;
- trends highlighted in other risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our risk appetite statement ('RAS'). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning and remuneration and reported to the Risk Management Meeting ('RMM') alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and escalated to the Risk Committee and Board.

Top and emerging risks

HSBC Malta uses a top and emerging risks process to provide a forward looking view of issues with the potential to threaten the execution of its strategy or operations over the medium to long term.

We proactively assess the internal and external risk environment, as well as review the themes identified for any risks that may require escalation. The bank updates its top and emerging risks as necessary.

Our risk management framework

The following diagram and descriptions summarise key aspects of the risk management framework, including governance, structure, risk management tools and our culture, which together help align employee behaviour with risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the bank's risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee.
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the bank.
Roles and responsibilities	Three lines of defence model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	The local group has processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	HSBC has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

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

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

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

Chaired by the Chief Risk Officer, the Risk Management Meeting gathers the members of the Executive Committee in order to examine major risks faced by HSBC Bank Malta p.l.c.. During 2023 the Risk Management Meeting met nine times to examine these risks.

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

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

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

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

Our responsibilities

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures as described below.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. It is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.

- The second line of defence provides subject matter expertise, advice, guidance and review and challenge of the first line of defence activities to help ensure that risk management decisions and actions are appropriate,within risk appetite and support the delivery of good conduct outcomes.
- The third line of defence is our Internal Audit function, which provides independent assurance that our risk management approach, governance and internal control processes are designed and operating effectively.

Risk and Compliance

Our Risk and Compliance functions are responsible for the local group's risk management framework. This responsibility includes establishing local policy, monitoring risk profiles, and identifying and managing forward-looking risk. Risk and Compliance is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Risk and Compliance function is independent from the global business lines, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

Responsibility for minimising both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by the Chief Risk Officer.

We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite and provides a single view of the non-financial risks that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function, reporting to the Chief Risk Officer.

Stress testing and recovery planning

We operate a wide-ranging stress testing programme that is a key part of our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the local group, and provides confidence to regulators on the local group's financial stability.

Our stress testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, as well as other potential events that are specific to HSBC.

The selection of stress scenarios is informed by the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the local group is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

During 2023, we conducted a range of internal stress tests and sensitivity analysis. These included stress tests to assess shocks on the property market, shocks on certain sectors , geopolitical crises, climate stress tests, cyber attacks and other operational risk events and assessment of the resilience of key balance sheet metrics including capital adequacy. We regularly review key economic variables and their impact on key sectors to understand potential vulnerabilities in our balance sheet and to identify appropriate mitigating actions. We continue to monitor emerging geopolitical, economic, and environmental risks impacting the local group's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on internal stress test outcomes.

We also conduct reverse stress tests to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

Recovery and resolution plans

Recovery and resolution plans form part of the integral framework safeguarding the bank's financial stability. The recovery plan together with the stress testing help HSBC Bank Malta p.l.c. understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate management actions to enable an orderly recovery. During 2023, HSBC continued to develop its recovery and resolution capabilities in line with both the Single Resolution Board and Bank of England resolvability requirements. The bank is committed to further developing its recovery and resolution capabilities to ensure it meets current and future requirements as well as integrates the evolution of its business.

Key developments in 2023

We actively managed the risks related to macroeconomic uncertainties including the evolution of geopolitical environment inflation, higher interest rates, slower GDP growth and internal events. In addition, we enhanced our risk management in the following areas:

- The enhancement of the climate risk programme to embed climate considerations throughout the firm, including updating the scope of the HSBC programme to cover all risk types, expanding the scope of climate related training and developing new climate risk metrics to monitor and manage exposures. A dedicated governance organisation for Climate and ESG risks was also implemented.
- The development of emerging risk identification and management, to support our analysis of risks,
- By strengthening the third party risk policy and processes to improve control and oversight of our material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements.
- We consolidated various financial crime policies into a single financial crime policy driven by simplification and consistency. The bank also deployed industry leading technology and advanced analytics capabilities to improve its ability to identify suspicious activities and prevent financial crime.
- Developing a new policy to enhance the risk identification process including how these identified risks link into our capital planning.
- Securing the allocation of additional Treasury Risk resources from our parent company to enhance second line oversight of capital and liquidity planning

Key Risks

The most important types of financial risk comprise credit risk, market risk and liquidity risk. Owing to the insurance operation, the local group is also exposed to insurance risk. A key emerging risk is that of climate change, and how this will shape risk management in the coming years.

Credit risk

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

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

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

Liquidity risk

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

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

Insurance risk

HSBC Malta operates an integrated bancassurance model which provides wealth and protection insurance products to customers with whom the local group has a banking relationship. Insurance products are sold by the Wealth and Personal Banking business through the bank's branches. The insurance contracts HSBC Malta sells relate to the underlying needs of the local group's banking customers, which it can identify from its point-of-sale contacts and customer knowledge.

Where HSBC Life Assurance (Malta) does not have the risk appetite or operational scale to be an effective manufacturer, a handful of leading external insurance companies are engaged in order to provide insurance products to the local group's customers through its banking network. The local subsidiary sets its own control procedures in addition to complying with guidelines issued by the HSBC Group Insurance. Country level oversight is exercised by the subsidiary's local Risk Management Meeting.

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

HSBC Life Assurance (Malta) is exposed to lapse risk, particularly to a one-event mass lapse. Lapses on the Protection business could be driven by the inflationary environment thus impacting HSBC Life Assurance(Malta) customer's behaviour toward allocating wealth toward insurance. The Unit-linked book is more sensitive to the volatility of the market and low return. Mass lapses on this profitable business would reduce the expected profit.

Execution risk

In order to deliver our strategic objectives and meet mandatory regulatory requirements we maintain a strong focus on change execution risk. The scale, complexity and pace of regulatory change elevates our level of change execution risk.

Data risk

We use multiple systems and growing quantities of data to support our customers. Risks arise if data is incorrect, unavailable, misused, or unprotected. Along with other Banks and Financial Institutions, we are subject to external regulatory obligations and laws that cover data, such as the Basel Committee on Banking Supervision's 239 guidelines and the General Data Protection Regulation ('GDPR').

Risks arising from the receipt of services from third parties

HSBC Bank Malta p.l.c. utilises a number of internal and external third parties for the provision of a range of services, some in common with other Financial Institutions. Risks arising from the use of third-party service providers may be less transparent and therefore more challenging to manage or influence.

We have appropriate risk management policies, processes, controls and practices over the selection, governance and oversight of third parties and their supply chain particularly for key activities that could impact upon our operational resilience, including (i) internal third parties which are located in different continents, and (ii) Cloud Outsourcing, with even greater focus in the context of a strengthening regulatory environment.

Any deficiency in the management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or client expectations.

Externally driven risks

Geopolitical and macroeconomic risks

The Russia-Ukraine war continues to have far-reaching geopolitical and economic implications. There is also uncertainty about the scope, duration and potential escalation of the Israel-Hamas war. HSBC is monitoring the direct and indirect impacts of of these 2 conflicts. The bank continues to respond to evolving economic sanctions and trade restrictions, in particular significant sanctions and trade restrictions imposed against Russia. Such sanctions and restrictions have targeted certain Russian government officials, politically exposed persons, business, individual people, Russian oil imports, energy products, financial institutions, other major companies and sanctions evasion networks. Some more general restrictions and bans have been also put in place on applicable investment, export, and import.

Further sanctions, trade restrictions and Russian countermeasures may adversely impact HSBC Bank Malta p.l.c., by creating regulatory, and reputational risks.

Global commodity markets were impacted by geopolitical risks- including the Russia-Ukraine and Israel-Hamas wars, which fuelled concerns about supply disruptions, although weak economic activity in China and Europe dampened demand growth. The reduction in global inflation rates prompted developed market central banks to pause monetary policy tightening, from the third quarter of 2023. A decrease in the inflation trend is now clearly visible across most major economies and interest rates are forecast to fall through 2024, although are expected to remain materially higher than in recent years. Locally, during 2023, the government continued to step in to reduce the impact of the increased price of energy on local consumers and the economy.

Mitigating actions

- We closely monitor geopolitical and economic developments in key markets and sectors and undertake scenario analysis where appropriate. This helps us to take portfolio actions where necessary, including enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We regularly review key portfolios to help ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through any downturn is appropriate.
- We continue to invest in transforming how software solutions are developed, delivered and maintained to improve system resilience. HSBC Bank Malta p.l.c. continues to build security into its software development lifecycle and improve its testing processes and tools.
- We continue to upgrade many of our IT systems, simplify its service provision and replace older IT infrastructure and applications.
- The HSBC Cyber intelligence and threat analysis team continually evaluates threat levels for the most prevalent cyber-attack types and their potential outcomes. To further protect the bank and its customers and help ensure the safe expansion of our global businesses, HSBC Malta continues to strengthen its controls to help reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We continue to enhance cybersecurity capabilities, including Cloud security, identity and access management, metrics and data analytics, and third-party security reviews. An important part of its defence strategy is conducting cybersecurity training and awareness campaigns so that employees remain aware of cybersecurity issues and know how to report incidents.

Climate Risk and ESG Risks

Climate-related risks

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

The assessment of climate risks covers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050.

The following risks resulting from climate change and the move to a net zero economy may be faced:

- Credit losses, if customers business models fails to align to a net zero economy or if its customers face disruption to their operations or deterioration to their assets as a result of extreme weather.
- Impacts from physical risk on HSBC Bank Malta p.l.c.'s own operations, owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could affect its ability to conduct its day-to-day operations.
- Increased reputational, legal, and regulatory risk if the bank fails to make sufficient progress towards its net zero ambition, if the bank fails to meet evolving regulatory expectations and requirements on climate risk management, or if HSBC knowingly or unknowingly makes inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to stakeholders.
- Financial reporting risk in relation to ESG disclosures, as any data, methodologies and standards used may evolve over time in line with market practice, regulation or developments in climate science. Any changes could result in revisions to HSBC internal frameworks and reported data and could mean that reported figures are not reconcilable or comparable year on year.
- Model risk, as the uncertain impacts of climate change and data and methodology limitations present challenges to creating reliable and accurate model outputs.
- Climate related litigation risks.

HSBC Bank Malta p.l.c. may also be exposed to nature related risks beyond climate change, so HSBC continues to engage with investors, regulators and customers on nature-related risks to evolve its approach and understand best practice risk mitigation. Since 2021 the HSBC Group joined several industry working groups dedicated to helping in assessing and managing nature-related risks such as the Taskforce on Nature-related Financial Disclosures ('TNFD').

Mitigating actions

To enhance the monitoring of Climate and ESG risks, HSBC is engaged through:

- A dedicated governance forum, responsible for shaping and overseeing HSBC Bank Malta p.l.c.'s approach and providing support in managing climate & ESG risks.
- The climate risk programme, which continues to support the development of climate risk management capabilities across four key pillars: governance and risk appetite, risk management, stress testing & scenario analysis, and disclosures.; in addition, the approach and mitigation to the risk of greenwashing continue to be enhanced.
- During 2023, we have been monitoring the exposures of our customers to ten high risk sectors, where our wholesale credit customers have the highest climate risk, based on their CO2 emissions. These are oil and gas, building and construction, chemicals, automotive, power and utilities, metals and mining, transportation/airlines/shipping, agriculture, manufacturing and real estate. The first six sectors were incorporated within Risk Appetite Statement in 2022, with the remaining four sectors being included in 2023.
- The Climate Risk specific governance forum met six times during 2023, which monitored progress against climate and environmental risks. Progress is also reported to the Risk Management Meeting, Risk Committee, and the Board.
- Climate stress tests and scenarios are being used to further improve our understanding of our risk exposures for use in risk management and business decision making.
- We continue to engage with our customers, proactively on the management of climate risks as transition risks are assessed and monitored by the client facing and the credit teams for high transition risk sectors.
- We will continue to enhance our climate risk management capabilities throughout 2024, this will include rollout of environmental risk framework, consideration of nature related risks within our business and work related to the EU's corporate sustainability reporting directive.

Integrating climate into enterprise-wide risk management

Our approach to climate risk management is aligned to our Group-wide risk management framework and three lines of defence model to ensure robust oversight of climate risk. This approach ensures the Board and senior management have visibility and oversight of our key climate risks.

Financial crime risk

The risk of financial crime remains intrinsically high and requires continuous work to strengthen the system for preventing, detecting and reporting criminal activities. We believe that the enforcement of high compliance standards is a competitive advantage, and is essential to our success and that of the jurisdiction. The management of Financial Crime Risk is a key area of focus at the HSBC Bank Malta p.l.c. Risk Management Meeting, as well as at the Board and Risk Committee.

HSBC Bank Malta p.l.c. continues to support its clients in the context of complex geopolitical, socio-economic and technological challenges, including the implementation of an unprecedented volume and diverse set of sanctions, notably as a result of the Russia-Ukraine war.

The bank continues to monitor direct and indirect impacts of the Russia-Ukraine war and continues to respond to new sanctions regulations, taking into account the challenges that arise in implementing the complex, new and ambiguous aspects of some of these regulations.

Mitigating actions

We continue to manage sanctions and trade restrictions through the use of, and enhancements to, existing controls.

- The bank also continues to develop its fraud controls, and invest in capabilities to fight financial crime through the application of advanced analytics and artificial intelligence.
- The bank is looking at the impact of a rapidly changing payments ecosystem, as well as risks associated with direct and indirect exposure to digital assets and currencies, to ensure its financial crime controls remain appropriate.
- The bank engages with regulators, policymakers and relevant international bodies, seeking to address data privacy challenges through international standards, guidance and legislation.

Interest rate increases

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

Market risk

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

Branches and offices

A list of branches and offices is found on page 188.

Additional regulatory disclosures

Banking Rule 07 (Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994) partly repealed by certain provisions in the Capital Requirements Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms ('CRR') is related to market discipline and aims to make credit institutions more transparent by requiring them to publish specific disclosures on the credit institution's risk and capital management under the Basel III framework. However, the local group is a large subsidiary of HSBC Holdings plc and is therefore exempt, in terms of Article 24 of the revised BR 07 and Article 13 of the CRR, from certain risk disclosure requirements under Pillar 3, on the basis that equivalent disclosures are performed at the consolidated level which is at the HSBC Holdings plc level. HSBC Holdings plc publishes full Pillar 3 disclosures as a separate document on the HSBC Group Investor Relations website.

Shareholder register information pursuant to Capital Markets Rule 5.64

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

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

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

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

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

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

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

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

It is hereby declared that the requirements pursuant to Capital Markets Rules 5.64.7 and 5.64.10 that deal with agreements which may result in restrictions on the transfer of securities and/or voting rights and agreements pertaining to changes in control of the bank did not apply to the bank as at 31 December 2023.

Shareholder register information pursuant to Banking rule 7 – Appendix 1

Directors' interest in the share capital of the bank

	At 31 Dec 2023
	No. of shares
John Bonello	40,742
Michel Cordina	4,198

None of the shares in the bank's subsidiary companies were held by Directors.

Through an off-exchange transaction related to release of estate, on 11 January 2024 Michel Cordina acquired an additional 72,250 shares. The transaction has been duly notified to the MFSA and published on the bank's website in terms of the Persons Discharging Managerial Responsibilities requirements. The total shares held by Michel Cordina as at 31 January 2024 is 76,448 shares.

Shareholders holding five per cent (5%) or more of the share capital or of the voting rights of the bank at 31 January 2024: HSBC Continental Europe. 70.03%.

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

Number of shareholders at 31 January 2024:

One class of shares 8,968 shareholders (All shares have equal voting rights).

Number of shareholders analysed by range

	At 31 Jan 2024	
	Total shareholders	Shares
Range of shareholding		
1 – 500	**1,503**	**445,072**
501 – 1,000	**1,125**	**846,151**
1,001 – 5,000	**3,755**	**9,570,372**
5,001 and over	**2,585**	**349,444,504**
Total shareholding	**8,968**	**360,306,099**

Standard licence conditions and Investment Services Rules applicable under the Investment Services Act, 1994

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

Board of Directors

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

John Bonello
Simon Vaughan Johnson (resigned 30 April 2023)
Geoffrey Fichte (appointed 1 May 2023)
Henri Mizzi (resigned on 31 October 2023)
Maria Micallef
Yiannos Michaelides
Michel Cordina
Ingrid Azzopardi
Manfred Galdes
Terecina Kwong
Alexiei Dingli (appointed 24 January 2024)

Disclosures in Terms of Article 435 of Capital Requirements Regulations

Disclosure on Governance Arrangements

Number of directorships held by the Members of the Board of Directors

John Bonello	1 Non-Executive chairmanship
Geoffrey Fichte	1 Executive Directorship and 2 Non-Executive directorships all within the same Group
Michel Cordina	1 Executive Directorship
Terecina Kwong	1 Executive Directorship and 1 Non-Executive Directorship
Ingrid Azzopardi	1 Non-Executive Directorship
Maria Micallef	1 Executive Directorship and 2 Non-Executive Directorships
Yiannos Michaelides	1 Non-Executive Directorship
Manfred Galdes	2 Executive Directorships within the same Group and 2 Non-Executive Directorships.
Alexiei Dingli	1 Executive Directorship and 2 Non-Executive Directorships.

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

Board Fit and Proper Policy

The Board's Fit and Proper Policy was last reviewed and approved by the Board in July 2023. This policy includes principles on the selection, appointment, monitoring, re-appointment of and succession planning of members of the Board of Directors and Key Function Holders. The policy also refers and describes the criteria to be used in the assessment for the Board members and Key Function Holders. It also includes the Board diversity and inclusion policy and the induction and training policy.

Without prejudice to the Shareholders' right to appoint and replace members of the Board, in line with the local Code of Principles of Good Corporate Governance, the Board has delegated to the bank's Remuneration and Nomination Committee ('RemNom') with the power to lead the process for board appointments and make recommendations thereon. RemNom has been empowered by the Company's Articles of Association to conduct a fit and proper assessment when seeking qualified candidates for board directorships, in line with local regulatory guidance on the topic. When carrying out the fit and proper assessment, consideration is also given to the Board's Diversity Policy and to the Board's Conflicts of Interest Policy. Before appointment, the potential member undergoes thorough vetting and is required to submit a number of supporting documents. Any appointment is subject to regulatory approval.

Knowledge, Skills and Expertise of the Board Members

John Bonello	Accountancy and Audit
Geoffrey Fichte	Banking and Finance
Michel Cordina	Banking and Finance
Terecina Kwong	Banking and Finance
Ingrid Azzopardi	Accountancy and Audit
Maria Micallef	Accountancy and Audit
Alexiei Dingli	Information Technology & Artificial Intelligence
Manfred Galdes	Financial and Anti-Money Laundering Legislation

In terms of the Board Succession Policy, the Board acknowledges that robust succession planning contributes to the long-term success of the bank. The objective of this policy is to ensure continuity of decision-making and prevent, where possible, too many Board Members having to be replaced simultaneously. The policy aims to have the bank prepared for any planned or unplanned vacancies. Moreover, it ensures that future Directors will be individually and collectively fit and proper to form part of the bank's Board of Directors, committing to its vision, values, objectives and to meet their statutory and regulatory obligations.

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

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

The bank's diversity target is of 33% female share of Board Directors (presently there are three female and five male Directors on the Board and currently awaiting regulatory approval for the formal appointment of the ninth Board member). The bank has achieved this target and aspires to achieve gender parity over the long term. while abiding by the principle of meritocracy.

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

Executive Committee and Head of Internal Audit

As at 31 December 2023, the bank's Executive Committee of the local group was composed of the following:

Geoffrey Fichte	Chief Executive Officer
Svetlana Maslova	Chief Operating Officer
Charlotte Cilia	Chief Financial Officer
Muriel Rutland	Designate Head of Wealth and Personal Banking
Michel Cordina	Head of Business Development
Jesmond Apap	Head of Global Markets
David Perotti	Head of Human Resources
Joyce Grech	Head of Commercial Banking
Joseph Sammut	General Counsel
Steven Beddow	Chief Risk Officer
Mandy Falzon	Chief Compliance Officer
Carine Arpa	Head of Communications
Paula Mamo	Company Secretary
Morgan Carabott	Head of Internal Audit

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the bank and the local group and a resolution proposing their reappointment will be put at the forthcoming Annual General Meeting.

Going concern

As required by Capital Markets Rule 5.62, upon due consideration of the bank's profitability and statement of financial position, capital adequacy and solvency, the Directors confirm the bank's ability to continue operating as a going concern for the foreseeable future.

Statement by the Directors Pursuant to Capital Markets Rule 5.70.1

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

Statement by the Directors Pursuant to Capital Markets Rule 5.68

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

Signed on behalf of the bank's Board of Directors on 21 February 2024 by John Bonello (Chairman) and Geoffrey Fichte (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2023.

Directors' Responsibilities Statement

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

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

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

The financial statements of HSBC Bank Malta p.l.c. for the year ended 31 December 2023 are included in the *Annual Report 2023*, which is being published in printed form and made available on the bank's website. The Directors are responsible for the maintenance and integrity of the *Annual Report* on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Signed on behalf of the bank's Board of Directors on 21 February 2024 by John Bonello (Chairman) and Geoffrey Fichte (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2023.

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

The Board of Directors (the 'Board') of HSBC Bank Malta p.l.c. (the 'bank') acknowledges that effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Hence, it is committed to the HSBC global values of valuing difference, succeeding together, taking responsibility and getting it done. The Board ensures that each employee, through ongoing training, is aware of the obligation to ensure that his or her conduct consistently matches the bank's values.

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

Corporate governance is subject to regulation by the Malta Financial Services Authority. As a company whose equity securities are listed on a regulated market, the bank endeavours to adopt the Code of Principles of Good Corporate Governance (the 'Code' or 'Principles') embodied in Appendix 5.1 of the Capital Markets Rules. In terms of Capital Markets Rule 5.94 and the Code's Preamble, the bank is obliged to disclose how it has complied with the provisions of the said Code. The bank strives to maintain the highest standards of disclosure in reporting the effective measures adopted to ensure compliance with the Principles, and to explain instances of non-compliance.

Compliance with the Code

Principle 1: The Board

The Board plays a key role in effective governance as it lies at the top-end of a system of control that is focused on overseeing and challenging management and control functions in order to ensure effective and prudent management of the bank.

The bank is headed by an effective Board that leads the bank, directs the business and promotes the company's values and standards. It reinforces the tone from the top by setting corporate values. It creates expectations that all business should be conducted in a legal and ethical manner.

The Board is composed of members who are honest, competent and solvent, and have been considered to be fit and proper to direct the business of the bank. The criteria considered when carrying out the individual fit and proper assessment relate to time commitment, knowledge, skills and experience, independence and reputation, honesty and integrity. Directors, individually and collectively, are deemed to be of the appropriate calibre, having the necessary skills and experience to provide leadership, integrity and judgement in directing the bank. The courageous integrity, honesty and diligence of the Directors guarantee that the bank adheres to HSBC Group's (the 'Group') highly ethical business values and this is reflected in the bank's decision and policy-making process. Through their knowledgeable contribution, Directors enhance shareholder value, protect the bank's assets and safeguard the interest of third parties. The letter of appointment issued to Non-Executive Directors stipulates the minimum time commitment expected to be dedicated to the bank. Non-Executive Directors undertake to have sufficient time to meet what is expected of them. Any other significant commitments are disclosed to the Board before their appointment and subsequent changes are notified as they arise.

All Directors ensure that they are informed about the overall activity, financial and risk situation of the bank, taking into account the economic environment. They are also cognisant of decisions that have a major impact on the bank's business.

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

The Board determines and oversees the implementation of the bank's strategic objectives and risk strategy and internal governance. It regularly reviews management performance and ensures that the bank has the appropriate financial and human resources to meet its objectives.

Moreover, it exercises prudent and effective controls, which enable risk to be appropriately assessed and managed in order to achieve the short- and long-term sustainability of the business. As part of a larger international Group, the Board assesses the compatibility of Group policy with local legal and regulatory requirements, and where appropriate, adapts those policies.

The Board ensures the integrity of the bank's accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards.

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

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

Principle 2: Chairman and Chief Executive Officer

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

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

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

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

The Chairman encourages and promotes open and critical discussion, ensuring that any dissenting views are expressed and discussed within the decision-making process. Moreover, the Chairman contributes to the efficient flow of information within the Board, as well as between the Board and its Committees. The Chairman is responsible for an effective overall functioning of the Board.

The Chief Executive Officer advises the Board, formulates policies and makes recommendations to the Board. The Chief Executive Officer develops, drives and delivers performance within strategic goals, commercial objectives and business plans agreed by the Board. The Chief Executive Office is responsible for executing strategy and implementing plans. The Chief Executive Office effectively leads the senior management in the day-to-day running of the bank, ensures compliance with appropriate policies and procedures and maintains an effective framework of internal controls over risk in relation to the business. The Chief Executive Office makes decisions on all matters affecting the operations, performance and strategy of the business, except for those matters reserved for the Board or specifically delegated by the Board to its Committees. The Chief Executive Office interfaces between the Board and employees and between the bank and other stakeholders.

Principle 3: Composition of the Board

Experience has shown that the size of the Board is appropriate to facilitate effective oversight over the bank's operations. Each of the Directors is skilful, competent, knowledgeable and experienced to fulfil his/her role diligently. The Directors who held office during the year, possess the requisite ability to assess business risk, to identify key performance indicators and participate in critical debate in the decision-making process.

Ethnicity, age, culture, and gender diversity, underpinned by meritocracy, are areas of strategic focus for the employee base. The same principle is applied to the composition of the Board in accordance with the Board Diversity Policy.

The benefits of diversity, including that in educational and professional backgrounds, continue to influence the Remuneration and Nomination Committee's Board succession planning and Board candidates' selection process. This has resulted in a diverse Board composition which meets the diversity criteria in its widest aspect of ethnicity, age, culture, gender and educational and professional backgrounds. The right mix of Board Members ensures diverse perspectives, experience and knowledge.

During 2023, the Board was composed of a Non-Executive Chairman, two Executive Directors and six Non-Executive Directors (five Non-Executive Directors following Henri Mizzi's resignation, until his replacement is appointed). Five of the Non-Executive Directors are deemed to be independent.

Whereas the Executive Directors are involved in the day-to-day running of the business, ensuring adherence to the four-eye principle, the Non-Executive Directors bring an external perspective to the Board when they constructively challenge and help develop proposals on strategy, scrutinise the performance of management, and monitor the risk profile and the reporting of performance.

They are proactive in ensuring that financial controls and risk management systems are well established and in satisfying themselves with the integrity of financial information.

The appointment of Directors requires the 'non-objection' of the European Central Bank. This non-objection has been granted to all of the bank's appointed Directors.

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

In accordance with the Code Provision 3.2, the independent Non-Executive Directors as at 31 December 2023 were the following:

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

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

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

In accordance with Code Provision 3.2.1, the Board had decided that the employment of Terecina Kwong with the Group rendered her non-independent from the bank. This did not however, in any manner, detract from this Director's ability to maintain independence of free judgement and character at all times. She was deemed able to make her own sound, objective judgement and independent decisions when performing her functions and responsibilities.

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

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

Principle 4: The Responsibilities of the Board

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

The Board actively oversees the affairs of the bank and stays attuned to material changes in the bank's business and the external environment, as well as acts in a timely manner to protect the long-term interests of the bank. It plays a leading role in establishing the bank's corporate culture and values. The Board, after considering senior management and the Chief Risk Officer advice, establishes the bank's risk appetite, taking into account the commercial and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively. It also oversees the bank's adherence to the Risk Appetite Statement, risk policy and risk limits.

The Board is also responsible for approving the approach and overseeing the implementation of key policies pertaining to the bank's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations and the internal control system. The Board, oversees the integrity, independence and effectiveness of the bank's policies and procedures for Whistleblowing. Whistleblowing also falls under the remit of the Audit Committee.

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

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

The Board has approved a Fit and Proper Policy for Board Members and Key Function Holders, which includes a succession policy. The

Board has also reviewed and approved a succession plan for the future composition of the Board.

An effective reporting system that enables the Directors to have relevant and timely information, such that the Board can discharge its duties, exercise objective judgement and take pertinent decisions, is implemented through:

- presentations delivered by senior management during Board meetings;
- updates provided by the CEO and senior management during intervals between Board/Committees' meetings; and
- accessibility to a common electronic platform hosting bank information, including Board/Committees' documentation and minutes of meetings.

The Board ensures that its level of power is known by all Directors and the senior management of the bank. Any delegation of responsibility and function is clearly documented.

The Board delegates specific responsibilities to Committees, which operate under their respective formal Terms of Reference which are embodied in the Corporate Governance Framework which the Board reviews and approves on an annual basis.

Audit Committee

The Terms of Reference of this Committee are compliant with the Capital Markets Rules and Banking Rule 12, the European Banking Authority Guidelines on Internal Governance.

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

This Committee reviews, *inter alia*, the bank's financial resource plan and the capital plan. Moreover, it reviews and considers changes to significant accounting policies and practices as applicable.

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

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

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

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

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

The Committee met six times during 2023 and was composed of Ingrid Azzopardi as Chairperson, Maria Micallef as Member and John Bonello as interim Member. During the financial year ended 31 December 2023, Henri Mizzi relinquished his position as Director and Member of the Committee with effect from 31 October 2023. In this respect, the vacant position on the Audit Committee has been temporarily filled by John Bonello, until Henri Mizzi's replacement is announced.

Attendance at Audit Committee meetings

	Attended
Ingrid Azzopardi	**6 out of 6**
Maria Micallef	**6 out of 6**
Henri Mizzi (resigned 31 October 2023)	**5 out of 5**
John Bonello (as interim member)	**1 out of 1**

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

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

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

In terms of Capital Markets Rule 5.117, the bank has established and maintained an Audit Committee that is composed of three non-executive Directors, all of whom have been deemed to be independent. Ingrid Azzopardi was appointed by the Board as the Chairperson of the Committee. She is independent and competent in accounting and/or auditing on the basis that she is a Certified Public Accountant and Auditor and a Fellow of the Malta Institute of Accountants, and also a Member of the Institute of Internal Auditors.

In terms of Capital Markets Rule 5.127.5, the Audit Committee is responsible for developing and implementing policy on the engagement of the external auditor to supply non-audit services. The provision of non-audit services to EU Public Interest Entities ('PIEs') and to parent and controlled undertakings in the EU are regulated in terms of EU rules.

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

Risk Committee

This Committee is responsible for advising the Board on high-level risk-related matters, including both financial and non-financial risks, impacting the bank and its subsidiaries. In providing such oversight and advice to the Board, the Committee oversees: current and forward-looking risk exposures, the bank's risk appetite profile and future risk strategy. The Committee has to satisfy itself that the risk appetite is aligned to the bank's strategy and business plans and takes into account the macroeconomic and financial environment. It is the Committee's responsibility to advise the Board on overall current and future risk appetite, risk tolerance-related matters and strategy and assist the Board in overseeing implementation of that strategy by senior management.

The Committee reviews and recommends as applicable the bank's Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process. The Committee has to satisfy itself that the stress testing framework, governance and related internal controls are robust.

The Committee reviews the effectiveness of the bank's conduct framework designed to deliver fair outcomes for customers, preserve the orderly and transparent operation of financial markets and protect the bank against adverse outcomes to the bank's financial and non-financial condition and prospects.

The Committee also considers the effectiveness of management's policies for addressing risks relating to the bank's cyber security, information security and operational resilience programmes. Moreover, the Committee oversees matters relating to Financial Crime Risk and controls relating to anti-bribery and corruption. Furthermore, the Committee approves the annual plan for the Compliance Function and receives regular reports on progress against the plan and other matters relating to compliance risk and the bank's relationship with Regulators.

The Committee is empowered to review whether prices of liabilities and assets offered to clients take full account of the bank's business model and risk strategy. Moreover, it reviews how effectively management is embedding and maintaining an effective risk management culture and strong internal control environment designed to foster compliance with the bank's regulatory compliance requirements.

The Committee met six times during 2023 and was composed of Manfred Galdes as Chairman, and Ingrid Azzopardi and Yiannos Michaelides as Members.

Attendance at Risk Committee meetings

	Attended
Manfred Galdes	**6 out of 6**
Ingrid Azzopardi	**6 out of 6**
Yiannos Michaelides	**6 out of 6**

During the year, regular informal meetings were held between the Chairperson/Members of this Committee and Members of Senior Management especially the Head of Internal Audit, the Chief Risk Officer, the Chief Compliance Officer and the external auditors.

Senior managers of the bank are invited to attend any of the meetings as directed by the Committee.

The Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Compliance Officer and the Head of Internal Audit are standing attendees at the meetings.

Remuneration and Nomination Committee ('RemNom' Committee)

The remuneration aspect of this Committee, its composition and information relating to its meetings during 2023 are dealt with under the Remuneration Report, which also includes, *inter alia*, the Remuneration Statement in terms of Code Provision 8.A.4 and information required in terms of Appendix 12.1 of the Capital Markets Rules.

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

The Committee continued to perform its role regarding 'fit and proper' assessments of present and prospective Board Members, with power of rejection of any proposed Board candidate on the basis of unsuitability.

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

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

Letters of appointment issued to Non-Executive Directors set out the expected time commitment and by their acceptance thereof the Directors undertake that they will have sufficient time to discharge their duties as Directors. For the attendance details please refer to the Remuneration report on page 62.

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

Executive Committee ('ExCo')

This Committee is a management meeting and its purpose is to support the bank's Chief Executive Officer ('CEO') in the performance of the CEO's duties and exercise of powers, authorities and discretions in relation to the management and day-to-day running of the bank and its subsidiaries and to support the CEO in the discharge of responsibilities to the Board. This Committee is designed to strengthen decision making by ensuring collective input to decisions.

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

In terms of its Terms of Reference, this Committee is chaired by the Chief Executive Officer and its membership is composed of: the Head of Business Development, the Head of Wealth and Personal Banking, the Head of Commercial Banking, the Head of Global Markets, the Chief Financial Officer, the Chief Operating Officer, the Chief Risk Officer, the General Counsel, the Chief Compliance Officer, the Head of Human Resources, the Head of Communications and the Company Secretary. As the Head of Internal Audit is independent from management, the holder of said role is not a member of the Committee but is a standing attendee.

Meetings are held with such frequency and at such times as the Chairman may determine. However, it is expected that the Committee formally meets at least six times per annum.

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

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

The Risk Management Meeting ('RMM')

The RMM met nine times during the year. It is chaired by the Chief Risk Officer, with the Chief Executive Officer, or any member appointed by the Chief Risk Officer as alternate chairman, in his/her absence. During 2023, all the meetings were chaired by the Chief Risk Officer. The objective of the RMM is to exercise oversight of the risk/reward framework for the bank and its subsidiaries.

This governance forum is responsible for all risks in all businesses, functions and subsidiaries under the ownership of the bank, including inter alia This governance forum is responsible for all risks in all businesses, functions and subsidiaries under the ownership of the bank, including inter alia Treasury Risk, Strategic Risk, Credit Risk, Market Risk, Resilience Risk (including information technology, cyber security and third party risk), Financial Crime Risk, Regulatory Compliance Risk, People Risk, Legal Risk, Model Risk, and Financial Reporting and Tax Risk. The RMM is also responsible for the setting and monitoring of a Risk Appetite Framework for Risk Committee and Board approval, signing off on material credit risk models, and consideration of top and emerging risks and scenario/stress test analysis. Individual risk acceptance and approval is not within the Terms of Reference of the RMM, and continues to be approved under existing delegated authorities within the management structure of the bank. The Chief Risk Officer is also invited to attend Board meetings and meetings of the Audit and Risk Committees in which representations are made about the overall risk profile associated with the business including a comprehensive assessment of the bank's management of risk.

The Asset and Liability Management Committee ('ALCO')

ALCO is responsible for managing the balance sheet with a view to achieve efficient allocation and utilisation of all resources.

This Committee, which is chaired by the Chief Financial Officer, reviews the asset and liability risks of the local group and oversees the prudent management of interest rate risk, liquidity and funding risk, capital, foreign exchange risk, and solvency risk. Furthermore, ALCO monitors the external environment and measures the impact on profitability of factors such as interest rate volatility, market liquidity, exchange rate volatility, monetary and fiscal policies and competitor banks' activity. ALCO monitors the funding and capital adequacy, making use of forecasts as well as stress tests to ensure the sustainability of the business model and ensuring that sufficient resources are available at all times to meet the demand arising from business activities and regulation.

ALCO is responsible for ensuring that the local group has the appropriate recovery plan in place to ensure it is prepared to restore viability in a timely manner under stress. It is also responsible for resolution planning, detailing the bank's preferred resolution strategy and approving the respective plans.

The Chief Executive Officer has primary responsibility for ensuring an efficient deployment of the bank's Asset and Liability Management strategy. Membership consists of senior executives with responsibility for the following functions: Commercial Banking, Wealth and Personal Banking, Markets Treasury, Finance, Asset and Liability Capital Management, Customer Value Management and Global Payments Services. ALCO, met eleven times in 2023 and is chaired by the Chief Financial Officer and deputised by the Chief Executive Officer.

Principle 5: Board meetings

The Board meets as often and as frequently required to discharge its duties effectively. During the period under review, the Board met twelve times: nine were formal Board meetings and three were for structured training purposes.

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

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

Minutes are taken during Board meetings that faithfully record attendance, discussed matters, tracked actions and decisions. These minutes are subsequently circulated to all the Directors as soon as practicable after the meeting. Besides attending formal Board meetings and Committee meetings of which they form part, Directors attend, on a frequent and regular basis, meetings where their presence is required for the proper discharge of their duties. All the Directors dedicate the necessary time and attention to their duties as Directors of the bank. The holding of other directorships in other companies is in line with regulatory provisions.

Directors' attendance at Board Meetings in 2023

	Attended
John Bonello	9 out of 9
Simon Vaughan Johnson	5 out of 5
Geoffrey Fichte	4 out of 4
Michel Cordina	9 out of 9
Yiannos Michaelides	7 out of 9
Manfred Galdes	9 out of 9
Ingrid Azzopardi	9 out of 9
Henri Mizzi	9 out of 9
Maria Micallef	9 out of 9
Terecina Kwong	6 out of 9

Principle 6: Information and professional development

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

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

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

Topics covered during these awareness sessions related to interest rates risk, cybersecurity, Corporate Sustainability Reporting Directive (CSRD) and capital requirements for the bank. Directors also participate in the Group's mandatory training, which covers health safety and wellbeing, risk management, cybersecurity, sustainability, financial crime compliance topics, data literacy, workplace harassment and data privacy.

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

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

The Chairman of the Board and Chairpersons of the Audit and Risk Committees attend a number of Chairpersons' Fora organised throughout the year by the Group. In 2023, Group also organised a Chairmen's Summit, which the bank's Chairman attended. The bank's Audit Committee and Risk Committee Chairpersons also attended an engagement session together with other HSBC Audit Committee and Risk Committee Chairpersons. During these meetings the Directors are updated on the latest topical issues.

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

Principle 7: Evaluation of the Board performance

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

Principle 8: Committees

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

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

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

The bank communicates with shareholders in the following ways:

- through the 'Annual Report and Accounts' which is made available on the bank's website, a printed version of which is provided to shareholders upon request;
- through the publication of company announcements and media releases; and
- at the Annual General Meeting and Extraordinary General Meetings (further detail is provided under the section 'General Meetings').

The bank also holds meetings for stockbrokers, financial intermediaries and the media to explain the salient features of the interim and annual financial results.

The bank maintains an open channel of communication with its shareholders through the Corporate Governance and Secretariat Function. Meetings have also been held between the Chief Executive Officer and the Malta Association of Small Shareholders.

As the Board always endeavours to protect the interests of both the bank and its shareholders, present and future, the Board takes into account the fact that shareholders are constantly changing. This is reflected in the Board's decisions on long-term sustainability objectives to safeguard the interests of future shareholders. The Chairman ensures that the views of shareholders are communicated to the Board. Moreover, Board members are available to answer questions during the Annual General Meeting. The conduct of the meeting is conducive to valid discussion and appropriate decision making. In terms of the bank's Articles of Association, the Directors shall, on the request of members of the company holding not less than one-tenth of the paid-up share capital, duly proceed to convene an Extraordinary General Meeting of the bank.

Principle 11: Conflicts of interests

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

In line with HSBC Group best practice, the Board operates a Board Conflicts of Interest Policy. In terms of this policy, a Director is to avoid situations in which he or she has or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the bank. Without prejudice to Articles 136A (3)(C) and 143 of the Companies Act, this policy stipulates that a director must obtain an authorisation from the Board before a situational conflict arises. Notably, in accordance with this policy, all directorships and other non-bank appointments should be authorised by the Board.

By virtue of the bank's Articles of Association, a Director is bound not to vote at a Board meeting on any contract or arrangement or any other proposal in which such Director has a material interest, either directly or indirectly. Moreover, in terms of the Board's Conflicts of Interest Policy, a Director having a continuing material interest that conflicts with the interests of the bank, should take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict then the Director should consider resigning.

On joining the Board and regularly thereafter, Directors are informed and reminded of their obligations on dealing in securities of the bank within the parameters of law and the Capital Markets Rules. A proper procedure of reporting advance notices to the Chairman by a Director who intends to deal in the bank's shares has been endorsed by the Board in line with the Principles, the Capital Markets Rules and the internal Code of Dealing.

Principle 12: Corporate Social Responsibility

The bank's Corporate Sustainability ('CS') strategy takes into account the Group-wide strategy. The Board continues to recognise that the bank has a responsibility towards people and the planet. The bank has continued to utilise its resources in order to carry out a series of initiatives and projects designed to provide value to various sectors for the bank's key stakeholders (i.e. customers, employees, and the community). In Malta, the bank fulfils the Group's CS strategy primarily through its Corporate Sustainability function and the HSBC Malta Foundation (the 'Foundation'). The HSBC Malta Foundation seeks to unlock the full potential of individuals and the community to shape a sustainable future. Drawing from the HSBC Group resources and a network of partners, the bank works to tackle critical problems in sustainable finance, climate ambition and future skills. Locally, the bank remains committed to making a difference in the areas of child welfare and education, the environment and heritage. The bank has pledged long-term support to help people access education and training, so as to acquire the skills needed to succeed today and in the future at the place of work. There is close collaboration with several stakeholders including governmental organisations, policymakers, local businesses, other banks and financial institutions, charities, non-profit organisations and non-governmental organisations Through these partnerships, the bank encourages sustainable business and communities. The bank takes pride in HSBC colleagues who contribute to the charities and causes they feel passionate about and staff members are encouraged to take an active role in initiatives supported by the HSBC Malta Foundation. HSBC Bank Malta p.l.c. is also one of the founding members of the Malta ESG Alliance.

Through the Sustainability function, a focus is placed on creating a sustainable future that leaves a positive impact on society, the environment and the economy. The HSBC Group has been working relentlessly on shaping its Corporate Sustainability agenda for future generations to come. HSBC strives to become a net zero bank with the aim to reduce its carbon footprint. This will be achieved by ensuring that the bank's operations are net zero by 2030 and that the financed emissions are aligned to achieve net zero by 2050 or sooner. Customers will be supported in this journey by dedicating up to $1 trillion of financing and investment globally in the next 10 years. With this ambition in mind, the bank has been very active locally during 2023 to drive initiatives aligned with this strategy.

Non-compliance with the Code

Principle 9 (Code Provision 9.3 and Code Provision 9.4)

This Code Provision recommends the bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. Although the bank does not have such a mechanism in place, there is ongoing open dialogue between the bank's senior management and the Non-Executive Directors to ensure that no such conflicts arise.

In terms of Code Provision 9.4, minority shareholders should be allowed to formally present an issue to the Board of Directors. The bank does not have a policy in terms of this code provision. However, the bank maintains an open dialogue with the Malta Association of Small Shareholders.

Internal control Capital Markets Rule 5.97.4

The Board is ultimately responsible for the bank's system of internal control and for reviewing its effectiveness. Such procedures are designed to achieve business objectives and to manage and mitigate, rather than to eliminate, the risk of failure. They can only provide reasonable and not absolute assurance against material error, losses or fraud.

The Group has established the risk management and internal control structure referred to as the 'Three Lines of Defence' to ensure we achieve our commercial aims while meeting regulatory, legal, as well as Group requirements. It is a key part of the local group operational risk management framework.

The First Line of Defence has ultimate ownership of risk and controls, including read across assessments of identified issues, events, and near misses, and the delivery of good conduct outcomes. Risk Owners are accountable for identifying, assessing, managing and reporting key existing and emerging risks that they own for their business or function in line with the risk appetite set by the Board.

The Second Line of Defence reviews and challenges the First Line of Defence's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite, and supports the delivery of conduct outcomes. The Second Line of Defence is independent of the risk-taking activities undertaken by the First Line of Defence and includes CROs, Risk Stewards and the Operational and Resilience Risk function. Risk Stewards are accountable for setting policy and control standards to manage risks, providing advice and guidance to support these policies, and challenging the First Line of Defence to ensure it is managing risk effectively.

The Third Line of Defence is Internal Audit, which provides independent assurance to management and the non-executive Risk and Audit Committees that the bank's risk management, governance and internal control processes are designed and operating effectively.

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

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

Group ethical standards and regulations. With regard to financial crime compliance, it is responsible for the oversight of Anti-Money Laundering and Terrorist Financing, Sanctions, Anti-Bribery and Corruption, Fraud and Tax Evasion risks. Particular attention is given to the proactive management of identified Financial Crime Compliance risk issues. Routine governance is managed via the Executive Committee and reported to the Risk Committee and to the Board.

– Through the Audit Committee and the Risk Committee, the Board reviews the processes and procedures to ensure the effectiveness of the system of internal control of the bank and its subsidiaries, which are subject to periodic Third Line of Defence review by Internal Audit.

Capital Markets Rule 5.97.5

The information relating to the Shareholders' Register required by this Capital Markets Rule is found in the Directors' Report.

General meetings

The General Meeting is the highest decision-making body of the bank. A General Meeting is called by 21 days' notice and it is conducted in accordance with the Articles of Association of the bank.

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

All shareholders registered in the Shareholders' Register on the record date as defined in the Capital Markets Rules, have the right to attend, participate and vote in the General Meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the General Meeting may request the bank to include items on the agenda of a General Meeting and/or table draft resolutions for items included in the agenda of a General Meeting. Such requests are to be received by the bank at least 46 calendar days before the date set for the relative General Meeting. A shareholder who is unable to participate in the General Meeting can appoint a proxy by written or electronic notification to the bank. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the General Meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for that purpose.

In 2023, the Annual General Meeting was held on 20 April 2023.

Remuneration Report

Governance

Role of the Remuneration Committee

The bank's Remuneration and Nomination Committee (the 'Committee' or 'RemNom') within its remuneration oversight remit, is responsible for overseeing the implementation and operation of the bank's remuneration framework. It also assures that the remuneration framework is aligned with local law, rules or regulations, as well as with the risk appetite, business strategy, culture and values, and long-term interests of the bank. The Committee also seeks to satisfy itself that the remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the bank. It ensures that the remuneration policy is consistent with and promotes sound and effective risk management. The Committee carries out its role in line with The Code of Principles of Good Corporate Governance, as presented within Appendix 5.1 to the Capital Markets Rules and Banking Rule 21 (BR21/2022) – Remuneration Policies and Practices – issued by the Malta Financial Services Authority.

The Committee is responsible for recommending to the HSBC Bank Malta p.l.c. Board of Directors (the 'Board') approvals of the total compensation spend within the Financial Resource Plan. The Committee works in conjunction with the HSBC Group Remuneration Committee. However, it has its own Terms of Reference, which sets out its key responsibilities.

The Chief Risk Officer attends meetings as necessary to report to the Committee on the alignment of the bank's remuneration policy and proposals with the bank's risk profile and risk management. Other members of senior management who are sometimes in attendance are the Chief Financial Officer and the Head of Human Resources. The Chief Financial Officer reports on the alignment of the bank's Remuneration Policy and proposals with the Company's capital profile. The Head of Human Resources attends meetings when the Remuneration Policy or remuneration matters are considered.

The Committee seeks advice from the Company's Risk Committee and the Company's Chief Risk Officer, on the alignment of risk and remuneration and, as necessary, any relevant adjustments for risk to be considered in respect of the variable pay pool and remuneration outcomes. The Board, via the Committee's recommendation, uses these updates when considering the risk-related adjustments necessary when setting the variable pay pool, to ensure that return, risk and remuneration are aligned.

Membership and meetings

The Committee met seven times during 2023 and was composed of Maria Micallef as Chairperson, John Bonello as Member and Manfred Galdes as interim Member. During the financial year ended 31 December 2023, Henri Mizzi relinquished his position as Director and Member of the Committee with effect from 31 October 2023. In this respect, the vacant position on the RemNom Committee has been temporarily filled by Manfred Galdes, until Henri Mizzi's replacement is announced.

Attendance at Remuneration and Nomination Committee meetings

	Attended
Maria Micallef	7 out of 7
John Bonello	7 out of 7
Henri Mizzi	6 out of 6
Manfred Galdes (as interim member)	1 out of 1

During the year, the Chief Executive Officer, the Head of Human Resources, the Chief Risk Officer and the Chief Financial Officer attended some of the meetings of the Committee when deemed appropriate. None of the executives participated in the discussion regarding their own remuneration.

In 2023 the Committee did not engage any external adviser. It only seeks specific legal and/or remuneration advice independently as and when it considers this to be necessary.

Remuneration Statement

HSBC Bank Malta p.l.c. Remuneration Policy

The bank's remuneration strategy is designed to competitively reward the achievement of sustainable performance and to attract, retain and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience in line with the Bank's Diversity and Inclusion Policy. The aim is to retain those who are committed to a long-term career with the HSBC Group in the long-term interests of our shareholders. It is also aligned with the EU's Capital Requirements Directive ('CRD') V, particularly with respect to those employees identified as having a material impact on the bank's risk profile, hereinafter referred to as 'Identified Staff', in accordance with Commission Delegated Regulation (EU) 2021/923, which came into effect during 2021 following its publication in the Official Journal of the European Union. Accordingly, the classification of Identified Staff within the bank's Remuneration Policy is aligned with this regulation.

During 2023, the bank's Remuneration Policy has been updated to incorporate further detail in respect of the following three areas in order to better align with regulatory requirements:

- Policy in respect of disclosures submitted to the Authority in relation to high earners, Identified Staff, gender pay gap analysis and remediation;
- Framework for the determination and approval of severance pay for Identified Staff; and
- Independent review of the design of the Remuneration Policy.

In determining remuneration levels for 2023, the Committee applied the bank's Remuneration Policy, which takes into account the interests of shareholders, the HSBC Group and the broader external context.

Key principles of the remuneration framework include the following:

- Assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
- The use of behaviour and performance ratings for all employees which directly influence pay outcomes;
- Positive adjustments to variable pay for individuals who have exhibited exemplary conduct and who went the extra mile to courageously do the right thing;
- Negative adjustment to variable pay for individuals who do not complete mandatory learnings or do not demonstrate the right values and behaviours which may put the bank, its customers and stakeholders at risk;
- A global recognition program, where the employees can recognise peers and reward positive behaviour in real-time;
- A focus on total compensation (fixed plus variable pay) with variable pay (namely annual bonus) differentiated by performance and adherence to HSBC values;
- The use of discretion to assess the extent to which performance has been achieved; and
- Deferral of a significant proportion of variable pay (where appropriate) to tie recipients to the future performance of the bank and align the relationship between risk and reward.

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

- Assessment of risk and compliance is a critical part of the process to determine the performance of all employees, especially Identified Staff.
- Adherence to HSBC values is a prerequisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC

values rating which directly influences their overall performance rating, and is therefore considered for their variable pay determinations.

- For Executive Directors, Senior Management and certain Identified Staff, part of their variable pay is deferred (where appropriate) and thereby subject to malus, which allows unvested/unpaid deferred awards to be reduced or cancelled if warranted. Similarly, for paid/vested awards, these are subject to clawback for a minimum period of seven years from date of grant.
- Employees must not use personal hedging strategies or remuneration or liability-related contracts of insurance in connection with any unvested deferred remuneration awards or any vested awards subject to a retention period.
- Instances of non-compliance with risk procedures or with expected behaviours are escalated for consideration in variable pay decisions, including variable pay adjustments for that performance year and malus of unpaid awards granted in prior years. For Identified Staff, the Committee and the Board have oversight of such decisions and can make recommendations to the HSBC Group Remuneration Committee to reduce or cancel all or part of any unpaid deferred award.

The Remuneration Policy is available in full on the Bank's website: https://www.about.hsbc.com.mt/investor-relations

The bank's reward strategy

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

- Fixed Remuneration;
- Benefits; and
- Variable Remuneration.

These elements are designed to ensure that the bank attains its targets by including both short-term and long-term incentives in the reward package. This strategy promotes the employees' remuneration with the bank's risk alignment of framework, risk outcomes and values. The personal conduct of the bank's people is critical to the bank's ability to live up to these commitments. The bank recognises and rewards exceptional conduct demonstrated by its employees. Poor conduct and inappropriate behaviour not in line with HSBC values, or which exposes the bank to financial, regulatory or reputational risk, is strongly discouraged and may attract consequence.

For senior employees, where appropriate, part of their reward is deferred, and thereby subject to malus, that is, it can be cancelled if warranted by events. In order to ensure alignment between what the bank pays its employees and the bank's business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarised in performance scorecards. This assessment also takes into account adherence to the HSBC values encapsulated in the following statement: 'we value difference, we succeed together, we take responsibility and we get it done'. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term but also importantly on how it is achieved, as the bank believes the latter contributes to the soundness and sustainability of the business.

Structure of remuneration

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

Description	Purpose, relevant features and link to strategy
Fixed Pay	Fixed pay reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a fixed pay allowance and/or a pension.
	Base salary Base salaries are paid in cash on a monthly basis and are benchmarked on an annual basis against relevant comparator groups.
	Fixed pay allowance This is typically paid in cash on a monthly basis.
	Pensions These consist of cash allowances in lieu of personal/occupational pension arrangements of international assignees appointed to Executive Director or Senior Management positions. An employee pension plan scheme is offered to all local employees subject to the terms and conditions of the scheme.
Benefits	Benefits take account of local market practices and include the provision of medical insurance, health assessment, life assurance, and tax assistance where appropriate.
Variable Pay – annual incentive	Variable pay award is discretionary, and is determined and paid in line with internal bank policies and procedures. Variable pay awards are made to drive and reward performance against annual financial and non-financial measures and adherence to HSBC values which are consistent with the medium to long-term strategy and aligns to shareholder interests.
	Performance targets are set taking into account the economic environment, strategic priorities and risk appetite. The bank has two rating scales to measure performance of employees: a four rating scale measuring performance targets achieved and another four rating scale measuring and assessing the behaviour of employees in line with the HSBC values. All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also how it is achieved. Each department comes together every year to calibrate the ratings given to employees to ensure a fair, consistent and bias free assessment. This exercise ensures that the process is transparent and fair across the bank. Performance reporting tools are available to all line managers for the purpose of undertaking an analytical review of the variable pay decisions for them. Variable pay is delivered in the form of cash and shares in HSBC Bank Holdings plc.
	Individuals in control functions are assessed according to the objectives specific to the functional role they undertake, to ensure their remuneration is determined independent of the performance of the business areas they control.
	Where variable pay for Identified Staff is more than €50,000 or where variable pay is greater than 33% of Total Compensation, a minimum of 50% of awards are made in shares. Variable pay is restricted to a maximum of 100% of fixed pay.
	A substantial portion, and in any event at least 40 %, of the variable remuneration component, is subject to deferral and vested over a period which is not less than four years for Non Senior Management and not less than five years for Senior Management. This portion is correctly aligned with the nature of the business, its risks and the activities of the staff members concerned.
	The award is non-pensionable.

Variable pay funding

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

Performance measurement and risk adjustment

Under the bank's remuneration framework, decisions relating to remuneration of individuals are based on a combination of:

performance against objectives, general individual performance of the role, and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards.

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

The Committee can also seek advice from the Group Remuneration Committee, at the level of HSBC Holdings plc, to reduce or cancel all or part of any unvested deferred award under the applicable malus and clawback provisions. Appropriate circumstances include (but are not limited to) the examples set out in the table below. The Group Remuneration Committee can also recommend the forfeiture of unvested awards granted in prior years.

Adjustments would generally be made to the current year variable pay before application of malus and clawback is considered. Details of the circumstances where an adjustment, malus and/or clawback will be considered are set out below:

Type of action	Type of variable pay award affected	Circumstances where action may apply (including, but not limited to):
Adjustment	Current year variable pay	– Detrimental conduct or conduct which brings the business into disrepute. – Involvement in Group-wide events resulting in significant operational losses, including events which have caused or have the potential to cause significant harm to HSBC. – Non-compliance with HSBC values and other mandatory requirements. – For specified individuals, insufficient yearly progress in developing an effective Anti-Money Laundering ('AML') and sanctions compliance programme. – Failure to complete mandatory learning.
Malus	Unvested deferred awards granted in prior years	– Detrimental conduct or conduct which brings the business into disrepute. – Past performance being materially worse than originally reported. – Restatement, correction or amendment of any financial statements. – Improper or inadequate risk management.
Clawback	Vested or paid awards	– Participation in or responsibility for conduct which results in significant losses. – Failing to meet appropriate standards of fitness and propriety. – Reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment. – HSBC or a business unit suffers a material failure of risk management within the context of Group risk management standards, policies and procedures.

Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules

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

Those in favour	280,826,046 votes (99.82%)
Those against	255,305 votes (0.09%)
Abstentions	257,296 votes (0.09%)

The Policy is divided into three major sections; one relating to Executive Directors, another dedicated to Non-Executive Directors and the other containing provisions common to all directors. The said Policy and its implementation are reviewed regularly by RemNom. Any material amendments to the Policy shall be submitted to a vote by the General Meeting before their adoption and in any case at least every four years.

The Directors' Remuneration Policy shall be presented for approval at the next General Meeting (Ordinary Resolution - Special Business). The proposed changes relate to the alignment of the Directors' Remuneration Policy in respect of Variable Pay. Specifically, the applicable threshold for Variable Pay of Identified Staff are within the "Executive Directors' Reward Package as Salaried Employees" section, was lowered from €100,000 to €50,000. In this respect where Variable Pay for Identified Staff exceeds €50,000 or for lower values where Variable Pay is greater than 33% of Total Compensation, a minimum of 50% of the awards are made in HSBC Holdings plc shares."

The Directors' Remuneration Policy is available in full on https://www.about.hsbc.com.mt/investor-relations/annual-general-meetings.

There were no deviations from the procedure for the implementation of the Directors' Remuneration Policy.

Information on Directors' Remuneration in terms of Appendix 12.1 of the Capital Markets Rules

Executive Directors

As stated in the Directors' Remuneration Policy, Executive Directors' total remuneration as salaried employees is regulated in terms of the bank's Remuneration Policy and Group's Standard Employment Contracts. Therefore, Executive Directors are treated in a similar manner to all other employees. Hence, their remuneration is comprised of fixed remuneration, variable remuneration and other benefits as outlined above. These elements of remuneration support the achievement of the bank's objectives through balancing reward for both short-term and long-term sustainable performance. Remuneration is designed to reward success and is aligned with the bank's risk framework and risk outcomes. Executive Directors are expected to reflect the bank's values in their behaviour and business conduct. Personal conduct is critical to the ability of living up to these commitments. Exceptional conduct and behaviour are recognised and at the same time poor conduct and inappropriate behaviour which may expose the bank to financial, regulatory, or reputational risk are strongly discouraged and where necessary attracts consequence.

Total awards of Executive Directors are subject to deferral and vest over a period of not less than five years or such other period as determined by the Committee, and hence subject to malus or clawback provisions as outlined earlier.On termination of an executive directorship, Executive Directors are not entitled to any retirement benefits, supplementary pensions or termination benefits related to the said termination as Directors. Upon retirement from their employment, local Executive Directors shall be subject to the same conditions of any employee's Early/Voluntary Retirement Scheme.

Remuneration of Executive Directors for the year ended 31 December 2023:

	Geoffrey Fichte*	Simon Vaughan Johnson**		Michel Cordina	
	2023	**2023**	2022	**2023**	2022
	€	**€**	€	**€**	€
Fixed pay	**310,163**	**127,135**	452,998	**150,804**	147,467
Variable pay:					
– Immediate Cash	**74,986**	**—**	66,932	**50,000**	43,000
– Immediate Shares*	**74,986**	**—**	66,932	**—**	—
– Deferred Cash	**49,991**	**—**	44,621	**—**	—
– Deferred Shares*	**49,991**	**—**	44,621	**—**	—
Benefits	**20,966**	**74,263**	124,542	**13,158**	12,253
Aggregate	**581,083**	**201,398**	800,646	**213,962**	202,720
Effective period	**01/05/23 - 31/12/23**	**01/01/23- 30/04/23**	01/01/22- 31/12/22	**01/01/23- 31/12/23**	01/01/22- 31/12/22

* *Geoffrey Fichte was appointed as an Executive Director and Chief Executive Officer of the bank during the financial year ended 31 December 2023. In this respect, no comparative figures are being shown in relation to the financial year ended 31 December 2022.*

** *Simon Vaughan Johnson retired with effect from 1 May 2023. In this respect, the figures in the table above reflect the remuneration until that date.*

** *No shares were awarded to Simon Vaughan Johnson for performance year 2023. The value of shares awarded to Geoffrey Fichte amounting to €124,977, also relate to performance year 2023. The number of shares to be awarded in this respect will be formally communicated on 1 March 2024 and determined on the share price as at that date.*

The number of shares awarded during 2023 in relation to performance year 2022 are disclosed in a subsequent table 'Share Awards and Share Options awarded in 2023.

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules the following table presents the annual change of remuneration of the executive directors, of the bank's performance, and of average remuneration on a full-time equivalent basis of the bank's employees (other than directors) over the three most recent financial years.

	2022/ 2023	2021/ 2022	2020/ 2021
Percentage annual change in remuneration[1]			
Simon Vaughan Johnson[2]	**(43)%**	(1)%	9%
Michel Cordina[3]	**6%**	4%	10%
Percentage annual change of the bank's performance[4]	**144%**	76%	47%
Percentage annual change of the average remuneration of the bank's employees, on a full-time equivalent basis[5]	**8%**	6%	5%

1 *Executive Directors who were appointed after 1 January 2023 are not included in the table above. In this respect, information about Geoffrey Fichte, who was appointed as the Chief Executive Officer and an Executive Director of the bank with effect from 1 May 2023, is not presented in the table above.*

2 *Simon Vaughan Johnson was appointed as an Executive Director part way during 2020 and retired with effect from 1 May 2023. In this respect, for the purposes of the table above, the aggregate remuneration paid to him in respect of the financial years ended 31 December 2020 and 31 December 2023 was annualised to allow for a meaningful comparison. However, given that Simon Vaughan Johnson resigned part way throughout the year, he was not awarded variable pay and, as such, the annualisation of the Total Compensation for 2023 is not directly comparable to the Total Compensation for 2022.*

3 *The aggregate remuneration awarded in 2021 pertaining to Michel Cordina comprises a one time Long Service Bonus awarded in relation to long tenure, which is also awarded to employees in line with the local policy.*

4 *The percentage annual change of the bank's performance included in the above table is based on the bank's profit before tax, as this is deemed by management to be the most appropriate basis for measuring performance.*

5 *In order to allow for a meaningful comparison, new joiners employed during the second year of each two-year comparative period are excluded from the calculation; the remuneration paid to terminated employees during the second year of each two-year comparative period is being annualised to enable comparison with the annual remuneration paid in the first year; and the remuneration paid to new joiners employed during the first year of each two-year comparative period is annualised to enable comparison with the annual remuneration paid in the second year. The annual remuneration paid to employees who were in employment for the full calendar years across each two-year comparative period is compared as normal.*

Shares and Share Options awarded in 2023

	Grant Date	Share Value €	Number of Shares	Performance Period
Immediate Shares	**01/03/2023**	**66,932**	**8,948**	**2022**
Deferred Shares*	**01/03/2023**	**44,621**	**6,913**	**2022**

* *The exact value of shares awarded will only be established on the date of issuance. The value of shares is indicative at the time of the award being reported. The deferred shares will vest in 2028.*

None of the Executive Directors received any remuneration from the bank's subsidiaries or the HSBC Group.

Determining Executive Directors' performance

Awards made to Executive Directors reflected the assessment of each of their performance against scorecard objectives and the strategic priorities and risk appetite of the bank. This assessment was conducted by the bank's RemNom after considering inputs from the Group General Manager and Chief Executive Officer, HSBC Europe.

The performance assessment of the Chief Executive Officer involved the evaluation of the targets achieved against a number of pre-set objectives. These objectives align with the bank's strategy and commitments with clear measurable targets. The objectives for the Chief Executive Officer include driving business growth, customer satisfaction, employee engagement, driving the Climate Ambition Program, effective management of risk and compliance and implementation of the bank's digital strategy. The extent to which the Chief Executive Officer would have reached each objective is discussed and reviewed by the bank's RemNom following an evaluation by the Group General Manager and Chief Executive Officer, HSBC Europe. These objectives are reviewed on a quarterly basis to ensure ongoing review and alignment with expected performance.

The variable pay of the Chief Executive Officer is reviewed and approved by the bank's RemNom on a discretionary basis taking into account the performance and behaviours demonstrated during the year in relation to the achievement of the objectives referred to above. This is also approved by the HSBC Group Remuneration Committee with due consideration of the bank's and individual performance results, with the focus on total compensation comparative to the internal peer group and the external market where appropriate.

In line with the bank's Remuneration Policy, the percentage of variable pay received by Geoffrey Fichte during 2023, which amounts to 81% of his fixed pay (excluding benefits), is lower than the 100% fixed pay threshold. In addition, 50% of the variable remuneration is made in shares in line with the bank's policy and the HSBC Group deferral requirements applied for all variable pay awards are explained in the table below.

Value of Total Variable Pay	Deferral % of variable pay is subject to variance and is split between cash and shares
Up to €50,000, provided that total variable pay does not exceed 33% of the Total Compensation.	0%
Above €50,000 up to €500,000 or amounts below €50,000 where variable pay is greater than 33% of Total Compensation.	40%
Above €500,000	60%

The deferred remuneration of Geoffrey Fichte represents 40% of the variable pay component and vests over a period of not less than five years. As explained in previous sections, variable pay is subject to malus and clawback provisions in certain circumstances, which allow unvested/unpaid deferred remuneration awards and vested remuneration awards to be reduced or cancelled if warranted. No use has been made of provisions allowing the bank to reclaim variable remuneration during the financial year ended 31 December 2023. This mechanism ensures that the remuneration of the bank's Executive Directors aligns with achieving the long-term objectives of the bank.

On the other hand, Michel Cordina's objectives and performance pay structure are not based on the mechanism applied in respect of Geoffrey Fichte. Michel Cordina's variable pay is reviewed and approved by the bank's RemNom following feedback from the Chief Executive Officer on an annual basis. It is based on the achievement of set objectives and behaviours demonstrated during the performance year. Michel Cordina's targets comprised customer engagement and retention; the strengthening of key customer relationships, mainly in the corporate segment; engagement with other key stakeholders and regulators; and ensuring adherence to risk management and compliance measures. Michel Cordina is also directly responsible for the Corporate Sustainability team and is the Deputy Chair of the HSBC Malta Foundation. In line with the bank's Remuneration Policy, the percentage of variable pay received by Michel Cordina, which amounts to approximately 33% of his fixed pay, is lower than the 100% of fixed pay threshold. In accordance with the bank's Remuneration Policy, and on the basis of the value of the total variable pay remunerated, no deferral requirements applied to Michel Cordina during performance year 2023.

Non-Executive Directors

Non-Executive Directors are not employees of the bank and are not eligible to receive a base salary, fixed pay allowance, benefits, pension or any variable pay. Non-Executive Directors receive a fee for their services and may be reimbursed for reasonable and documented expenses incurred in performing their role. The appointment of Non-Executive Directors is governed by a letter of appointment that sets out the terms of the appointment. This appointment is not a contract of employment and is subject to all the terms and conditions of the Company's Memorandum and Articles of Association. Non-Executive Directors do not receive any retirement benefits, supplementary pension or termination payments for termination or loss of office, whether in terms of the letter of appointment or otherwise. The appointment may be terminated before expiry of the term, by either party giving to the other party at least one month's prior written notice, where possible, or in any manner allowed by law.

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

The Non-Executive Directors' fees are approved in aggregate by the shareholders at the Annual General Meeting. The aggregate Directors' fee pool, as approved by a simple majority at the last Annual General Meeting 20 April 2023 by way of Ordinary Resolution – Special Business, amounted to €480,000. No change will be proposed at the forthcoming Annual General meeting to this aggregate amount. None of the said Directors received any remuneration from HSBC Life Assurance (Malta) Ltd, HSBC Global Asset Management (Malta) Limited, or HSBC Group.

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

Details of Non-Executive Directors' Committee and Board fees for the financial years ended 31 December 2023 and 2022 were as follows:

	2023 Fees	2022 Fees
	€	€
John Bonello	75,761	74,400
Andrew Muscat	N/A	13,024
Sue Vella	N/A	42,900
Yiannos Michaelides	39,600	39,600
Ingrid Azzopardi	59,700	59,700
Manfred Galdes	50,916	50,400
Henri Mizzi	38,000	8,527
Maria Micallef	46,800	3,900
Total	310,777	292,451

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the bank is required to disclose the annual change of remuneration of the Non-Executive Directors, of the bank's performance, and of average remuneration on a full-time equivalent basis of the bank's employees (other than directors) over the three most recent financial years. Fees shown in the above table reflect the amounts paid from the date of regulatory approval.

Andrew Muscat and Sue Vella have relinquished their positions as Directors and Members of the Committee with effect from 13 April 2022 and 1 December 2022 respectively. The fees shown in the table above represent fees paid in respect of the period from the respective dates when regulatory approval was obtained.

In this respect, Henri Mizzi received €23,996 in fees for his attendance to Board and Committee meetings covering the period from the date of the Annual General Meeting held on 13 April 2022, being the date when he was elected by the shareholders, until regulatory approval was obtained on 24 October 2022. Similarly, Maria Micallef received €4,331 in fees for her attendance to Board and Committee meetings held prior to 1 December 2022, which represents the date when regulatory approval was obtained. In this respect Henri Mizzi relinquished his position as Director and Member of the Committee with effect from 31 October 2023.

The annualisation of fees paid to Henri Mizzi and Maria Micallef in respect of the financial years ended 31 December 2023 and 31 December 2022 would result in fees which are in line with those paid in respect of the previous two financial years.

The increase in fees paid to John Bonello and Manfred Galdes in 2023 reflects compensation for the interim attendance to Audit and RemNom Committe meetings respectively, to fill vacant positions.

For the remaining directors, there was no change in annual fees paid to Non-Executive Directors in absolute terms over the three most recent financial years.

There were no new appointments of Non-Executive Directors in 2023. However, Alexiei Dingli was appointed as a Director on 24 January 2024, which represents the date when regulatory approval was obtained. Fees paid to Alexiei Dingli in respect of his attendance to Board Meetings held prior to this date amounted to €5,548.

The aggregate amount paid in Directors' fees in respect of the financial year ended 31 December 2023 does not exceed the maximum aggregate amount approved at the last Annual General Meeting.

Matthew Colebrook, who was employed within the HSBC Group in the role of Regional Head of Wealth and Personal Banking for Europe, the Middle East and North Africa and Turkey, was appointed as a Non-Executive Director of the bank on 11 August 2021. He resigned his directorship on 28 February 2022.

Matthew Colebrook was replaced by Terecina Kwong on the Board of Directors, who was appointed as a Director on 6 December 2022 upon formalisation of regulatory approval. Terecina Kwong is currently the HSBC Global Chief Operating Officer for retail banking and forms part of the bank's Board of Directors.

Neither Matthew Colebrook nor Terecina Kwong received any fees for holding the office of Director, neither by the bank nor by the HSBC Group. In this respect, the Directors believe that the requirements emanating from paragraph (c) of Appendix 12.1 of the Capital Markets Rules, which requires the disclosure of "any remuneration from any undertaking belonging to the same group where the term group means parent undertaking and all its subsidiary undertakings" applies at the level of HSBC Bank Malta p.l.c., the parent bank, and its subsidiary undertakings respectively, taking cognisance of their role as Non-Executive Directors of the bank. Accordingly, no disclosure in respect of their remuneration for their services at HSBC Group level is being made within this report. The bank has complied in full with the procedure for the implementation of the Directors' Remuneration Policy as defined in Chapter 12 of the Capital Markets Rules.

The Directors' Remuneration Report for 2022 was approved at the Annual General Meeting held on 20 April 2023 with the Resolution being passed by show of hands. There were no issues raised on the Report during the said Annual General Meeting.

This Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules is being put forward to an advisory vote of the 2024 Annual General Meeting in accordance with the requirements of the Capital Markets Rule 12.26 L.

In accordance with the requirements emanating from Appendix 12.1 of the Capital Markets Rules, the contents of the Directors' Remuneration Report within this Remuneration Report have been reviewed by the external auditor to ensure compliance with such requirements.

Additional remuneration disclosures

The following section of the Remuneration Report presents additional disclosures in respect of the bank's Remuneration Policy required under:

- The Capital Markets Rules issued by the Malta Financial Services Authority; and
- Banking Rule 21 (BR21/2022) – Remuneration Policies and Practices – issued by the Malta Financial Services Authority.

The bank's Remuneration Policy – Identified Staff including Executive Directors and Senior Management

Individuals have been classified as Identified Staff based on qualitative and quantitative criteria set out in the Commission Delegated Regulation (EU) 2021/923 that came into force in March 2021. Identified Staff include:

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

Accordingly, the figures disclosed in the tables below relating to the MB Supervisory function also include the remuneration relating to the Non-Executive Directors disclosed in the 'Information on Directors' Remuneration in terms of Appendix 12.1 of the Capital Markets Rules' within the Remuneration Report.

Members of the Asset and Liabilities Management Meeting and the Risk Management Meeting, as well as staff that have the authority to approve or veto a decision on any credit transaction representing 0.5% of the bank's CET1 capital, are classified as Identified Staff.

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

Standard contracts for all Identified Staff employed locally would generally be indefinite. Normal retirement from the bank would be in line with local legislation. A minimum three-month notice period is required for Executive Directors and Senior Management employed by the bank, who would similarly be entitled to a notice period of a minimum of three months in the event that the bank terminates their employment on grounds of redundancy. Meanwhile, termination of international assignees appointed to Senior Management positions requires a notice period of up to six months. All Identified Staff are remunerated less than €1 million per annum.

Remuneration amounts – Identified Staff

Remuneration awarded for the financial year (REM1)

			MB Supervisory function	MB Management function	Other senior management	Other Identified Staff
1	Fixed remuneration	Number of Identified Staff	**6**	**2**	**12**	**38**
2		Total fixed remuneration (€000)	**316**	**696**	**1,790**	**2,746**
3		– *of which: cash-based (€000)*	***316***	***568***	***1,627***	***2,454***
EU-5x		– *of which: other instruments (€000)*	—	***20***	***14***	***38***
7		– *of which: other forms (€000)*	—	***108***	***149***	***254***
9	Variable remuneration	Number of Identified Staff	**6**	**2**	**12**	**38**
10		Total variable remuneration (€000)	—	**300**	**602**	**405**
11		– *of which: cash-based (€000)*	—	***125***	***395***	***405***
12		– *of which: deferred (€000)*	—	***50***	***59***	—
EU-13a		– *of which: shares or equivalent ownership interests (€000)*	—	***75***	***89***	—
EU-14a		– *of which: deferred (€000)*	—	***50***	***59***	—
17	**Total remuneration for the year ended 31 December 2023 (€000)**		**316**	**996**	**2,392**	**3,151**

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

Alvaro Texieira, Head of Wealth & Personal Banking, has moved to another international role as from November 2023. Muriel Rutland, has been appointed Designate Head of Wealth & Personal Banking, until regulatory approval.

The bank has continued to invest in its people to sharpen their skills and increase their capabilities. During 2023, the bank continued to organise programmes around soft and technical skills and launched specific programmes relating to climate risk and sustainability. Whilst the Climate Risk Management Capabilities training aims to steward and manage the impacts of climate risk on the bank's customers, balance sheet and internal operations, the Sustainability Academy programmes help equip employees to play a leading role in mobilising the transition to a global net zero economy.

The regulatory environment continues to change and the requirements to manage the associated risk have increased in complexity together with the focus of the remediation of the business. The focus of the bank still remains on ensuring the creation and continuation of the necessary culture to mitigate Financial Crime. To this effect, the bank has continued to develop the skills of its employees with extensive training and development. During 2023, the bank continued participating in Group-led programmes relating to financial crime, leadership and sustainability through the HSBC University. These programmes will ensure continued professional development of our employees whilst at the same time safeguarding the wellbeing of our customers and key stakeholders.

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

Deferred remuneration (REM3)

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	*of which: due to vest in the financial year*	*of which: vesting in subsequent financial years*	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		€000	*€000*	*€000*	€000	€000	€000	€000	€000
7	MB Management function	555	*165*	*391*	—	—	31	161	40
8	Cash-based	219	*55*	*165*	—	—	—	54	—
9	Shares or equivalent ownership interests	336	*110*	*226*	—	—	31	107	40
13	Other senior management	151	*23*	*128*	—	—	*5*	*22*	—
14	Cash-based	47	—	47	—	—	—	—	—
15	Shares or equivalent ownership interests	104	*23*	*81*	—	—	5	22	—
18	Other forms								
25	**Total amount as at 31 Dec 2023**	706	*188*	*519*	—	—	36	183	40

Information on remuneration of staff whose professional activities have a material impact on the bank's risk profile (Identified Staff) (REM5)

		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total as at 31 Dec 2023
1	Total number of Identified Staff	6	2	8	3	4	12	13	14	4	58
2	– *of which: members of the MB (€000)*	*6*	*2*	*8*							8
3	– *of which: other senior management (€000)*				*1*	*2*	—	*6*	*2*	*1*	12
4	– *of which: other Identified Staff (€000)*				*2*	*2*	*12*	*7*	*12*	*3*	38
5	Total remuneration of Identified Staff (€000)	316	996	1,312	295	1,123	767	1,570	1,140	648	6,855
6	– *of which: variable remuneration (€000)*	—	*300*	*300*	*59*	*388*	*82*	*235*	*161*	*82*	1,307
7	– *of which: fixed remuneration (€000)*	*316*	*696*	*1,012*	*235*	*735*	*685*	*1,335*	*979*	*566*	5,548

Sign-on and severance payments

In line with Annex XXXIII of the EBA Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013, the bank is required to disclose information in respect of special payments made to Identified Staff.

During 2023 and 2022, no severance payments or sign-on payments were made and, in this respect, the REM2 table is not being disclosed in this Remuneration Report.

Payments of €1 million and above

In line with Annex XXXIII of the EBA Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013, the bank is required to disclose information in respect of remuneration payments in excess of €1 million.

During 2023 and 2022, no payments of €1 million and over were made and, in this respect, the REM4 table is not being disclosed in the Remuneration Report.

Payments to past Directors

During 2023 and 2022, no payments were made to past Directors.

Financial statements

Income statements

for the year ended 31 December

	Notes	Group		Bank	
		2023	2022	**2023**	2022
		€000	€000	**€000**	€000
Interest and similar income					
– on loans and advances to banks and customers and other financial assets	7	**195,855**	113,947	**195,855**	113,947
– on debt and other fixed income instruments	7	**18,021**	2,692	**18,021**	2,692
Interest expense	8	**(18,064)**	(8,397)	**(18,064)**	(8,397)
Net interest income		**195,812**	108,242	**195,812**	108,242
Fee income		**22,264**	25,343	**19,520**	22,390
Fee expense		**(2,791)**	(3,689)	**(2,399)**	(3,213)
Net fee income	9	**19,473**	21,654	**17,121**	19,177
Insurance revenue		**18,289**	15,565	**—**	—
Insurance service expense		**(7,788)**	(5,475)	**—**	—
Net expenses from reinsurance contracts		**(5,471)**	(4,812)	**—**	—
Insurance service result	10	**5,030**	5,278	**—**	—
Net income/(expense) from assets and liabilities of insurance businesses, measured at fair value through profit or loss	11	**48,068**	(74,744)	**—**	—
Insurance finance (expense)/income	10	**(44,294)**	76,496	**—**	—
Net trading income	12	**7,623**	7,689	**7,623**	7,689
Dividend income from subsidiaries	13	**—**	—	**769**	1,308
Other operating (expense)/income	14	**(42)**	1,182	**(36)**	1,514
Net operating income before change in expected credit losses and other credit impairment charges		**231,670**	145,797	**221,289**	137,930
Change in expected credit losses and other credit impairment charges	15	**4,580**	9,561	**4,580**	9,561
Net operating income		**236,250**	155,358	**225,869**	147,491
Employee compensation and benefits	16	**(42,607)**	(38,952)	**(41,403)**	(37,784)
General and administrative expenses	17	**(51,377)**	(52,664)	**(48,138)**	(49,090)
Depreciation and impairment of property, plant and equipment and right-of-use assets	32,31	**(3,168)**	(3,301)	**(3,167)**	(3,300)
Amortisation and impairment of intangible assets	33	**(5,244)**	(4,853)	**(5,027)**	(4,757)
Total operating expenses		**(102,396)**	(99,770)	**(97,735)**	(94,931)
Profit before tax	17	**133,854**	55,588	**128,134**	52,560
Tax expense	18	**(47,098)**	(19,406)	**(44,835)**	(18,053)
Profit for the year		**86,756**	36,182	**83,299**	34,507
Earnings per share	20	**€0.24**	€0.10		

The notes on pages 75 to 184 are an integral part of these financial statements.
From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.

Statements of comprehensive income

for the year ended 31 December

		Group		Bank	
		2023	2022	**2023**	2022
	Notes	**€000**	€000	**€000**	€000
Profit for the year		**86,756**	36,182	**83,299**	34,507
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Debt instruments measured at fair value through other comprehensive income:		**8,697**	(23,177)	**8,697**	(23,177)
– fair value gains/(losses)	*43*	**13,380**	(35,657)	**13,380**	(35,657)
– income taxes	*43*	**(4,683)**	12,480	**(4,683)**	12,480
Items that will not be reclassified subsequently to profit or loss:					
Properties:		**1,643**	166	**1,643**	166
– surplus arising on revaluation	*43*	**1,826**	185	**1,826**	185
– income taxes	*43*	**(183)**	(19)	**(183)**	(19)
Post employment benefit obligations:		**(14)**	893	**(14)**	893
– remeasurement of post employment benefit obligations	*39*	**(22)**	1,374	**(22)**	1,374
– income taxes		**8**	(481)	**8**	(481)
Equity instruments designated at fair value through other comprehensive income:		**4**	1	**4**	1
– fair value gains	*43*	**6**	2	**6**	2
– income taxes	*43*	**(2)**	(1)	**(2)**	(1)
Other comprehensive income for the year, net of tax		**10,330**	(22,117)	**10,330**	(22,117)
Total comprehensive income for the year		**97,086**	14,065	**93,629**	12,390

The notes on pages 75 to 184 are an integral part of these financial statements.
From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.

Statements of financial position

for the year ended 31 December

		Group			Bank	
		At 31 Dec	At 31 Dec	At 1 Jan	**At 31 Dec**	At 31 Dec
		2023	2022	2022	**2023**	2022
	Notes	**€000**	€000	€000	**€000**	€000
Assets						
Balances with Central Bank of Malta, Treasury Bills and cash	*21*	**1,676,639**	1,583,348	1,495,135	**1,676,639**	1,583,348
Items in the course of collection from other banks		**8,427**	6,921	4,453	**8,427**	6,921
Financial assets mandatorily measured at fair value through profit or loss	*22*	**693,024**	660,446	767,808	**—**	—
Derivatives	*23*	**13,577**	25,745	4,640	**13,577**	25,745
Loans and advances to banks	*24*	**720,583**	732,507	619,273	**716,140**	726,217
Loans and advances to customers	*25*	**3,083,843**	3,175,167	3,196,725	**3,083,843**	3,175,167
Financial investments	*26*	**1,315,859**	1,004,770	845,735	**1,315,857**	1,004,768
Prepayments, accrued income and other assets	*27*	**33,699**	34,092	28,683	**30,086**	29,013
Current tax assets		**1,153**	3,496	3,669	**152**	1,363
Reinsurance contract assets	*10*	**2,557**	2,959	63	**—**	—
Non-current assets held for sale	*28*	**5,816**	5,173	6,673	**5,816**	5,173
Investments in subsidiaries	*29*	**—**	—	—	**30,859**	30,859
Investment property	*30*	**—**	—	1,600	**—**	—
Right-of-use assets	*31*	**2,284**	2,459	2,569	**2,284**	2,459
Property, plant and equipment	*32*	**51,694**	44,627	41,923	**51,691**	44,623
Intangible assets	*33*	**20,762**	19,169	16,603	**20,356**	18,604
Deferred tax assets	*34*	**31,002**	35,767	29,886	**30,623**	35,620
Total assets		**7,660,919**	7,336,646	7,065,438	**6,986,350**	6,689,880
Liabilities						
Deposits by banks	*35*	**5,117**	2,861	1,397	**5,117**	2,861
Customer accounts	*36*	**6,141,520**	5,970,958	5,621,195	**6,172,269**	6,010,392
Items in the course of transmission to other banks		**18,359**	27,397	21,573	**18,359**	27,397
Liabilities under investment contracts	*37*	**156,958**	162,123	185,137	**—**	—
Derivatives	*23*	**5,748**	10,252	4,592	**5,748**	10,252
Accruals, deferred income and other liabilities	*38*	**55,055**	42,550	34,471	**44,761**	33,346
Current tax liabilities		**35,190**	2,104	499	**35,190**	2,104
Insurance contract liabilities	*10*	**519,363**	499,507	582,373	**—**	—
Provisions	*39*	**21,849**	20,080	21,252	**20,719**	18,830
Deferred tax liabilities	*34*	**3,727**	3,569	3,649	**3,727**	3,569
Borrowings from a group undertaking	*40*	**90,000**	60,000	60,000	**90,000**	60,000
Subordinated liabilities	*41*	**65,000**	62,000	62,000	**65,000**	62,000
Total liabilities		**7,117,886**	6,863,401	6,598,138	**6,460,890**	6,230,751
Equity						
Called up share capital	*42*	**108,092**	108,092	108,092	**108,092**	108,092
Revaluation reserve	*43*	**10,408**	64	24,330	**10,408**	64
Retained earnings	*43*	**424,533**	365,089	334,878	**406,960**	350,973
Total equity		**543,033**	473,245	467,300	**525,460**	459,129
Total liabilities and equity		**7,660,919**	7,336,646	7,065,438	**6,986,350**	6,689,880
Memorandum items						
Guarantees and other contingent liabilities	*44*	**200,495**	182,250	164,388	**200,445**	182,250
Commitments	*44*	**838,659**	842,320	967,739	**838,659**	842,320

The notes on pages 75 to 184 are an integral part of these financial statements.
From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly, whereas the IFRS 17 transition balance sheet as at 1 January 2022 is also presented.

The financial statements on pages 69 to 74 were approved and authorised for issue by the Board of Directors on 21 February 2024. The financial statements were signed on behalf of the bank's Board of Directors by John Bonello (Chairman) and Geoffrey Fichte (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the *Annual Report and Accounts 2023.*

Statements of changes in equity

for the year ended 31 December

	Notes	Group Share capital €000	 Revaluation reserve €000	 Retained earnings €000	 Total equity €000
At 1 Jan 2023		**108,092**	**64**	**365,089**	**473,245**
Profit for the year		**—**	**—**	**86,756**	**86,756**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	43	**—**	**8,701**	**—**	**8,701**
Properties:					
– surplus arising on revaluation, net of tax	43	**—**	**1,643**	**—**	**1,643**
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		**—**	**—**	**(14)**	**(14)**
Total other comprehensive income		**—**	**10,344**	**(14)**	**10,330**
Total comprehensive income for the year		**—**	**10,344**	**86,742**	**97,086**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**—**	**—**	**(108)**	**(108)**
– dividends	19	**—**	**—**	**(27,190)**	**(27,190)**
Total contributions by and distributions to owners		**—**	**—**	**(27,298)**	**(27,298)**
At 31 Dec 2023		**108,092**	**10,408**	**424,533**	**543,033**
At 31 Dec 2021 (IFRS 4)		108,092	24,330	357,315	489,737
Impact on transition to IFRS 17 net of tax[1]		—	—	(22,437)	(22,437)
At 1 Jan 2022 (restated)		108,092	24,330	334,878	467,300
Profit for the year (restated)		—	—	36,182	36,182
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	43	—	(23,176)	—	(23,176)
Properties:					—
– surplus arising on revaluation, net of tax	43	—	166	—	166
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		—	—	893	893
Total other comprehensive income (restated)		—	(23,010)	893	(22,117)
Total comprehensive income for the year (restated)		—	(23,010)	37,075	14,065
Other movements					
Properties:					
– transfer of revaluation surplus on disposal of property to retained earnings, net of tax	43	—	(1,256)	1,256	—
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		—	—	(110)	(110)
– dividends	19	—	—	(8,010)	(8,010)
Total contributions by and distributions to owners		—	—	(8,120)	(8,120)
At 31 Dec 2022 (restated)		108,092	64	365,089	473,245

The notes on pages 75 to 184 are an integral part of these financial statements.

1 *The negative impact of IFRS 17 on previously reported total equity as at 31 December 2022 is €23,023,000.*

Statements of changes in equity (continued)

for the year ended 31 December

		Bank			
		Share capital	Revaluation reserve	Retained earnings	Total equity
	Notes	€000	€000	€000	€000
At 1 Jan 2023		**108,092**	**64**	**350,973**	**459,129**
Profit for the year		**—**	**—**	**83,299**	**83,299**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax	43	**—**	**8,701**	**—**	**8,701**
Properties:					
– surplus arising on revaluation, net of tax	43	**—**	**1,643**	**—**	**1,643**
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		**—**	**—**	**(14)**	**(14)**
Total other comprehensive income		**—**	**10,344**	**(14)**	**10,330**
Total comprehensive income for the year		**—**	**10,344**	**83,285**	**93,629**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**—**	**—**	**(108)**	**(108)**
– dividends	19	**—**	**—**	**(27,190)**	**(27,190)**
Total contributions by and distributions to owners		**—**	**—**	**(27,298)**	**(27,298)**
At 31 Dec 2023		**108,092**	**10,408**	**406,960**	**525,460**
At 1 Jan 2022		108,092	24,330	322,437	454,859
Profit for the year		—	—	34,507	34,507
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value losses, net of tax	43	—	(23,176)	—	(23,176)
Properties:					—
– surplus arising on revaluation, net of tax	43	—	166	—	166
Post employment benefit obligations:					
– remeasurement of post employment benefit obligations, net of tax		—	—	893	893
Total other comprehensive income		—	(23,010)	893	(22,117)
Total comprehensive income for the year		—	(23,010)	35,400	12,390
Other movements					
Properties:					
– transfer of revaluation surplus on disposal of property to retained earnings, net of tax	43	—	(1,256)	1,256	—
Transactions with owners, recognised directly in equity					
Contributions by and distribution to owners:					
– share-based payment arrangements, net of tax		—	—	(110)	(110)
– dividends	19	—	—	(8,010)	(8,010)
Total contributions by and distributions to owners		—	—	(8,120)	(8,120)
At 31 Dec 2022		108,092	64	350,973	459,129

The notes on pages 75 to 184 are an integral part of these financial statements.

Statements of cash flows

for the year ended 31 December

		Group		Bank	
		2023	2022	**2023**	2022
	Notes	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Interest, fees, loan recoveries and premium receipts		**290,237**	223,986	**218,284**	149,702
Interest, fees and claims payments		**(107,546)**	(77,827)	**(17,368)**	(10,823)
Payments to employees and suppliers		**(86,079)**	(87,304)	**(77,579)**	(79,550)
Cash flows from operating activities before changes in operating assets and liabilities		**96,612**	58,855	**123,337**	59,329
(Increase)/decrease in operating assets:					
– financial assets mandatorily measured at fair value through profit or loss		**18,006**	5,232	**—**	—
– reserve deposit with Central Bank of Malta		**1,640**	(2,559)	**1,640**	(2,559)
– loans and advances to banks and customers		**213,182**	64,971	**213,182**	64,971
– Treasury Bills		**(325,612)**	161,352	**(325,612)**	161,352
– other assets		**2,915**	(2,734)	**2,886**	(3,186)
(Decrease)/increase in operating liabilities:					
– deposits by banks and customer accounts		**172,447**	347,356	**163,278**	350,304
– other liabilities		**(2,298)**	(2,253)	**(2,268)**	(2,163)
Net cash from operating activities before tax		**176,892**	630,220	**176,443**	628,048
– tax paid		**(11,601)**	(11,550)	**(9,918)**	(10,116)
Net cash from operating activities		**165,291**	618,670	**166,525**	617,932
Cash flows from investing activities					
Dividends received		**—**	—	**500**	850
Interest received from financial investments		**11,097**	6,142	**11,097**	6,142
Purchase of financial investments		**(568,904)**	(464,793)	**(568,904)**	(464,793)
Proceeds from sale and maturity of financial investments		**283,058**	255,296	**283,058**	255,296
Purchase of property, plant and equipment and intangible assets		**(16,055)**	(12,808)	**(15,945)**	(12,726)
Proceeds from sale of property, plant and equipment and intangible assets		**—**	1,600	**—**	—
Net cash from investing activities		**(290,804)**	(214,563)	**(290,194)**	(215,231)
Cash flows from financing activities					
Dividends paid		**(27,190)**	(8,010)	**(27,190)**	(8,010)
Proceeds from borrowings from a group undertaking		**30,000**	—	**30,000**	—
Issue of subordinated liabilities		**65,000**	—	**65,000**	—
Repayment of subordinated liabilities		**(62,000)**	—	**(62,000)**	—
Net cash from financing activities		**5,810**	(8,010)	**5,810**	(8,010)
Net increase in cash and cash equivalents		**(119,703)**	396,097	**(117,859)**	394,691
Cash and cash equivalents at beginning of year		**1,933,003**	1,549,671	**1,926,727**	1,543,517
Effect of exchange rate changes on cash and cash equivalents		**12,391**	(12,765)	**12,472**	(11,481)
Cash and cash equivalents at end of year	46	**1,825,691**	1,933,003	**1,821,340**	1,926,727

The notes on pages 75 to 184 are an integral part of these financial statements.
From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.

Notes on the financial statements

1 Reporting entity

HSBC Bank Malta p.l.c. (the 'bank') is a limited liability company domiciled and incorporated in Malta.

The bank and its subsidiaries, namely HSBC Life Assurance (Malta) Ltd. (the 'insurance subsidiary') and HSBC Global Asset Management (Malta) Limited ('the asset management subsidiary'), are included in the scope of consolidation as at and for the year ended 31 December 2023 and are referred to as the 'local group' in these financial statements. In addition, the local group forms part of the global HSBC group consolidation, referred to as the 'HSBC Group' in these financial statements.For the purposes of tabular disclosures, the term 'Group' refers to the local group.

In this respect, the consolidated financial statements of the local group as at and for the year ended 31 December 2023 comprise the bank and its subsidiaries, whereas the standalone financial statements of HSBC Bank Malta p.l.c. reflect the financial results of the bank. All amounts have been rounded to the nearest thousand, unless otherwise stated.

2 Basis of preparation

(a) Compliance with IFRSs as adopted by the EU

These consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2023, there were no unendorsed standards effective for the year ended 31 December 2023 affecting these consolidated and separate financial statements, and local group's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

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

Standards adopted during the year ended 31 December 2023

IFRS 17 'Insurance Contracts'

On 1 January 2023, the local group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. The local group did not early adopt IFRS 17 in previous periods.

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

The standard allows the re-designation of eligible financial assets in order to reduce accounting mismatches. The local group did not avail of the option to re-designate eligible financial assets at fair value through profit or loss.

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

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

Transition

In applying IFRS 17 retrospectively, the full retrospective approach ('FRA') is used unless it is impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The local group has applied the FRA for new business from 2020 and the FVA for the majority of contracts for which the FRA is impracticable.

Under the FVA, the valuation of insurance liabilities on transition is based on the requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using IFRS 17 principles.

In determining the fair value, the local group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate that takes into account the level of 'matching' between the local group's assets and related liabilities. The impact of transitioning to IFRS 17 on the financial statements was a reduction to total equity amounting to €22,437,00 as at 1 January 2022 and Notes 3, 49 and 54 contain further information in this respect.

Amendments to IAS 12

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

On 7 May 2021, the IASB issued its amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which became effective for annual reporting periods beginning on or after 1 January 2023. The amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

There were no other new standards or amendments to standards that had a significant effect on these financial statements.

(b) Historical cost convention

These financial statements have been prepared on the historical cost basis, except for insurance and reinsurance contract assets/liabilities measured in accordance with IFRS 17 and the following items that are measured at fair value:

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

(c) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2024, which have been endorsed by the EU. The local group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the local group and the separate financial statements of the bank.

(d) Foreign currencies

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

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

(e) Critical estimates and judgements

The preparation of financial information in accordance with the requirements of IFRSs as adopted by the EU requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted within Note 54 'Critical estimates and judgements', it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2023 Financial Statements. Management's selection of the local group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation of uncertainty involved.

Further information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment, are detailed in Note 54.

Management has considered the impact of climate-related risks on the local group's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 management does not consider there to be a material impact on critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term.

In management's view, apart from judgements involving estimations as reflected within Note 54, there are no significant or critical judgements made in the process of applying the local group's accounting policies that have a more significant effect on the amounts recognised in the financial statements.

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty that the current inflationary and elevated interest rate environment has had on the local group's and bank's operations, as well as considering potential impacts from other top and emerging risks, including exposure to extreme climate change and environmental risk events, geopolitical risks, drops in asset prices, and local jurisdiction risks, and the related impact on profitability, capital and liquidity.

3 Summary of material accounting policies

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

(a) Consolidation and related policies

i Consolidation

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

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

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in profit or loss in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition.

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

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

ii Structured entities

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

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

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

iii Investments in subsidiaries

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

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

(b) Financial instruments

i Initial recognition

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received).

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

ii Classification and measurement

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

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

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

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

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

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

Financial assets measured at amortised cost

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

The local group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the local group intends to hold the loan, the loan commitment is included in the impairment calculations set out in Note 3(b)(iv).

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

Financial assets measured at fair value through other comprehensive income

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

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement. Financial assets measured at FVOCI are included in the impairment calculations set out in Note 3(b)(iv) and impairment is recognised in profit or loss.

Financial assets mandatorily measured at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVOCI, such as if they do not contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at FVPL.

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

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are initially measured at fair value net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest rate method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

Financial liabilities measured at amortised cost comprise principally deposit by banks, customer accounts, borrowings from a group undertaking and subordinated liabilities.

Financial instruments designated at fair value through profit or loss

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

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

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

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

Subsequent changes in fair values are recognised in the income statement in 'Net income/(expense) from assets and liabilities of insurance business measured at fair value through profit or loss'.

Derivatives

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

When derivatives are not part of fair value designated relationships, these financial instruments are designated as held for trading. Accordingly, all gains and losses from changes in the fair values of such derivatives are recognised immediately in profit or loss. These gains and losses are reported in 'Net trading income', except where derivatives are managed in conjunction with financial instruments measured at fair value through profit or loss in which case gains and losses are reported in 'Net income/(expense) from financial instruments of insurance business measured at fair value through profit or loss'.

Fair value hedge accounting

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

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

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

The gain or loss relating to the ineffective portion is also recognised in profit or loss within 'Interest and similar income on debt and other fixed income instruments' and disclosed separately.

iii Derecognition of financial instruments

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

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

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

iv Impairment of amortised cost and FVOCI financial assets

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

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

In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk ('SICR') are classified as 'stage 2'; and financial assets for which there is objective evidence of impairment, and which are so considered to be in default or otherwise credit impaired, are classified as 'stage 3'. The local group does not have purchased or originated credit impaired ('POCI') financial assets.

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

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

Significant increase in credit risk (SICR or stage 2)

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

Accordingly, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a SICR, and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due for the wholesale portfolio and 1 day past due for the retail portfolio. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a 'Watch or Worry' list, are included in stage 2.

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

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

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

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

As regulatory PDs are generally calculated over 12 months, one of the adjustments required is to incorporate the term structure into the PD to obtain the lifetime PD. The lifetime PD is determined by calculating the PD for each year over the life of the financial instrument. For example, for a five-year loan, PDs are calculated for each of the five years. The year-1 PD is calculated as the probability of the loan defaulting within the first year of it being issued. The year-2 PD is calculated as the probability of the loan surviving the first year but defaulting in the second year. The same principle of survival applies to the PDs of years 3-5. These yearly PDs are added together to arrive at the cumulative lifetime PD. As each year passes, the cumulative lifetime PD reduces in line with the reduction in the residual life of the loan. Albeit, SICR is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date. For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime PD which encompasses a wide range of information including the obligor's CRR, macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, SICR is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

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

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

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

Origination CRR	Additional significance criteria – number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (>or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

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

The retail methodology to determine whether a SICR has occurred is applied to exposures within segments with a similar credit risk profile and takes into consideration any increase in credit risk against a pre-defined threshold which also considers forward looking information.

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

For staging purposes, exposures classified within the mortgage portfolio are segmented on the basis of current delinquency, past delinquency in the past 12 months, and a behaviour score determined at borrower level, whereas exposures classified within the other unsecured portfolios are segmented on the basis of current delinquency only. The behavioural score comprises a number of different indicators designed to capture certain credit risk characteristics and is used by the local group as an Early Warning Indicator ('EWI') to identify early signs of distress in relation to retail customers whose creditworthiness has deteriorated due to financial difficulties.

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

Credit impaired (stage 3)

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

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

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

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

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

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

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

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

Write-off

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

Forborne loans

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

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

Accordingly, loans are identified as forborne and classified as credit impaired when the contractual payment terms are modified due to significant credit distress of the borrower. Forborne loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows.

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

Other than originated credit impaired loans, all other modified loans classified within the wholesale portfolio could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of forborne loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. This is assessed on the basis of historical and forward-looking information and an assessment of the credit risk over the expected life of the asset, including information about the circumstances that led to the forbearance. These loans could be transferred to stage 1 or 2 based on the mechanism as described in the section called 'Movement between stages' below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Similarly, retail forborne loans are also classified as stage 3 assets. Retail forborne loans cure out of the credit impaired status if the customers meet the new payment requirements for 12 months following the date on which the loan was forborne and retain the designation of forborne until maturity or derecognition.

Movement between stages

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

Measurement of ECL

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

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

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

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

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

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

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

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

Period over which ECL is measured

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

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

Forward-looking economic inputs

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

The local group applies multiple forward-looking economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased ECLs in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate.

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

A Forward Economic Guidance ('FEG') methodology has been developed to generate the economic inputs to help drive the IFRS 9 ECL models used for credit risk. Within this methodology, four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to the local group's top and emerging risks.

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

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

Presentation of ECL in statement of financial position

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

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

(c) Offsetting financial assets and financial liabilities

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

(d) Intangible assets

Intangible assets are recognised when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. Where intangible assets have a finite useful life, they are stated at cost less accumulated amortisation and impairment losses.

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

(f) Right-of-use assets

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

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

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

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

(g) Impairment of non-financial assets

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash inflows (cash-generating units). In this respect, non-financial assets are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the cash-generating unit ('CGU') level for assets that do not have a recoverable amount at the individual asset level. The local group also tests for impairment at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss, unless the asset is carried at a revalued amount.

The carrying amount of a CGU comprises the carrying value of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs.

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

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

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

(h) Non-current assets held for sale

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

(i) Insurance and reinsurance contracts

i Definition and classification

A contract is classified as an insurance contract where the local group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the local group issues investment contracts with discretionary participation features ('DPF'), which are also accounted under IFRS 17 'Insurance Contracts'.

The local group uses judgement to assess whether a contract transfers insurance risk (that is, if there is a scenario with commercial substance in which the local group has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.

A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss. All references to insurance contracts in these financial statements apply to insurance contracts issued or acquired, reinsurance contracts held and investment contracts with DPF, unless specifically stated otherwise.

The local group issues certain insurance contracts that are substantially investment-related service contracts where the return on the underlying items is shared with policyholders. Underlying items comprise specified portfolios of investment assets that determine amounts payable to policyholders. The local group's policy is to hold such investment assets.

An insurance contract with direct participation features is defined by the local group as one which, at inception, meets the following criteria:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the local group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the local group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

These criteria are assessed at the individual contract level based on the local group's expectations at the contract's inception, and they are not reassessed in subsequent periods, unless the contract is modified. The variability in the cash flows is assessed over the expected duration of a contract. The duration of a contract takes into account all cash flows within the boundary.

Investment components in Savings and Participating products comprise policyholder account values less applicable surrender fees.

The local group uses judgement to assess whether the amounts expected to be paid to the policyholder constitute a substantial share of the fair value returns on the underlying items.

Insurance contracts with direct participation features are viewed as creating an obligation to pay policyholders an amount that is equal to the fair value of the underlying items, less a variable fee for service. The variable fee comprises the amount of the local group's share of the fair value of the underlying items, which is based on a fixed percentage of investment management fees (withdrawn annually from policyholder account values based on the fair value of underlying assets and specified in the contracts with policyholders), less the FCF that do not vary based on the returns on underlying items. The measurement approach for insurance contracts with direct participation features is referred to as the Variable Fee Approach ('VFA'). The VFA modifies the accounting model in IFRS 17 to reflect that the consideration that an entity receives for the contracts is a variable fee.

Direct participating contracts issued by the local group are contracts with direct participation features where the local group holds the pool of underlying assets and accounts for these group of contracts under the VFA.

All other insurance contracts originated by the local group, are without direct participation features and, together with reinsurance contracts held, are measured under the GMM.

ii Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by the contract's expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the local group issues after the transition date being grouped into calendar quarter cohorts.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and includes fulfilment cash flows (including risk adjustment) as well as the CSM representing the unearned profit if the respective group is deemed to be profitable. The local group has elected to update the estimates used in the measurement on a year-to-date basis.

For each portfolio of contracts, the local group determines the appropriate level at which reasonable and supportable information is available, to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The local group uses judgement to determine at what level of granularity the local group has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the local group aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of: (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The local group tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently. Given the local group's reinsurance structure, there is less judgement in determining the grouping of reinsurance contracts.

Before the local group accounts for an insurance contract based on the guidance in IFRS 17, it analyses whether the contract contains components that should be separated. IFRS 17 distinguishes three categories of components that have to be accounted for separately:

- cash flows relating to embedded derivatives that are required to be separated;
- cash flows relating to distinct investment components; and
- promises to transfer distinct goods or distinct services other than insurance contract services.

The local group applies IFRS 17 to all remaining components of the contract. The local group does not have any contracts that require further separation or combination of insurance contracts.

iii Reinsurance contracts held

The local group purchased reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the local group from its direct obligations to its policyholders.

The measurement of reinsurance contracts held follows the same principles and consistent assumptions as those for insurance contracts issued, with the exception of the following:

- Measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes.
- The local group determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer.

The local group recognises both net gain and net cost on purchasing reinsurance at initial recognition in the statement of financial position as CSM and releases this to profit or loss as the reinsurer renders services, except for the net cost that relates to events before initial recognition.

iv Recognition and derecognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due or actually received, if there is no due date; and
- when the local group determines that a group of contracts becomes onerous.

Investment contracts with DPF are initially recognised at the date when the local group becomes a party to the contract.

Reinsurance contracts held are recognised as follows:

- a group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) is recognised at the later of:
  - the beginning of the coverage period of the group; and
  - the initial recognition of any underlying insurance contract;
- all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the groups of reinsurance contracts held;

unless the local group entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the group. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the group in the reporting period in which they meet the recognition criteria, subject to the annual cohorts restriction. Composition of the groups is not reassessed in subsequent periods.

v Accounting for contract modifications and derecognition

An insurance contract is derecognised when it is:

- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified and additional criteria discussed below are met.

When an insurance contract is modified by the local group as a result of an agreement with the counterparties or due to a change in regulations, the local group treats changes in cash flows caused by the modification as changes in estimates of the fulfilment cash flows ('FCF'), unless the conditions for the derecognition of the original contract are met. The local group derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

- if the modified terms had been included at contract inception and the local group would have concluded that the modified contract:
  - is not within the scope of IFRS 17;
  - results in different separable components;
  - results in a different contract boundary; or
  - belongs to a different group of contracts;
- the original contract represents an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or
- the original contract was accounted for under the PAA, but the modification means that the contract no longer meets the eligibility criteria for that approach. The local group does not account for any contracts under the PAA.

When a new contract is required to be recognised as a result of modification and it is within the scope of IFRS 17, the new contract is recognised from the date of modification and is assessed for, amongst other things, contract classification, component separation requirements and aggregation requirements.

When an insurance contract accounted for under the GMM and VFA is derecognised from within a group of insurance contracts, the local group :

- adjusts the FCF to eliminate the present value of future cash flows and risk adjustment for non-financial risk relating to the rights and obligations removed from the group;
- adjusts the CSM (unless the decrease in the FCF is allocated to the loss component of the liability for remaining coverage ('LRC') of the group) in the following manner, depending on the reason for the derecognition:
  - if the contract is extinguished, in the same amount as the adjustment to the FCF relating to future service;
  - if the contract is transferred to a third party, in the amount of the FCF adjustment in the first bullet point less the premium charged by the third party; or
  - if the original contract is modified resulting in its derecognition, in the amount of the FCF adjustment in the first sub-bullet point adjusted for the premium that the local group would have charged if it had entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification; when recognising the new contract in this case, the local group assumes such a hypothetical premium as actually received; and
- adjusts the number of coverage units for the expected remaining insurance contract services, to reflect the number of coverage units removed.

vi Contract Boundary

The local group uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts.

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the local group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

- the local group has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or
- both of the following criteria are satisfied:
  - the local group has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
  - the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the local group, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included.

Insurance riders represent add-on benefits to an insurance policy. The rider forms part of the single insurance contract with all of the cash flows within its boundary.

Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

Cash flows are within the boundaries of investment contracts with DPF if they result from a substantive obligation of the local group to deliver cash at a present or future date.

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

Cash flows that are not directly attributable to a portfolio of insurance contracts are recognised in other operating expenses as incurred.

vii Insurance acquisition costs

The local group defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Where applicable, insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

– to that group; and

– to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group. The local group does not incur the latter.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

Before a group of insurance contracts is recognised, the local group could pay (or recognise a liability, applying a standard other than IFRS 17) for directly attributable acquisition costs to originate them. Such balances are recognised as insurance acquisition cash flows assets within the carrying amount of insurance contracts issued and are subsequently derecognised (in full or to the extent that insurance contracts expected to be in the group have been recognised at that date) when respective groups of insurance contracts are recognised and the insurance acquisition cash flows are included in the local group’s measurement. The amounts allocated to groups of insurance contracts yet to be recognised are revised at each reporting date, to reflect any changes in assumptions that determine the inputs to the method of allocation used. The local group does not incur directly attributable acquisition costs before a group of insurance contracts are recognised.

Insurance acquisition cash flows assets not yet allocated to a group are assessed for recoverability if facts and circumstances indicate that the assets might be impaired. Impairment losses reduce the carrying amount of these assets and are recognised in insurance service expenses. Previously recognised impairment losses are reversed to the extent that the impairment conditions no longer exist or have improved.

The recoverability assessment is performed in two steps, as follows:

– an impairment loss is recognised to the extent that the carrying amount of each asset for insurance acquisition cash flows exceeds the expected net cash inflow as determined by the FCF as at initial recognition for the related group of insurance contracts.

– in addition, when insurance acquisition cash flows directly attributable to a group of contracts are allocated to groups that include expected contract renewals, such insurance acquisition cash flows should not exceed the expected net cash inflow from the expected renewals as determined by the FCF as at initial recognition for the expected renewals; an impairment loss is recognised for the excess to the extent not recognised in the first step above.

viii Other pre-recognition cash flows within the contract boundary

Before a group of insurance contracts is recognised, the local group could recognise assets or liabilities for cash flows related to a group of insurance contracts other than insurance acquisition cash flows, either because of the occurrence of the cash flows or because of the requirements of another IFRS standard. Cash flows are related to the group of insurance contracts if they would have been included in the FCF at initial recognition of the group if they had been paid or received after that date. Such assets or liabilities (referred to as ‘other pre-recognition cash flows’) are included in the carrying amount of the related portfolios of insurance contracts issued or in the carrying amount of the portfolios of reinsurance contracts held. The local group does not recognised such assets or liabilities.

ix Fulfilment cash flows (‘FCF’)

The fulfilment cash flows comprise the following:

Best estimates of future cash flows

These cash flows include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the local group’s demographic and operating experience along with external mortality data where the local group’s own experience data is not sufficiently large in size to be credible.

The estimates of future cash flows:

– are based on a probability-weighted mean of the full range of possible outcomes;

– are determined from the perspective of the local group, provided that the estimates are consistent with observable market prices for market variables; and

– reflect conditions existing at the measurement date.

The local group estimates certain FCF at the portfolio level or higher and then allocates such estimates to groups of contracts.

Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The local group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over all future years. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The full term 75th percentile level of stress corresponds to the 60% (2022: 58%) percentiles based on an ultimate view of risk over all future years.

The local group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

x Measurement models

The variable fee approach ('VFA') measurement model is used for most of the contracts issued by the local group, which is mandatory upon meeting the following eligibility criteria at inception:

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- The local group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The local group considers that a substantial share is a majority of returns; and
- The local group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The local group considers that a substantial proportion is a majority proportion of change on a present value probability-weighted average of all scenarios.
- The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

xi Initial measurement

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in 'Insurance service expense' immediately.

For groups of contracts measured using the VFA, changes in the local group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the local group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss.

xii Subsequent measurement – groups of contracts measured under the GMM and VFA

The carrying amount at the end of each reporting period of a group of insurance contracts issued is the sum of:

- the Liability for Remaining Coverage ('LRC'), comprising:
  - the FCF related to future service allocated to the group at that date; and
  - the CSM of the group at that date; and
- the Liability for Incurred Claims ('LIC'), comprising the FCF related to past service allocated to the group at the reporting date.

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is the sum of:

- the remaining coverage, comprising:
  - the FCF related to future service allocated to the group at that date; and
  - the CSM of the group at that date; and
- the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

Changes in fulfilment cash flows

The FCF are updated by the local group for current assumptions at the end of every reporting period, using the current estimates of the amount, timing and uncertainty of future cash flows and of discount rates.

The way in which the changes in estimates of the FCF are treated depends on which estimate is being updated:

- changes that relate to current or past service are recognised in profit or loss; and
- changes that relate to future service are recognised by adjusting the CSM or the loss component within the LRC.

For insurance contracts under the GMM, the following adjustments relate to future service and thus adjust the CSM:

- experience adjustments – arising from premiums received in the period that relate to future service and related cash flows such as insurance acquisition cash flows and premium-based taxes;
- changes in estimates of the present value of future cash flows in the LRC, except those described in the following paragraph;
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, determined by comparing (i) the actual investment component that becomes payable in a period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and
- changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments in the first, second and fourth point above are measured using discount rates determined on initial recognition (the locked-in discount rates).

For insurance contracts under the GMM, the following adjustments do not adjust the CSM:

- changes in the FCF for the effect of the time value of money and the effect of financial risk and changes thereof;
- changes in the FCF relating to the LIC;
- experience adjustments – arising from premiums received in the period that do not relate to future service and related cash flows, such as insurance acquisition cash flows and premium-based taxes; and

- experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows).

For insurance contracts under the VFA, the following adjustments relate to future service and thus adjust the CSM:

- changes in the amount of the local group's share of the fair value of the underlying items; and
- changes in the FCF that do not vary based on the returns of underlying items:
  - changes in the effect of the time value of money and financial risks including the effect of financial guarantees;
  - experience adjustments arising from premiums received in the period that relate to future service and related cash flows, such as insurance acquisition cash flows and premium-based taxes;
  - changes in estimates of the present value of future cash flows in the LRC;
  - differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, determined by comparing (i) the actual investment component that becomes payable in a period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and
  - changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments from the second until the fifth sub-bullet points above are measured using the current discount rates.

For insurance contracts under the VFA, the following adjustments do not adjust the CSM:

- changes in the obligation to pay the policyholder the amount equal to the fair value of the underlying items;
- changes in the FCF that do not vary based on the returns of underlying items:
  - changes in the FCF relating to the LIC; and
  - experience adjustments arising from premiums received in the period that do not relate to future service and related cash flows, such as insurance acquisition cash flows and premium-based taxes; and
  - experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows).

The local group does not have any products with complex guarantees and does not use derivatives as economic hedges of the risks.

Changes to the contractual service margin

For insurance contracts issued, at the end of each reporting period the carrying amount of the CSM is adjusted by the local group to reflect the effect of the following changes:

- The effect of any new contracts added to the group.
- For contracts measured under the GMM, interest accreted on the carrying amount of the CSM.
- Changes in the FCF relating to future service are recognised by adjusting the CSM. Changes in the FCF are recognised in the CSM to the extent that the CSM is available. When an increase in the FCF exceeds the carrying amount of the CSM, the CSM is reduced to zero, the excess is recognised in 'Insurance service expenses' and a loss component is recognised within the LRC. When the CSM is zero, changes in the FCF adjust the loss component within the LRC with correspondence to insurance service expenses. The excess of any decrease in the FCF over the loss component reduces the loss component to zero and reinstates the CSM.
- The amount recognised as 'Insurance revenue' for insurance contract services provided during the period, determined after all other adjustments above.

For reinsurance contracts held, at the end of each reporting period, the carrying amount of the CSM is adjusted by the local group to reflect the effect of the following changes:

- The effect of any new contracts added to the group.
- Interest accreted on the carrying amount of the CSM.
- Income recognised in profit or loss when the local group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group. A loss-recovery component is established or adjusted within the remaining coverage for reinsurance contracts held for the amount of income recognised.
- Reversals of a loss-recovery component other than changes in the FCF of reinsurance contracts held.
- Changes in the FCF, to the extent that the change relates to future service, unless the change results from a change in FCF allocated to a group of underlying insurance contracts that does not adjust the CSM for the group of underlying insurance contracts.
- The amount recognised in profit or loss for insurance contract services received during the period, determined after all other adjustments above.

Interest accretion on the CSM

Under the GMM, interest is accreted on the CSM using discount rates determined at initial recognition that are applied to nominal cash flows that do not vary based on the returns of underlying items.

The CSM is systematically recognised in 'Insurance revenue' to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The local group identifies the quantity of the benefits provided as follows:

- For insurance coverage - based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- For investment services (including both investment-return service and investment-related service) - based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

For reinsurance contracts held, the CSM is released to profit or loss as insurance contract services are received from the reinsurer in the period.

Onerous contracts – Loss component

When adjustments to the CSM exceed the amount of the CSM, the group of contracts becomes onerous and the local group recognises the excess in insurance service expenses, and it records the excess as a loss component of the LRC.

Decreases in the FCF relating to future service in subsequent periods reduce the remaining loss component and reinstate the CSM after the loss component is reduced to zero. Increases in the FCF relating to future service in subsequent periods increase the loss component.

A loss-recovery component is established or adjusted within the asset for remaining coverage for reinsurance contracts held for the amount of income recognised in profit or loss when the local group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group.

Subsequently, the loss-recovery component is adjusted to reflect changes in the loss component of an onerous group of underlying insurance contracts. The loss-recovery component is further adjusted, if required, to ensure that it does not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the local group expects to recover from the group of reinsurance contracts held.

xiii Insurance service results

Insurance revenue reflects the consideration to which the local group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services.

xiv Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

(j) Provisions

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

(k) Lease liabilities

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

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

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

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

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

(l) Contingent liabilities

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

(m) Financial guarantee contracts and loan commitments

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

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

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

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

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

(n) Interest income and expense

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

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

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

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

(o) Non-interest income

i Net fee income

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

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

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

Where the local group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

ii Dividend income

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

iii Net income/(expense) from assets and liabilities of insurance business measured at fair value through profit or loss

Net income from assets and liabilities of insurance business measured at fair value through profit or loss includes:

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

The accounting policies for 'Insurance service result' and 'Insurance finance (expense)/income' are disclosed in Note 3(i).

iv Net trading income

The line item includes income from foreign exchange activities and net income from derivatives such as cross currency swaps and forward exchange contracts.

(p) Employee benefits

i Contributions to defined contribution pension plan

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

ii Post employment and other long-term employee benefit obligations

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

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

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

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

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

iii Termination benefits

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

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

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

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

iv Share-based payments

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

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

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

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

(q) Income tax

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

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

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

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

(r) Cash and cash equivalents

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

(s) Segment analysis

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

4 Financial risk management

(a) Introduction

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

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

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

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

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

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

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

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

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

With the exception of the financial instruments relating to the insurance subsidiary company, the only major difference between the local group consolidated position and the bank's financial position relate to cash balances held by the asset management subsidiary with the bank, amounting to €2,553,000 as at 31 December 2023 (2022: €2,492,000). These balances, which are eliminated upon consolidation at local group level, are classified under 'Customer accounts' in the bank's financial statements. The risks arising from financial instruments relating to the asset management subsidiary company are deemed to be insignificant. Accordingly, with the exception of the risks attributable to the life insurance business which is disclosed in Note 4(f), the tables and figures presented within Note 4 reflect information about the financial risk management of the bank, excluding the asset management subsidiary.

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

i Credit risk management

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

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

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

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

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

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

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

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

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

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

The level of economic uncertainty remained elevated during the financial year ended 31 December 2023. This is primarily driven by significant inflationary pressures across the world, triggered during 2022 as a result of widespread supply chain disruptions experienced as the world economy recovered from the impacts of the pandemic. These inflationary pressures continued to be experienced throughout the financial year ended 31 December 2023. In order to curb the spiralling effect of inflationary pressures, the European Central Bank ('ECB') and other national central banks applied monetary policy tools at their disposal by increasing interest rates to manage demand, resulting in a rapid sequence of announced increases in interest rates over a period of 12 months. The combined effect of high inflation rates and an elevated interest rate environment triggered a slowdown in economic growth, with lower levels of private consumption as a result of a steep rise in commodity prices as well as subdued investment as a result of high interest rates.

In addition to the above, the ongoing developments in the global geopolitical environment exacerbate the level of economic uncertainty being experienced. In particular, the protracted military conflict between Russia and Ukraine, which started in February 2022, as well as the escalation of geopolitical tensions between Israel and Hamas in the Middle East in October 2023, contributed to the overall level of economic uncertainty.

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

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

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

With respect to wholesale exposures, during 2023, the local group performed a risk assessment in respect of industries / sectors deemed to be most susceptible to inflationary pressures to identify borrowers deemed to be at risk of a Significant Increase in Credit Risk ('SICR') or Unlikeliness-To-Pay ('UTP') trigger event. In addition, the local group also performed an assessment in respect of the most material borrowers within each industry / sector serviced by the local group in order to assess the potential impact of shocks applied to these borrowers' profit generation capacity, thereby capturing the risk that the debt servicing capacity is depleted by increases in the cost base as well as increases in interest rates. The bank assessed and individually rated 'at risk' borrowers through individual, ad hoc credit assessments, on the basis of recently obtained management information, including forecasts. Exposures deemed mostly impacted and in respect of which a SICR has been observed, are assigned a 'Watch' or 'Worry' status, requiring closer and more frequent monitoring on a monthly or quarterly basis (depending on the extent of credit risk deterioration).

In relation to retail exposures, the bank resorts more to portfolio measures or reviews in respect of groups of exposures exhibiting shared risk characteristics. In this respect, during 2023, focus continued to be placed on performing affordability assessments on customers deemed to be more susceptible to these conditions.

At 31 December 2023, as a result of the elevated level of economic uncertainty, a degree of caution has been reflected through the use of management judgemental adjustments.

Further information in respect of macroeconomic forecasts and management judgemental adjustments reflected within the ECL calculations is provided in Note 4(b)(iii) within the section entitled 'Forward-looking information incorporated in the ECL model'.

In addition, the local group recognises that the physical impacts of climate change and the transition to net zero economy can create significant financial risks for its customers which may impact the credit risk attributable to its lending portfolios.

During the financial year ended 31 December 2023, the local group continued to integrate climate risk into its credit risk management policies and procedures, with physical and transition risks considered to be the key climate risks impacting credit risk.

For transition risk, the local group monitors the exposure of the wholesale lending portfolio to six high transition risk sectors. As at 31 December 2023, the overall exposure to the six high transition risk sectors within the wholesale portfolio was 20.8%.

Relationship managers engage with wholesale clients through a transition engagement questionnaire ('TEQ') (formally transition risk questionnaire ('TRQ')) to gather and assess information about the alignment of clients' business models to net zero and their exposure to physical and transition risk. Responses to the questionnaire are used to create a climate risk score for prioritised customers.

The local group's credit policies require that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews. In addition, manual CRR overrides are required if climate is deemed to have a material impact on credit risk, unless already captured under the original CRR.

In addition, the local group performs an internal risk assessment to assess physical risk in respect of secured lending portfolios, specifically wholesale lending and retail mortgage lending. Based on this assessment, the local group identifies exposures which are sensitive to physical risk events by reference to geographical locations deemed to be more susceptible to an immediate one-metre increase in sea level in Malta, taking into consideration locations in proximity to the island's low shoreline, as well as flood risk, primarily due to surface water run-off.

Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate risk data to assess impacts to clients. Whilst recognising that it is a long-term iterative process, the local group aims to regularly review the approach to increase coverage, incorporate maturing data, climate analytics capabilities, frameworks and tools and respond to emerging industry best practice and climate risk regulations.

Maximum exposure to credit risk

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

	2023	2022
	€000	€000
Balances with Central Bank of Malta and Treasury Bills	**1,643,057**	1,553,848
Items in course of collection from other banks	**8,427**	6,921
Loans and advances to banks	**716,140**	726,217
Loans and advances to customers	**3,083,843**	3,175,167
Debt instruments measured at fair value through other comprehensive income	**456,930**	637,709
Debt instruments measured at amortised cost	**858,886**	367,024
Accrued income and other assets	**21,910**	18,174
Off-balance sheet:		
– financial guarantees	**10,279**	11,787
– performance guarantees and similar contracts	**174,290**	155,529
– loan and other credit related commitments	**838,659**	842,320
At 31 Dec	**7,812,421**	7,494,696

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

	2023	2022
	€000	€000
Derivatives	**13,577**	25,745

As explained in further detail in Note 44, performance guarantees and similar contracts are deemed to fall outside the scope of the impairment requirements emanating from IFRS 9. In this respect, the figures and tables presented throughout the rest of this note exclude such contracts.

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

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

Wholesale lending includes both small business owners as well as the financing of corporate and non-bank financial institutions both from a working capital perspective and investing primarily in income producing assets and, to a lesser extent, construction and development of the same. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects. In the table presented on the next page, these wholesale lending exposures are presented as exposures to corporate and commercial entities as well as exposures to non-bank financial institutions. Non-bank financial institutions are mainly financial corporations other than banks and entities within groups of companies that are mainly engaged in financial and insurance activities. Corporate and commercial entities are wholesale entities that have activities other than finance related.

The bank provides a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets acquired. The bank also offers loans secured on existing assets, such as first charges on residential property, and unsecured lending products such as overdrafts, credit cards and car loans.

All tables and figures within the rest of Note 4(b) on the following pages exclude 'performance guarantees and similar contracts' in view of the fact that the instruments are not subject to the impairment requirements emanating from IFRS 9, as described in more detail in Note 44.

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL, as well as the fair value of debt instruments measured at FVOCI and the associated allowance for ECL.

	2023		2022	
	Gross carrying/ nominal amount	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL
	€000	**€000**	€000	€000
Loans and advances to customers at amortised cost	**3,129,321**	**(45,478)**	3,222,901	(47,734)
– personal	**2,214,220**	**(23,754)**	2,286,234	(24,710)
– corporate and commercial	**855,362**	**(19,931)**	872,673	(20,669)
– non-bank financial institutions	**59,739**	**(1,793)**	63,994	(2,355)
Loans and advances to banks at amortised cost	**716,140**	**—**	726,218	(1)
Other financial assets measured at amortised cost	**2,151,423**	**(4,723)**	1,709,271	(5,596)
– balances at central banks	**1,257,498**	**(21)**	1,269,367	(13)
– items in the course of collection from other banks	**8,427**	**—**	6,921	—
– debt instruments measured at amortised cost	**858,915**	**(29)**	367,042	(18)
– Treasury Bills measured at amortised cost	**—**	**—**	42,203	(1)
– accrued income and other assets	**26,583**	**(4,673)**	23,738	(5,564)
Total gross carrying amount on balance sheet	**5,996,884**	**(50,201)**	5,658,390	(53,331)
Loan and other credit-related commitments	**838,659**	**(1,230)**	842,320	(1,173)
– personal	**293,459**	**(28)**	359,233	(26)
– corporate and commercial (including non-bank financial institutions)	**533,594**	**(1,202)**	480,711	(1,147)
– banks	**11,606**	**—**	2,376	—
Financial guarantees	**10,279**	**(88)**	11,787	(149)
– personal	**200**	**—**	200	—
– corporate and commercial (including non-bank financial institutions)	**10,079**	**(88)**	11,587	(149)
Total nominal amount off balance sheet	**848,938**	**(1,318)**	854,107	(1,322)
Total at 31 Dec	**6,845,822**	**(51,519)**	6,512,497	(54,653)

	Fair value	**Allowance for ECL**	Fair value	Allowance for ECL
	€000	**€000**	€000	€000
Debt instruments measured at fair value through other comprehensive income	**456,930**	**(38)**	637,709	(60)
Treasury Bills measured at fair value through other comprehensive income	**385,580**	**(11)**	242,292	(4)
Total at 31 Dec	**842,510**	**(49)**	880,001	(64)

ii Concentration of credit risk exposure

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

Financial investments measured at FVOCI and at amortised cost

The bank's holdings of debt securities are spread across a range of issuers in both 2023 and 2022, with the exception of 34% (2022: 48%) invested in local government debt securities.

Derivatives

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

Derivative assets were €13,577,000 at 31 December 2023 (2022: €25,745,000), with €13,050,000 (2022: €24,086,000) transacted with HSBC Group and €527,000 (2022: €1,659,000) transacted with other commercial counterparties.

Loans and advances to banks and Items in course of collection from other banks

Loans and advances to banks are mostly held with HSBC Group entities, whereas Items in course of collection from other banks represent amounts receivable from other local banks settled on a daily basis.

Settlement risk arises in any situation where a payment in cash, securities or equities is made with the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate amount of transactions with each counterparty on any single day.

The bank substantially mitigates settlement risk on many transactions, particularly those involving securities and equities, by settling through assured payment systems, or on a delivery-versus-payment basis.

Loans and advances to customers

The following table analyses the bank's loans and advances to customers including credit impaired loans by business segment.

	Gross loans and advances to customers	Gross loans by business segment as a % of total gross loans	Credit impaired loans and advances to customers	Credit impaired loans by business segment as a % of sector gross loans
	€000	%	€000	%
At 31 Dec 2023				
Personal lending				
– first lien residential mortgages	**2,040,495**	**65.2**	**42,833**	**2.1**
– other personal lending	**173,725**	**5.6**	**7,883**	**4.5**
Wholesale lending				
– commercial real estate and other property related	**54,240**	**1.7**	**6,131**	**11.3**
– state-owned entities	**263,784**	**8.4**	**—**	**—**
– other commercial	**597,077**	**19.1**	**43,515**	**7.3**
Total	**3,129,321**	**100**	**100,362**	**3.2**
At 31 Dec 2022				
Personal lending				
– first lien residential mortgages	2,100,009	65.2	53,033	2.5
– other personal lending	186,225	5.8	10,119	5.4
Wholesale lending				
– commercial real estate and other property related	182,077	5.6	32,852	18.0
– state-owned entities	303,387	9.4	—	—
– other commercial	451,203	14.0	23,006	5.1
Total	3,222,901	100	119,010	3.7

The amount of gross loans and advances to customers of the bank stood at €3,129,321,000 at 31 December 2023 (2022: €3,222,901,000). As at 31 December 2023 and 31 December 2022, there were no loans and advances payable to the bank by any of its subsidiaries.

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

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

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

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

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

	Gross on-balance sheet exposure	Residential property	Collateral Commercial property	Securities/ cash	Other	Net maximum exposure
	€000	€000	€000	€000	€000	€000
At 31 Dec 2023						
Electricity, gas, water supply and waste management	**82,369**	**—**	**2**	**3**	**36,725**	**45,639**
Accommodation and food service	**51,006**	**1,330**	**34,716**	**—**	**—**	**14,960**
Construction, real estate activities	**101,552**	**7,348**	**72,792**	**6,505**	**5,079**	**9,828**
Wholesale and retail trade and repairs	**141,491**	**7,087**	**62,392**	**3,077**	**52**	**68,883**
Services	**431,885**	**6,725**	**87,716**	**5,640**	**219,004**	**112,800**
Manufacturing, agriculture and fishing	**107,721**	**7,047**	**30,995**	**919**	**45**	**68,715**
Households and individuals	**2,213,297**	**2,102,086**	**238**	**1,917**	**559**	**108,497**
	3,129,321	**2,131,623**	**288,851**	**18,061**	**261,464**	**429,322**
At 31 Dec 2022						
Electricity, gas, water supply and waste management	111,046	62	1	3,325	53,736	53,922
Accommodation and food service	79,168	784	44,618	6	—	33,760
Construction, real estate activities	108,445	10,250	66,495	1,919	5,453	24,328
Wholesale and retail trade and repairs	179,956	4,577	42,785	3,744	18,162	110,688
Services	396,817	4,902	84,126	8,257	205,981	93,551
Manufacturing, agriculture and fishing	62,196	2,948	19,574	317	779	38,578
Households and individuals	2,285,273	2,153,777	305	10,106	4,570	116,515
	3,222,901	2,177,300	257,904	27,674	288,681	471,342

iii Credit quality of financial assets

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

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

Quality classification definitions

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

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

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

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

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

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

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

	Sovereign debt securities and bills – External credit rating	Other debt securities and bills – External credit rating	Wholesale lending	Personal lending – First lien residential mortgages	Personal lending – Other
Quality classification					
Strong	**BBB and above**	**A- and above**	**CRR1 to CRR2**	**Not past due with LTV lower than 50%**	**Not past due facilities with no delinquency in the last 12 months**
Good	**BBB- to BB**	**BBB+ to BBB-**	**CRR3**	**Not past due with LTV between 50% and 90%**	**Not past due facilities with less than 30 days delinquency in the last 12 months**
Satisfactory	**BB- to B and unrated**	**BB+ to B and unrated**	**CRR4 to CRR5**	**Not past due with LTV between 90% and 100% Not past due with unperfected collateral**	**Not past due facilities with 30 days delinquency or more in the last 12 months**
Sub-standard	**B- to C**	**B- to C**	**CRR6 to CRR8**	**Past due, history of delinquency in prior 12 months, or performing forborne**	**Past due**
Credit impaired	**Default**	**Default**	**CRR9 to CRR10**	**Past due by 90 days or more, forborne, under legal action or connected to other facilities with credit impaired status**	**Past due by 90 days or more, forborne, under legal action or connected to other facilities with credit impaired status**

Distribution of financial instruments by credit quality

	As at 31 Dec 2023							
	Gross carrying/nominal amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total		
	€000	€000	€000	€000	€000	€000	€000	€000
In scope for IFRS 9 impairments								
Loans and advances to customers held at amortised cost:	997,889	1,174,816	704,572	151,682	100,362	3,129,321	(45,478)	3,083,843
– personal	679,133	1,161,636	222,088	100,647	50,716	2,214,220	(23,754)	2,190,466
– corporate and commercial	318,756	5,625	438,349	51,035	41,597	855,362	(19,931)	835,431
– non-bank financial institutions	—	7,555	44,135	—	8,049	59,739	(1,793)	57,946
Loans and advances to banks held at amortised cost	716,140	—	—	—	—	716,140	—	716,140
Other financial assets held at amortised cost:								
Balances at central banks	1,257,498	—	—	—	—	1,257,498	(21)	1,257,477
Items in the course of collection from other banks	8,427	—	—	—	—	8,427	—	8,427
Debt instruments measured at amortised cost	858,915	—	—	—	—	858,915	(29)	858,886
Accrued income and other assets	11,676	1,984	4,135	790	7,998	26,583	(4,673)	21,910
– endorsements and acceptances	—	—	240	—	—	240	(1)	239
– accrued income	11,676	1,984	3,895	790	7,998	26,343	(4,672)	21,671
Total gross carrying amount on balance sheet	3,850,545	1,176,800	708,707	152,472	108,360	5,996,884	(50,201)	5,946,683
Percentage of total credit quality	64.2%	19.6%	11.8%	2.6%	1.8%	100%		
Loan and other credit-related commitments	377,203	93,190	342,857	21,341	4,068	838,659	(1,230)	837,429
Financial guarantees	685	1	7,320	2,273	—	10,279	(88)	10,191
Total nominal amount off balance sheet	377,888	93,191	350,177	23,614	4,068	848,938	(1,318)	847,620
At 31 Dec 2023	4,228,433	1,269,991	1,058,884	176,086	112,428	6,845,822	(51,519)	6,794,303

	Fair value						Allowance for ECL
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	456,930	—	—	—	—	456,930	(38)
Treasury Bills measured at fair value through other comprehensive income	385,580	—	—	—	—	385,580	(11)
At 31 Dec 2023	842,510	—	—	—	—	842,510	(49)

Distribution of financial instruments by credit quality (continued)

	As at 31 Dec 2022							
	Gross carrying/nominal amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total		
	€000	€000	€000	€000	€000	€000	€000	€000
In scope for IFRS 9 impairments								
Loans and advances to customers held at amortised cost:	938,415	1,188,418	743,387	233,671	119,010	3,222,901	(47,734)	3,175,167
– personal	637,076	1,186,794	294,342	104,870	63,152	2,286,234	(24,710)	2,261,524
– corporate and commercial	301,326	1,624	396,841	121,996	50,886	872,673	(20,669)	852,004
– non-bank financial institutions	13	—	52,204	6,805	4,972	63,994	(2,355)	61,639
Loans and advances to banks held at amortised cost	726,218	—	—	—	—	726,218	(1)	726,217
Other financial assets held at amortised cost:								
Balances at central banks	1,269,367	—	—	—	—	1,269,367	(13)	1,269,354
Items in the course of collection from other banks	6,921	—	—	—	—	6,921	—	6,921
Debt instruments measured at amortised cost	367,042	—	—	—	—	367,042	(18)	367,024
Treasury Bills measured at amortised cost	42,203	—	—	—	—	42,203	(1)	42,202
Accrued income and other assets	7,138	2,169	4,375	1,300	8,756	23,738	(5,564)	18,174
– endorsements and acceptances	—	—	1,500	—	—	1,500	(5)	1,495
– accrued income	7,138	2,169	2,875	1,300	8,756	22,238	(5,559)	16,679
Total gross carrying amount on balance sheet	3,357,304	1,190,587	747,762	234,971	127,766	5,658,390	(53,331)	5,605,059
Percentage of total credit quality	59.3%	21.0%	13.2%	4.2%	2.3%	100%		
Loan and other credit-related commitments	404,974	84,587	295,629	48,531	8,599	842,320	(1,173)	841,147
Financial guarantees	2,276	—	7,170	2,321	20	11,787	(149)	11,638
Total nominal amount off balance sheet	407,250	84,587	302,799	50,852	8,619	854,107	(1,322)	852,785
At 31 Dec 2022	3,764,554	1,275,174	1,050,561	285,823	136,385	6,512,497	(54,653)	6,457,844

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	637,709	—	—	—	—	637,709	(60)
Treasury Bills measured at fair value through other comprehensive income	242,292	—	—	—	—	242,292	(4)
At 31 Dec 2022	880,001	—	—	—	—	880,001	(64)

Summary of credit quality of loans and advances to customers

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

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

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

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

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

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

Impaired loans and advances also include forborne loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the bank would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment.

Forborne loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Stage 2 loans are those exposures which have had a significant increase in credit risk since initial recognition. The analysis of credit risk depends on the type of product, the characteristics of the financial instrument and the borrower and, as such, it is not possible to provide a single set of criteria that will determine what is considered to be a SICR since these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a SICR when 30 days past due. A comprehensive description of the bank's staging methodology is provided in Note 3(b)(iv) of these financial statements.

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

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

In respect of individually significant loans within the wholesale portfolio, during 2023 the bank focused on those borrowers that are deemed to be more susceptible to the current inflationary and elevated interest rate environment. These exposures were assessed for SICR and UTP events through individual credit risk assessments, on the basis of recently obtained management information, including forecasts. Exposures in respect of which SICR has been observed were assigned a 'Watch' or 'Worry' status, requiring closer and more frequent monitoring on a monthly or quarterly basis (depending on the extent of credit risk deterioration) to facilitate timely identification of further deterioration in financial condition.

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by business segment

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost	2,874,317	154,642	100,362	3,129,321	(14,662)	(13,463)	(17,353)	(45,478)	0.5	8.7	17.3	1.5
– personal	2,062,416	101,088	50,716	2,214,220	(7,719)	(8,433)	(7,602)	(23,754)	0.4	8.3	15.0	1.1
– corporate and commercial	760,211	53,554	41,597	855,362	(6,241)	(5,030)	(8,660)	(19,931)	0.8	9.4	20.8	2.3
– non-bank financial institutions	51,690	—	8,049	59,739	(702)	—	(1,091)	(1,793)	1.4	—	13.6	3.0
Loans and advances to banks at amortised cost	716,140	—	—	716,140	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	2,142,466	959	7,998	2,151,423	(50)	(1)	(4,672)	(4,723)	—	0.1	58.4	0.2
Loan and other credit-related commitments	799,788	34,803	4,068	838,659	(751)	(58)	(421)	(1,230)	0.1	0.2	10.3	0.1
– personal	291,001	2,276	182	293,459	(28)	—	—	(28)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	497,181	32,527	3,886	533,594	(723)	(58)	(421)	(1,202)	0.1	0.2	10.8	0.2
– banks	11,606	—	—	11,606	—	—	—	—	—	—	—	—
Financial guarantees	10,029	250	—	10,279	(66)	(22)	—	(88)	0.7	8.8	—	0.9
– personal	200	—	—	200	—	—	—	—	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	9,829	250	—	10,079	(66)	(22)	—	(88)	0.7	8.8	—	0.9
At 31 Dec 2023	6,542,740	190,654	112,428	6,845,822	(15,529)	(13,544)	(22,446)	(51,519)	0.2	7.1	20.0	0.8

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The following disclosure presents the ageing of stage 2 financial assets. It distinguishes those assets that are classified as stage 2 when they are less than 30 days past due (including up to date exposures) from those that are classified as stage 2 due to ageing and are 30 DPD or more. Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 31 December 2023 (continued)

	Gross exposure			**Allowance for ECL**			**ECL coverage %**		
	Stage 2	***of which: <30 DPD***	***of which: >30 DPD***	**Stage 2**	***of which: <30 DPD***	***of which: >30 DPD***	**Stage 2**	***of which: <30 DPD***	***of which: >30 DPD***
	€000	***€000***	***€000***	**€000**	***€000***	***€000***	**%**	***%***	***%***
Loans and advances to customers at amortised cost:	**154,642**	***150,421***	***4,221***	**(13,463)**	***(12,944)***	***(519)***	**8.7**	***8.6***	***12.3***
– personal	**101,088**	***97,245***	***3,843***	**(8,433)**	***(7,923)***	***(510)***	**8.3**	***8.1***	***13.3***
– corporate and commercial	**53,554**	***53,176***	***378***	**(5,030)**	***(5,021)***	***(9)***	**9.4**	***9.4***	***2.4***
Other financial assets measured at amortised cost	**959**	***936***	***23***	**(1)**	***(1)***	**—**	**0.1**	***0.1***	**—**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by business segment (continued)

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost	2,812,374	291,517	119,010	3,222,901	(10,177)	(18,744)	(18,813)	(47,734)	0.4	6.4	15.8	1.5
– personal	2,112,941	110,141	63,152	2,286,234	(6,671)	(8,716)	(9,323)	(24,710)	0.3	7.9	14.8	1.1
– corporate and commercial	682,367	139,420	50,886	872,673	(3,272)	(8,168)	(9,229)	(20,669)	0.5	5.9	18.1	2.4
– non-bank financial institutions	17,066	41,956	4,972	63,994	(234)	(1,860)	(261)	(2,355)	1.4	4.4	5.2	3.7
Loans and advances to banks at amortised cost	726,218	—	—	726,218	(1)	—	—	(1)	—	—	—	—
Other financial assets measured at amortised cost	1,698,930	1,585	8,756	1,709,271	(37)	—	(5,559)	(5,596)	—	—	63.5	0.3
Loan and other credit-related commitments	760,652	73,069	8,599	842,320	(379)	(141)	(653)	(1,173)	—	0.2	7.6	0.1
– personal	350,204	8,648	381	359,233	(26)	—	—	(26)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	408,072	64,421	8,218	480,711	(353)	(141)	(653)	(1,147)	0.1	0.2	7.9	0.2
– banks	2,376	—	—	2,376	—	—	—	—	—	—	—	—
Financial guarantees	11,535	232	20	11,787	(110)	(39)	—	(149)	1.0	16.8	—	1.3
– personal	200	—	—	200	—	—	—	—	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	11,335	232	20	11,587	(110)	(39)	—	(149)	1.0	16.8	—	1.3
At 31 Dec 2022	6,009,709	366,403	136,385	6,512,497	(10,704)	(18,924)	(25,025)	(54,653)	0.2	5.2	18.3	0.8

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

The credit quality of all financial instruments that are subject to credit risk is a point-in-time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on the relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, the credit quality assessment is not necessarily fully aligned to IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

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

	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers at amortised cost	997,889	1,174,816	704,572	151,682	100,362	3,129,321	(45,478)	3,083,843
– stage 1	997,689	1,174,611	688,863	13,154	—	2,874,317	(14,662)	2,859,655
– stage 2	200	205	15,709	138,528	—	154,642	(13,463)	141,179
– stage 3	—	—	—	—	100,362	100,362	(17,353)	83,009
Loans and advances to banks at amortised cost	716,140	—	—	—	—	716,140	—	716,140
– stage 1	716,140	—	—	—	—	716,140	—	716,140
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	2,136,516	1,984	4,135	790	7,998	2,151,423	(4,723)	2,146,700
– stage 1	2,136,514	1,984	3,825	143	—	2,142,466	(50)	2,142,416
– stage 2	2	—	310	647	—	959	(1)	958
– stage 3	—	—	—	—	7,998	7,998	(4,672)	3,326
Loan and other credit-related commitments	377,203	93,190	342,857	21,341	4,068	838,659	(1,230)	837,429
– stage 1	377,145	93,045	322,711	6,887	—	799,788	(751)	799,037
– stage 2	58	145	20,146	14,454	—	34,803	(58)	34,745
– stage 3	—	—	—	—	4,068	4,068	(421)	3,647
Financial guarantees	685	1	7,320	2,273	—	10,279	(88)	10,191
– stage 1	685	1	7,249	2,094	—	10,029	(66)	9,963
– stage 2	—	—	71	179	—	250	(22)	228
– stage 3	—	—	—	—	—	—	—	—
At 31 Dec 2023	4,228,433	1,269,991	1,058,884	176,086	112,428	6,845,822	(51,519)	6,794,303

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	456,930	—	—	—	—	456,930	(38)
– stage 1	456,930	—	—	—	—	456,930	(38)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	385,580	—	—	—	—	385,580	(11)
– stage 1	385,580	—	—	—	—	385,580	(11)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
At 31 Dec 2023	842,510	—	—	—	—	842,510	(49)

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

	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers at amortised cost	938,415	1,188,418	743,387	233,671	119,010	3,222,901	(47,734)	3,175,167
– stage 1	938,172	1,188,340	671,025	14,837	—	2,812,374	(10,177)	2,802,197
– stage 2	243	78	72,362	218,834	—	291,517	(18,744)	272,773
– stage 3	—	—	—	—	119,010	119,010	(18,813)	100,197
Loans and advances to banks at amortised cost	726,218	—	—	—	—	726,218	(1)	726,217
– stage 1	726,218	—	—	—	—	726,218	(1)	726,217
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	1,692,671	2,169	4,375	1,300	8,756	1,709,271	(5,596)	1,703,675
– stage 1	1,692,669	2,168	4,056	37	—	1,698,930	(37)	1,698,893
– stage 2	2	1	319	1,263	—	1,585	—	1,585
– stage 3	—	—	—	—	8,756	8,756	(5,559)	3,197
Loan and other credit-related commitments	404,974	84,587	295,629	48,531	8,599	842,320	(1,173)	841,147
– stage 1	404,962	84,517	261,886	9,287	—	760,652	(379)	760,273
– stage 2	12	70	33,743	39,244	—	73,069	(141)	72,928
– stage 3	—	—	—	—	8,599	8,599	(653)	7,946
Financial guarantees	2,276	—	7,170	2,321	20	11,787	(149)	11,638
– stage 1	2,276	—	7,147	2,112	—	11,535	(110)	11,425
– stage 2	—	—	23	209	—	232	(39)	193
– stage 3	—	—	—	—	20	20	—	20
At 31 Dec 2022	3,764,554	1,275,174	1,050,561	285,823	136,385	6,512,497	(54,653)	6,457,844

	Fair value						
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000
Debt instruments measured at fair value through other comprehensive income	637,709	—	—	—	—	637,709	(60)
– stage 1	637,709	—	—	—	—	637,709	(60)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	242,292	—	—	—	—	242,292	(4)
– stage 1	242,292	—	—	—	—	242,292	(4)
– stage 2	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—
At 31 Dec 2022	880,001	—	—	—	—	880,001	(64)

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

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

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

The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated allowance ECL impact from volume movements within the bank's lending portfolio. Exposures which are originated in stage 1 and are later migrated to stage 2 as a result of identified SICR events during the course of the same financial year are also presented in this line item.

A decrease in credit loss allowances amounting to €14.4 million during 2022 was primarily attributable to assets written off amounting to €15.2 million. Further ECL reductions were driven by significant repayments effected during the year leading to reductions in credit loss allowances amounting to €4.9 million, particularly in respect of stage 2 and stage 3 exposures. These reductions were partly offset by migrations of exposures from stage 1 to stage 2 or 3 as well as changes in risk parameters in respect of modelled ECL, resulting in increases in credit loss allowances during 2022 amounting to €5.1 million and €0.6 million, respectively. The former was largely driven by the redevelopment of the model used by the bank to estimate ECLs in respect of the retail mortgage portfolio, which comprised a refreshed segmentation approach for staging purposes, resulting in the migration of significant balances from stage 1 to stage 2, with lifetime ECLs being calculated in respect of these balances.

During the financial year ended 31 December 2023, an ECL release amounting to €3.2 million was primarily driven by migrations of exposures, primarily from stage 2 to stage 1, as well as significant net repayments during the year amounting to €108.2 million, resulting in decreases in credit loss allowances amounting to €2.4 million and €5.1 million respectively. In addition, assets written off during the year amounted to €0.6 million.

Changes in risk parameters during the financial year ended 31 December 2023 resulted in a net increase in credit loss allowances amounting to €5.0 million in respect of exposures classified across all three stages. The ECL increase in respect of stage 3 exposures is attributable to higher LGDs applied in respect of retail mortgage exposures which have been classified as defaulted for a number of years, and deemed to be unrecoverable. The increase in credit loss allowances in respect of exposures classified within stages 1 and 2 are primarily attributable to an increase in discount rates used in the estimation of the LGD parameter as a result of the elevated interest rate environment being experienced. This was partially offset by an improvement in PDs as a result of macroeconomic scenarios which are more favourable compared to the ones applicable as at 31 December 2022.

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

This adjustment was retained during the financial year ended 31 December 2023 in view of the fact that the emergence of increases in credit risk as a result of the above-mentioned risks within the bank's lending portfolios might be further delayed as a result of the government support measures implemented and maintained by the Maltese Government. This resulted in a marginal release in the management judgemental adjustment amounting to €0.1 million during the financial year ended 31 December 2023.

The movements in modelled forward-looking risk parameters (PDs and LGDs), reflecting updated macroeconomic scenarios used to capture the prevailing level of economic uncertainty in the modelling of credit loss allowances, as well as movements in the management judgemental adjustments, are described in more detail in Note 4(b)(iii) – Forward-looking information incorporated in the ECL model.

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2023	**3,590,772**	**(10,671)**	**366,403**	**(18,924)**	**136,385**	**(25,025)**	**4,093,560**	**(54,620)**
Transfers of financial instruments	**134,477**	**(7,566)**	**(134,836)**	**6,602**	**359**	**964**	**—**	**—**
– transfers from stage 1 to stage 2	**(61,515)**	**317**	**61,515**	**(317)**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**197,343**	**(7,567)**	**(197,343)**	**7,567**	**—**	**—**	**—**	**—**
– transfers from stage 3	**1,827**	**(338)**	**5,284**	**(1,007)**	**(7,111)**	**1,345**	**—**	**—**
– transfers to stage 3	**(3,178)**	**22**	**(4,292)**	**359**	**7,470**	**(381)**	**—**	**—**
Net remeasurement of ECL arising from stage transfers	**—**	**5,495**	**—**	**(2,327)**	**—**	**(719)**	**—**	**2,449**
Changes in risk parameters	**—**	**(2,147)**	**—**	**(2,048)**	**—**	**(803)**	**—**	**(4,998)**
Net new and further lending/repayments	**(43,504)**	**(590)**	**(40,913)**	**3,153**	**(23,749)**	**2,570**	**(108,166)**	**5,133**
Assets written off	**—**	**—**	**—**	**—**	**(567)**	**567**	**(567)**	**567**
At 31 Dec 2023	**3,681,745**	**(15,479)**	**190,654**	**(13,544)**	**112,428**	**(22,446)**	**3,984,827**	**(51,469)**
ECL change for the year								**3,151**
Assets written off								**(567)**
Change in expected credit losses excluding effect of write-offs								**2,584**
Recoveries								**1,466**
Other								**532**
Change in expected credit losses and other credit impairment charges								**4,582**

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €0.5m for the year ended 31 December 2023 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

	At 31 Dec 2023		12 months ended 31 Dec 2023
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	**3,984,827**	**(51,469)**	**4,582**
Balances at central banks	**1,257,498**	**(21)**	**(8)**
Loans and advances to banks measured at amortised cost	**716,140**	**—**	**1**
Debt instruments and Treasury Bills measured at amortised cost	**858,915**	**(29)**	**(10)**
Items in course of collection	**8,427**	**—**	**—**
Accrued interest on debt instruments and other accrued income	**8,409**	**—**	**—**
Loan and other credit related commitments - banks	**11,606**	**—**	**—**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	**6,845,822**	**(51,519)**	**4,565**
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	**842,510**	**(49)**	**15**
Total allowance for ECL/total income statement ECL release for the year	**N/A**	**(51,568)**	**4,580**

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2022	3,694,260	(15,252)	337,784	(16,042)	192,459	(37,690)	4,224,503	(68,984)
Transfers of financial instruments:	(74,149)	(428)	86,184	(1,752)	(12,035)	2,180	—	—
– transfers from stage 1 to stage 2	(105,626)	563	105,626	(563)	—	—	—	—
– transfers from stage 2 to stage 1	33,571	(734)	(33,571)	734	—	—	—	—
– transfers from stage 3	3,168	(284)	20,652	(2,359)	(23,820)	2,643	—	—
– transfers to stage 3	(5,262)	27	(6,523)	436	11,785	(463)	—	—
Net remeasurement of ECL arising from stage transfers	—	899	—	(5,282)	—	(684)	—	(5,067)
Changes in risk parameters	—	4,143	—	1,826	—	(6,599)	—	(630)
Net new and further lending/repayments	(29,339)	(33)	(57,565)	2,326	(28,835)	2,564	(115,739)	4,857
Assets written off	—	—	—	—	(15,204)	15,204	(15,204)	15,204
At 31 Dec 2022	3,590,772	(10,671)	366,403	(18,924)	136,385	(25,025)	4,093,560	(54,620)
ECL change for the year								14,364
Assets written off								(15,204)
Change in expected credit losses excluding effects of write-offs								(840)
Recoveries								9,359
Other								1,053
Change in expected credit losses and other credit impairment charges								9,572

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1.1m for the year ended 31 December 2022 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

	At 31 Dec 2022		12 months ended 31 Dec 2022
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,093,560	(54,620)	9,572
Balances at central banks	1,269,367	(13)	(5)
Loans and advances to banks measured at amortised cost	726,218	(1)	1
Debt instruments and Treasury Bills measured at amortised cost	409,245	(19)	(19)
Items in course of collection	6,921	—	—
Accrued interest on debt instruments and other accrued income	4,810	—	—
Loan and other credit related commitments - banks	2,376	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	6,512,497	(54,653)	9,549
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	880,001	(64)	12
Total allowance for ECL/total income statement ECL charge for the year	N/A	(54,717)	9,561

Credit loss allowances attributable to loans and advances to customers

As explained in further detail in Note 47 'Segmental information', the bank's lending activities are organised in two business segments, Wealth and Personal Banking ('WPB') and Commercial Banking ('CMB'). WPB offers a broad range of products to meet the needs of individual customers. WPB also offers Retail Business Banking ('RBB') products and services to small business owners. Transactions and balances with RBB customers are classified as wholesale in the following tables.

CMB offers products and services to commercial and non-banking customers. Transactions and balances with CMB customers are all presented as wholesale in tables to follow other than credit card transactions which are reported as personal.

The following tables show the allowances for ECL recognised as at 31 December 2023 and 31 December 2022.

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

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	**€000**	**€000**	**€000**	**€000**
WPB	**7,741**	**8,410**	**7,602**	**23,753**
CMB	**6,921**	**5,053**	**9,751**	**21,725**
At 31 Dec 2023	**14,662**	**13,463**	**17,353**	**45,478**
Loan and other credit-related commitments and financial guarantees				
WPB	**28**	**—**	**—**	**28**
CMB	**789**	**80**	**421**	**1,290**
At 31 Dec 2023	**817**	**80**	**421**	**1,318**
Loans and advances to customers				
WPB	6,682	8,705	9,320	24,707
CMB	3,495	10,039	9,493	23,027
At 31 Dec 2022	10,177	18,744	18,813	47,734
Loan and other credit-related commitments and financial guarantees				
WPB	26	—	—	26
CMB	463	180	653	1,296
At 31 Dec 2022	489	180	653	1,322

The measurement of allowances for ECL and the ECL release/charge for 2023 and 2022 are analysed in detail in the tables presented in the previous section. In addition, these movements are further analysed by business segment in the tables presented within the sections entitled 'Wholesale lending to customers' and 'Personal lending to customers' respectively.

Forborne loans and advances to customers

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan where the obligor is experiencing or about to experience difficulties in meeting its financial commitments. The bank classifies and reports loans on which concessions have been granted under conditions of credit distress as 'forborne loans' when their contractual payment terms have been modified because the bank has significant concerns about the borrowers' ability to meet contractual payments when due.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the forborne loan is substantially a different financial instrument, the loan would be derecognised and recognised as a new loan, for accounting purposes. However, newly recognised loans retain the 'forborne loans' classification.

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and other forms of loan modifications and re-ageing.

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

For personal lending, unsecured forborne loans are generally segmented from other parts of the loan portfolio. Expected credit loss assessments in respect of forborne loans reflect the higher rates of losses typically encountered with forborne loans. For wholesale lending, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne loans.

For personal lending, the bank's credit risk management policy sets out restrictions on the number and frequency of forbearance measures, together with the minimum period an account must have been opened before any forbearance measures can be considered.

When the bank grants a concession to a customer that the bank would not otherwise consider, as a result of their financial difficulty, this is objective evidence of impairment and impairment losses are measured accordingly. A forborne loan is presented as impaired when there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and it is probable that, without the concession, the borrower would be unable to meet contractual payment obligations in full. Accordingly, where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the forbearance measures, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as impaired, unless the concession granted is insignificant.

The forborne loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. For wholesale lending, forborne loans curing to a non-credit impaired status will remain classified as forborne for a minimum of two years from the date that the exposure is no longer classified as credit impaired.

For personal lending, forborne loans maintain the forbearance classification until maturity. Any forbearance measures granted in respect of a loan already classified as forborne will lead to the customer being classified as credit impaired. Personal loans and advances to customers that have been identified as forborne retain this designation until maturity or derecognition.

The following table shows the gross carrying amounts of the bank's holdings of forborne loans and advances to customers by industry sector and by stage. Unless the conditions for classification as a performing forborne exposure are met, forborne loans are classified as stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment.

Forborne loans and advances to customers by business segment and credit quality classification

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
Gross carrying amount				
Personal				
– first lien residential mortgages	**—**	**27,605**	**18,060**	**45,665**
– other personal lending	**—**	**3,331**	**2,951**	**6,282**
Wholesale				
– corporate and commercial	**—**	**3,023**	**37,487**	**40,510**
– non-bank financial institutions	**—**	**—**	**8,044**	**8,044**
At 31 Dec 2023	**—**	**33,959**	**66,542**	**100,501**
Allowance for ECL				
Personal				
– first lien residential mortgages	**—**	**(1,521)**	**(1,586)**	**(3,107)**
– other personal lending	**—**	**(159)**	**(316)**	**(475)**
Wholesale				
– corporate and commercial	**—**	**(267)**	**(6,781)**	**(7,048)**
– non-bank financial institutions	**—**	**—**	**(1,091)**	**(1,091)**
At 31 Dec 2023	**—**	**(1,947)**	**(9,774)**	**(11,721)**
Gross carrying amount				
Personal				
– first lien residential mortgages	—	27,403	23,048	50,451
– other personal lending	—	3,352	4,252	7,604
Wholesale				
– corporate and commercial	—	20,314	44,469	64,783
– non-bank financial institutions	—	7,473	4,972	12,445
At 31 Dec 2022	—	58,542	76,741	135,283
Allowance for ECL				
Personal				
– first lien residential mortgages	—	(1,798)	(2,883)	(4,681)
– other personal lending	—	(278)	(516)	(794)
Wholesale				
– corporate and commercial	—	(2,465)	(6,246)	(8,711)
– non-bank financial institutions	—	(584)	(261)	(845)
At 31 Dec 2022	—	(5,125)	(9,906)	(15,031)

	2023	2022
	€000	€000
Total forborne loans and advances to customers as a percentage of total gross loans and advances to customers	**3.2%**	4.2%
Interest income recognised in respect of forborne assets	**4,336**	5,860
Movement in forbearance activity during the year:		
At 1 Jan	**135,283**	183,893
Loans granted forbearance measures during the year	**2,690**	8,978
Repayments	**(37,404)**	(49,870)
Amounts written off	**(68)**	(7,718)
At 31 Dec	**100,501**	135,283

None of the forborne loans effected during the financial years ended 31 December 2023 and 31 December 2022 were subject to a substantial modification in cash flows and, as a result, none of the renegotiations led to the derecognition of the original financial instrument and subsequent recognition of POCI financial instruments.

Wholesale lending to customers

This section provides further detail on the distribution of allowances for ECL on wholesale loans and advances to customers, together with the respective gross carrying amounts, by industry and stage. Product granularity is also provided by stage with data presented for loans and advances to customers, other credit commitments, financial guarantees and similar contracts. Additionally, this section provides a reconciliation of the opening gross carrying/nominal amounts as at 1 January 2023 and 2022 to the closing carrying/nominal amounts as at 31 December 2023 and 2022 respectively, together with the associated allowances for ECL.

Total wholesale lending for loans and advances to customers by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	**760,211**	**53,554**	**41,597**	**855,362**	**(6,241)**	**(5,030)**	**(8,660)**	**(19,931)**
– agriculture, forestry and fishing	**163**	**9**	**25**	**197**	**(2)**	**—**	**(25)**	**(27)**
– manufacture	**96,035**	**8,194**	**3,183**	**107,412**	**(373)**	**(880)**	**(622)**	**(1,875)**
– electricity, gas, steam and air-conditioning supply	**63,757**	**1,881**	**—**	**65,638**	**(264)**	**(81)**	**—**	**(345)**
– water supply, sewerage, waste management and remediation	**16,731**	**—**	**—**	**16,731**	**(6)**	**—**	**—**	**(6)**
– construction	**15,894**	**428**	**5,680**	**22,002**	**(197)**	**(27)**	**(1,513)**	**(1,737)**
– wholesale and retail trade, repair of motor vehicles and motorcycles	**115,984**	**20,714**	**4,473**	**141,171**	**(885)**	**(1,084)**	**(1,632)**	**(3,601)**
– transportation and storage	**5,505**	**76**	**2**	**5,583**	**(251)**	**(2)**	**(1)**	**(254)**
– accommodation and food	**23,856**	**9,896**	**17,238**	**50,990**	**(652)**	**(406)**	**(2,772)**	**(3,830)**
– information and communication	**20,766**	**2,794**	**46**	**23,606**	**(346)**	**(981)**	**—**	**(1,327)**
– real estate	**68,981**	**3,929**	**6,558**	**79,468**	**(1,273)**	**(1,070)**	**(60)**	**(2,403)**
– professional, scientific and technical activities	**129,631**	**5,366**	**157**	**135,154**	**(1,034)**	**(436)**	**(7)**	**(1,477)**
– administrative and support services	**20,033**	**183**	**411**	**20,627**	**(587)**	**(62)**	**—**	**(649)**
– education	**192**	**—**	**1,151**	**1,343**	**(4)**	**—**	**(168)**	**(172)**
– health and care	**15,816**	**13**	**2,448**	**18,277**	**(321)**	**—**	**(1,784)**	**(2,105)**
– arts, entertainment and recreation	**192**	**5**	**83**	**280**	**(1)**	**—**	**(17)**	**(18)**
– other services	**1,767**	**66**	**142**	**1,975**	**(29)**	**(1)**	**(59)**	**(89)**
– public administration and defence, compulsory social security	**164,908**	**—**	**—**	**164,908**	**(16)**	**—**	**—**	**(16)**
Non-bank financial institutions	**51,690**	**—**	**8,049**	**59,739**	**(702)**	**—**	**(1,091)**	**(1,793)**
At 31 Dec 2023	**811,901**	**53,554**	**49,646**	**915,101**	**(6,943)**	**(5,030)**	**(9,751)**	**(21,724)**
Other financial assets measured at amortised cost								
– endorsements and acceptances	**—**	**240**	**—**	**240**	**—**	**(1)**	**—**	**(1)**
– accrued income	**5,448**	**274**	**4,574**	**10,296**	**—**	**—**	**(1,825)**	**(1,825)**
At 31 Dec 2023	**5,448**	**514**	**4,574**	**10,536**	**—**	**(1)**	**(1,825)**	**(1,826)**
Corporate and commercial	682,367	139,420	50,886	872,673	(3,272)	(8,168)	(9,229)	(20,669)
– agriculture, forestry and fishing	51	128	97	276	(1)	(2)	(6)	(9)
– manufacture	50,050	8,182	3,541	61,773	(362)	(309)	(496)	(1,167)
– electricity, gas, steam and air-conditioning supply	85,018	2,056	—	87,074	(204)	(132)	—	(336)
– water supply, sewerage, waste management and remediation	23,746	217	—	23,963	(5)	(1)	—	(6)
– construction	18,311	1,686	2,102	22,099	(177)	(60)	(1,521)	(1,758)
– wholesale and retail trade, repair of motor vehicles and motorcycles	135,304	36,384	7,948	179,636	(611)	(806)	(2,944)	(4,361)
– transportation and storage	5,170	547	8	5,725	(21)	(22)	(8)	(51)
– accommodation and food	17,494	40,648	20,984	79,126	(347)	(3,207)	(2,353)	(5,907)
– information and communication	23,522	4,122	1	27,645	(268)	(970)	(1)	(1,239)
– real estate	71,443	5,041	9,765	86,249	(745)	(355)	(299)	(1,399)
– professional, scientific and technical activities	90,225	17,927	13	108,165	(373)	(1,110)	(12)	(1,495)
– administrative and support services	5,875	7,338	413	13,626	(93)	(463)	(2)	(558)
– education	530	18	3,188	3,736	(8)	—	(726)	(734)
– health and care	1,666	14,748	2,435	18,849	(20)	(724)	(787)	(1,531)
– arts, entertainment and recreation	197	23	68	288	—	(1)	—	(1)
– other services	1,263	355	323	1,941	(18)	(6)	(74)	(98)
– public administration and defence, compulsory social security	152,502	—	—	152,502	(19)	—	—	(19)
Non-bank financial institutions	17,066	41,956	4,972	63,994	(234)	(1,860)	(261)	(2,355)
At 31 Dec 2022	699,433	181,376	55,858	936,667	(3,506)	(10,028)	(9,490)	(23,024)
Other financial assets measured at amortised cost								
– endorsements and acceptances	1,500	—	—	1,500	(5)	—	—	(5)
– accrued income	3,055	1,084	4,754	8,893	—	—	(2,424)	(2,424)
At 31 Dec 2022	4,555	1,084	4,754	10,393	(5)	—	(2,424)	(2,429)

Total wholesale lending for loan and other credit-related commitments and financial guarantees by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	**497,588**	**32,739**	**3,886**	**534,213**	**(781)**	**(77)**	**(421)**	**(1,279)**
Non-bank financial institutions	**9,422**	**38**	**—**	**9,460**	**(8)**	**(3)**	**—**	**(11)**
At 31 Dec 2023	**507,010**	**32,777**	**3,886**	**543,673**	**(789)**	**(80)**	**(421)**	**(1,290)**
Corporate and commercial	402,793	59,656	6,841	469,290	(444)	(178)	(652)	(1,274)
Non-bank financial institutions	16,614	4,997	1,397	23,008	(19)	(2)	(1)	(22)
At 31 Dec 2022	419,407	64,653	8,238	492,298	(463)	(180)	(653)	(1,296)

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

	Non-credit impaired				**Credit impaired**			
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying/ nominal amount	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**	**Gross carrying/ nominal amount**	**Allowance for ECL**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
At 1 Jan 2023	**1,123,395**	**(3,974)**	**247,113**	**(10,208)**	**68,850**	**(12,567)**	**1,439,358**	**(26,749)**
Transfers of financial instruments	**129,885**	**(4,392)**	**(131,237)**	**4,446**	**1,352**	**(54)**	**—**	**—**
– transfers from stage 1 to stage 2	**(27,648)**	**199**	**27,648**	**(199)**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**158,355**	**(4,605)**	**(158,355)**	**4,605**	**—**	**—**	**—**	**—**
– transfers from stage 3	**172**	**—**	**75**	**—**	**(247)**	**—**	**—**	**—**
– transfers to stage 3	**(994)**	**14**	**(605)**	**40**	**1,599**	**(54)**	**—**	**—**
Net remeasurement of ECL arising from stage transfers	**—**	**2,346**	**—**	**(732)**	**—**	**32**	**—**	**1,646**
Changes in risk parameters	**—**	**(833)**	**—**	**(929)**	**—**	**—**	**—**	**(1,762)**
Net new and further lending/ repayments	**71,079**	**(879)**	**(29,031)**	**2,312**	**(12,033)**	**529**	**30,015**	**1,962**
Assets written off	**—**	**—**	**—**	**—**	**(63)**	**63**	**(63)**	**63**
At 31 Dec 2023	**1,324,359**	**(7,732)**	**86,845**	**(5,111)**	**58,106**	**(11,997)**	**1,469,310**	**(24,840)**
ECL change for the year								**1,909**
Assets written off								**(63)**
Change in expected credit losses excluding effect of write-offs								**1,846**
Recoveries								**893**
Other								**534**
Change in expected credit losses and other credit impairment charges								**3,273**

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €0.5m for the year ended 31 December 2023 and included in 'Other' in the above reconciliation.

	Non - credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2022	1,142,186	(3,305)	279,429	(11,656)	98,496	(27,533)	1,520,111	(42,494)
Transfers of financial instruments :	(15,216)	(61)	14,100	94	1,116	(33)	—	—
– transfers from stage 1 to stage 2	(40,221)	220	40,221	(220)	—	—	—	—
– transfers from stage 2 to stage 1	25,700	(285)	(25,700)	285	—	—	—	—
– transfers from stage 3	—	—	—	—	—	—	—	—
– transfers to stage 3	(695)	4	(421)	29	1,116	(33)	—	—
Net remeasurement of ECL arising from stage transfers	—	216	—	(1,331)	—	(28)	—	(1,143)
Changes in risk parameters	—	(751)	—	902	—	(595)	—	(444)
Net new and further lending/ repayments	(3,575)	(73)	(46,416)	1,783	(17,320)	2,180	(67,311)	3,890
Assets written off	—	—	—	—	(13,442)	13,442	(13,442)	13,442
At 31 Dec 2022	1,123,395	(3,974)	247,113	(10,208)	68,850	(12,567)	1,439,358	(26,749)
ECL change for the year								15,745
Assets written off								(13,442)
Change in expected credit losses excluding effect of write-offs								2,303
Recoveries								8,880
Other								1,072
Change in expected credit losses and other credit impairment charges								12,255

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €1.1m for the year ended 31 December 2022 and included in 'Other' in the above reconciliation.

Total wholesale lending for loan and other credit-related commitments and financial guarantee and similar contracts by credit quality

	Gross exposure/nominal amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total		
	€000	€000	€000	€000	€000	€000	€000	€000
Corporate and commercial	**162,195**	**18,280**	**328,283**	**21,569**	**3,886**	**534,213**	**(1,279)**	**532,934**
Non-bank financial institutions	**—**	**10**	**9,435**	**15**	**—**	**9,460**	**(11)**	**9,449**
At 31 Dec 2023	**162,195**	**18,290**	**337,718**	**21,584**	**3,886**	**543,673**	**(1,290)**	**542,383**
Corporate and commercial	143,290	8,249	268,788	42,122	6,841	469,290	(1,274)	468,016
Non-bank financial institutions	2,000	—	14,337	5,274	1,397	23,008	(22)	22,986
At 31 Dec 2022	145,290	8,249	283,125	47,396	8,238	492,298	(1,296)	491,002

All corporate customers are rated using a 10-grade scale, with each CRR band being calibrated by reference to the Global Master Scale developed by the HSBC Group on the basis of long run default rates for each grade. This mapping between internal and external ratings is indicative and may vary over time. The table below shows the distribution of wholesale loans and advances to customers as at 31 December 2023 and 31 December 2022, together with their associated ECL allowance by CRR.

Wholesale lending – credit risk profile by obligor grade for loans and advances to customers

	Gross carrying amount				Allowance for ECL				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL Coverage
	€000	€000	€000	€000	€000	€000	€000	€000	%
Corporate and Commercial	**760,211**	**53,554**	**41,597**	**855,362**	**(6,241)**	**(5,030)**	**(8,660)**	**(19,931)**	**2.3**
CRR1	**160,006**	**1**	**—**	**160,007**	**(16)**	**—**	**—**	**(16)**	**—**
CRR2	**158,749**	**—**	**—**	**158,749**	**(36)**	**—**	**—**	**(36)**	**—**
CRR3	**5,625**	**—**	**—**	**5,625**	**(29)**	**—**	**—**	**(29)**	**0.5**
CRR4	**271,849**	**1,300**	**—**	**273,149**	**(2,947)**	**(20)**	**—**	**(2,967)**	**1.1**
CRR5	**150,828**	**14,372**	**—**	**165,200**	**(2,851)**	**(569)**	**—**	**(3,420)**	**2.1**
CRR6	**10,959**	**9,757**	**—**	**20,716**	**(150)**	**(1,068)**	**—**	**(1,218)**	**5.9**
CRR7	**2,177**	**21,170**	**—**	**23,347**	**(212)**	**(1,128)**	**—**	**(1,340)**	**5.7**
CRR8	**18**	**6,954**	**—**	**6,972**	**—**	**(2,245)**	**—**	**(2,245)**	**32.2**
CRR9/10	**—**	**—**	**41,597**	**41,597**	**—**	**—**	**(8,660)**	**(8,660)**	**20.8**
Non-bank financial institutions	**51,690**	**—**	**8,049**	**59,739**	**(702)**	**—**	**(1,091)**	**(1,793)**	**3.0**
CRR1	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR3	**7,555**	**—**	**—**	**7,555**	**—**	**—**	**—**	**—**	**—**
CRR4	**40,982**	**—**	**—**	**40,982**	**(647)**	**—**	**—**	**(647)**	**1.6**
CRR5	**3,153**	**—**	**—**	**3,153**	**(55)**	**—**	**—**	**(55)**	**1.7**
CRR6	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR7	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR8	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
CRR9/10	**—**	**—**	**8,049**	**8,049**	**—**	**—**	**(1,091)**	**(1,091)**	**13.6**
At 31 Dec 2023	**811,901**	**53,554**	**49,646**	**915,101**	**(6,943)**	**(5,030)**	**(9,751)**	**(21,724)**	**2.4**
Corporate and Commercial	682,367	139,420	50,886	872,673	(3,272)	(8,168)	(9,229)	(20,669)	2.4
CRR1	145,974	—	—	145,974	(16)	—	—	(16)	—
CRR2	155,352	—	—	155,352	(32)	—	—	(32)	—
CRR3	1,576	48	—	1,624	(3)	—	—	(3)	0.2
CRR4	194,632	2,167	—	196,799	(875)	(10)	—	(885)	0.4
CRR5	170,003	30,039	—	200,042	(1,978)	(1,081)	—	(3,059)	1.5
CRR6	14,773	66,079	—	80,852	(367)	(3,156)	—	(3,523)	4.4
CRR7	57	36,070	—	36,127	(1)	(2,719)	—	(2,720)	7.5
CRR8	—	5,017	—	5,017	—	(1,202)	—	(1,202)	24.0
CRR9/10	—	—	50,886	50,886	—	—	(9,229)	(9,229)	18.1
Non-bank financial institutions	17,066	41,956	4,972	63,994	(234)	(1,860)	(261)	(2,355)	3.7
CRR1	13	—	—	13	—	—	—	—	—
CRR2	—	—	—	—	—	—	—	—	—
CRR3	—	—	—	—	—	—	—	—	—
CRR4	2,919	—	—	2,919	(20)	—	—	(20)	0.7
CRR5	14,128	35,157	—	49,285	(214)	(1,347)	—	(1,561)	3.2
CRR6	6	1,638	—	1,644	—	(338)	—	(338)	20.6
CRR7	—	5,161	—	5,161	—	(175)	—	(175)	3.4
CRR8	—	—	—	—	—	—	—	—	—
CRR9/10	—	—	4,972	4,972	—	—	(261)	(261)	5.2
At 31 Dec 2022	699,433	181,376	55,858	936,667	(3,506)	(10,028)	(9,490)	(23,024)	2.5

Personal lending to customers

This section presents further disclosures related to personal lending. It provides details of the products which are driving the change observed in personal loans and advances to customers. Additionally, this section provides a reconciliation of the opening gross carrying/nominal amounts as at 1 January 2023 and 2022 to the closing carrying/nominal amounts as at 31 December 2023 and 2022 respectively, together with the associated allowances for ECL. Further product granularity is also provided by stage, with data presented for loans and advances to customers, loan and other credit-related commitments and financial guarantees.

Total personal lending for loans and advances to customers by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
By portfolio								
First lien residential mortgages	**1,906,051**	**91,611**	**42,833**	**2,040,495**	**(7,044)**	**(7,218)**	**(6,240)**	**(20,502)**
Other personal lending	**156,365**	**9,477**	**7,883**	**173,725**	**(675)**	**(1,215)**	**(1,362)**	**(3,252)**
– second lien residential mortgages	**77,123**	**6,926**	**7,029**	**91,078**	**(260)**	**(322)**	**(895)**	**(1,477)**
– credit cards	**25,912**	**1,455**	**59**	**27,426**	**(304)**	**(631)**	**(42)**	**(977)**
– other	**53,330**	**1,096**	**795**	**55,221**	**(111)**	**(262)**	**(425)**	**(798)**
At 31 Dec 2023	**2,062,416**	**101,088**	**50,716**	**2,214,220**	**(7,719)**	**(8,433)**	**(7,602)**	**(23,754)**
Other financial assets measured at amortised cost								
– accrued income	**3,769**	**445**	**3,424**	**7,638**	**—**	**—**	**(2,847)**	**(2,847)**
At 31 Dec 2023	**3,769**	**445**	**3,424**	**7,638**	**—**	**—**	**(2,847)**	**(2,847)**
By portfolio								
First lien residential mortgages	1,954,743	92,233	53,033	2,100,009	(6,161)	(6,566)	(7,698)	(20,425)
Other personal lending	158,198	17,908	10,119	186,225	(510)	(2,150)	(1,625)	(4,285)
– second lien residential mortgages	79,905	8,271	9,029	97,205	(208)	(326)	(927)	(1,461)
– credit cards	24,792	3,143	88	28,023	(227)	(1,260)	(56)	(1,543)
– other	53,501	6,494	1,002	60,997	(75)	(564)	(642)	(1,281)
At 31 Dec 2022	2,112,941	110,141	63,152	2,286,234	(6,671)	(8,716)	(9,323)	(24,710)
Other financial assets measured at amortised cost								
– accrued income	4,032	501	4,002	8,535	—	—	(3,135)	(3,135)
At 31 Dec 2022	4,032	501	4,002	8,535	—	—	(3,135)	(3,135)

Total personal lending for loan and other credit-related commitments and financial guarantee and similar contracts by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Personal	**291,201**	**2,276**	**182**	**293,659**	**(28)**	**—**	**—**	**(28)**
At 31 Dec 2023	**291,201**	**2,276**	**182**	**293,659**	**(28)**	**—**	**—**	**(28)**
Personal	350,404	8,648	381	359,433	(26)	—	—	(26)
At 31 Dec 2022	350,404	8,648	381	359,433	(26)	—	—	(26)

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

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2023	**2,467,377**	**(6,697)**	**119,290**	**(8,716)**	**67,535**	**(12,458)**	**2,654,202**	**(27,871)**
Transfers of financial instruments	**4,592**	**(3,174)**	**(3,599)**	**2,156**	**(993)**	**1,018**	**—**	**—**
– transfers from stage 1 to stage 2	**(33,867)**	**118**	**33,867**	**(118)**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**38,988**	**(2,962)**	**(38,988)**	**2,962**	**—**	**—**	**—**	**—**
– transfers from stage 3	**1,655**	**(338)**	**5,209**	**(1,007)**	**(6,864)**	**1,345**	**—**	**—**
– transfers to stage 3	**(2,184)**	**8**	**(3,687)**	**319**	**5,871**	**(327)**	**—**	**—**
Net remeasurement of ECL arising from stage transfers	**—**	**3,149**	**—**	**(1,595)**	**—**	**(751)**	**—**	**803**
Changes in risk parameters	**—**	**(1,314)**	**—**	**(1,119)**	**—**	**(803)**	**—**	**(3,236)**
Net new and further lending/ repayments	**(114,583)**	**289**	**(11,882)**	**841**	**(11,716)**	**2,041**	**(138,181)**	**3,171**
Assets written off	**—**	**—**	**—**	**—**	**(504)**	**504**	**(504)**	**504**
At 31 Dec 2023	**2,357,386**	**(7,747)**	**103,809**	**(8,433)**	**54,322**	**(10,449)**	**2,515,517**	**(26,629)**
ECL change for the year								**1,242**
Assets written off								**(504)**
Change in expected credit losses excluding effect of write-offs								**738**
Recoveries								**573**
Other								**(2)**
Change in expected credit losses and other credit impairment charges								**1,309**
At 1 Jan 2022	2,552,074	(11,947)	58,355	(4,386)	93,963	(10,157)	2,704,392	(26,490)
Transfers of financial instruments :	(58,933)	(367)	72,084	(1,846)	(13,151)	2,213	—	—
– transfers from stage 1 to stage 2	(65,405)	343	65,405	(343)	—	—	—	—
– transfers from stage 2 to stage 1	7,871	(449)	(7,871)	449	—	—	—	—
– transfers from stage 3	3,168	(284)	20,652	(2,359)	(23,820)	2,643	—	—
– transfers to stage 3	(4,567)	23	(6,102)	407	10,669	(430)	—	—
Net remeasurement of ECL arising from stage transfers	—	683	—	(3,951)	—	(656)	—	(3,924)
Changes in risk parameters	—	4,894	—	924	—	(6,004)	—	(186)
Net new and further lending/ repayments	(25,764)	40	(11,149)	543	(11,515)	384	(48,428)	967
Assets written off	—	—	—	—	(1,762)	1,762	(1,762)	1,762
At 31 Dec 2022	2,467,377	(6,697)	119,290	(8,716)	67,535	(12,458)	2,654,202	(27,871)
ECL change for the year								(1,381)
Assets written off								(1,762)
Change in expected credit losses for the year								(3,143)
Recoveries								479
Other								(19)
Change in expected credit losses and other credit impairment charges								(2,683)

Personal lending – credit risk profile by obligor grade for loans and advances to customers

	Gross carrying amount				Allowance for ECL				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL Coverage
	€000	€000	€000	€000	€000	€000	€000	€000	%
First lien residential mortgages	**1,906,051**	**91,611**	**42,833**	**2,040,495**	**(7,044)**	**(7,218)**	**(6,240)**	**(20,502)**	**1.0**
Not past due	**1,902,457**	**75,594**	**14,412**	**1,992,463**	**(7,030)**	**(5,757)**	**(1,371)**	**(14,158)**	**0.7**
Past due by:									
less than 30 days	**3,594**	**12,888**	**8,887**	**25,369**	**(14)**	**(1,110)**	**(754)**	**(1,878)**	**7.4**
30 to 59 days	**—**	**2,038**	**3,073**	**5,111**	**—**	**(188)**	**(370)**	**(558)**	**10.9**
60 to 89 days	**—**	**1,091**	**2,295**	**3,386**	**—**	**(163)**	**(276)**	**(439)**	**13.0**
90 days and more	**—**	**—**	**14,166**	**14,166**	**—**	**—**	**(3,469)**	**(3,469)**	**24.5**
Other personal lending	**156,365**	**9,477**	**7,883**	**173,725**	**(675)**	**(1,215)**	**(1,362)**	**(3,252)**	**1.9**
Not past due	**154,384**	**7,124**	**2,100**	**163,608**	**(655)**	**(873)**	**(157)**	**(1,685)**	**1.0**
Past due by:									
less than 30 days	**1,981**	**1,552**	**876**	**4,409**	**(20)**	**(149)**	**(55)**	**(224)**	**5.1**
30 to 59 days	**—**	**643**	**557**	**1,200**	**—**	**(125)**	**(121)**	**(246)**	**20.5**
60 to 89 days	**—**	**158**	**113**	**271**	**—**	**(68)**	**(9)**	**(77)**	**28.4**
90 days and more	**—**	**—**	**4,237**	**4,237**	**—**	**—**	**(1,020)**	**(1,020)**	**24.1**
At 31 Dec 2023	**2,062,416**	**101,088**	**50,716**	**2,214,220**	**(7,719)**	**(8,433)**	**(7,602)**	**(23,754)**	**1.1**
First lien residential mortgages	1,954,743	92,233	53,033	2,100,009	(6,161)	(6,566)	(7,698)	(20,425)	1.0
Not past due	1,954,653	73,316	16,316	2,044,285	(6,161)	(5,366)	(2,400)	(13,927)	0.7
Past due by:									
less than 30 days	90	16,569	11,113	27,772	—	(918)	(1,258)	(2,176)	7.8
30 to 59 days	—	1,819	4,439	6,258	—	(137)	(480)	(617)	9.9
60 to 89 days	—	529	2,187	2,716	—	(145)	(243)	(388)	14.3
90 days and more	—	—	18,978	18,978	—	—	(3,317)	(3,317)	17.5
Other personal lending	158,198	17,908	10,119	186,225	(510)	(2,150)	(1,625)	(4,285)	2.3
Not past due	156,572	14,512	3,133	174,217	(494)	(1,703)	(307)	(2,504)	1.4
Past due by:									
less than 30 days	1,626	2,801	1,187	5,614	(16)	(285)	(81)	(382)	6.8
30 to 59 days	—	332	687	1,019	—	(72)	(135)	(207)	20.3
60 to 89 days	—	263	246	509	—	(90)	(24)	(114)	22.4
90 days and more	—	—	4,866	4,866	—	—	(1,078)	(1,078)	22.2
At 31 Dec 2022	2,112,941	110,141	63,152	2,286,234	(6,671)	(8,716)	(9,323)	(24,710)	1.1

Collateral and other credit enhancements

It is the bank's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the bank may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

The principal collateral types are as follows:

– In the personal sector, mortgages over residential properties, cash and securities; and

– In the commercial real estate sector, charges over the properties being financed.

The bank is required to implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and determine suitable valuation parameters. Such parameters are expected to be conservative, reviewed regularly and supported by empirical evidence. Security structures and legal covenants are required to be subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice.

The tables in the following pages show loans and advances to customers by level of collateral. The collateral measured in the tables on the next page consists of fixed first charges on real estate and charges over cash and marketable financial instruments but excludes any collateral held in the form of guarantees. The values in the tables represent the expected market value on an open market basis; no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value.

The loan-to-value ('LTV') ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility.

Where collateral assets are shared by multiple loans and advances, the collateral value is pro-rated across the loans and advances protected by the collateral.

Loans shown as not collateralised or partially collateralised may also benefit from other forms of credit mitigants. Other types of collateral which are commonly taken for corporate and commercial lending, such as unsupported guarantees and floating charges over the assets of a customer's business, are not measured in the tables on the next page. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The value of commercial real estate collateral is determined by using a combination of professional and internal valuations and physical inspections. Due to the complexity of valuing collateral for commercial real estate, local valuation policies determine the frequency of review on the basis of local market conditions. Revaluations are sought with greater frequency as concerns over the performance of the collateral or the direct obligor increase.

Wholesale lending to customers

Wholesale lending: loans and advances to customers by level of collateral by stage distribution

	Gross carrying amount				Allowance for ECL				ECL coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Not Collateralised	**282,377**	**5,600**	**8,396**	**296,373**	**(2,419)**	**(320)**	**(2,254)**	**(4,993)**	**0.9**	**5.7**	**26.8**	**1.7**
Fully collateralised by LTV ratio	**498,384**	**42,039**	**36,116**	**576,539**	**(4,006)**	**(4,023)**	**(6,394)**	**(14,423)**	**0.8**	**9.6**	**17.7**	**2.5**
– less than 50%	**223,638**	**36,527**	**14,850**	**275,015**	**(3,747)**	**(2,662)**	**(3,312)**	**(9,721)**	**1.7**	**7.3**	**22.3**	**3.5**
– 51% to 75%	**86,648**	**3,719**	**18,417**	**108,784**	**(180)**	**(1,218)**	**(2,450)**	**(3,848)**	**0.2**	**32.8**	**13.3**	**3.5**
– 76% to 90%	**21,840**	**1,670**	**2,800**	**26,310**	**(30)**	**(139)**	**(632)**	**(801)**	**0.1**	**8.3**	**22.6**	**3.0**
– 91% to 100%	**166,258**	**123**	**49**	**166,430**	**(49)**	**(4)**	**—**	**(53)**	**—**	**3.3**	**—**	**—**
Partially collateralised: LTV > 100%	**31,140**	**5,915**	**5,134**	**42,189**	**(518)**	**(687)**	**(1,103)**	**(2,308)**	**1.7**	**11.6**	**21.5**	**5.5**
– *of which: Collateral value*	***12,948***	***3,906***	***2,501***	***19,355***								
Total at 31 Dec 2023	**811,901**	**53,554**	**49,646**	**915,101**	**(6,943)**	**(5,030)**	**(9,751)**	**(21,724)**	**0.9**	**9.4**	**19.6**	**2.4**
Not Collateralised	169,622	45,793	34,581	249,996	(1,026)	(1,274)	(6,173)	(8,473)	0.6	2.8	17.9	3.4
Fully collateralised by LTV ratio	457,924	123,503	19,299	600,726	(1,992)	(8,180)	(2,243)	(12,415)	0.4	6.6	11.6	2.1
– less than 50%	162217	115,287	18,102	295,606	(1,608)	(7,854)	(2,049)	(11,511)	1.0	6.8	11.3	3.9
– 51% to 75%	29,657	6,521	1,188	37,366	(284)	(308)	(185)	(777)	1.0	4.7	15.6	2.1
– 76% to 90%	2,106	1,480	—	3,586	(8)	(10)	—	(18)	0.4	0.7	—	0.5
– 91% to 100%	263,944	215	9	264,168	(92)	(8)	(9)	(109)	—	3.7	100.0	—
Partially collateralised: LTV > 100%	71,887	12,080	1,978	85,945	(488)	(574)	(1,074)	(2,136)	0.7	4.8	54.3	2.5
– *of which: Collateral value*	*13,460*	*3,441*	*678*	*17,579*								
Total at 31 Dec 2022	699,433	181,376	55,858	936,667	(3,506)	(10,028)	(9,490)	(23,024)	0.5	5.5	17.0	2.5

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

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
CRR 1 to 8			
Not collateralised	**287,977**	**(2,739)**	**1.0**
Fully collateralised	**540,423**	**(8,029)**	**1.5**
– less than or equal to 50%	**260,165**	**(6,409)**	**2.5**
– 51% to 75%	**90,367**	**(1,398)**	**1.5**
– 76% to 90%	**23,510**	**(169)**	**0.7**
– 91% to 100%	**166,381**	**(53)**	**—**
Partially collateralised: LTV > 100%	**37,055**	**(1,205)**	**3.3**
– *of which: Collateral value*	***16,854***		
Total	**865,455**	**(11,973)**	**1.4**
CRR 9 to 10			
Not collateralised	**8,396**	**(2,254)**	**26.8**
Fully collateralised	**36,116**	**(6,394)**	**17.7**
– less than or equal to 50%	**14,850**	**(3,312)**	**22.3**
– 51% to 75%	**18,417**	**(2,450)**	**13.3**
– 76% to 90%	**2,800**	**(632)**	**22.6**
– 91% to 100%	**49**	**—**	**—**
Partially collateralised: LTV > 100%	**5,134**	**(1,103)**	**21.5**
– *of which: Collateral value*	***2,501***		
Total	**49,646**	**(9,751)**	**19.6**
At 31 Dec 2023	**915,101**	**(21,724)**	**2.4**

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

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

Personal lending to customers

Personal lending: residential mortgages, loans and advances by level of collateral by stage distribution

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Not Collateralised	**73,880**	**2,486**	**707**	**77,073**	**(405)**	**(875)**	**(412)**	**(1,692)**	**0.5**	**35.2**	**58.3**	**2.2**
Fully collateralised by LTV ratio	**1,984,890**	**98,574**	**49,978**	**2,133,442**	**(7,307)**	**(7,551)**	**(7,175)**	**(22,033)**	**0.4**	**7.7**	**14.4**	**1.0**
– less than 50%	**964,268**	**68,577**	**39,400**	**1,072,245**	**(3,261)**	**(3,666)**	**(4,526)**	**(11,453)**	**0.3**	**5.3**	**11.5**	**1.1**
– 51% to 75%	**828,702**	**27,505**	**8,853**	**865,060**	**(3,293)**	**(3,337)**	**(2,145)**	**(8,775)**	**0.4**	**12.1**	**24.2**	**1.0**
– 76% to 90%	**189,953**	**2,457**	**1,195**	**193,605**	**(750)**	**(536)**	**(291)**	**(1,578)**	**0.4**	**21.8**	**24.4**	**0.8**
– 91% to 100%	**1,967**	**35**	**530**	**2,532**	**(3)**	**(12)**	**(213)**	**(227)**	**0.2**	**34.3**	**40.2**	**9.0**
Partially collateralised: LTV > 100%	**3,646**	**28**	**31**	**3,705**	**(7)**	**(7)**	**(15)**	**(29)**	**0.2**	**25.0**	**48.4**	**0.8**
– of which: Collateral value	***762***	***3***	***11***	***776***								
Total at 31 Dec 2023	**2,062,416**	**101,088**	**50,716**	**2,214,220**	**(7,719)**	**(8,433)**	**(7,602)**	**(23,754)**	**0.4**	**8.3**	**15.0**	**1.1**
Not Collateralised	72,884	8,379	1,005	82,268	(296)	(1,762)	(646)	(2,704)	0.4	21.0	64.3	3.3
Fully collateralised by LTV ratio	2,036,266	101,395	62,123	2,199,784	(6,370)	(6,932)	(8,661)	(21,963)	0.3	6.8	13.9	1.0
– less than 50%	910,869	66,286	48,290	1,025,445	(2,674)	(2,937)	(4,795)	(10,406)	0.3	4.4	9.9	1.0
– 51% to 75%	852,590	30,812	11,507	894,909	(2,773)	(3,491)	(3,143)	(9,407)	0.3	11.3	27.3	1.1
– 76% to 90%	271,060	3,919	1,932	276,911	(921)	(480)	(518)	(1,919)	0.3	12.2	26.8	0.7
– 91% to 100%	1,747	378	394	2,519	(2)	(24)	(205)	(231)	0.1	6.3	52.0	9.2
Partially collateralised: LTV > 100%	3,791	367	24	4,182	(5)	(22)	(16)	(43)	0.1	6.0	66.7	1.0
– of which: Collateral value	*969*	*137*	*4*	*1,110*								
Total at 31 Dec 2022	2,112,941	110,141	63,152	2,286,234	(6,671)	(8,716)	(9,323)	(24,710)	0.3	7.9	14.8	1.1

Personal lending – residential mortgages, loans and advances by level of collateral by past due days

	Gross carrying amount	Allowance for ECL	ECL coverage
	€000	€000	%
Less than 30 days past due			
Not collateralised	**75,976**	**(1,175)**	**1.5**
Fully collateralised	**2,106,171**	**(16,743)**	**0.8**
– less than or equal to 50%	**1,051,384**	**(7,950)**	**0.8**
– 51% to 75%	**860,301**	**(7,455)**	**0.9**
– 76% to 90%	**192,496**	**(1,324)**	**0.7**
– 91% to 100%	**1,990**	**(14)**	**0.7**
Partially collateralised: LTV > 100%	**3,702**	**(27)**	**0.7**
– *of which: Collateral value*	***773***		
Total	**2,185,849**	**(17,945)**	**0.8**
30 days to 89 days past due			
Not collateralised	**556**	**(192)**	**34.5**
Fully collateralised	**9,412**	**(1,128)**	**12.0**
– less than or equal to 50%	**7,338**	**(620)**	**8.4**
– 51% to 75%	**1,370**	**(275)**	**20.1**
– 76% to 90%	**320**	**(64)**	**20.0**
– 91% to 100%	**384**	**(169)**	**44.0**
Partially collateralised: LTV > 100%	**—**	**—**	**—**
– *of which: Collateral value*	**—**		
Total	**9,968**	**(1,320)**	**13.2**
90 days past due or more			
Not collateralised	**541**	**(325)**	**60.1**
Fully collateralised	**17,859**	**(4,162)**	**23.3**
– less than or equal to 50%	**13,524**	**(2,883)**	**21.3**
– 51% to 75%	**3,388**	**(1,045)**	**30.8**
– 76% to 90%	**790**	**(189)**	**23.9**
– 91% to 100%	**157**	**(45)**	**28.7**
Partially collateralised: LTV > 100%	**3**	**(2)**	**66.7**
– *of which: Collateral value*	***3***		
Total	**18,403**	**(4,489)**	**24.4**
At 31 Dec 2023	**2,214,220**	**(23,754)**	**1.1**
Less than 30 days past due			
Not collateralised	81,096	(2,095)	2.6
Fully collateralised	2,166,637	(16,869)	0.8
– less than or equal to 50%	999,672	(7,418)	0.7
– 51% to 75%	888,503	(7,606)	0.9
– 76% to 90%	276,138	(1,727)	0.6
– 91% to 100%	2,324	(118)	5.1
Partially collateralised: LTV > 100%	4,155	(25)	0.6
– *of which: Collateral value*	*1,106*		
Total	2,251,888	(18,989)	0.8
30 days to 89 days past due			
Not collateralised	506	(178)	35.2
Fully collateralised	9,977	(1,136)	11.4
– less than or equal to 50%	7,739	(716)	9.3
– 51% to 75%	1,902	(339)	17.8
– 76% to 90%	336	(81)	24.1
– 91% to 100%	—	—	—
Partially collateralised: LTV > 100%	19	(12)	63.2
– *of which: Collateral value*	*2*		
Total	10,502	(1,326)	12.6
90 days past due or more			
Not collateralised	666	(431)	64.7
Fully collateralised	23,170	(3,958)	17.1
– less than or equal to 50%	18,034	(2,272)	12.6
– 51% to 75%	4,504	(1,462)	32.5
– 76% to 90%	437	(111)	25.4
– 91% to 100%	195	(113)	57.9
Partially collateralised: LTV > 100%	8	(6)	75.0
– *of which: Collateral value*	*2*		
Total	23,844	(4,395)	18.4
At 31 Dec 2022	2,286,234	(24,710)	1.1

The bank typically does not hold collateral against financial assets measured at fair value through profit or loss, financial investments and loans to banks, and no such collateral was held at 31 December 2023 and 2022.

Forward-looking information incorporated in the ECL model

ECL impairment allowances recognised in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis. The recognition and measurement of ECL involves the use of significant judgement and estimation. It is necessary to formulate multiple forward-looking economic forecasts and incorporate them into the ECL estimates. The bank uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgement, which may result in using alternative or additional economic scenarios and/or management judgemental adjustments.

Methodology

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

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

For the Central scenario, key assumptions such as GDP growth, inflation, unemployment and policy interest rates are calibrated using a panel of external forecasts (commonly referred to as consensus forecasts). The Upside and Downside scenarios are designed to be cyclical, in that the forecasted macroeconomic variables usually revert back to the Central scenario after the first three years. The approach centres on GDP growth rate forecasts. The remaining variables are then forecasted subject to restrictions to enable consistency with GDP forecasts.

To generate the consensus economic scenarios, a shortlist of the most relevant upside and downside economic and political risks is developed. This is known as the 'economic risk assessment'. For the Central scenario, a predefined set of economic paths is taken as the average of different forecast distributions. Paths for the two outer scenarios are benchmarked to the Central scenario and reflect the economic risk assessment. Scenarios are representative of the probability weighting scheme, informed by the current economic outlook, data analysis of past recessions, and transitions in and out of recession. The key assumptions made, and the accompanying paths, represent the 'best estimate' of a scenario at a specified probability.

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

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

Description of economic scenarios

During the financial year ended 31 December 2023, high inflation and rising interest rates have reduced real household incomes and raised business costs in Europe, dampening consumption and investment and lowering growth expectations.

Economic forecasts remain subject to a high degree of uncertainty. Risks to the economic outlook include the persistence of inflation risks relating to energy pricing and supply security. Economic forecasts remained broadly stable in the fourth quarter of 2023, with the key exception being monetary policy, where expectations for interest rate cuts were brought forward. The outlook for 2024 continues to be for a period of below trend growth, while inflation remains above central bank targets.

At the end of 2023, risks to the economic outlook included a number of significant geopolitical issues. In this respect, geopolitical risks remain significant and include the possibility of a prolonged and escalating military conflict between Russia and Ukraine, further escalations in the Middle East as a result of the outbreak of the war between Israel and Hamas, as well as continued differences between the United States of America ('USA') and other countries with China over a range of economic and strategic issues.

The macroeconomic forecasts applied by the local group in the ECL calculation also reflect risks which are specific to Malta, including the impact of high inflation rates and the elevated interest rate environment, together with the possible effect of further supply chain disruptions caused by a possible prolonging of the military conflicts between Russia and Ukraine and between Israel and Hamas, on the local economy. In addition, forecasts used by the local group also capture the impact of government support measures on local investment and private consumption levels.

The scenarios used to calculate ECL are described below.

The consensus Central scenario

The local group's Central scenario reflects expectations for a low growth and high interest rate environment, where GDP growth is expected to be weaker in 2024 relative to 2023.

The period of below-trend GDP growth through 2024 is primarily driven by the lagged effects of higher interest rates and inflation in Europe. The higher financing costs and inflationary pressures are expected to lead to a deterioration in household discretionary income and business margins. Economic growth is only forecasted to return to its long-term expected trend in later years, once inflation reverts towards central bank targets and interest rates stabilise.

The five-year average real GDP growth rate for the Maltese economy under the consensus Central scenario is higher than that forecasted as at 31 December 2022. This is attributable to an expected recovery in real GDP growth rates, triggered by expectations that inflation rates continue to fall, converging towards central banks' target rates by early 2025 and interest rates stabilise albeit at a higher level compared to the post-global financial crisis period.

The Central scenario assumes that inflation continues to fall as commodity prices decline, supply disruptions abate, and wage growth moderates, converging towards central banks' target rates by early 2025. Policy interest rates are forecast to have peaked and are projected to decline in 2024. In the longer term, they are expected to remain at a higher level compared to the post-global financial crisis period.

The probability weight assigned to the Central scenario is 75% (2022: 60%).

The consensus Upside scenario

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

The scenario is consistent with a number of key upside risk themes. These include a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly, an easing in financial conditions, and de-escalation in geopolitical tensions, as the military conflicts between Russia and Ukraine and between Israel and Hamas move towards conclusions, and the relationship between the US and China improves.

The probability weight assigned to the consensus Upside scenario is 10% (2022: 5%).

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks, in which geopolitical tensions escalate and disrupt key commodity and goods markets. As the geopolitical environment remains volatile and complex, risks include a broader and more prolonged conflict in the Middle East that undermines confidence, drives an increase in global energy costs and reduces trade and investment; a potential escalation in the conflict between Russia and Ukraine, which expands beyond Ukraine's borders, and further disrupts energy, fertiliser and food supplies; and continued differences between the US and China, which could affect confidence, the global goods trade and supply chains for critical technologies.

As can be observed in the economic paths presented below, the average unemployment rates forecasted as at 31 December 2023 under the consensus Downside and Downside 2 scenarios, to which a combined probability weight of 15% is assigned, reflect a significant increase in the national unemployment rate during the first three years to capture different assumptions in respect of the possible economic shocks triggered by an economic recession on the labour market.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices increase at a slower rate. The scenario features an escalation of geopolitical tensions, resulting in a higher inflation rate compared to the Central scenario, as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates, before the effects of weaker consumption demand begin to dominate and commodity prices and inflation rates fall below the levels forecasted under the consensus Central scenario.

The probability weight assigned to the consensus Downside scenario is 10% (2022: 25%).

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects the local group's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including a further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets.

The Downside 2 scenario is designed to capture a more severe economic scenario, with elevated interest rates and inflation rates resulting in a contraction in the local economy, as evidenced by the negative real GDP growth rates and elevated unemployment rates in 2024 and 2025. As inflation surges and central banks tighten monetary policy further, confidence evaporates. However, this impulse is expected to prove short-lived, as recession takes hold, causing commodity prices to correct sharply and global price inflation to fall. This scenario also captures the potential impact of a significant drop in property prices.

The probability weight assigned to the Downside 2 scenario is 5% (2022: 10%).

Macroeconomic scenario trajectories

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

Malta: Real GDP growth rates - 2023 projections

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
2023: Annual average growth rate (%)	**4.3**	**4.3**	**4.3**	**4.3**
2024: Annual average growth rate (%)	**3.6**	**4.5**	**2.6**	**(2.1)**
2025: Annual average growth rate (%)	**3.8**	**5.0**	**2.5**	**(0.6)**
2026: Annual average growth rate (%)	**3.6**	**4.3**	**2.9**	**5.6**
2027: Annual average growth rate (%)	**3.7**	**3.6**	**3.6**	**5.5**
Five year average growth rate (%)	**3.7**	**4.2**	**3.1**	**2.6**

Malta: Real GDP growth rates - 2022 projections

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

Malta: Unemployment rate - 2023 projections

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
2023: Annual average rate (%)	**2.6**	**2.6**	**2.6**	**2.6**
2024: Annual average rate (%)	**2.9**	**2.6**	**3.3**	**3.4**
2025: Annual average rate (%)	**3.0**	**2.7**	**3.4**	**3.9**
2026: Annual average rate (%)	**3.0**	**2.9**	**3.1**	**3.7**
2027: Annual average rate (%)	**2.9**	**2.9**	**2.9**	**3.3**
Five year average rate (%)	**2.9**	**2.8**	**3.2**	**3.5**

Malta: Unemployment rate - 2022 projections

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

Malta: Consumer price index - 2023 projections

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
2023: Annual average growth rate (%)	**5.6**	**5.6**	**5.6**	**5.6**
2024: Annual average growth rate (%)	**2.9**	**2.7**	**3.1**	**5.1**
2025: Annual average growth rate (%)	**1.8**	**1.4**	**2.0**	**(0.3)**
2026: Annual average growth rate (%)	**1.9**	**2.2**	**1.5**	**0.3**
2027: Annual average growth rate (%)	**2.1**	**2.4**	**1.8**	**1.2**
Five year average growth rate (%)	**2.2**	**2.2**	**2.1**	**1.6**

Malta: Consumer price index - 2022 projections

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

Malta: House price index - 2023 projections

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
2023: Annual average growth rate (%)	**6.2**	**6.2**	**6.2**	**6.2**
2024: Annual average growth rate (%)	**5.6**	**6.8**	**3.9**	**0.2**
2025: Annual average growth rate (%)	**9.4**	**10.6**	**8.0**	**(4.1)**
2026: Annual average growth rate (%)	**4.2**	**4.6**	**3.8**	**(10.2)**
2027: Annual average growth rate (%)	**5.1**	**5.1**	**5.1**	**(0.8)**
Five year average growth rate (%)	**5.8**	**6.4**	**5.1**	**(2.5)**

Malta: House price index - 2022 projections

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

Malta: Short-term interest rates - 2023 projections

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
2023: Annual average rate (%)	**3.5**	**3.5**	**3.5**	**3.5**
2024: Annual average rate (%)	**3.7**	**3.1**	**3.6**	**4.5**
2025: Annual average rate (%)	**2.8**	**2.8**	**1.5**	**1.9**
2026: Annual average rate (%)	**2.7**	**2.7**	**1.5**	**1.6**
2027: Annual average rate (%)	**2.7**	**2.7**	**2.5**	**1.8**
Five year average rate (%)	**3.0**	**2.8**	**2.4**	**2.3**

Malta: Short-term interest rates - 2022 projections

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

Scenario weighting

In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered both global and country-specific factors. Standard probabilistic assessments based on historical and observed macroeconomic experience are of limited value when extreme economic events occur, given that such events are poorly represented in historical macroeconomic data. As such, the historical distributions are only used as a guidance and less relied upon when determining the appropriate weights.

However, despite developments in the Middle East, measures of risk and uncertainty that are used to inform judgements around the Central scenario and the dispersion of forecasts around the consensus have remained stable.

This has led management to assign scenario probabilities that are aligned to the standard scenario framework as at 31 December 2023. In this respect, the consensus Upside and Central scenarios were assigned a combined weighting of 85%, consistent with the approved framework. The Downside 1 scenario is then assigned 10% probability and the Downside 2 is assigned 5%.

As a result, the combined probability assigned to the Downside scenarios as at 31 December 2023 is lower when compared to 31 December 2022, with more weight being assigned to the consensus Upside and Central scenarios based on expert judgement applied in response to changes in the severity of modelled scenarios since the prior year.

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

	Consensus Scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
Probability (%) – 31 Dec 2023	**75**	**10**	**10**	**5**
Probability (%) – 31 Dec 2022	60	5	25	10

How economic scenarios are reflected in the retail calculation of ECL

With respect to the retail portfolio, historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by leveraging economic response models. The impact of these scenarios on PDs is modelled over a period equal to the remaining maturity of underlying assets. In contrast, no FEG impact on LGD is modelled in respect of exposures classified within any of the retail portfolios. The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained on previous pages.

Based on an assessment performed by the local group in respect of the correlation between historical observed default rates and various macroeconomic variables, it was determined that the most relevant macroeconomic variables to use within the ECL calculation in respect of mortgages were unemployment and real GDP growth rates. A relative 80:20 weighting was assigned to unemployment and real GDP growth rates respectively. Expert judgement was applied in the selection of the macroeconomic variables as well as the assignment of the relative weightings. In view of the fact that the Loan to Value ('LTV') ratio represents one of the criteria used for segmentation purposes in respect of exposures classified within the mortgage portfolio, the House Price Index ('HPI') is also considered in the estimation of forward-looking PIT PDs, with exposures migrating between segments on the basis of forecasted shocks to the HPI, which in turn impact the LTV segmentation.

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

How economic scenarios are reflected in the wholesale calculation of ECL

For the wholesale portfolio, FEG is incorporated into the calculation of ECL through the estimation of the term structure of PD and LGD.

For the PD calculation, forward-looking PDs are approximated by using a proxy country's PDs and macroeconomic paths, shifted by a scalar. A suitable proxy is selected using the Bhattacharyya methodology which compares various proxy sites' principal component macroeconomic variables to local variables to determine the most suitable site. The scalar is then calculated, which is intended to capture the difference between the proxy and local sensitivities to economic shocks.

For the LGD calculation, the correlation of FEG, derived from the assumed macroeconomic paths of the proxy site, to collateral values, which are in turn derived from the bank's data, is taken into account.

For non-credit impaired loans, the local group uses the proxy country's real GDP growth rate, unemployment rate, consumer price index, short-term interest rate, and the house price index as the relevant macroeconomic variables to determine the term structure of PD and LGD. The macroeconomic paths modelled in respect of the macroeconomic variables used by the proxy country are assessed by management to be similar to those modelled in respect of the retail portfolios, with similar shocks and trajectories being applied for the proxy country's and Malta's economies.

For credit impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on credit impaired loans that are individually considered not to be significant, the model incorporates forward economic guidance proportionate to the probability-weighted outcome and the consensus Central scenario outcome for individually significant stage 3 loans.

Management judgemental adjustments

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

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

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

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

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

As explained previously, due to the new risks emerged during the financial year ended 31 December 2022, particularly the inflationary pressures and the elevated interest rate environment, the level of economic uncertainty remains elevated, with a potential impact on the bank's ECL calculations. In this respect, a management judgemental adjustment amounting to €5.0 million (2022: €5.1 million) was estimated to capture the risk of increases in inflation and interest rates impacting the affordability of borrowers within the retail mortgage portfolio, which risks are not deemed to be captured by the FEG modelling. This is especially relevant since the ECL calculation in respect of retail portfolios only takes into consideration unemployment rates and real GDP growth rates as the key macroeconomic variables.

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

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

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

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

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

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

	Weighted average ECL	**Consensus scenarios**			**Downside 2 scenario**
		Central	**Upside**	**Downside**	
	€000	**€000**	**€000**	**€000**	**€000**
Wholesale lending	**12,843**	**12,402**	**11,111**	**14,718**	**19,167**
Personal lending	**26,629**	**26,436**	**25,983**	**27,307**	**33,493**

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

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

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

ECL sensitivity: Applying different sets of weightings to macroeconomic variables

	Weighted average
	€000
Unemployment 80% : Real GDP growth rate 20%	**24,646**
Unemployment 100% : Real GDP growth rate 0%	**25,194**
Unemployment 0% : Real GDP growth rate 100%	**25,670**

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

Treasury Bills and debt securities

Debt securities and other bills by rating agency (S&P Rating Agency) designation of the bank, are reported in the table below. Information relating to the HSBC Life insurance business is disclosed in Note 4(f)(iii).

Debt securities and other bills by rating agency

	Treasury Bills	Debt securities	Total
	€000	€000	€000
– measured at fair value through other comprehensive income	**385,580**	**456,930**	**842,510**
AAA	**39,574**	**38,335**	**77,909**
AA- to AA+	**233,557**	**41,818**	**275,375**
A-	**112,449**	**376,777**	**489,226**
– measured at amortised cost	**—**	**858,886**	**858,886**
AAA	**—**	**446,725**	**446,725**
AA- to AA+	**—**	**341,768**	**341,768**
A-	**—**	**70,393**	**70,393**
At 31 Dec 2023	**385,580**	**1,315,816**	**1,701,396**
– measured at fair value through other comprehensive income	242,292	637,709	880,001
AAA	—	101,233	101,233
AA- to AA+	—	70,818	70,818
A-	242,292	465,658	707,950
– measured at amortised cost	42,202	367,024	409,226
AAA	—	227,655	227,655
AA- to AA+	—	118,910	118,910
A-	42,202	20,459	62,661
At 31 Dec 2022	284,494	1,004,733	1,289,227

Derivatives

The bank participates in transactions exposing it to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it and it arises principally from Over-the-Counter ('OTC') derivatives. Transactions vary in value by reference to a market factor such as interest rate, exchange rate or asset price. The bank manages its trading derivative market risk positions principally through back-to-back derivative transactions with HSBC Group entities in respect of derivatives forming part of fair value designated relationships. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA').

For transactions with HSBC Group entities, the bank has an International Swaps and Derivatives Association ('ISDA') Master Agreement in place. It provides the contractual framework within which dealing activity across a full range of OTC products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur. In this respect, gross derivative assets amounting to €13,050,000 (2022: €24,086,000) are subject to enforceable netting agreement. However, they are not offset in the balance sheet as they do not meet the on-balance sheet offsetting criteria for financial reporting purposes. Similarly, gross derivative liabilities amounting to €446,000 (2022: €1,587,000) are subject to enforceable netting agreement. However, they are not offset in the balance sheet as they do not meet the on-balance sheet offsetting criteria for financial reporting purposes.

(c) Liquidity risk

Liquidity risk is the risk that the local group does not have sufficient financial resources to meet its financial obligations when they fall due or will have to do so at excessive cost. This risk principally arises from mismatches in the timing of cash flows. Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

This section presents information about the bank's exposure to liquidity risk, together with its objectives, policies and processes for measuring and managing this risk.

The risks arising from financial instruments relating to the insurance subsidiary company are disclosed in Note 4(f) of these financial statements.

The objective of the bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To this end, the bank maintains a diversified and stable funding base. The funding base comprises core personal and corporate customer deposits as well as wholesale funding, whereas the bank's liquidity position comprises portfolios of highly liquid assets with the objective of enabling the bank to respond quickly and smoothly to unforeseen liquidity requirements.

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

The bank's liquidity and funding management processes include:

- projecting cash flows by major currency under various stress scenarios considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises while minimising adverse long-term implications for the business.

Primary sources of funding

Customer deposits in the form of current accounts and savings deposits payable on demand or at short notice form a significant part of the bank's funding, and thus considerable importance is placed on maintaining their stability. For deposits, stability depends upon maintaining depositor confidence in the bank's capital strength and liquidity, and on competitive and transparent pricing.

Management of liquidity and funding risk

The bank's liquidity and funding risk management framework employs two key measures to define, monitor and control the liquidity and funding risk. The Net Stable Funding Ratio ('NSFR') is used to monitor the structural long-term funding position of the bank, and the Liquidity Coverage Ratio ('LCR') metric is used to gauge the short-term resilience of the bank's liquidity profile. The bank also monitors the contractual maturity ladder, which provides insight into the extent to which the bank relies on maturity transformation in respect of contractual cash flows. More precisely, the maturity ladder is used by the bank to determine the availability of liquid assets to meet the liquidity gaps for diverse time horizons.

The bank's ALCO focuses on the management process with respect to liquidity and funding risks. Compliance with established limits is monitored by the local ALCO.

i Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets.

During the financial years ended 31 December 2023 and 2022, the LCR was in excess of both the regulatory minimum and the risk appetite thresholds set by the bank.

ii Net Stable Funding Ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The bank calculates the NSFR in line with the provisions of the amendments to Regulation (EU) No.575/2013, known as the Capital Requirements Regulation ('CRR II'), which became effective as from 28 June 2021.

During the financial years ended 31 December 2023 and 2022, the NSFR was in excess of both the regulatory minimum and the risk appetite thresholds set by the bank.

iii Depositor concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within different depositor segments. The validity of these assumptions is challenged if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists. The bank is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

As at 31 December 2023 and 2022, the bank was within the risk appetite levels set for depositor concentration and term funding maturity concentration.

iv Contractual maturity ladder

The following is an analysis of financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Ltd) by remaining contractual maturities at the reporting date. Information relating to HSBC Life insurance business is disclosed in Note 4(f)(iv):

Financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Ltd) by remaining contractual maturities

	Bank						
	At 31 Dec 2023						
	Not more than 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash	**33,582**	**—**	**—**	**—**	**—**	**—**	**33,582**
Balances with Central Bank of Malta and Treasury Bills	**1,291,702**	**160,941**	**132,687**	**—**	**—**	**57,727**	**1,643,057**
Items in the course of collection from other banks	**8,427**	**—**	**—**	**—**	**—**	**—**	**8,427**
Derivatives	**798**	**632**	**997**	**9,576**	**1,574**	**—**	**13,577**
Loans and advances to banks	**614,640**	**—**	**1,500**	**100,000**	**—**	**—**	**716,140**
Loans and advances to customers	**290,047**	**12,695**	**46,303**	**310,550**	**2,424,248**	**—**	**3,083,843**
Financial investments	**15,824**	**18,076**	**97,082**	**1,184,784**	**50**	**41**	**1,315,857**
Other assets	**26,796**	**—**	**—**	**—**	**—**	**1,760**	**28,556**
Total assets	**2,281,816**	**192,344**	**278,569**	**1,604,910**	**2,425,872**	**59,528**	**6,843,039**
Liabilities							
Deposits by banks	**5,117**	**—**	**—**	**—**	**—**	**—**	**5,117**
Customer accounts	**5,733,149**	**168,836**	**222,687**	**47,597**	**—**	**—**	**6,172,269**
Items in course of transmission to other banks	**18,359**	**—**	**—**	**—**	**—**	**—**	**18,359**
Derivatives	**737**	**564**	**929**	**1,960**	**1,558**	**—**	**5,748**
Borrowings from a group undertaking	**—**	**—**	**—**	**30,000**	**60,000**	**—**	**90,000**
Subordinated liabilities	**—**	**—**	**—**	**—**	**65,000**	**—**	**65,000**
Other liabilities	**7,780**	**948**	**2,375**	**1,295**	**845**	**—**	**13,243**
Total liabilities	**5,765,142**	**170,348**	**225,991**	**80,852**	**127,403**	**—**	**6,369,736**
Liquidity gap	**(3,483,326)**	**21,996**	**52,578**	**1,524,058**	**2,298,469**		
Cumulative liquidity gap	**(3,483,326)**	**(3,461,330)**	**(3,408,752)**	**(1,884,694)**	**413,775**		
	At 31 Dec 2022						
Assets							
Cash	29,500	—	—	—	—	—	29,500
Balances with Central Bank of Malta and Treasury Bills	1,452,279	22,765	19,437	—	—	59,367	1,553,848
Items in the course of collection from other banks	6,921	—	—	—	—	—	6,921
Derivatives	982	920	1,232	20,162	2,449	—	25,745
Loans and advances to banks	548,524	10,564	67,129	100,000	—	—	726,217
Loans and advances to customers	283,203	7,479	25,984	359,203	2,499,298	—	3,175,167
Financial investments	9,226	78,980	129,492	761,219	25,816	35	1,004,768
Other assets	26,140	—	—	—	—	1,513	27,653
Total assets	2,356,775	120,708	243,274	1,240,584	2,527,563	60,915	6,549,819
Liabilities							
Deposits by banks	2,861	—	—	—	—	—	2,861
Customer accounts	5,580,808	131,912	242,138	55,534	—	—	6,010,392
Items in course of transmission to other banks	27,397	—	—	—	—	—	27,397
Derivatives	925	865	1,164	4,854	2,444	—	10,252
Borrowings from a group undertaking	—	—	—	—	60,000	—	60,000
Subordinated liabilities	—	—	—	—	62,000	—	62,000
Other liabilities	6,908	355	1,171	1,291	920	—	10,645
Total liabilities	5,618,899	133,132	244,473	61,679	125,364	—	6,183,547
Liquidity gap	(3,262,124)	(12,424)	(1,199)	1,178,905	2,402,199		
Cumulative liquidity gap	(3,262,124)	(3,274,548)	(3,275,747)	(2,096,842)	305,357		

At 31 December 2023, current accounts and savings deposits payable on demand or at short notice amounted to €5,408 million at 31 December 2023 (2022: €5,316 million). This amount is disclosed within the 'Not more than three months' maturity grouping. However, in practice these deposits are maintained with the bank for longer periods. Hence, the effective behavioural date of repayment is later than the contractual date. This amount represents a significant part of the bank's funding. The bank places considerable importance on maintaining the stability of these deposits.

Overdraft and credit card balances included within 'Loans and advances to customers' amounted to €227 million at 31 December 2023 (2022: €200 million). This amount is also disclosed within the 'Not more than three months' maturity grouping.

v Cash flows payable by the bank under financial liabilities by remaining maturities

The following is an analysis by relevant maturity groupings of undiscounted cash flows payable under the principal non-derivative financial liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Ltd) by remaining contractual maturities at the reporting date. Information relating to HSBC Life insurance business is disclosed in Note 4(f)(iv):

Cash flows payable under non-derivative financial liabilities

	Bank					
	At 31 Dec 2023					
	Due within 3 months €000	Due between 3 and 12 months €000	Due between 1 and 5 years €000	Due after 5 years €000	Gross nominal outflow €000	Carrying amount €000
Financial liabilities						
Deposits by banks	**5,117**	**—**	**—**	**—**	**5,117**	**5,117**
Customer accounts	**5,736,402**	**395,918**	**48,232**	**—**	**6,180,552**	**6,172,269**
Borrowings from a group undertaking	**1,157**	**3,471**	**44,203**	**69,184**	**118,015**	**90,000**
Subordinated liabilities	**1,028**	**3,085**	**81,453**	**20,566**	**106,132**	**65,000**
Other liabilities	**7,780**	**3,323**	**1,295**	**845**	**13,243**	**13,243**
	5,751,484	**405,797**	**175,183**	**90,595**	**6,423,059**	**6,345,629**
Commitments and contingent liabilities	**1,039,104**	**—**	**—**	**—**	**1,039,104**	**1,039,104**
	At 31 Dec 2022					
Financial liabilities						
Deposits by banks	2,861	—	—	—	2,861	2,861
Customer accounts	5,581,337	374,463	57,345	—	6,013,145	6,010,392
Borrowings from a group undertaking	488	1,463	7,802	67,802	77,555	60,000
Subordinated liabilities	637	1,912	10,198	64,549	77,296	62,000
Other liabilities	6,908	1,526	1,291	920	10,645	10,645
	5,592,231	379,364	76,636	133,271	6,181,502	6,145,898
Commitments and contingent liabilities	1,024,570	—	—	—	1,024,570	1,024,570

The balances in the above table do not agree with the balances in the 'Statements of financial position' as the table incorporates all cash flows, on an undiscounted basis, related to principal as well as those associated with all future interest payments.

The following is an analysis by relevant maturity groupings of undiscounted cash flows relating to the bank's derivative financial instruments by remaining contractual maturities at the reporting date:

Contracted undiscounted cash flows

	Bank				
	At 31 Dec 2023				
	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 year and 5 years €000	Over 5 years €000	Total €000
Inflows	**86,327**	**166,299**	**92,994**	**25**	**345,645**
Outflows	**(84,490)**	**(161,496)**	**(79,842)**	**(25)**	**(325,853)**
	1,837	**4,803**	**13,152**	**—**	**19,792**
	At 31 Dec 2022				
Inflows	70,051	142,061	117,931	128	330,171
Outflows	(69,828)	(140,854)	(113,337)	(128)	(324,147)
	223	1,207	4,594	—	6,024

(d) Encumbered and unencumbered assets

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

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

Encumbered and unencumbered assets

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Total assets at 31 Dec	**7,660,919**	7,336,646	**6,986,350**	6,689,880
Less:				
Debt securities pledged in terms of the Depositor Compensation Scheme	**13,262**	11,105	**13,262**	11,105
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,760**	1,513	**1,760**	1,513
Less:				
Other assets that cannot be pledged as collateral	**838,432**	901,774	**172,199**	182,188
Assets available to support funding and collateral needs at 31 Dec	**6,807,465**	6,422,254	**6,799,129**	6,495,074

Out of the €6,808,000,000 (2022: €6,422,000,000) assets available for the local group and €6,799,000,000 (2022: €6,495,000,000) for the bank, €3,873,000,000 (2022: €3,975,000,000) do not form part of the local group's and the bank's HQLA and are therefore not categorised as liquid assets. Debt securities and loans and advances to customers pledged against the provision of credit lines by the Central Bank of Malta amounting to €93,113,000 and €109,665,000 respectively (2022: €82,760,000 and €100,615,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

The total Irrevocable Payment Commitments ('IPC') made during the financial year ended 31 December 2023 amounted to €247,000 (2022: €241,000).

The debt securities pledged in terms of the Depositor Compensation Scheme increased by €2,157,000 during the financial year ended 31 December 2023. During the financial year ended 31 December 2022, there was a reduction in the debt securities pledged amounting to €8,916,000. This reduction is attributable to a revision in the calculation in line with legal notice Depositor Compensation Scheme (Amendment No.2) 262 of 2022.

(e) Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and market prices will impact the local group's income or the value of its portfolios. Exposure to market risk arises from positions that primarily emanate from the interest rate management of the local group's retail and commercial banking assets and liabilities and financial investments measured at FVOCI and financial investments measured at amortised cost.

Similar to the case with liquidity risk, this section presents information about the bank's exposure to market risk, together with its objectives, policies and processes for measuring and managing this risk, excluding risks arising from financial instruments relating to the bank's subsidiaries.

The risks arising from financial instruments relating to the insurance subsidiary company are disclosed in Note 4(f) of these financial statements, whereas the risks arising from financial instruments relating to the asset management subsidiary company are deemed to be insignificant.

The objective of the bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the bank's status as a premier provider of financial products and services.

Market risk is managed and controlled through limits approved by HSBC Holdings plc and the global businesses. These limits are allocated across business segments and agreed with the HSBC Group's legal entities. The management of market risk is principally undertaken using risk limits allocated from the risk appetite. Limits are set for portfolios, products and risk types, with market liquidity being a principal factor in determining the level of limits set. The bank has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with policies, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Each line of business is requested to assess the market risks which arise on each product in the business and, where there is a risk that can be hedged in the markets, this is transferred to the local Global Markets for management. Where market risk is identified but there is no viable hedge in the market, then the risk is managed under the local ALCO.

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

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

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

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

i Monitoring and limiting market risk exposure

The bank uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ('VaR'), and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices, such as the impact of a one basis point change in yield. The bank uses sensitivity measures to monitor the market risk positions within each risk type, for example, the present value of a basis point movement in interest rates for interest rate risk. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk ('VaR')

VaR is a technique that estimates the potential losses on risk positions in a portfolio as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management.

The VaR model used by the bank is based predominantly on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The historical simulation models used incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99% confidence level and use a one-day holding period.

The nature of VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions. The bank routinely validates the accuracy of the VaR models by back-testing the hypothetical daily results.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The bank recognises these limitations and thus resorts to the use of other tools.

VaR for the bank

	2023	2022
	€000	€000
At 31 Dec	**1,453**	1,215
Average	**1,873**	978
Minimum	**1,002**	649
Maximum	**2,576**	1,827

The bank also performs a sensitivity of capital and reserves to movements in market interest rates through the use of a hold-to-collect-and-sell stressed VaR, which is a quantification of the potential losses to a 99% confidence level of the portfolio of high-quality liquid assets held under a hold-to-collect-and-sell business model and classified within 'Financial investments'. The mark-to-market of this portfolio therefore has an impact on the bank's capital ratio. Stressed VaR is quantified based on the worst losses over a one-year period, assuming a holding period of 60 days. During the financial year ended 2023 started calculating stressed VaR on the hold-to-collect financial investments. At 31 December 2023, the stressed VaR of the hold-to-collect-and sell and hold-to-collect portfolio was €17,200,000 (2022: €14,600,000) and €113,000,000 respectively.

Stress testing

Stress testing is an important tool that is integrated into the bank's market risk management to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling. A standard set of scenarios is utilised consistently across the HSBC Group, which are however tailored in order to capture the relevant events or market movements happening locally. The risk appetite around potential stress losses is set and monitored against referral limits.

ii Interest rate risk

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by the bank's non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or in order to hedge positions held with trading intent. The bank's ALCO is responsible for oversight over the bank's interest rate risk management process and actively uses a net interest income sensitivity to monitor and control interest rate risk in the banking book.

During the financial year ended 31 December 2022, the bank entered into interest rate swap derivative contracts to protect against changes in the fair value of fixed-rate long-term debt instruments due to movements in market interest rates. These contracts, which where maintained throughout the financial year ended 31 December 2023, qualify as fair value hedges for accounting purposes, with all changes in the fair value of the hedge accounting derivative (the 'hedging instrument') and in the fair value of the item in relation to the risk being hedged (the 'hedged item') being recognised in the income statement.

Sensitivity of net interest income

A principal element of the bank's management of interest rate risk is monitoring the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The bank applies a combination of scenarios and assumptions which are used throughout the HSBC Group.

Projected net interest income sensitivity figures represent the effect of the pro forma movements in net interest income based on the projected yield curve scenarios and the current interest rate risk profile. This effect, however, does not incorporate actions which would probably be taken by the bank to mitigate the effect of interest rate risk. In reality, the bank actively seeks to change the interest rate risk profile to minimise losses and optimise net revenues.

The net interest income sensitivity calculations shown in the table below assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario and 'down-shock' scenario subject to an established response strategy set by the bank. The net interest income sensitivity calculations take account of the effect on net interest income of anticipated differences in changes between interbank interest rates and interest rates over which the bank has discretion in terms of the timing and extent of rate changes.

The table below sets out the impact on future one year net income of an incremental 100 basis points parallel fall or rise in the yield curves, based on current financial position/risk profiles and current managed interest rate policy. These profiles and policies were reviewed by business heads and approved by ALCO.

Impact on future one year net income

	Bank	
	Impact on future one year net income	Impact on future one year net income
	2023	2022
	€000	€000
+ 100 basis points	**26,077**	32,596
- 100 basis points	**(24,499)**	(35,621)

Sensitivity of capital and reserves

The bank holds a portfolio of high-quality liquid assets held under a hold-to-collect-and-sell business model. The portfolio, together with any associated derivatives in designated hedge accounting relationships, is accounted for at fair value through other comprehensive income and has an impact on the bank's capital base. The bank manages the risk attributable to this portfolio with a variety of tools, including risk sensitivities and value at risk measures.

The below table measures the sensitivity of the value of this portfolio to an instantaneous 100 basis point increase in interest rates.

Sensitivity of Hold-to-Collect & Sell reserves to interest rate movements

	Bank	
	Impact on reserves	Impact on reserves
	2023	2022
	€000	€000
+100 basis point parallel move in all yield curves	**(2,404)**	(2,990)
As a percentage of total shareholders' equity (%)	**(0.46)**	(0.65)

The figures in the table above do not take into account the effects of interest rate convexity. The portfolio is mostly comprised of vanilla sovereign bonds and the primary risk is interest rate duration risk, although the portfolio also generates asset swap, credit spread and asset spread risks that are managed within appetite as part of the bank's risk management framework. A -100bp shock would lead to an approximately symmetrical gain.

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Ltd) are next reset to market rates on a contractual basis or, if earlier, the dates on which the instruments mature as at 31 December. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour of financial assets and liabilities.

	Bank					
	At 31 Dec 2023					
	Not more than 3 months €000	**Between 3 and 6 months €000**	**Between 6 months and 1 year €000**	**Between 1 year and 5 years €000**	**More than 5 years €000**	**Total €000**
Assets						
Balances with Central bank of Malta and Treasury Bills	**1,291,702**	**160,941**	**132,687**	**—**	**—**	**1,585,330**
Loans and advances to banks	**614,640**	**—**	**1,500**	**100,000**	**—**	**716,140**
Loans and advances to customers	**2,814,661**	**—**	**—**	**269,182**	**—**	**3,083,843**
Financial investments	**363,754**	**505,161**	**446,901**	**—**	**—**	**1,315,816**
Total assets	**5,084,757**	**666,102**	**581,088**	**369,182**	**—**	**6,701,129**
Liabilities						
Deposits by banks	**5,117**	**—**	**—**	**—**	**—**	**5,117**
Customer accounts	**5,733,149**	**168,836**	**222,687**	**47,597**	**—**	**6,172,269**
Borrowings from a group undertaking	**90,000**	**—**	**—**	**—**	**—**	**90,000**
Subordinated liabilities	**65,000**	**—**	**—**	**—**	**—**	**65,000**
Total liabilities	**5,893,266**	**168,836**	**222,687**	**47,597**	**—**	**6,332,386**
Interest rate sensitivity gap	**(808,509)**	**497,266**	**358,401**	**321,585**	**—**	
Cumulative interest rate sensitivity gap	**(808,509)**	**(311,243)**	**47,158**	**368,743**	**368,743**	
	At 31 Dec 2022					
Assets						
Balances with Central bank of Malta and Treasury Bills	1,452,279	22,765	19,437	—	—	1,494,481
Loans and advances to banks	698,525	10,564	17,128	—	—	726,217
Loans and advances to customers	2,795,616	48,961	103,703	226,887	—	3,175,167
Financial Investments	14,196	78,980	125,478	760,263	25,816	1,004,733
Total assets	4,960,616	161,270	265,746	987,150	25,816	6,400,598
Liabilities						
Deposits by banks	2,861	—	—	—	—	2,861
Customer accounts	5,580,808	131,912	242,138	55,534	—	6,010,392
Borrowings from a group undertaking	60,000	—	—	—	—	60,000
Subordinated liabilities	62,000	—	—	—	—	62,000
Total liabilities	5,705,669	131,912	242,138	55,534	—	6,135,253
Interest rate sensitivity gap	(745,053)	29,358	23,608	931,616	25,816	
Cumulative interest rate sensitivity gap	(745,053)	(715,695)	(692,087)	239,529	265,345	

Balances with Central Bank of Malta included in above tables relate to balances subject to interest rate risk.

A positive interest rate sensitivity gap exists where more assets than liabilities re-price during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within re-pricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

iii Foreign exchange risk

Foreign exchange risk arises principally from the local group's exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below shows an analysis of financial assets and liabilities (excluding financial instruments relating to HSBC Life Assurance (Malta) Ltd) between balances denominated in euro and those denominated in other currencies. Information relating to HSBC Life insurance business is disclosed in Note 4(f)(ii).

	Bank				
	2023				
	Reporting currency	In USD	In GBP	Other currencies	Total
	€000	€000	€000	€000	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**1,675,387**	**508**	**439**	**305**	**1,676,639**
Items in the course of collection from other banks	**8,419**	**6**	**2**	**—**	**8,427**
Derivatives	**10,032**	**3,488**	**7**	**50**	**13,577**
Loans and advances to banks	**206,554**	**386,233**	**97,621**	**25,732**	**716,140**
Loans and advances to customers	**3,050,753**	**32,768**	**322**	**—**	**3,083,843**
Financial investments	**1,298,146**	**5,706**	**10,772**	**1,233**	**1,315,857**
Other assets	**27,996**	**470**	**69**	**21**	**28,556**
Total assets	**6,277,287**	**429,179**	**109,232**	**27,341**	**6,843,039**
Liabilities					
Deposits by banks	**5,066**	**—**	**—**	**51**	**5,117**
Customer accounts	**5,611,988**	**424,656**	**108,763**	**26,862**	**6,172,269**
Items in the course of transmission to other banks	**18,359**	**—**	**—**	**—**	**18,359**
Derivatives	**2,539**	**3,160**	**3**	**46**	**5,748**
Borrowings from a group undertaking	**90,000**	**—**	**—**	**—**	**90,000**
Subordinated liabilities	**65,000**	**—**	**—**	**—**	**65,000**
Other liabilities	**11,260**	**1,089**	**885**	**9**	**13,243**
Total liabilities	**5,804,212**	**428,905**	**109,651**	**26,968**	**6,369,736**
Net open position	**473,075**	**274**	**(419)**	**373**	
	2022				
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	1,581,906	545	455	442	1,583,348
Items in the course of collection from other banks	6,902	5	14	—	6,921
Derivatives	19,493	6,252	—	—	25,745
Loans and advances to banks	241,726	302,840	107,469	74,182	726,217
Loans and advances to customers	3,136,510	38,528	129	—	3,175,167
Financial investments	958,302	17,455	21,156	7,855	1,004,768
Other assets	24,930	2,578	68	77	27,653
Total assets	5,969,769	368,203	129,291	82,556	6,549,819
Liabilities					
Deposits by banks	2,392	—	—	469	2,861
Customer accounts	5,438,715	355,354	129,790	86,533	6,010,392
Items in the course of transmission to other banks	27,397	—	—	—	27,397
Derivatives	4,382	5,870	—	—	10,252
Borrowings from a group undertaking	60,000	—	—	—	60,000
Subordinated liabilities	62,000	—	—	—	62,000
Other liabilities	7,913	2,075	647	10	10,645
Total liabilities	5,602,799	363,299	130,437	87,012	6,183,547
Net open position	366,970	4,904	(1,146)	(4,456)	

All derivatives are transacted primarily to create risk management solutions for clients and to manage and hedge own risks. All trading derivatives positions entered into with clients are covered by back-to-back derivative transactions with HSBC Group entities. Accordingly, the local group or bank does not use currency derivatives to close open currency positions.

The bank essentially manages this risk by matching asset and liability positions in each respective foreign currency, as much as is practicable. The bank maintains exposures to foreign currencies within prescribed limits. The bank's ALCO is responsible for oversight over the foreign currency risk management process, whereby overnight and intra-day net positions are monitored.

(f) Insurance risk

The local group operates an integrated bank assurance model which provides wealth and protection insurance products principally for customers with whom the local group has a banking relationship. Insurance products are sold predominantly by WPB. The local group also holds a portfolio of unit-linked investment products and non-linked insurance products that were transferred from HSBC Life (Europe) Limited during 2014.

The majority of the risk in the local group's insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk other than financial risk, of loss transferred from the holder of the insurance contract to the issuer, the insurance subsidiary company.

The risks under any insurance contract are the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the insurance subsidiary faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur when the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year and from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. The insurance subsidiary company uses reinsurance appropriately to reduce variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. The participating nature of contracts with Discretionary Participation Feature ('DPF'), results in a significant portion of the insurance risk being shared with the insured party.

Financial risk

The local group's insurance subsidiary company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance contract assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts, this can be driven by changes in the market value of assets or through changes to expectations on future yields impacting the value of liabilities. The main components of financial risk are market risk, credit risk and liquidity risk. Financial risk has been heightened in recent years through the period of market volatility that has been brought about by Central Banks' policies to control inflation.

For unit-linked insurance and investment contracts, the insurance subsidiary company matches all the liabilities on which the unit prices are based with assets in the unit-linked portfolios. There is therefore no direct equity price, currency, credit or interest risk exposure for these contracts which is borne by the local group. The insurance subsidiary company is however exposed indirectly for unit-linked insurance and investment contracts as changes in unit price will have an impact on the expected management charges the local group is expecting to receive, and therefore on CSM or profit after for any onerous groups of contracts.

i General nature of participation feature and unit-linked contracts

The local group offers savings with-profit policies which participate in the investment returns of the with-profit funds. The local group aims to pay out 90% of the eligible investment return to policyholders by way of bonuses before any deductions for withholding tax. Policyholders receive regular (revisionary) bonus, and a regular bonus rate is declared yearly in advance. This rate may be reviewed upwards during the course of the year based on the performance of the fund. This provides a progressive build-up of guaranteed benefits over the lifetime of the policy. Regular bonuses are set by the Board of the insurance subsidiary on the recommendation of the approved actuary. The local group is exposed to adverse market conditions which could lead to the value of assets backing the liabilities to fall below the guaranteed benefit at policy maturity, which could lead to a potential loss to the shareholders.

ii Market risk

Interest rate risk

The insurance subsidiary's exposure to interest rate changes is concentrated in its non-linked investment portfolio. Changes in investment values attributable to interest rate changes are mitigated by partially offsetting changes in the economic value of insurance provisions. The local group monitors this exposure through periodic reviews of its asset and liability positions. Estimates of future cash flows, as well as the impact of interest rate fluctuations on its investment portfolio and insurance liabilities, are modelled and reviewed quarterly. The local group minimises interest rate risks primarily by matching estimated future cash outflows to be paid to policyholders by expected cash flows from assets. The pool of investments backing liabilities is managed to duration targets that aim to make the net effect of interest rate changes on assets and liabilities manageable.

Exchange risk

The insurance subsidiary company is exposed to currency risk on its investment portfolio and to 10% of the investments backing contracts with DPF and to the life insurance portfolio. The net exposure amounts to €6,065,000 (2022: €5,863,000) and a sensitivity analysis is not deemed necessary on the basis of the insignificance of the resultant exposure.

Equity price risk

The insurance subsidiary company manages the equity risk arising from its holdings of equity securities by setting limits on the maximum market value of equities that it may hold. Equity risk is also monitored by estimating the effect of predetermined movements in equity prices on the profit and total net assets of the insurance underwriting business.

Sensitivity analysis

The following table illustrates the effects of selected interest rate and equity price scenarios on profit for the year and total equity.
Due in part to the impact of the cost of guarantees and also due to CSM and onerous groups, the relationship between the profit and total equity and the risk factors is non-linear. Therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not necessarily symmetrical on the upside and downside.

Sensitivity to market risk factors

	2023		
	Effect on profit after tax	**Effect on CSM**	**Effect on total equity**
	€000	**€000**	**€000**
+100 basis points shift in yield curves			
– Insurance and Reinsurance Contracts	**3,003**	**(411)**	**3,003**
– Financial Instruments	**(2,984)**	**–**	**(2,984)**
-100 basis points shift in yield curves			
– Insurance and Reinsurance Contracts	**(4,610)**	**446**	**(4,610)**
– Financial Instruments	**3,348**	**–**	**3,348**
10% increase in equity prices			
– Insurance and Reinsurance Contracts	**356**	**646**	**356**
10% decrease in equity prices			
– Insurance and Reinsurance Contracts	**(694)**	**(127)**	**(694)**

Sensitivity to market risk factors (continued)

	2022		
	Effect on profit after tax	Effect on CSM	Effect on total equity
	€000	€000	€000
+100 basis points shift in yield curves			
– Insurance and Reinsurance Contracts	3,271	(216)	3,271
– Financial Instruments	(2,359)	—	(2,359)
-100 basis points shift in yield curves			
– Insurance and Reinsurance Contracts	(4,404)	256	(4,404)
– Financial Instruments	2,601	—	2,601
10% increase in equity prices			
– Insurance and Reinsurance Contracts	408	361	408
10% decrease in equity prices			
– Insurance and Reinsurance Contracts	(407)	(363)	(407)

No sensitivities were provided on foreign exchange risk as not considered to be material.

iii Credit risk

The main areas where the insurance subsidiary company is exposed to credit risk are:

- reinsurance contract assets;
- investment portfolios of debt securities (within Financial investment); and
- cash and cash equivalents.

Investments in bonds are made within the credit limits permitted within the investment credit risk mandate conferred by HSBC Group. The insurance subsidiary company structures the levels of credit risk it accepts by placing limits on its exposure to investment grade single counterparty, or groups of counterparties, and to geographical and industry segments. Investment credit exposures positions are reviewed on a quarterly basis by the insurance subsidiary company's Asset Liability Committee.

Reinsurance is used to manage insurance risk and non-performance risk is considered when measuring the fulfilment cashflows. The selection of reinsurers also includes restrictions designed to minimise the risk of credit exposure.

The insurance subsidiary company currently manages the majority of reinsurance risk by using reinsurers with a minimum rating of AA+. The creditworthiness of reinsurers is confirmed from public rating information and considered as a part of any tender activity prior to finalisation of any contract for new business. The reinsurance contract asset balance in the statement of financial position represents the maximum exposure to credit risk at the end of the reporting period.

Other assets amount to €2,397,000 (2022: €2,344,000), and it includes accrued interest amounting to €2,508,000 (2022: €2,418,000) which would follow a similar rating profile to debt securities below.

Cash and cash equivalents held with third party banks amount to €22,000 (2022: €2,772,000). Of this amount there was no balance (2022: €531,000) held with counterparties that are rated BBB and above. The other third party bank balance €22,000 (2022: €2,241,000) is held with an unrated local bank of good standing. In line with IFRS 9, the insurance subsidiary company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2023 and 2022 cash deposits were held with reputable counterparties and were due on demand. Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the local group.

The following table presents the analysis of debt securities within the insurance business by rating agency (Standard and Poor's Rating Agency):

	Debt securities – Unit linked		Debt securities – Others		Total	
	2023	2022	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000	**€000**	€000
AAA	**—**	—	**1,884**	5,633	**1,884**	5,633
AA+ to AA-	**—**	—	**34,705**	30,791	**34,705**	30,791
A+ to A-	**—**	457	**138,101**	131,237	**138,101**	131,694
BBB+ to BBB-	**—**	734	**43,595**	44,433	**43,595**	45,167
BB+ to B-	**—**	240	**—**	—	**—**	240
Unrated	**—**	1,841	**14,079**	15,699	**14,079**	17,540
Total	**—**	3,272	**232,364**	227,793	**232,364**	231,065

The insurance subsidiary company is not exposed to credit risk in respect of unit-linked business, although the relevant credit information is disclosed.

iv Liquidity risk

Liquidity risk is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk. As part of the management of this exposure, estimates are prepared for most lines of insurance business of cash flows expected to arise from insurance funds at the reporting date.

The insurance subsidiary company actively manages its assets in such a manner as to achieve a competitive rate of return within the prevailing risk objectives delineated by asset liquidity, credit quality and asset-liability matching. The insurance subsidiary company's Asset Liability Committee reviews and approves investment strategies on a periodic basis, ensuring that assets are managed efficiently within approved risk mandates.

The following table shows the contractual maturity of financial assets as at the reporting date.

Contractual maturities of financial assets

	At 31 Dec 2023							
	No fixed maturity	less than 1 year	1 -2 years	2 -3 years	3 - 4 years	4 - 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Financial assets mandatorily measured at fair value through profit or loss	**460,660**	**29.353**	**12,531**	**18,302**	**19,515**	**15.957**	**136,706**	**693,024**
Reinsurance contract assets	**2,557**	**—**	**—**	**—**	**—**	**—**	**—**	**2,557**
Cash	**4,443**	**—**	**—**	**—**	**—**	**—**	**—**	**4,443**
	467,660	**29.353**	**12,531**	**18,302**	**19,515**	**15.957**	**136,706**	**700,024**
	At 31 Dec 2022							
Financial assets mandatorily measured at fair value through profit or loss	429,354	18.604	35,469	18,420	21,697	27,547	109,355	660,446
Reinsurance contract assets	2,959	—	—	—	—	—	—	2,959
Cash	6,290	—	—	—	—	—	—	6,290
	438,603	18.604	35,469	18,420	21,697	27,547	109,355	669,695

The following table shows the cash flows expected to arise pertaining to insurance and investment liabilities, including reinsurance contracts, as at the reporting date.

Cash flows of insurance and investment liabilities

	At 31 Dec 2023							
	On demand	less than 1 year	1 -2 years	2 -3 years	3 - 4 years	4 - 5 years	Due after 5 years	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Liabilities to customers:								
Life direct participating and investment DPF contracts	**3,760**	**7,459**	**3,104**	**4,141**	**27,874**	**22,425**	**383,085**	**451,848**
Life contracts other	**—**	**(3,552)**	**(6,562)**	**(5,975)**	**(5,536)**	**(5,006)**	**19,312**	**(7,319)**
Reinsurance liabilities	**—**	**170**	**1,402**	**1,448**	**1,397**	**1,376**	**22,384**	**28,177**
Investment contracts	**98,433**	**5,057**	**5,011**	**4,693**	**4,531**	**6,166**	**30,809**	**154,700**
	102,193	**9,134**	**2,955**	**4,307**	**28,266**	**24,961**	**455,590**	**627,406**
	At 31 Dec 2022							
Liabilities to customers:								
Life direct participating and investment DPF contracts	—	539	6,682	1,317	2,963	27,893	396,828	436,222
Life contracts other	—	(4,095)	(6,076)	(5,325)	(4,804)	(4,499)	19,340	(5,459)
Reinsurance liabilities	—	827	780	811	817	786	11,934	15,955
Investment contracts	104,754	948	3,105	3,142	3,207	3,284	43,683	162,123
	104,754	(1,781)	4,491	(55)	2,183	27,464	471,785	608,841

Note 10 contains further disclosures pertaining to insurance and reinsurance contracts.

The methodology used for estimating cash outflows on liabilities to customers can be found below:

- Life direct participating and investment DPF contracts: derived via discounted unit and non-unit liabilities. All future premia are considered, and provisions based on all expected decrements. The timing of cash flows is based on the expected run-off of the liabilities.
- Life contracts other: derived via discounted non-unit liabilities. All future premia are considered, and provisions based on all expected decrements. The timing of cash flows is based on the expected run-off of the reserves.
- Re-insurance contracts: derived via discounted re-insurance liabilities. All future reinsurance premia are considered, and provisions based on all expected re-insurance recoveries. The timing of cash flows is based on the expected run-off of the re-insurance liabilities.
- Investment contracts: derived via undiscounted cash flows but only considering contractual maturities and no other form of decrement. When there is no contractual maturity, the reserve is placed within the 'on demand' bucket.

v Insurance underwriting risk

Description and exposure

Insurance underwriting risk is the risk of loss through adverse experience in either timing or amount of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapse and expense rates.

The principal risk faced by the local group is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received.

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2022.

Sensitivities

The following table shows the sensitivity of profit and total equity to reasonably possible changes in non-economic assumptions. Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on profit due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits.

	Effect on CSM (gross)[1]	Effect on profit after tax (gross)[1]	Effect on profit after tax (net)[2]	Effect on total equity (gross)[1]	Effect on total equity (net)[2]
At 31 Dec 2023	**€000**	**€000**	**€000**	**€000**	**€000**
10% increase in mortality and/or morbidity rates	**(6,922)**	**179**	**(105)**	**179**	**(105)**
10% decrease in mortality and/or morbidity rates	**7,032**	**(196)**	**108**	**(196)**	**108**
10% increase in lapse rates	**(64)**	**(527)**	**(597)**	**(527)**	**(597)**
10% decrease in lapse rates	**309**	**397**	**479**	**397**	**479**
10% increase in expense rates	**(1,714)**	**(252)**	**(253)**	**(252)**	**(253)**
10% decrease in expense rates	**1,708**	**255**	**255**	**255**	**255**
At 31 Dec 2022	€000	€000	€000	€000	€000
10% increase in mortality and/or morbidity rates	(7,166)	88	(110)	88	(110)
10% decrease in mortality and/or morbidity rates	7,274	(97)	111	(97)	111
10% increase in lapse rates	554	(636)	(664)	(636)	(664)
10% decrease in lapse rates	(653)	684	715	684	715
10% increase in expense rates	(1,452)	(248)	(248)	(248)	(248)
10% decrease in expense rates	1,451	249	249	249	249

1 *The 'gross' sensitivities impacts are provided before considering the impacts of reinsurance contracts held as risk mitigation.*
2 *The 'net' sensitivities impacts are provided after considering the impacts of reinsurance contracts held as risk mitigation.*

5 Fair value of financial and non-financial instruments

i Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes there is a difference between the transaction price and the fair value of the financial asset where fair value will be based on a quoted price in an active market (such as other observable current market transactions in the same instrument, without modification or repackaging), or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the local group recognises a trading gain or loss on day one, being the difference between the transaction price and the fair value. In all other cases (such as when significant unobservable parameters are used), the entire day one gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the local group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the local group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the local group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria as described in Note 3(c).

ii Control framework

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

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

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

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

iii Fair value hierarchy

Fair values are determined according to the following hierarchy:

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

iv Critical estimates and judgements

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell.

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes is considered. In addition, the value of some products are dependent on more than one market factor, and in these cases it is typically necessary to consider how movements in one market factor may affect the other market factors.

The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations, prepayment rates and default rates.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or more than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

v Disclosures in respect of fair values of financial instruments carried at fair value

The following table sets out the financial instruments by fair value hierarchy other than assets and liabilities attributable to the insurance business within the scope of IFRS 17:

Financial instruments by fair value

	Group			
	At 31 Dec 2023			
	Valuation techniques			
	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets				
Treasury Bills	**273,131**	**112,449**	**—**	**385,580**
Derivatives	**—**	**13,577**	**—**	**13,577**
Financial assets mandatorily measured at fair value through profit or loss	**684,821**	**—**	**8,203**	**693,024**
Financial investments measured at fair value through other comprehensive income	**456,930**	**—**	**43**	**456,973**
	1,414,882	**126,026**	**8,246**	**1,549,154**
Liabilities				
Derivatives	**—**	**5,748**	**—**	**5,748**
Liabilities under investment contracts	**156,958**	**—**	**—**	**156,958**
	156,958	**5,748**	**—**	**162,706**
	At 31 Dec 2022			
Assets				
Treasury Bills	—	242,292	—	242,292
Derivatives	—	25,745	—	25,745
Financial assets mandatorily measured at fair value through profit or loss	652,466	—	7,980	660,446
Financial investments measured at fair value through other comprehensive income	637,709	—	37	637,746
	1,290,175	268,037	8,017	1,566,229
Liabilities				
Derivatives	—	10,252	—	10,252
Liabilities under investment contracts	162,123	—	—	162,123
	162,123	10,252	—	172,375

	Bank			
	At 31 Dec 2023			
Assets				
Treasury Bills	**273,131**	**112,449**	**—**	**385,580**
Derivatives	**—**	**13,577**	**—**	**13,577**
Financial investments measured at fair value through other comprehensive income	**456,930**	**—**	**41**	**456,971**
	730,061	**126,026**	**41**	**856,128**
Liabilities				
Derivatives	**—**	**5,748**	**—**	**5,748**
	—	**5,748**	**—**	**5,748**
	At 31 Dec 2022			
Assets				
Treasury Bills	—	242,292	—	242,292
Derivatives	—	25,745	—	25,745
Financial investments measured at fair value through other comprehensive income	637,709	—	35	637,744
	637,709	268,037	35	905,781
Liabilities				
Derivatives	—	10,252	—	10,252
	—	10,252	—	10,252

The local group's and bank's assets categorised within Level 2 comprise Treasury Bills issued by the Government of Malta and financial assets mandatorily measured at fair value comprising debt securities, equity investments and units in collective investment schemes which are traded in inactive markets, with fair value determined on the basis of quoted prices in such inactive markets.

The local group's and bank's derivative instruments are categorised as Level 2, since they are fair valued principally using discounted cash flow models where all significant inputs are observable, such as exchange rates and interest rate yield curves.

As at 31 December 2023, financial assets mandatorily measured at fair value through profit or loss categorised in Level 3 comprise investments in UK Property Fund, European Property Fund and Mid-Market Debt Fund valued at €1,285,000, €3,667,000 (2022: €4,077,000) and €3,251,000 (2022: €3,903,000) respectively.

The UK Property Fund invests in a diversified range of property throughout the UK, principally but not exclusively in the retail, office and industrial/warehouse sectors. The European Property Fund invests in a diversified portfolio of European commercial and residential property and seeks opportunities to add value to the fund, whereas the European Mid-Market Debt Fund consists of predominantly senior debt to European mid-market companies concentrating on primary market transactions, within Western Europe, focusing on the largest economies.

The investment in the UK Property Fund was transferred from Level 1 to Level 3 during the financial year ended 31 December 2023. While the European Property Fund was transferred from Level 2 to Level 3 during the financial year ended 31 December 2022. In view of the absence of quoted market prices or observable inputs for modelling the fair value of these assets, the fair value of the investment held is derived by reference to net asset values sourced from custodians. The net asset value of the fund as at 31 December 2023 is based on unaudited financial statements provided by the fund administrators, thereby making reference to significant unobservable inputs.

The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy:

Reconciliation of the fair value measurements in Level 3

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 Jan	**7,980**	4,610	**—**	—
Disposal/redemptions	**(693)**	(738)	**—**	—
Transfer from Level 1 to Level 3	**1,285**	—	**—**	—
Transfer from Level 2 to Level 3	**—**	4,077	**—**	—
Changes in fair value (recognised in profit or loss)	**(369)**	31	**—**	—
At 31 Dec	**8,203**	7,980	**—**	—

The financial assets mandatorily measured at fair value through profit or loss are principally attributable to insurance operations and those categorised within Level 3 mainly comprise holdings of units in collective investment schemes. These holdings consist of shares in alternative funds which are unlisted and have illiquid price sources. In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians, which is not necessarily supported by audited financial statements.

In view of the insignificance of the Level 3 assets in the context of the local group's total assets, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant. The significant part of the fair value changes reflected in the table above is attributable to gains realised upon disposal.

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

Fair valuation of property

The local group's land and buildings classified within property, plant and equipment were revalued on 31 December 2023 by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The Directors have reviewed the carrying amounts of the properties as at 31 December 2023, on the basis of the valuations carried out by the independent property valuers.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites together with their development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

At 31 December 2023 and 2022, the carrying amounts of the local group's land and buildings classified within property, plant and equipment were adjusted to reflect the properties' estimated open market value.

The local group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); or
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The local group's land and buildings, classified within property, plant and equipment, comprise commercial branches, bank offices and other operational premises. All the recurring property fair value measurements at 31 December 2023 and 2022 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair value hierarchy.

The local group's policy is to recognise transfers into and out of fair value hierarchy levels on the date the event or change in circumstances that causes the transfer occurs. There were no transfers between different levels of the fair value hierarchy during the financial years ended 31 December 2023 and 2022.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the fair value hierarchy for owner occupied property is reflected in the tables in Note 32.

	Group/Bank	
	2023	2022
	€000	€000
Assets		
Property	**46,122**	38,092

Valuation processes

The valuations of the properties are performed regularly on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the local group which is derived from the bank's financial systems and is subject to the bank's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market-related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Financial Officer ('CFO'). This includes a review of fair value movements over the period.

At the end of every reporting period, the CFO assesses whether any significant changes or developments have been experienced since the last external valuation. This is supported by an assessment performed by the independent firm of property valuers.

Valuation techniques

The external valuations of the Level 3 property have been performed predominantly using the traditional investment method of valuation based on the capitalised rentals approach. In view of the limited market information available, the valuations have been performed using unobservable inputs. In relation to the capitalised rentals approach, the significant unobservable inputs include a capitalisation rate applied at 5.19% – 8.09% (2022: 5.25% – 6.46%), which is effectively the discount rate adjusted for anticipated growth, and the expected annual rental value ('ERV') taking into account the rental rate per square metre for comparable properties located in proximity to the local group's property with adjustments for differences in the size, age, exact location and condition of the property. Effectively, the capitalisation rate indicates the return the investor expects to receive through annual rental value.

	At 31 Dec 2023			
Description by class based on highest and best use	**Fair value €000**	**Valuation technique**	**Significant unobservable input**	**Range of unobservable inputs (weighted average) € per square metre**
Current use as commercial branches, bank offices and other related premises	**46,122**	**Capitalised rental approach**	**Rental rate per square metre**	**43 – 237 (135)**
	At 31 Dec 2022			
Current use as commercial branches, bank offices and other related premises	38,092	Capitalised rental approach	Rental rate per square metre	43 – 217 (130)

The higher the rental rate per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate, the higher the fair value. The highest and best use of the properties reflected in the tables above is equivalent to their current use.

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

Certain financial instruments are carried at amortised cost.

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

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**1,291,059**	1,341,056	**1,291,059**	1,341,056
Items in the course of collection from other banks	**8,427**	6,921	**8,427**	6,921
Loans and advance to banks	**720,583**	732,493	**716,140**	726,217
Loans and advance to customers	**3,083,843**	3,175,167	**3,083,843**	3,175,167
Financial investments measured at amortised cost	**858,886**	367,024	**858,886**	367,024
Accrued interest	**22,323**	18,134	**19,705**	15,639
Other assets	**8,955**	12,108	**8,851**	12,014
	5,994,076	5,652,903	**5,986,911**	5,644,038
Liabilities				
Deposits by banks	**5,117**	2,861	**5,117**	2,861
Customer accounts	**6,141,520**	5,970,958	**6,172,269**	6,010,392
Items in the course of transmission to other banks	**18,359**	27,397	**18,359**	27,397
Borrowings from a group undertaking	**90,000**	60,000	**90,000**	60,000
Subordinated liabilities	**65,000**	62,000	**65,000**	62,000
Accrued interest	**4,976**	1,864	**4,771**	1,677
Other liabilities	**24,039**	14,193	**8,472**	8,968
	6,349,011	6,139,273	**6,363,988**	6,173,295

As at 31 December 2023, financial instruments measured at amortised cost comprise debt instruments amounting to €858,886,000 (2022: €367,024,000). The fair value of these financial instruments as at 31 December 2023, determined by reference to quoted market prices is €854,664,000 (2022: €349,553,000).

As at 31 December 2022, financial instruments measured at amortised cost also included Treasury Bills issued by the Government of Malta amounting to €42,202,000. The fair value of these financial instruments as at 31 December 2022, determined by reference to quoted market prices is €42,186,000. As at 31 December 2023, the local group and bank did not hold Treasury Bills measured at amortised cost.

The fair value for these Treasury Bills is categorised as Level 2 given that fair value is determined on the basis of quoted prices in an inactive market. The fair value for these debt instruments is categorised as Level 1, given that the fair value is determined by reference to quoted bid market prices in active markets.

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

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

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

6 Capital Risk Management

The local group's approach to capital management is driven by strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. The local group aims to maintain a strong capital base to support the risks commensurate in its business, investing in accordance with its strategy and meeting both consolidated as well as local regulatory capital requirements at all times.

The information presented within this note reflects the prudential scope of consolidation, which excludes the insurance subsidiary and includes the bank and the asset management subsidiary. In view of the fact that the prudential requirements are predominantly managed at bank level, reference is being made to the bank throughout this note.

The capital management process culminates in the annual capital plan. The capital plan is approved by the Board and determines the optimal amount and mix of capital required to support planned business growth whilst at the same time meet regulatory capital requirements. Capital generated in excess of planned requirements is returned to shareholders in the form of dividends.

The impact of the bank's capital plan on shareholder returns is therefore recognised by the level of equity capital employed for which the local group seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity from increased leverage.

The bank manages its capital requirements based on internal targets, which are set above the prescribed minimum levels established within the Capital Requirements Regulation ('CRR').

For regulatory purposes, the bank's capital base is divided into two main categories, Common Equity Tier 1 ('CET1') capital and Tier 2 capital, as defined in Part Two of the CRR. CET1 capital is the highest quality form of capital, comprising shareholders' equity. Under the CRR, various capital deductions and regulatory adjustments are made against these items – these include deductions for intangible assets and the Depositor Compensation Scheme reserve. Tier 2 capital comprises eligible subordinated debt.

The bank's assessment and measurement of capital adequacy is aligned with regulatory requirements and with the bank's assessment of risk, including credit, market and operational risks.

The bank utilises the Standardised Approach for credit risk and operational risk and Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements.

Compliance with the capital plan as well as with regulatory capital measures is monitored by the Asset Liability and Capital Management team and reported to ALCO on a monthly basis.

During the financial years ended 31 December 2023 and 31 December 2022, the bank has met all external capital requirements at all times.

HSBC Life Assurance (Malta) Ltd, one of the bank's subsidiaries regulated by the Malta Financial Services Authority, is also required to maintain a capital ratio above the prescribed minimum level at all times. During the financial years ended 31 December 2023 and 31 December 2022, the subsidiary has complied with all such externally imposed regulatory capital requirements.

7 Interest and similar income

	Group/Bank	
	2023	2022
	€000	€000
On balances with Central Bank of Malta	**42,977**	5,062
On Treasury Bills	**6,845**	690
On loans and advances to banks	**29,397**	7,041
On loans and advances to customers	**116,636**	101,154
On loans and advances to banks and customers and other financial assets	**195,855**	113,947
Interest on debt instruments	**13,766**	6,384
Amortisation of net premiums on debt instruments	**4,289**	(3,551)
Net loss representing ineffective portion of fair value hedges	**(34)**	(141)
On debt and other fixed income instruments	**18,021**	2,692
	213,876	116,639

Interest income recognised on credit impaired loans and advances during the financial year ended 31 December 2023, which is entirely included in interest income on loans and advances to customers, amounted to €4,065,000 (2022: €4,546,000).

8 Interest expense

	Group/Bank	
	2023	2022
	€000	€000
On balances with Central Bank of Malta	**—**	2,663
On Treasury Bills	**—**	441
On loans and advances to banks	**—**	182
On deposits by banks	**3,900**	74
On customer accounts	**10,792**	2,953
On lease liabilities	**53**	38
On subordinated liabilities and borrowings from a group undertaking	**3,319**	2,046
	18,064	8,397

9 Net fee income

	Group		
	2023		
	Wealth and Personal Banking	**Commercial Banking**	**Total**
	€000	**€000**	**€000**
Fee income by product:			
Funds under management	**2,555**	**—**	**2,555**
Cards	**4,558**	**439**	**4,997**
Credit facilities	**7**	**1,374**	**1,381**
Broking income	**835**	**—**	**835**
Account services	**1,439**	**1,671**	**3,110**
Remittances	**697**	**1,583**	**2,280**
Imports/exports	**—**	**1,241**	**1,241**
Receivables finance	**—**	**799**	**799**
Insurance agency commission	**1,613**	**—**	**1,613**
Other	**1,500**	**1,953**	**3,453**
Fee income	**13,204**	**9,060**	**22,264**
Less: fee expense	**(2,520)**	**(271)**	**(2,791)**
Net fee income	**10,684**	**8,789**	**19,473**

	Group		
	2022[1]		
	Wealth and Personal Banking	Commercial Banking	Total
	€000	€000	€000
Fee income by product:			
Funds under management	2,787	—	2,787
Cards	4,600	367	4,967
Credit facilities	108	1,474	1,582
Broking income	1,022	—	1,022
Account services	2,026	3,319	5,345
Remittances	657	1,346	2,003
Imports/exports	—	1,373	1,373
Receivables finance	—	869	869
Insurance agency commission	1,690	—	1,690
Other	1,793	1,912	3,705
Fee income	14,683	10,660	25,343
Less: fee expense	(3,322)	(367)	(3,689)
Net fee income	11,361	10,293	21,654

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.*

	Bank		
	2023		
	Wealth and Personal Banking	**Commercial Banking**	**Total**
	€000	**€000**	**€000**
Fee income by product:			
Funds under management	**—**	**—**	**—**
Cards	**4,558**	**439**	**4,997**
Credit facilities	**7**	**1,374**	**1,381**
Broking income	**835**	**—**	**835**
Account services	**1,439**	**1,671**	**3,110**
Remittances	**697**	**1,583**	**2,280**
Imports/exports	**—**	**1,241**	**1,241**
Receivables finance	**—**	**799**	**799**
Insurance agency commission	**—**	**—**	**—**
Other	**2,924**	**1,953**	**4,877**
Fee income	**10,460**	**9,060**	**19,520**
Less: fee expense	**(2,128)**	**(271)**	**(2,399)**
Net fee income	**8,332**	**8,789**	**17,121**

	Bank		
	2022		
	Wealth and Personal Banking	Commercial Banking	Total
	€000	€000	€000
Fee income by product:			
Funds under management	—	—	—
Cards	4,600	367	4,967
Credit facilities	108	1,474	1,582
Broking income	1,022	—	1,022
Account services	2,026	3,319	5,345
Remittances	657	1,346	2,003
Imports/exports	—	1,373	1,373
Receivables finance	—	869	869
Insurance agency commission	—	—	—
Other	3,317	1,912	5,229
Fee income	11,730	10,660	22,390
Less: fee expense	(2,846)	(367)	(3,213)
Net fee income	8,884	10,293	19,177

Net fee income amounting to €881,000 (2022: €1,069,000) is derived from the investment services activities of the local group. During the financial years ended 31 December 2023 and 31 December 2022, none of the net fee income generated by the local group and bank was attributable to the Global Markets segment.

10 Insurance business

From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.

The table below represents an analysis of the total insurance revenue and expenses recognised in the period:

Insurance service result

	2023			2022		
	Life direct participating and investment DPF contracts[1]	**Life other contracts[2]**	**Total**	Life direct participating and investment DPF contracts	Life other contracts	Total
	€000	**€000**	**€000**	€000	€000	€000
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage						
CSM recognised for services provided	**1,203**	**6,307**	**7,510**	1,030	5,868	6,898
Change in risk adjustment for non-financial risk for risk expired	**249**	**201**	**450**	218	252	470
Expected incurred claims and other insurance service expenses	**3,609**	**6,352**	**9,961**	3,115	4,962	8,077
Recovery of insurance acquisition cash flows	**52**	**316**	**368**	15	105	120
Total insurance revenue	**5,113**	**13,176**	**18,289**	4,378	11,187	15,565
Insurance service expenses						
Incurred claims and other insurance service expenses	**(2,909)**	**(3,006)**	**(5,915)**	(2,693)	(2,068)	(4,761)
Losses and reversal of losses on onerous contracts	**(1,284)**	**(221)**	**(1,505)**	(440)	(154)	(594)
Amortisation of insurance acquisition cash flows	**(52)**	**(316)**	**(368)**	(15)	(105)	(120)
Total insurance service expenses	**(4,245)**	**(3,543)**	**(7,788)**	(3,148)	(2,327)	(5,475)
Insurance service results before reinsurance contracts	**868**	**9,633**	**10,501**	1,230	8,860	10,090
Expenses from reinsurance premiums	**—**	**(7,603)**	**(7,603)**	—	(5,855)	(5,855)
Amounts recoverable from reinsurers for incurred claims	**—**	**2,132**	**2,132**	—	1,043	1,043
Net expenses from reinsurance contracts	**—**	**(5,471)**	**(5,471)**	—	(4,812)	(4,812)
Insurance service results	**868**	**4,162**	**5,030**	1,230	4,048	5,278

1 Life direct participating and investment DPF contracts are measured under the variable fee approach measurement model.
2 Life other contracts are measured under the general measurement model.

Net investment return

	2023				2022			
	Life direct participating and investment DPF contracts	**Life other contracts**	**Other**	**Total**	Life direct participating and investment DPF contracts	Life other contracts	Other	Total
	€000	**€000**	**€000**	**€000**	€000	€000		€000
Investment return								
Amounts recognised in profit or loss:								
Amounts recognised in OCI[2]								
Net gains/(losses) on FVPL investments	**42,064**	**5,794**	**11,355**	**59,213**	(62,696)	(12,774)	(16,365)	(91,835)
Movement in investment contract liabilities (Note 37)	**—**	**—**	**(11,145)**	**(11,145)**	—	—	17,091	17,091
Total investment return (memorandum)	**42,064**	**5,794**	**210**	**48,068**	(62,696)	(12,774)	726	(74,744)
Changes in fair value of underlying items of direct participating contracts	**(42,064)**	**—**	**—**	**(42,064)**	62,696	—	—	62,696
Effect of risk mitigation option	**—**	**—**		**—**	—	—		—
Interest accreted	**—**	**(15)**	**—**	**(15)**	—	(86)	—	(86)
Effect of changes in interest rates and other financial assumptions	**—**	**(957)**	**—**	**(957)**	—	9,950	—	9,950
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	**—**	**(881)**	**—**	**(881)**	—	(714)	—	(714)
Total net finance (expense)/income from insurance contracts	**(42,064)**	**(1,853)**	**—**	**(43,917)**	62,696	9,150	—	71,846
Represented by:								
Amounts recognised in profit or loss	**—**	**—**	**—**	**—**	—	—	—	—
Amounts recognised in OCI	**—**	**—**		**—**	—	—		—
Total net finance (expense)/income from reinsurance contracts	**—**	**(377)**	**—**	**(377)**	—	4,650	—	4,650
Insurance finance (expense)/income	**(42,064)**	**(2,230)**	**—**	**(44,294)**	62,696	13,800	—	76,496
Total net investment results	**—**	**3,564**	**210**	**3,774**	—	1,026	726	1,752

Movements in carrying amounts of insurance contracts liabilities - Analysis by remaining coverage and incurred claims

	2023								
	Life direct participating and investment DPF contracts				Life other contracts[1]				
	Liabilities for remaining coverage:				Liabilities for remaining coverage:				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Opening assets	—	—	—	—	—	—	—	—	—
Opening liabilities	442,272	287	4,468	447,027	49,300	159	3,021	52,480	499,507
Net opening balance at 1 Jan	442,272	287	4,468	447,027	49,300	159	3,021	52,480	499,507
Changes in profit or loss									
Insurance revenue									
Contract under fair value approach	(4,402)	—	—	(4,402)	(10,678)	—	—	(10,678)	(15,080)
Other contracts	(711)	—	—	(711)	(2,498)	—	—	(2,498)	(3,209)
Total insurance revenue	(5,113)	—	—	(5,113)	(13,176)	—	—	(13,176)	(18,289)
Insurance service expenses									
Incurred claims and other insurance service expenses	—	(15)	2,924	2,909	—	(76)	3,082	3,006	5,915
Amortisation of insurance acquisition cash flows	52	—	—	52	316	—	—	316	368
Losses and reversal of losses on onerous contracts	—	1,284	—	1,284	—	221	—	221	1,505
Total insurance service expenses	52	1,269	2,924	4,245	316	145	3,082	3,543	7,788
Investment components	(60,984)	—	60,984	—	(228)	—	228	—	—
Insurance service result before reinsurance contracts	(66,045)	1,269	63,908	(868)	(13,088)	145	3,310	(9,633)	(10,501)
Net finance expenses from insurance contracts	42,064	—	—	42,064	1,853	—	—	1,853	43,917
Total changes in profit or loss	(23,981)	1,269	63,908	41,196	(11,235)	145	3,310	(7,780)	33,416
Cash flows									
Premiums received	41,569	—	—	41,569	14,447	—	—	14,447	56,016
Claims and other insurance service expenses paid, including investment components	(312)	—	(64,143)	(64,455)	—	—	(2,852)	(2,852)	(67,307)
Insurance acquisition cash flows	(443)	—	—	(443)	(1,826)	—	—	(1,826)	(2,269)
Transfer	27	(27)	—	—	9	(9)	—	—	—
Total cash flows	40,841	(27)	(64,143)	(23,329)	12,630	(9)	(2,852)	9,769	(13,560)
Net closing balance at 31 Dec	459,132	1,529	4,233	464,894	50,695	295	3,479	54,469	519,363
Closing assets	—	—	—	—	—	—	—	—	—
Closing liabilities	459,132	1,529	4,233	464,894	50,695	295	3,479	54,469	519,363
Net closing balance 31 Dec	459,132	1,529	4,233	464,894	50,695	295	3,479	54,469	519,363

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of insurance contracts liabilities - Analysis by remaining coverage and incurred claims (continued)

	2022								
	Life direct participating and investment DPF contracts				Life other contracts[1]				
	Liabilities for:				Liabilities for:				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Opening assets	—	—	—	—	—	—	—	—	—
Opening liabilities	521,333	7	1,530	522,870	57,009	46	2,448	59,503	582,373
Net opening balance at 1 Jan	521,333	7	1,530	522,870	57,009	46	2,448	59,503	582,373
Changes in profit or loss									
Insurance revenue									
Contract under fair value approach	(3,894)	—	—	(3,894)	(9,552)	—	—	(9,552)	(13,446)
Other contracts	(484)	—	—	(484)	(1,635)	—	—	(1,635)	(2,119)
Total insurance revenue	(4,378)	—	—	(4,378)	(11,187)	—	—	(11,187)	(15,565)
Insurance service expenses									
Incurred claims and other insurance service expenses	—	(3)	2,696	2,693	—	(39)	2,107	2,068	4,761
Amortisation of insurance acquisition cash flows	15	—	—	15	105	—	—	105	120
Losses and reversal of losses on onerous contracts	—	440	—	440	—	154	—	154	594
Total insurance service expenses	15	437	2,696	3,148	105	115	2,107	2,327	5,475
Investment components	(53,680)	—	53,680	—	(211)	—	211	—	—
Insurance service result before reinsurance contracts	(58,043)	437	56,376	(1,230)	(11,293)	115	2,318	(8,860)	(10,090)
Net finance expenses from insurance contracts	(62,696)	—	—	(62,696)	(9,150)	—	—	(9,150)	(71,846)
Total changes in profit or loss	(120,739)	437	56,376	(63,926)	(20,443)	115	2,318	(18,010)	(81,936)
Cash flows									
Premiums received	42,223	—	—	42,223	14,506	—	—	14,506	56,729
Claims and other insurance service expenses paid, including investment components	(332)	—	(53,438)	(53,770)	—	—	(1,745)	(1,745)	(55,515)
Insurance acquisition cash flows	(370)	—	—	(370)	(1,774)	—	—	(1,774)	(2,144)
Transfer	157	(157)	—	—	2	(2)	—	—	—
Total cash flows	41,678	(157)	(53,438)	(11,917)	12,734	(2)	(1,745)	10,987	(930)
Net closing balance at 31 Dec	442,272	287	4,468	447,027	49,300	159	3,021	52,480	499,507
Closing assets	—	—	—	—	—	—	—	—	—
Closing liabilities	442,272	287	4,468	447,027	49,300	159	3,021	52,480	499,507
Net closing balance 31 Dec	442,272	287	4,468	447,027	49,300	159	3,021	52,480	499,507

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of reinsurance contracts assets - Analysis by remaining coverage and incurred claims

Reinsurance contracts

	2023				2022			
	Excluding loss recovery component	**Loss recovery component**	**Incurred claims component**	**Total**	Excluding loss recovery component	Loss recovery component	Incurred claims component	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Opening assets	**417**	**7**	**2,535**	**2,959**	(2,742)	—	2,805	63
Opening liabilities	**—**	**—**	**—**	**—**	—	—	—	—
Net opening balance at 1 Jan	**417**	**7**	**2,535**	**2,959**	(2,742)	—	2,805	63
Changes in profit or loss								
Allocation of reinsurance premiums paid	**(7,603)**	**—**	**—**	**(7,603)**	(5,855)	—	—	(5,855)
Recoveries of incurred claims and other insurance service expenses	**—**	**—**	**2,143**	**2,143**	—	—	1,030	1,030
Recoveries or reversals of recoveries of losses on onerous underlying contracts	**(16)**	**5**	**—**	**(11)**	6	7	—	13
Net finance (expense)/income from reinsurance contracts	**(377)**	**—**	**—**	**(377)**	4,650	—	—	4,650
Total changes in profit or loss	**(7,996)**	**5**	**2,143**	**(5,848)**	(1,199)	7	1,030	(162)
Cash flows								
Premiums paid	**7,357**	**—**	**—**	**7,357**	4,358	—	—	4,358
Claims and other recoverables received	**—**	**—**	**(1,911)**	**(1,911)**	—	—	(1,300)	(1,300)
Total cash flows	**7,357**	**—**	**(1,911)**	**5,446**	4,358	—	(1,300)	3,058
Net closing balance at 31 Dec	**(222)**	**12**	**2,767**	**2,557**	417	7	2,535	2,959
Closing assets	**(222)**	**12**	**2,767**	**2,557**	417	7	2,535	2,959
Closing liabilities	**—**	**—**	**—**	**—**	—	—	—	—
Net closing balance at 31 Dec	**(222)**	**12**	**2,767**	**2,557**	417	7	2,535	2,959

Movements in carrying amounts of insurance contracts liabilities - Analysis by measurement component

	2023					
	Life direct participating and investment DPF contracts					
				Contractual service margin		
	Estimates of present value of future cashflows (excluding RA)	**Risk adjustment for non-financial risk**	**Estimates of present value of future cashflows (including RA)**	**Contracts under fair value approach**	**Other contracts[1]**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Opening assets	**—**	**—**	**—**	**—**	**—**	**—**
Opening liabilities	**436,224**	**3,086**	**439,310**	**4,286**	**3,431**	**447,027**
Net opening balance at 1 Jan	**436,224**	**3,086**	**439,310**	**4,286**	**3,431**	**447,027**
Changes in profit or loss						
Changes that relate to current services						
CSM recognised for services provided	**—**	**—**	**—**	**(868)**	**(335)**	**(1,203)**
Change in risk adjustment for non-financial risk for risk expired	**—**	**(249)**	**(249)**	**—**	**—**	**(249)**
Experience adjustments	**(700)**	**—**	**(700)**	**—**	**—**	**(700)**
Changes that relate to future services						
Contracts initially recognised in the year	**(916)**	**140**	**(776)**	**—**	**809**	**33**
Changes in estimates that adjust the CSM	**(2,547)**	**466**	**(2,081)**	**2,052**	**29**	**—**
Changes in estimates that result in losses and reversal of losses on onerous contracts	**1,051**	**200**	**1,251**	**—**	**—**	**1,251**
Insurance service result before reinsurance contracts	**(3,112)**	**557**	**(2,555)**	**1,184**	**503**	**(868)**
Net finance expenses from insurance contracts	**42,064**	**—**	**42,064**	**—**	**—**	**42,064**
Total changes in profit or loss	**38,952**	**557**	**39,509**	**1,184**	**503**	**41,196**
Cash flows						
Premiums received	**41,569**	**—**	**41,569**	**—**	**—**	**41,569**
Claims, other insurance service expenses paid (including investment components) and other cash flows	**(64,455)**	**—**	**(64,455)**	**—**	**—**	**(64,455)**
Insurance acquisition cash flows	**(443)**	**—**	**(443)**	**—**	**—**	**(443)**
Total cash flows	**(23,329)**	**—**	**(23,329)**	**—**	**—**	**(23,329)**
Net closing balance at 31 Dec	**451,847**	**3,643**	**455,490**	**5,470**	**3,934**	**464,894**
Closing assets	**—**	**—**	**—**	**—**	**—**	**—**
Closing liabilities	**451,847**	**3,643**	**455,490**	**5,470**	**3,934**	**464,894**
Net closing balance at 31 Dec	**451,847**	**3,643**	**455,490**	**5,470**	**3,934**	**464,894**

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of insurance contracts liabilities - Analysis by measurement component (continued)

	2023					
	Life other contracts					
				Contractual service margin		
	Estimates of present value of future cashflows (excluding RA)	Risk adjustment for non-financial risk	Estimates of present value of future cashflows (including RA)	Contract under fair value approach	Other contracts[1]	Total
	€000	€000	€000	€000	€000	€000
Opening assets	—	—	—	—	—	—
Opening liabilities	(4,151)	5,800	1,649	44,558	6,273	52,480
Net opening balance at 1 Jan	(4,151)	5,800	1,649	44,558	6,273	52,480
Changes in profit or loss						
Changes that relate to current services						
CSM recognised for services provided	—	—	—	(5,314)	(993)	(6,307)
Change in risk adjustment for non-financial risk for risk expired	—	(201)	(201)	—	—	(201)
Experience adjustments	(3,346)	—	(3,346)	—	—	(3,346)
Changes that relate to future services						
Contracts initially recognised in the year	(1,975)	179	(1,796)	—	1,821	25
Changes in estimates that adjust the CSM	(9,299)	186	(9,113)	7,830	1,283	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	175	21	196	—	—	196
Insurance service result before reinsurance contracts	(14,445)	185	(14,260)	2,516	2,111	(9,633)
Net finance expenses from insurance contracts	1,508	—	1,508	312	33	1,853
Total changes in profit or loss	(12,937)	185	(12,752)	2,828	2,144	(7,780)
Cash flows						
Premiums received	14,447	—	14,447	—	—	14,447
Claims, other insurance service expenses paid (including investment components) and other cash flows	(2,852)	—	(2,852)	—	—	(2,852)
Insurance acquisition cash flows	(1,826)	—	(1,826)	—	—	(1,826)
Total cash flows	9,769	—	9,769	—	—	9,769
Net closing balance at 31 Dec	(7,319)	5,985	(1,334)	47,386	8,417	54,469
Closing assets	—	—	—	—	—	—
Closing liabilities	(7,319)	5,985	(1,334)	47,386	8,417	54,469
Net closing balance at 31 Dec	(7,319)	5,985	(1,334)	47,386	8,417	54,469

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of insurance contracts liabilities - Analysis by measurement component (continued)

	2022					
	Life direct participating and investment DPF contracts					
				Contractual service margin		
	Estimates of present value of future cashflows (excluding RA)	Risk adjustment for non-financial risk	Estimates of present value of future cashflows (including RA)	Contracts under fair value approach	Other contracts[1]	Total
	€000	€000	€000	€000	€000	€000
Opening assets	—	—	—	—	—	—
Opening liabilities	505,890	3,236	509,126	11,016	2,728	522,870
Net opening balance at 1 Jan	505,890	3,236	509,126	11,016	2,728	522,870
Changes in profit or loss						
Changes that relate to current services						
CSM recognised for services provided	—	—	—	(747)	(283)	(1,030)
Change in risk adjustment for non-financial risk for risk expired	—	(218)	(218)	—	—	(218)
Experience adjustments	(422)	—	(422)	—	—	(422)
Changes that relate to future services						
Contracts initially recognised in the year	(1,427)	176	(1,251)	—	1,301	50
Changes in estimates that adjust the CSM	6,422	(124)	6,298	(5,983)	(315)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	374	16	390	—	—	390
Insurance service result before reinsurance contracts	4,947	(150)	4,797	(6,730)	703	(1,230)
Net finance expenses from insurance contracts	(62,696)	—	(62,696)	—	—	(62,696)
Total changes in profit or loss	(57,749)	(150)	(57,899)	(6,730)	703	(63,926)
Cash flows						
Premiums received	42,223	—	42,223	—	—	42,223
Claims, other insurance service expenses paid (including investment components) and other cash flows	(53,770)	—	(53,770)	—	—	(53,770)
Insurance acquisition cash flows	(370)	—	(370)	—	—	(370)
Total cash flows	(11,917)	—	(11,917)	—	—	(11,917)
Net closing balance at 31 Dec	436,224	3,086	439,310	4,286	3,431	447,027
Closing assets	—	—	—	—	—	—
Closing liabilities	436,224	3,086	439,310	4,286	3,431	447,027
Net closing balance at 31 Dec	436,224	3,086	439,310	4,286	3,431	447,027

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of insurance contracts - Analysis by measurement component (continued)

	2022					
	Life other contracts					
				Contractual service margin		
	Estimates of present value of future cashflows (excluding RA)	Risk adjustment for non-financial risk	Estimates of present value of future cashflows (including RA)	Contract under fair value approach	Other contracts[1]	Total
	€000	€000	€000	€000	€000	€000
Opening assets	—	—	—	—	—	—
Opening liabilities	(519)	6,900	6,381	47,708	5,414	59,503
Net opening balance at 1 Jan	(519)	6,900	6,381	47,708	5,414	59,503
Changes in profit or loss						
Changes that relate to current services						
CSM recognised for services provided	—	—	—	(5,125)	(743)	(5,868)
Change in risk adjustment for non-financial risk for risk expired	—	(252)	(252)	—	—	(252)
Experience adjustments	(2,894)	—	(2,894)	—	—	(2,894)
Changes that relate to future services						
Contracts initially recognised in the year	(2,400)	210	(2,190)	—	2,210	20
Changes in estimates that adjust the CSM	(165)	(1,062)	(1,227)	1,813	(586)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	130	4	134	—	—	134
Insurance service result before reinsurance contracts	(5,329)	(1,100)	(6,429)	(3,312)	881	(8,860)
Net finance expenses from insurance contracts	(9,290)	—	(9,290)	162	(22)	(9,150)
Total changes profit or loss	(14,619)	(1,100)	(15,719)	(3,150)	859	(18,010)
Cash flows						
Premiums received	14,506	—	14,506	—	—	14,506
Claims, other insurance service expenses paid (including investment components) and other cash flows	(1,745)	—	(1,745)	—	—	(1,745)
Insurance acquisition cash flows	(1,774)	—	(1,774)	—	—	(1,774)
Total cash flows	10,987	—	10,987	—	—	10,987
Net closing balance at 31 Dec	(4,151)	5,800	1,649	44,558	6,273	52,480
Closing assets	—	—	—	—	—	—
Closing liabilities	(4,151)	5,800	1,649	44,558	6,273	52,480
Net closing balance at 31 Dec	(4,151)	5,800	1,649	44,558	6,273	52,480

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of reinsurance contracts assets - Analysis by measurement component

	2023					
				Contractual service margin		
	Estimates of present value of future cashflows (excluding RA)	Risk adjustment for non-financial risk	Estimates of present value of future cashflows (including RA)	Contracts under fair value approach	Other contracts[1]	Total
	€000	€000	€000	€000	€000	€000
Opening assets	(17,844)	1,296	(16,548)	19,532	(25)	2,959
Opening liabilities	—	—	—	—	—	—
Net opening balance at 1 Jan	(17,844)	1,296	(16,548)	19,532	(25)	2,959
Changes in profit or loss						
Changes that relate to current services						
CSM recognised for services provided	—	—	—	(3,252)	(273)	(3,525)
Change in risk adjustment for non-	—	(34)	(34)	—	—	(34)
Experience adjustments	(1,901)	—	(1,901)	—	—	(1,901)
Changes that relate to future services						
Contracts initially recognised in the year	(241)	29	(212)	—	212	—
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	—	—	—	—	2	2
Changes in estimates that adjust the CSM	(13,086)	323	(12,763)	11,764	999	—
Changes in estimates that do not adjust the CSM	(16)	3	(13)	—	—	(13)
Net expenses from reinsurance contracts	(15,244)	321	(14,923)	8,512	940	(5,471)
Net finance expenses from reinsurance contracts	(535)	—	(535)	150	8	(377)
Total changes in profit or loss	(15,779)	321	(15,458)	8,662	948	(5,848)
Cash flows						
Premiums paid	7,357	—	7,357	—	—	7,357
Claims and other recoverables received	(1,911)	—	(1,911)	—	—	(1,911)
Total cash flows	5,446	—	5,446	—	—	5,446
Net closing balance at 31 Dec	(28,177)	1,617	(26,560)	28,194	923	2,557
Closing assets	(28,177)	1,617	(26,560)	28,194	923	2,557
Closing liabilities	—	—	—	—	—	—
Net closing balance at 31 Dec	(28,177)	1,617	(26,560)	28,194	923	2,557

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Movements in carrying amounts of reinsurance contracts - Analysis by measurement component (continued)

	2022					
				Contractual service margin		
	Estimates of present value of future cash flows (excluding RA)	Risk adjustment for non-financial risk	Estimates of present value of future cash flows (including RA)	Contracts under fair value approach	Other contracts[1]	Total
	€000	€000	€000	€000	€000	€000
Opening assets	(20,644)	1,771	(18,873)	18,936	—	63
Opening liabilities	—	—	—	—	—	—
Net opening balance at 1 Jan	(20,644)	1,771	(18,873)	18,936	—	63
Changes in profit or loss						
Changes that relate to current services						
CSM recognised for services provided	—	—	—	(2,550)	(169)	(2,719)
Change in risk adjustment for non-financial risk for risk expired	—	(55)	(55)	—	—	(55)
Experience adjustments	(2,073)	—	(2,073)	—	—	(2,073)
Changes that relate to future services						
Contracts initially recognised in the year	(248)	37	(211)	—	233	22
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	—	—	—	—	5	5
Changes in estimates that adjust the CSM	(2,527)	(457)	(2,984)	3,078	(94)	—
Changes in estimates that do not adjust the CSM	8	—	8	—	—	8
Net expenses from reinsurance contracts	(4,840)	(475)	(5,315)	528	(25)	(4,812)
Net finance income from reinsurance contracts	4,582	—	4,582	68	—	4,650
Total changes in profit or loss	(258)	(475)	(733)	596	(25)	(162)
Cash flows						
Premiums paid	4,358	—	4,358	—	—	4,358
Claims and other recoverables received	(1,300)	—	(1,300)	—	—	(1,300)
Total cash flows	3,058	—	3,058	—	—	3,058
Net closing balance at 31 Dec	(17,844)	1,296	(16,548)	19,532	(25)	2,959
Closing assets	(17,844)	1,296	(16,548)	19,532	(25)	2,959
Closing liabilities	—	—	—	—	—	—
Net closing balance at 31 Dec	(17,844)	1,296	(16,548)	19,532	(25)	2,959

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at transition and contracts incepted after transition.*

Effect of insurance contracts initially recognised in the year

	2023			2022		
	Profitable contracts issued	**Onerous contracts issued**	**Total**	Profitable contracts issued	Onerous contracts issued	Total
	€000	**€000**	**€000**	€000	€000	€000
Life direct participating and investment DPF contracts						
Estimates of present value of cash outflows	**18,549**	**1,484**	**20,033**	27,004	2,462	29,466
Estimates of present value of cash inflows	**(19,489)**	**(1,460)**	**(20,949)**	(28,478)	(2,415)	(30,893)
Risk adjustment for non-financial risk	**131**	**9**	**140**	173	3	176
Contractual service margin	**809**	**—**	**809**	1,301	—	1,301
Losses recognised on initial recognition	**—**	**33**	**33**	—	50	50
Life other contracts						
Estimates of present value of cash outflows	**4,461**	**191**	**4,652**	4,830	249	5,079
Estimates of present value of cash inflows	**(6,454)**	**(173)**	**(6,627)**	(7,238)	(241)	(7,479)
Risk adjustment for non-financial risk	**172**	**7**	**179**	198	12	210
Contractual service margin	**1,821**	**—**	**1,821**	2,210	—	2,210
Losses recognised on initial recognition	**—**	**25**	**25**	—	20	20

Effect of reinsurance contacts initially recognised in the year

	2023	2022
	Profitable contracts issued	Profitable contracts issued
	€000	€000
Life other contracts		
Estimates of present value of cash outflows	**(1,433)**	(1,438)
Estimates of present value of cash inflows	**1,192**	1,190
Risk adjustment for non-financial risk	**29**	37
Contractual service margin	**212**	233

Present value of expected future cash flows of insurance contract liabilities and contractual service margin and reinsurance contracts

	less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	**11,219**	**3,103**	**4,141**	**27,874**	**22,425**	**86,282**	**150,439**	**146,364**	**451,847**
Life other contracts	**(3,552)**	**(6,562)**	**(5,975)**	**(5,536)**	**(5,006)**	**(14,951)**	**(547)**	**34,810**	**(7,319)**
Reinsurance contracts	**170**	**1,402**	**1,448**	**1,397**	**1,376**	**6,612**	**11,132**	**4,640**	**28,177**
Net insurance liability future cash flows at 31 Dec 2023	**7,837**	**(2,057)**	**(386)**	**23,735**	**18,795**	**77,943**	**161,024**	**185,814**	**472,705**
Remaining contractual service margin									
Life direct participating and investment DPF contracts	**1,255**	**1,120**	**1,014**	**868**	**725**	**2,330**	**1,708**	**384**	**9,404**
Life other contracts	**5,876**	**5,311**	**4,801**	**4,334**	**3,918**	**14,481**	**13,008**	**4,074**	**55,803**
Reinsurance contracts	**(3,256)**	**(2,915)**	**(2,615)**	**(2,345)**	**(2,104)**	**(7,639)**	**(6,594)**	**(1,649)**	**(29,117)**
Remaining contractual service margin at 31 Dec 2023	**3,875**	**3,516**	**3,200**	**2,857**	**2,539**	**9,172**	**8,122**	**2,809**	**36,090**
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	539	6,682	1,317	2,963	27,893	97,850	159,165	139,815	436,224
Life other contracts	(4,095)	(6,076)	(5,325)	(4,804)	(4,499)	(14,122)	(218)	34,988	(4,151)
Reinsurance contracts	827	780	811	817	786	2,401	7,159	4,263	17,844
Net insurance liability future cash flows at 31 Dec 2022	(2,729)	1,386	(3,197)	(1,024)	24,180	86,129	166,106	179,066	449,917
Remaining contractual service margin									
Life direct participating and investment DPF contracts	866	779	707	647	585	2,094	1,654	385	7,717
Life other contracts	5,352	4,845	4,381	3,960	3,573	13,248	12,077	3,395	50,831
Reinsurance contracts	(2,279)	(2,048)	(1,819)	(1,619)	(1,440)	(5,139)	(4,216)	(947)	(19,507)
Remaining contractual service margin at 31 Dec 2022	3,939	3,576	3,269	2,988	2,718	10,203	9,515	2,833	39,041

11 Net income/(expense) from assets and liabilities of insurance businesses, measured at fair value through profit or loss

	Group	
	2023	2022[1]
	€000	€000
Financial assets held to meet liabilities under insurance and investment contracts	**59,213**	(91,835)
Liabilities to customers under investment contracts	**(11,145)**	17,091
Net income/(expense) from assets and liabilities of insurance businesses, measured at fair value through profit or loss	**48,068**	(74,744)

1 *From January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.*

12 Net trading income

	Group/Bank	
	2023	2022
	€000	€000
Net income from foreign exchange activities	**7,357**	6,854
Net income from trading activities	**266**	835
	7,623	7,689

13 Dividend income

Dividend income received by the bank in 2023 amounted to €769,000 (2022: €1,308,000) representing dividend received from a subsidiary company.

14 Other operating (expense)/income

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Operating income				
Gains arising on disposal of re-possessed properties	**45**	749	**45**	749
Impairment of re-possessed property	**(450)**	—	**(450)**	—
Gains arising on disposal of own properties held as Non-current assets held for sale	**—**	440	**—**	440
Loss arising on disposal of equipment and intangible assets	**(140)**	—	**(140)**	—
Other income	**503**	(7)	**509**	325
	(42)	1,182	**(36)**	1,514

Other income includes inter-company income amounting to €496,000 (2022: €312,000) for the local bank and group, and third party income amounting to €13,000 (2022: €13,000) for the local bank and €548,000 (2022: €782,000) for the local group.

15 Change in expected credit losses and other credit impairment charges

	Group/Bank	
	2023	2022
	€000	€000
Change in expected credit losses:		
– loans and advances to customers including accrued interest	**(3,675)**	(15,478)
– loans and advances to banks	**(1)**	(1)
– balances with Central Bank of Malta	**8**	5
– debt instruments and Treasury Bills measured at amortised cost	**10**	19
– loan commitments and financial guarantees	**(4)**	56
– other financial assets	**(4)**	5
– debt instruments and Treasury Bills measured at fair value through other comprehensive income	**(15)**	(12)
Other credit impairment charges:		
– bad debts written off	**567**	15,204
– bad debts recovered	**(1,466)**	(9,359)
	(4,580)	(9,561)

16 Employee compensation and benefits

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Wages, salaries and allowances	**35,747**	34,373	**34,717**	33,287
Social security costs	**2,224**	2,071	**2,084**	2,004
Termination benefits	**822**	1,558	**822**	1,558
Defined contribution benefits	**483**	499	**449**	466
Post employment and other long-term employee benefits	**2,913**	275	**2,913**	275
Share-based payments	**418**	176	**418**	194
	42,607	38,952	**41,403**	37,784
Average number of employees:				
– executive and senior managerial	**262**	253	**240**	233
– other managerial, supervisory and clerical	**674**	672	**641**	634
– others	**4**	6	**4**	6
	940	931	**885**	873

Employee compensation and benefits that are directly attributable to the acquisition or fulfilment of the insurance contracts, and which are accordingly incorporated in the CSM and recognised in the insurance service result, are disclosed within Note 17.

(a) Termination benefits

In 2021, the bank announced a strategic initiative to further improve its operational structure, benefiting from the Group's operating models, as the bank aims to drive efficiencies and enhance customer experience, and create a leaner working model that is externally focused, performance-led, customer centred and fit for the future. To support this initiative, a provision for €1,558,000 was recognised in respect of a Voluntary Redundancy Scheme issued by the bank during 2022, reflecting the estimated payments to the affected individual employees which were approximately 11 applicants, representing 11 full time equivalent employees, for the local group and bank. This provision was raised in respect of the planned transfer of a number of employees and activities to a local service provider. This provision was fully utilised by 31 December 2023, with the exception of an amount of €128,000 attributable to one application for the scheme that was withdrawn during 2023.

During the financial year ended 31 December 2023, the bank recognised another provision to further align its structure to the HSBC Group's operating model. In this respect, a provision amounting to €950,000, attributable to the local group and bank, was recognised during 2023.

(b) Post employment and other long-term employee benefits

The local group and the bank have liabilities for long-term employee benefits, treated as defined benefit obligations, arising out of the provisions of the Collective Agreement (refer to Note 39). The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement on medical grounds. In 2022, the long-term employee benefits provision was revised to reflect the reduction in the number of employees resulting in a release recognised in profit or loss amounting to €305,000, which is mainly the result of the planned transfer of a number of employees to a local service provider. In 2023, another release amounting to €9,000 was recognised in profit or loss to reflect the actual number of employees that benefited from the retirement bonus as stipulated within the Collective Agreement during the financial year (refer to Note 39). Current service costs attributable to these obligations, amounting to €975,000 (2022: €729,000), and actuarial losses attributable to changes in financial assumptions, demographic assumptions and experience adjustments of €1,947,000 (2022: a gain of €148,000) relating to long-term employee benefits, were recognised in the income statement during the financial year ended 31 December 2023.

(c) Defined contribution benefits

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

(d) Share-based payments

In order to align the interests of staff with those of shareholders, restricted share awards are awarded to local group senior management under discretionary incentive plans and, in addition, local group employees are invited to join Share Match, an HSBC International Employee Share Purchase Plan to acquire shares in HSBC Holdings plc. Under this Plan, HSBC Holdings plc grant matching award shares to the local group's employees subject to a three year service condition. The share-based payment is classified as equity-settled since the share-based payment transactions with the employees are settled by the transfer of shares of HSBC Holdings plc. An employee is required to specify a monthly deduction (subject to a cap) from the salary for buying shares on a quarterly basis at the current fair value (investment shares). For every three investment shares bought, the employees will receive an additional free share (matching share) on the third anniversary of the scheme (the vesting date) provided the employee remains employed and retains the investment shares until the end of the three-year holding period. The impact of this plan on the local group's financial results and financial position is insignificant, and accordingly the disclosures required by IFRS 2 in relation to share-based payment arrangements have not been deemed necessary.

In respect of the restricted share awards (including Group Performance Share Plans ('GPSP')) referred to above, an assessment of performance over the relevant period is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. GPSP awards vest after five years. Vested shares may be subject to a retention requirement (restriction) post vesting. GPSP awards are retained until cessation of employment. In view of the insignificant impact of HSBC restricted share awards on the local group's income statement charge, the other IFRS 2 disclosure requirements attributable to share-based payment arrangements are not being presented in these financial statements.

17 Profit before tax

Profit before tax of the local group is stated after charging auditors' fees (excluding VAT) amounting to €1,160,000 (2022: €631,000) in relation to the annual statutory audit of the financial statements, of which €492,000 (2022: €463,000) is attributable to the bank. The annual statutory audit fee for the local group includes a one-off fee of €400,000 in relation to the implementation of IFRS 17.

Other fees, exclusive of VAT, charged by the appointed independent auditors to a subsidiary, comprise other assurance services in respect of Solvency II requirements amounting to €70,000 (2022: €66,000). Other fees, exclusive of VAT, charged by the appointed independent auditors to the bank comprise other assurance services in respect of Investor Services Rules and the Calculation of Contributions to the Single Resolution Fund, amounting to €28,000 (2022:€28,000).

General and administration expenses are analysed as follows:

	Group		Bank	
	2023	2022[1]	**2023**	2022
	€000	€000	**€000**	€000
Premises and equipment costs	**3,191**	4,181	**3,184**	4,175
IT support and telecommunication costs	**9,537**	8,857	**9,393**	8,593
Insurance, security and maintenance costs	**2,368**	2,159	**2,368**	2,159
Investment management and administrator fees	**625**	277	**—**	—
Actuarial services	**597**	993	**—**	—
Service contracted out costs	**14,069**	12,919	**13,046**	12,072
Movement in litigation provision	**478**	903	**598**	783
Regulatory fees	**5,989**	5,822	**5,949**	5,777
Professional fees	**2,370**	1,612	**1,417**	1,280
Other administrative expenses	**12,153**	14,941	**12,183**	14,251
	51,377	52,664	**48,138**	49,090

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.*

Under IFRS 17 reported operating expenses will be lower as directly attributable costs will be incorporated in the CSM and recognised in the insurance service result over the duration of the associated insurance contracts. Profit before tax includes a reduction to reported operating expenses of €3.6m as directly attributable costs are incorporated in the CSM and insurance service result. Below are the details of the attributable and non attributable expenses;

	2023			2022[1]		
	Expenses attributed to insurance acquisition cashflow	**Other directly attributable expenses**	**Other operating expenses**	Expenses attributed to insurance acquisition cashflow	Other directly attributable expenses	Other operating expenses
	€000	**€000**	**€000**	€000	€000	€000
Employees compensation and benefits	**761**	**560**	**42,607**	664	489	38,952
General and admin expenses	**978**	**1,144**	**51,377**	885	1,080	52,664
Depreciation and amortisation	**88**	**65**	**8,412**	39	28	8,154
	1,827	**1,769**	**102,396**	1,588	1,597	99,770

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.*

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

18 Tax expense

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

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Current tax:	**46,977**	13,328	**44,482**	12,668
– for this year	**46,977**	13,340	**44,482**	12,680
– adjustments in respect of prior years	**—**	(12)	**—**	(12)
Deferred tax:	**121**	6,078	**353**	5,385
– origination and reversal of temporary differences	**121**	6,078	**353**	5,385
	47,098	19,406	**44,835**	18,053

The tax recognised in profit or loss on the local group's and the bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Profit before tax	**133,854**	55,588	**128,134**	52,560
Tax at the applicable rate of 35%	**46,849**	19,456	**44,847**	18,396
Tax effect of:				
– non-taxable income	**—**	(7)	**—**	—
– income taxed at different rates	**(31)**	(434)	**(31)**	(434)
– non-deductible expenses	**18**	62	**18**	62
– disallowed expense arising from depreciation of property, plant and equipment	**126**	117	**126**	117
– current tax adjustments in respect of prior years	**—**	(12)	**—**	(12)
– tax credit on pension contribution	**(113)**	(111)	**(113)**	(111)
– loss on disposal of property, plant and equipment	**44**	—	**44**	—
– others	**205**	335	**(56)**	35
Tax expense	**47,098**	19,406	**44,835**	18,053

The tax impacts, which are entirely attributable to deferred taxation, relating to components of other comprehensive income and accordingly presented directly in equity are as follows:

	Group/Bank					
	2023			2022		
	Before tax	**Tax (charge)/ credit**	**Net of tax**	Before tax	Tax (charge)/ credit	Net of tax
	€000	**€000**	**€000**	€000	€000	€000
Fair valuation of financial investments:						
– net changes in fair value	**13,386**	**(4,685)**	**8,701**	(35,655)	12,479	(23,176)
Fair valuation of properties:						
– net changes in fair value	**1,826**	**(183)**	**1,643**	185	(19)	166
Remeasurement of defined benefit obligation:						
– net remeasurement	**(22)**	**8**	**(14)**	1,374	(481)	893
	15,190	**(4,860)**	**10,330**	(34,096)	11,979	(22,117)

19 Dividends

	Bank			
	2023	2022	**2023**	2022
	EUR per share	EUR per share	**€000**	€000
Gross of income tax				
– prior year's final dividend	**0.06**	0.03	**20,214**	12,323
– current year's interim dividend	**0.06**	—	**21,617**	—
	0.12	0.03	**41,831**	12,323
Net of income tax				
– prior year's final dividend	**0.04**	0.02	**13,139**	8,010
– current year's interim dividend	**0.04**	—	**14,051**	—
	0.08	0.02	**27,190**	8,010

The bank is proposing a final net dividend of €21,078,000 in respect of the financial year ended 31 December 2023. The final dividend will be paid on 25 April 2024 to shareholders who are on the bank's register of shareholders on 19 March 2024 subject to approval by the Annual General Meeting scheduled for 18 April 2024.

	Bank	
	2023	2022
	€000	€000
Proposed dividend		
Profit for the year	**83,299**	34,507
Proposed dividend	**35,129**	13,139
Less: interim dividend paid	**(14,051)**	—
Available for distribution	**21,078**	13,139
Proposed final dividend	**21,078**	13,139
Issued and fully paid up shares (Note 42)	**360,306,099**	360,306,099

	EUR per share	EUR per share
Proposed final dividend		
– gross of income tax per share	**0.09**	0.06
– net of income tax per share	**0.06**	0.04

20 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the local group by the weighted average number of ordinary shares in issue during the year. The profit attributable to equity holders of the local group amounted to €86,756,000 (2022: €36,182,000), while the weighted average number of ordinary shares in issue was 360,306,099 (2022: 360,306,099). The basic earnings per share of the local group amounted to €0.24 (2022: €0.10). The local group has no instruments or arrangements which give rise to dilutive potential ordinary shares and accordingly diluted earnings per share is equivalent to basic earnings per share.

21 Balances with Central Bank of Malta, Treasury Bills and cash

	Group/Bank	
	2023	2022
	€000	€000
Balances with Central Bank of Malta	**1,257,477**	1,269,354
Treasury Bills		
– measured at fair value through other comprehensive income	**385,580**	242,292
– measured at amortised cost	**–**	42,202
Cash	**33,582**	29,500
	1,676,639	1,583,348

The average reserve deposit held with the Central Bank of Malta for the relevant maintenance period in terms of Regulation (EC) No. 1745/2003 of the European Central Bank amounted to €57,727,000 (2022: €59,367,000).

Balances with Central Bank of Malta and Treasury Bills in the table above are shown net of credit loss allowances amounting to €21,000 (2022: €13,000) and €11,000 (2022: €5,000) respectively.

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

	Group	
	2023	2022
	€000	€000
Debt securities and other fixed income instruments	**232,364**	231,093
Equity and other non-fixed income instruments	**460,660**	429,353
	693,024	660,446

Debt securities and other fixed income instruments

	Group	
	2023	2022
	€000	€000
Issued by public bodies:		
– local government	**73,927**	74,083
– foreign governments	**54,739**	46,647
Issued by other bodies:		
– local banks	**5,088**	6,122
– foreign banks	**9,806**	18,834
– other local issuers	**14,746**	9,578
– other foreign issuers	**74,058**	75,829
	232,364	231,093
Listing status:		
– listed on the Malta Stock Exchange	**93,762**	89,783
– listed on other recognised exchanges	**138,602**	138,038
– unlisted	**—**	3,272
	232,364	231,093
At 1 Jan	**231,093**	270,806
Acquisitions	**92,122**	42,324
Disposals/redemptions	**(101,607)**	(48,423)
Changes in fair value	**10,756**	(33,614)
At 31 Dec	**232,364**	231,093

Equity and other non-fixed income instruments

	Group	
	2023	2022
	€000	€000
Issued by other bodies:		
– local banks	**1,966**	—
– foreign banks	**1,663**	3,259
– other local issuers	**20,728**	96,849
– other foreign issuers	**436,303**	329,245
	460,660	429,353
Listing status:		
– listed on the Malta Stock Exchange	**9,081**	14,306
– listed on other recognised exchanges	**42,082**	40,232
– local unlisted	**94,367**	82,543
– foreign unlisted	**315,130**	292,272
	460,660	429,353
At 1 Jan	**429,353**	497,002
Acquisitions	**27,061**	23,102
Disposals	**(35,582)**	(27,857)
Changes in fair value	**39,828**	(62,894)
At 31 Dec	**460,660**	429,353

23 Derivatives

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

Trading derivatives

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

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

Hedge accounting derivatives

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. During the financial year ended 31 December 2022, the local group entered into fair value hedges, which consisted of interest rate swaps that where used to protect against changes in the fair value of fixed-rate-long-term debt instruments due to the movements in market interest rates. The local group did not enter into new fair value hedges during the financial year ended 31 December 2023. For qualifying fair value hedges, all changes in the fair value of the derivatives (the 'hedging instrument') and in the fair value of the item in relation to the risk being hedged (the 'hedged item') are recognised in the income statement.

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

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

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

The hedge ratio in respect of the hedge accounting derivatives for the financial years ending 31 December 2023 and 31 December 2022 was 1:1. The weighted average swap rate in respect of the hedge accounting derivatives for the year was 2.08% per annum (2022: -0.55%). The contractual maturity date of the hedge derivatives is reflected in Note 4(c)(iv).

Derivatives

	Group/Bank							
	Notional contract amount		Fair value - Assets			Fair value - Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Foreign exchange derivatives								
Foreign exchange	**323,493**	**—**	**3,556**	**—**	**3,556**	**3,226**	**—**	**3,226**
Interest rate derivatives								
Interest rate swaps	**96,554**	**271,000**	**2,538**	**7,483**	**10,021**	**2,522**	**—**	**2,522**
At 31 Dec 2023	**420,047**	**271,000**	**6,094**	**7,483**	**13,577**	**5,748**	**—**	**5,748**
Foreign exchange derivatives								
Foreign exchange	318,988	—	6,273	—	6,273	5,879	—	5,879
Interest rate derivatives								
Interest rate swaps	117,173	271,000	4,382	15,090	19,472	4,373	—	4,373
At 31 Dec 2022	436,161	271,000	10,655	15,090	25,745	10,252	—	10,252

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

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

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

Fair value hedges

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

Hedging instrument and hedged item by hedged risk

	Group/Bank					
	Notional[1]	Accumulated fair value movements since hedge inception	Balance sheet presentation	Change in fair value for the year[2,3]	Hedge ineffectiveness recognised in profit and loss	Profit or loss presentation
	€000	€000		€000	€000	
Hedging instrument	**271,000**	**6,560**	**Derivatives**	**(8,613)**	**(34)**	**Net loss representing ineffective portion of fair value hedges**
Hedged item	**N/A**	**(6,735)**	**Financial investments**	**8,579**		
At 31 Dec 2023	**271,000**	**(175)**		**(34)**	**(34)**	
Hedging instrument	271,000	15,173	Derivatives	15,173	(141)	Net loss representing ineffective portion of fair value hedges
Hedged item	N/A	(15,314)	Financial investments	(15,314)		
At 31 Dec 2022	271,000	(141)		(141)	(141)	

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

The carrying amount of the hedged item as at the financial year ended 31 December 2023 amounted to €252,904,000 (2022: €242,584,000).

24 Loans and advances to banks

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Repayable on call and at short notice	**522,646**	355,780	**518,249**	349,490
Term loans and advances	**197,937**	376,727	**197,891**	376,727
	720,583	732,507	**716,140**	726,217

Loans and advances to banks in the table above are shown net of credit loss allowances which amounted to nil (2022: €1,000).

25 Loans and advances to customers

	Group/Bank	
	2023	2022
	€000	€000
Repayable on call and at short notice	**226,671**	199,523
Term loans and advances	**2,902,650**	3,023,378
Gross loans and advances to customers	**3,129,321**	3,222,901
Allowance for ECL	**(45,478)**	(47,734)
Net loans and advances to customers	**3,083,843**	3,175,167
Allowance for ECL		
– allowances booked under stage 1	**14,662**	10,177
– allowances booked under stage 2	**13,463**	18,744
– allowances booked under stage 3	**17,353**	18,813
	45,478	47,734

Loans and advances to customers with a carrying amount of €109,665,000 (2022: €100,615,000) have been pledged against the provision of credit lines by the Central Bank of Malta.

26 Financial investments

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Measured at fair value through other comprehensive income:				
Debt instruments	**456,930**	637,709	**456,930**	637,709
Equity and other non-fixed income instruments	**43**	37	**41**	35
Measured at amortised cost:				
Debt instruments	**858,886**	367,024	**858,886**	367,024
	1,315,859	1,004,770	**1,315,857**	1,004,768

Debt instruments measured at fair value through other comprehensive income

	Group/Bank	
	2023	2022
	€000	€000
Issued by public bodies:		
– local government	**376,777**	465,658
– foreign governments	**63,784**	106,943
Issued by other bodies:		
– other foreign issuers	**16,369**	65,108
	456,930	637,709
Listing status:		
– listed on the Malta Stock Exchange	**376,777**	465,658
– listed on other recognised exchanges	**80,153**	172,051
	456,930	637,709
At 1 Jan	**637,709**	845,700
Exchange adjustments	**(17)**	3,889
Amortisation of premium/discount	**(2,839)**	(5,166)
Acquisitions	**79,039**	99,384
Disposals/redemptions	**(277,958)**	(255,296)
Changes in fair value	**20,996**	(50,802)
At 31 Dec	**456,930**	637,709

The financial investments which are denominated in currencies other than the reporting currency are economically hedged through balances in corresponding currencies mainly forming part of customer accounts and deposits by banks. Thus, the exchange adjustment reflected above does not result in an exchange gain or loss recognised in profit or loss.

Credit loss allowances in respect of debt instruments measured at fair value through other comprehensive income amounted to €38,000 as at 31 December 2023 (2022: €60,000).

Debt securities measured at fair value through other comprehensive income with a carrying amount of €88,789,000 (2022: €82,760,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2023 and 2022, no balances were outstanding against these credit lines. In addition, debt securities measured at fair value through other comprehensive income with a carrying amount of €13,262,000 (2022: €11,105,000) have been pledged in terms of the Depositor Compensation Scheme (refer to Note 44).

Debt instruments measured at amortised cost

	Group/Bank	
	2023	2022
	€000	€000
Issued by public bodies:		
– local government	**70,393**	20,459
– foreign governments	**374,158**	173,650
Issued by other bodies:		
– other foreign issuers	**414,335**	172,915
	858,886	367,024
Listing status:		
– listed on the Malta Stock Exchange	**70,393**	20,459
– listed on other recognised exchanges	**788,493**	346,565
	858,886	367,024
At 1 Jan	**367,024**	—
Exchange adjustments	**(31)**	—
Acquisitions	**489,865**	365,409
Amortisation of premium/discount	**7,128**	1,615
Disposals/redemptions	**(5,100)**	—
At 31 Dec	**858,886**	367,024

The financial investments which are denominated in currencies other than the reporting currency are economically hedged through balances in corresponding currencies mainly forming part of customer accounts and deposits by banks. Thus, the exchange adjustment reflected above does not result in an exchange gain or loss recognised in profit or loss.

Debt securities measured at amortised cost with a carrying amount of €4,324,000 (2022: Nil) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2023 and 2022, no balances were outstanding against these credit lines.

Debt instruments measured at amortised cost in the table above are shown net of credit loss allowances amounting to €29,000 (2022:€18,000).

Equity and other non-fixed income instruments

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Issued by issuers other than public bodies and banks:				
– local issuers	**7**	7	**5**	5
– foreign issuers	**36**	30	**36**	30
	43	37	**41**	35
Listing status:				
– unlisted	**43**	37	**41**	35
	43	37	**41**	35

The increase in value of equity instruments from €35,000 as at 31 December 2022 to €41,000 as at 31 December 2023 is due to an increase in the equity's fair value during the year.

27 Prepayments, accrued income and other assets

	Group		Bank	
	2023	2022[1]	**2023**	2022
	€000	€000	**€000**	€000
Gross accrued interest	**26,995**	23,693	**24,377**	21,198
Allowance for ECL	**(4,672)**	(5,559)	**(4,672)**	(5,559)
Net accrued interest	**22,323**	18,134	**19,705**	15,639
Other accrued income	**2,071**	1,134	**1,966**	1,040
Prepayments	**969**	858	**962**	856
Committed letters of credit	**239**	1,495	**239**	1,495
Amounts pledged in favour of the Single Resolution Fund	**1,760**	1,513	**1,760**	1,513
Other	**6,337**	10,958	**5,454**	8,470
	33,699	34,092	**30,086**	29,013

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.*

Committed letters of credit in the table above are shown net of credit loss allowances which amounted to €1,000 (2022: €5,000).

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

The table above includes an amount of €1,760,000 (2022: €1,513,000) placed in an account held in respect of the Single Resolution Fund as an Irrevocable Payment Commitment ('IPC') in terms of the Recovery and Resolution Regulations.

28 Non-current assets held for sale

	Group/Bank	
	2023	2022
	€000	€000
Assets acquired in satisfaction of debt	**2,749**	3,269
Assets held for sale attributable to closed branches	**3,067**	1,904
	5,816	5,173

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The local group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers. During the financial year ended 31 December 2023, profit on sale of repossessed properties amounting to €45,000 (2022: €749,000) was recorded and is recognised in profit or loss under 'Other operating income / (expense)'.

Assets acquired in satisfaction of debt, amounting to €3,269,000 as at 31 December 2022, are net of an impairment provision of €22,000 which was raised during the financial year ended 31 December 2022 in relation to a write down to fair value to a plot of land held for sale.

Based on an assessment performed by management during the financial year ended 31 December 2022, the carrying amount of a property which was acquired in satisfaction of debt was deemed to be unrecoverable. In this respect, the related impairment provision amounting to €200,000 was reversed and the gross carrying amount of €686,000 was written off.

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

During the financial year ended 31 December 2023, management performed an impairment assessment in respect of its repossessed properties, on the basis of which the carrying amount of one property was deemed to be unrecoverable. A provision amounting to €450,000 was raised in this regard. In addition, a property with a carrying amount of €70,000 was disposed of during the financial year ended 31 December 2023, resulting in a gain on disposal amounting to €45,000.

During 2021, a number of branches were not re-opened in accordance with the bank's strategic plan to modernise its operations and enhance its branch network infrastructure, and to reflect the continued increase of trends in customer use of and demand for digital banking services.

During the current financial year, land and buildings and other equipment with a carrying amount of €1,163,000 (2022: €554,000) attributable to a specific closed branch were reclassified from Property, plant and equipment Note 32. The branch in question was revalued by an independent property valuer upon reclassification, resulting in an increase in the property's carrying amount of €537,000, which is reflected in the property revaluation reserve accordingly.

During the financial year ended 31 December 2022, one branch with a carrying amount of €1,448,000 was disposed of. Upon sale, the property revaluation reserve in respect of this branch, amounting to €1,256,000 net of deferred tax, was transferred to Retained Earnings Note 43. A gain on disposal amounting to €440,000 was recognised in respect of this branch within profit or loss. No additional branches were disposed of during the financial year ended 31 December 2023.

The carrying amount as at 31 December 2023 will be recovered through sale transactions rather than through continuing use.

29 Investments in subsidiaries

	Bank			
	Nature of business	Equity interest %	**2023 €000**	2022 €000
HSBC Life Assurance (Malta) Ltd	Life insurance	99.99	**28,578**	28,578
HSBC Global Asset Management (Malta) Limited	Portfolio management services	99.99	**2,281**	2,281
			30,859	30,859

All subsidiaries are incorporated in Malta.

30 Investment property

	Group			
	Fair value 2023 €000	**Cost 2023 €000**	Fair value 2022 €000	Cost 2022 €000
Freehold land and buildings				
At 1 Jan	**—**	**—**	1,600	1,720
Disposals	**—**	**—**	(1,600)	(1,720)
At 31 Dec	**—**	**—**	—	—

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

31 Right-of-use assets

The local group leases various offsite ATMs, offices and branches as well as low value items such as IT equipment. Rental contracts are typically made for fixed periods but may have extension options. Extension and termination options are included in a number of property leases across the local group. These are used to maximise operational flexibility in terms of managing the assets used in the local group's operations. The majority of extension and termination options held are exercisable only by the local group and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

A corresponding liability representing the future outflows in terms of the lease agreements is reported in Note 38 Accruals, deferred income and other liabilities.

	Group/Bank	
	2023	2022
Right-of-use assets	**€000**	€000
At 1 Jan	**2,459**	2,569
Additions	**456**	875
Impact of derecognition of leased assets	**(90)**	—
Depreciation	**(541)**	(985)
At 31 Dec	**2,284**	2,459
Lease liabilities at 31 Dec		
Current	**488**	435
Non-current	**1,792**	1,991
	2,280	2,426

	Group/Bank	
	2023	2022
	€000	€000
The income statement reflects the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**541**	985
Interest expense	**53**	38
Expense relating to short-term leases (included in administrative expenses)	**47**	10
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**332**	287

The total cash payments for leases, including short-term and low-value leases, in 2023 was €1,119,000 (2022: €1,273,000).

32 Property, plant and equipment

	Group			
	Land and buildings	**Computer equipment**	**Others**	**Total**
	€000	**€000**	**€000**	**€000**
Cost/revaluation				
At 1 Jan 2023	**39,884**	**18,593**	**36,280**	**94,757**
Additions	**8,126**	**427**	**570**	**9,123**
Revaluation	**1,808**	**—**	**—**	**1,808**
Disposals/Write offs	**(214)**	**(3,043)**	**(267)**	**(3,524)**
Transfers (refer to Note 28)	**(1,210)**	**—**	**(10)**	**(1,220)**
At 31 Dec 2023	**48,394**	**15,977**	**36,573**	**100,944**
Accumulated depreciation and impairment losses				
At 1 Jan 2023	**1,792**	**17,165**	**31,173**	**50,130**
Depreciation charge for the year	**257**	**502**	**1,272**	**2,031**
Revaluation	**(18)**	**—**	**—**	**(18)**
Disposals/Write offs	**(214)**	**(2,959)**	**(259)**	**(3,432)**
Transfers (refer to Note 28)	**(48)**	**—**	**(9)**	**(57)**
Impairment losses	**503**	**—**	**93**	**596**
At 31 Dec 2023	**2,272**	**14,708**	**32,270**	**49,250**
Carrying amount at 1 Jan 2023	**38,092**	**1,428**	**5,107**	**44,627**
Carrying amount at 31 Dec 2023	**46,122**	**1,269**	**4,303**	**51,694**
Cost/revaluation				
At 1 Jan 2022	36,292	18,093	37,861	92,246
Additions	4,309	500	580	5,389
Revaluation	(63)	—	—	(63)
Disposals/Write offs	(45)	—	(1,986)	(2,031)
Transfers (refer to Note 28)	(609)	—	(175)	(784)
At 31 Dec 2022	39,884	18,593	36,280	94,757
Accumulated depreciation and impairment losses				
At 1 Jan 2022	1,870	16,677	31,776	50,323
Depreciation charge for the year	274	488	1,553	2,315
Revaluation	(248)	—	—	(248)
Disposals/Write offs	(45)	—	(1,985)	(2,030)
Transfers (refer to Note 28)	(59)	—	(171)	(230)
At 31 Dec 2022	1,792	17,165	31,173	50,130
Carrying amount at 1 Jan 2022	34,422	1,416	6,085	41,923
Carrying amount at 31 Dec 2022	38,092	1,428	5,107	44,627

	Bank			
	Land and buildings	Computer equipment	Others	Total
	€000	€000	€000	€000
Cost/revaluation				
At 1 Jan 2023	**39,884**	**18,355**	**36,069**	**94,308**
Additions	**8,126**	**427**	**570**	**9,123**
Revaluation	**1,808**	**—**	**—**	**1,808**
Disposals/Write offs	**(214)**	**(3,031)**	**(252)**	**(3,497)**
Transfers (refer to Note 28)	**(1,210)**	**—**	**(10)**	**(1,220)**
At 31 Dece 2023	**48,394**	**15,751**	**36,377**	**100,522**
Accumulated depreciation and impairment losses				
At 1 Jan 2023	**1,792**	**16,927**	**30,966**	**49,685**
Depreciation charge for the year	**257**	**502**	**1,271**	**2,030**
Revaluation	**(18)**	**—**	**—**	**(18)**
Disposals/Write offs	**(214)**	**(2,947)**	**(244)**	**(3,405)**
Transfers (refer to Note 28)	**(48)**	**—**	**(9)**	**(57)**
Impairment losses	**503**	**—**	**93**	**596**
At 31 Dec 2023	**2,272**	**14,482**	**32,077**	**48,831**
Carrying amount at 1 Jan 2023	**38,092**	**1,428**	**5,103**	**44,623**
Carrying amount at 31 Dec 2023	**46,122**	**1,269**	**4,300**	**51,691**
Cost/revaluation				
At 1 Jan 2022	36,292	17,855	37,652	91,799
Additions	4,309	500	578	5,387
Revaluation	(63)	—	—	(63)
Disposals/Write offs	(45)	—	(1,986)	(2,031)
Transfers (refer to Note 28)	(609)	—	(175)	(784)
At 31 Dec 2022	39,884	18,355	36,069	94,308
Accumulated depreciation and impairment losses				
At 1 Jan 2022	1,870	16,439	31,569	49,878
Depreciation charge for the year	274	488	1,553	2,315
Revaluation	(248)	—	—	(248)
Disposals/Write offs	(45)	—	(1,985)	(2,030)
Transfers (refer to Note 28)	(59)	—	(171)	(230)
At 31 Dec 2022	1,792	16,927	30,966	49,685
Carrying amount at 1 Jan 2022	34,422	1,416	6,083	41,921
Carrying amount at 31 Dec 2022	38,092	1,428	5,103	44,623

As a result of the bank's strategic plan to modernise its operations, announced in 2019, the branch network infrastructure continues to be enhanced to reflect this change. As part of this plan, a number of branches were not re-opened. In this regard, during the current financial year, land and buildings and other equipment with a carrying amount of €1,163,000 (2022: €554,000) attributable to a specific closed branch was reclassified to Non-current assets held for sale, as its sale is highly probable as at reporting date (refer to Note 28). Land and buildings and fixtures and fittings pertaining to specific closed branches with a carrying amount of €1,322,000 (2022: €1,972,000) have not been reclassified to Non-current assets held for sale as these assets do not meet the criteria within IFRS 5, Non-current assets held for sale and discontinued operations for initial classification as held for sale.

During the current financial year, a long leasehold property and related fixtures with a carrying amount of €596,000 was fully impaired on the basis of a valuation carried out by the local group's appointed external valuer. In this respect, an impairment loss amounting to €596,000 was recognised in profit or loss within 'Depreciation and impairment of property, plant and equipment and right-of-use assets'. During 2023, equipment with a carrying amount of €92,000 was disposed of following a decision to upgrade the bank's ATM network in Malta, giving rise to a loss on disposal amounting to €64,000 recognised within 'Other operating income/(expense)'. In addition, during the financial year ended 31 December 2022, equipment with a carrying amount of €1,000 was disposed of following termination of a lease agreement.

With the exception of the above, other land and buildings reported are all utilised for own activities.

If the land and buildings were stated on the historical cost basis, the carrying amounts would be:

	Group/Bank	
	2023	2022
	€000	€000
At 31 Dec		
Cost	**19,739**	11,827
Accumulated depreciation	**(2,290)**	(2,040)
Carrying amount	**17,449**	9,787

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

33 Intangible assets

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Software	**20,762**	19,169	**20,356**	18,604
	20,762	19,169	**20,356**	18,604

Software

	Group		Bank	
	2023	2022	**2023**	2022
Cost	**€000**	€000	**€000**	€000
At 1 Jan	**59,909**	52,490	**57,577**	50,238
Additions	**6,880**	7,419	**6,822**	7,339
Write offs	**(43)**	—	**(43)**	—
At 31 Dec	**66,746**	59,909	**64,356**	57,577
Accumulated amortisation				
At 1 Jan	**40,740**	35,887	**38,973**	34,216
Amortisation and impairment charge for the year	**5,244**	4,853	**5,027**	4,757
At 31 December	**45,984**	40,740	**44,000**	38,973
Carrying amount at 1 Jan	**19,169**	16,603	**18,604**	16,022
Carrying amount at 31 Dec	**20,762**	19,169	**20,356**	18,604

As a result of the adoption of IFRS 17, the PVIF intangible asset was removed, as explained in further detail in Note 49.

34 Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts determined after appropriate offsetting are shown in the statement of financial position:

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Deferred tax assets	**31,002**	35,767	**30,623**	35,620
Deferred tax liabilities	**(3,727)**	(3,569)	**(3,727)**	(3,569)
	27,275	32,198	**26,896**	32,051

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rate used is 35% (2022: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property, which is computed on the basis applicable to disposals of immovable property mainly giving rise to a tax effect of 8% or 10% (depending on date of acquisition) of the transfer value (2022: 8% or 10%).

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

The balance at 31 December represents temporary differences attributable to:

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Depreciation of property, plant and equipment	**(2,440)**	(2,164)	**(2,422)**	(2,140)
Expected credit loss allowances	**18,049**	19,151	**18,049**	19,151
Fair valuation of properties	**(3,727)**	(3,569)	**(3,727)**	(3,569)
Fair value of financial instruments	**7,401**	12,086	**7,401**	12,086
Impact of IFRS 17 transition	**—**	(324)	**—**	—
Provisions	**7,186**	6,565	**6,790**	6,128
Right-of-use assets	**(799)**	(861)	**(799)**	(861)
Lease liabilities	**798**	849	**798**	849
Other	**807**	465	**806**	407
	27,275	32,198	**26,896**	32,051

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

	Group				
	At 1 Jan 2023	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 Dec 2023
	€000	€000	€000	€000	€000
Depreciation of property, plant and equipment	(2,164)	(276)	—	—	(2,440)
Expected credit loss allowances	19,151	(1,102)	—	—	18,049
Fair valuation of properties	(3,569)	25	(183)	—	(3,727)
Fair value movements on financial instruments	12,086	—	(4,685)	—	7,401
Impact of IFRS 17 transition	(324)	324	—	—	—
Provisions	6,565	613	8	—	7,186
Right-of-use assets	(861)	62	—	—	(799)
Lease liabilities	849	(51)	—	—	798
Other	465	284	—	58	807
	32,198	(121)	(4,860)	58	27,275

	At 1 Jan 2022	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 Dec 2022
	€000	€000	€000	€000	€000
Depreciation of property, plant and equipment	(1,653)	(511)	—	—	(2,164)
Expected credit loss allowances	24,176	(5,025)	—	—	19,151
Fair valuation of properties	(3,722)	172	(19)	—	(3,569)
Fair value movements on financial instruments	(393)	—	12,479	—	12,086
Impact of IFRS 17 transition	375	(699)	—	—	(324)
Provisions	6,994	52	(481)	—	6,565
Right-of-use assets	(899)	38	—	—	(861)
Lease liabilities	858	(9)	—	—	849
Other	501	(96)	—	60	465
	26,237	(6,078)	11,979	60	32,198

	Bank				
	At 1 Jan 2023	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 Dec 2023
	€000	€000	€000	€000	€000
Depreciation of property, plant and equipment	(2,140)	(282)	—	—	(2,422)
Expected credit loss allowances	19,151	(1,102)	—	—	18,049
Fair valuation of properties	(3,569)	25	(183)	—	(3,727)
Fair value movements on financial instruments	12,086	—	(4,685)	—	7,401
Provisions	6,128	654	8	—	6,790
Right-of-use assets	(861)	62	—	—	(799)
Lease liabilities	849	(51)	—	—	798
Other	407	341	—	58	806
	32,051	(353)	(4,860)	58	26,896

	At 1 Jan 2022	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 Dec 2022
	€000	€000	€000	€000	€000
Depreciation of property, plant and equipment	(1,658)	(482)	—	—	(2,140)
Expected credit loss allowances	24,176	(5,025)	—	—	19,151
Fair valuation of properties	(3,722)	172	(19)	—	(3,569)
Fair value movements on financial instruments	(393)	—	12,479	—	12,086
Provisions	6,599	10	(481)	—	6,128
Right-of-use assets	(899)	38	—	—	(861)
Lease liabilities	858	(9)	—	—	849
Other	436	(89)	—	60	407
	25,397	(5,385)	11,979	60	32,051

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than 12 months from the end of the reporting period.

35 Deposits by banks

As at 31 December 2023, deposits by banks represented balances repayable on demand amounting to €5,117,000 (2022: €2,861,000).

36 Customer accounts

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Term deposits	**764,735**	694,071	**764,735**	694,071
Repayable on demand	**5,376,785**	5,276,887	**5,407,534**	5,316,321
	6,141,520	5,970,958	**6,172,269**	6,010,392

37 Liabilities under investment contracts

	Group	
	2023	2022
	€000	€000
At 1 Jan	**162,123**	185,137
Premiums received	**2,109**	6,141
Amounts paid on surrender and other terminations during the year	**(18,420)**	(12,064)
Changes in unit prices and other movements	**11,146**	(17,091)
At 31 Dec	**156,958**	162,123

38 Accruals, deferred income and other liabilities

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Accrued interest	**4,976**	1,864	**4,771**	1,677
Accrued expenses	**34,007**	25,163	**28,697**	20,444
Deferred income	**247**	273	**134**	158
Committed letters of credit	**240**	1,500	**240**	1,500
Lease liabilities (refer to Note 31)	**2,280**	2,426	**2,280**	2,426
Other	**13,305**	11,324	**8,639**	7,141
	55,055	42,550	**44,761**	33,346

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

39 Provisions

	Group				
	Termination benefits	**Litigation provision**	**Post employment and other long-term employee benefits**	**Other provisions**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Provisions (excluding contractual commitments)					
At 31 Dec 2022	**1,786**	**2,108**	**11,819**	**2,623**	**18,336**
Additions	**950**	**1,104**	**975**	**294**	**3,323**
Amounts utilised	**(1,666)**	**(629)**	**(125)**	**(183)**	**(2,603)**
Unused amounts reversed	**(128)**	**(626)**	**(9)**	**(256)**	**(1,019)**
Remeasurement of post employment and other long-term employee benefits	**—**	**—**	**1,969**	**—**	**1,969**
At 31 Dec 2023	**942**	**1,957**	**14,629**	**2,478**	**20,006**

	Loan commitments and financial guarantees	**Performance and other guarantees**	**Total**
	€000	**€000**	**€000**
Provisions in respect of contractual commitments			
At 31 Dec 2022	**1,322**	**422**	**1,744**
Movement during the year	**(4)**	**103**	**99**
At 31 Dec 2023	**1,318**	**525**	**1,843**
Total Provisions			
At 31 Dec 2022			**20,080**
At 31 Dec 2023			**21,849**

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

	Loan commitments and financial guarantees	Performance and other guarantees	Total
	€000	€000	€000
Provisions in respect of contractual commitments			
At 31 Dec 2021	1,266	504	1,770
Movement during the year	56	(82)	(26)
At 31 Dec 2022	1,322	422	1,744
Total Provisions			
At 31 Dec 2021			21,252
At 31 Dec 2022			20,080

	Bank				
	Termination benefits	**Litigation provision**	**Post employment and other long-term employee benefits**	**Other provisions**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Provisions (excluding contractual commitments)					
At 31 Dec 2022	**1,786**	**1,988**	**11,819**	**1,493**	**17,086**
Additions	**950**	**1,104**	**975**	**294**	**3,323**
Amounts utilised	**(1,666)**	**(629)**	**(125)**	**(183)**	**(2,603)**
Unused amounts reversed	**(128)**	**(506)**	**(9)**	**(256)**	**(899)**
Remeasurement of post employment and other long-term employee benefits	**—**	**—**	**1,969**	**—**	**1,969**
At 31 Dec 2023	**942**	**1,957**	**14,629**	**1,348**	**18,876**

	Loan commitments and financial guarantees	**Performance and other guarantees**	**Total**
	€000	**€000**	**€000**
Provisions in respect of contractual commitments			
At 31 Dec 2022	**1,322**	**422**	**1,744**
Movement during the year	**(4)**	**103**	**99**
At 31 Dec 2023	**1,318**	**525**	**1,843**
Total Provisions			
At 31 Dec 2022			**18,830**
At 31 Dec 2023			**20,719**

	Bank				
	Termination benefits	Litigation provision	Post employment and other long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)					
At 31 Dec 2021	2,042	1,207	13,293	1,810	18,352
Additions	1,558	843	729	623	3,753
Amounts utilised	(1,814)	(2)	(376)	(754)	(2,946)
Unused amounts reversed	—	(60)	(305)	(186)	(551)
Remeasurement of post employment and other long-term employee benefits	—	—	(1,522)	—	(1,522)
At 31 Dec 2022	1,786	1,988	11,819	1,493	17,086

	Loan commitments and financial guarantees	Performance and other guarantees	Total
	€000	€000	€000
Provisions in respect of contractual commitments			
At 31 Dec 2021	1,266	504	1,770
Movement during the year	56	(82)	(26)
At 31 Dec 2022	1,322	422	1,744
Total Provisions			
At 31 Dec 2021			20,122
At 31 Dec 2022			18,830

(a) Termination benefits

In 2021, the bank announced a strategic initiative to further improve its operational structure, benefiting from the Group's operating models, as the bank aims to drive efficiencies and enhance customer experience, and create a leaner working model that is externally focused, performance-led, customer centred and fit for the future. To support this initiative, two Voluntary Redundancy Schemes were issued by the bank during 2021 and 2022. Specifically, a provision for €3,208,000 was recognised in 2021 in respect of voluntary redundancies for 33 full time equivalent employees, with another provision for €1,558,000 recognised in 2022 in respect of the planned transfer of 11 full time equivalent employees and their related activities to a local service provider.

These schemes were introduced in view of the reduction in head count as a result of the transformation and automation of certain areas within the bank, and reflect the full amount of payments agreed with the employees who applied for these voluntary redundancy schemes. These provisions, attributable to local group and bank, were fully utilised by 31 December 2023, with the exception of an amount of €128,000 attributable to one application for the scheme announced in 2022 that was withdrawn during 2023.

During the financial year ended 31 December 2023, the bank recognised another provision to further align its structure to the HSBC Group's operating model. In this respect, a provision amounting to €950,000, attributable to the local group and bank, was recognised during 2023.

The movement in provisions is reflected in Note 16 'Employee compensation and benefits' presented under Termination benefits. The provision is expected to be fully utilised during the forthcoming financial year.

(b) Litigation provision

The litigation provision as at 31 December 2023 amounted to €1,957,000 for both the local group and bank (2022: €2,108,000 for the local group and €1,988,000 for the bank). This provision is expected to be settled after more than one year from the reporting date. The impact of discounting is not considered to be significant. The movement in these provisions for 2023, comprising a net increase in provision of €478,000 for the local group and €598,000 for the bank (2022: a net increase in provision of €903,000 for the local group and €783,000 for the bank), is recognised in profit or loss under 'General and administrative expenses', whilst amounts utilised during the year amounts to €629,000 (2022: €2,000) for both the local group and the bank.

Based on legal advice, the Board believes that adequate provisions have been recognised, taking into consideration the timing and amount of the probable economic outflows required in respect of the litigation cases opened against the local group and the bank.

(c) Post employment and other long-term employee benefits

The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement for medical grounds. This provision is principally non-current in nature, with the maturity profile of the obligation spanning over the estimated remaining working life. These obligations emanate from the provisions of the Collective Agreement. The obligations as at 31 December 2023 have been estimated at €14,629,000 (2022: €11,819,000) by independent actuaries using the projected unit credit method. In 2022, the long-term employee benefits provision was revised to reflect the reduction in the number of employees resulting in a release recognised in profit or loss amounting to €305,000, which is mainly the result of the planned transfer of a number of employees to a local service provider. In 2023, another release amounting to €9,000 was recognised in profit or loss to reflect the actual number of employees that benefited from the retirement bonus as stipulated within the Collective Agreement during the current financial year.

Furthermore, net current service charges of €975,000 (2022: €729,000) reported under 'Additions' were recognised in the income statements. In addition, actuarial losses attributable to changes in financial assumptions, demographic assumptions and experience adjustments of €22,000 (2022: a gain of €1,374,000) in respect of post-employment benefits and €1,947,000 (2022: a gain of €148,000) attributable to long-term employee benefits, reported under 'Remeasurement of post employment and other long-term employee benefits', were recognised in other comprehensive income and in profit or loss, respectively.

The present value of the defined benefit obligation at 31 December 2023 and 2022 has been estimated after taking into consideration the following assumptions:

- a rate of 3.80% (2022: 3.65%) to discount the future obligations to present value, which is based on the eurozone corporate bond yield curve. The yield curve is derived by considering the market yields on high-quality corporate bonds with currency and term of the corporate bonds (rated AA- or better) consistent with the currency and term of the liabilities. For longer durations, where such data is not available, the shape of the composite AA-rated government bond yield curve is used to extrapolate the curve to very long durations;
- an inflation rate of 2.50% (2022: 2.50%) in line with the eurozone inflation curve;
- a salary increase assumption of 6.00% including cost of living allowance for 2024 (2022: 4.00% plus cost of living adjustments for 2023) and 5.00% including cost of living adjustments for 2025-2026 and 3% including cost of living adjustments for 2027 onwards (2022: 3.00% from 2024 onwards);
- withdrawal rates, representing the local group's expectations in respect of retirement of employees, which were based on standard tables used by actuaries after taking into consideration the observed retirement history of the local group;
- retirement age of 65 (2022: 62);
- mortality rates based on generational tables used by actuaries; and
- ill health rates mainly based on the local group's historical experience.

A sensitivity analysis for significant actuarial assumptions as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at that date is not deemed necessary taking into account the materiality and significance of the amount of the provisions in the context of the aggregate level of assets and liabilities of the local group and the level of financial results registered during the current period.

(d) Other provisions

Other provisions as at 31 December 2023 amounted to €2,478,000 for the local group (2022: €2,623,000) and €1,348,000 (2022: €1,493,000) for the bank. This represents mainly an onerous contract provision resulting from a closed investment product held by one of the subsidiary companies whereby future losses were estimated and a provision for obligations in respect of medical insurance cost for employees who retired under previous voluntary schemes.

(e) Provisions in respect of contractual commitments

The component of provisions for liabilities and other charges in respect of contractual commitments represents expected credit losses in relation to off-balance sheet financial guarantee contracts and commitments where the local group has become party to an irrevocable commitment, as defined under IFRS 9 'Financial Instruments'. As at 31 December 2023, expected credit losses under IFRS 9 in respect of these commitments amounted to €1,318,000 (2022: €1,322,000). The movement in expected credit losses in respect of such instruments is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' within Note 4(b)(iii).

Contractual commitments also comprise performance and other guarantee contracts that fall outside the scope of IFRS 9, including standby letters of credit and non-financial guarantees, such as performance guarantees. As at 31 December 2023, provisions calculated in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' in respect of such instruments amounted to €525,000 (2022: €422,000). Further details in this respect are set out in Note 44.

40 Borrowings from a group undertaking

In December 2021, the bank entered into a €60,000,000 loan agreement with HSBC Bank plc. The purpose of the loan is to enable the bank to meet the interim targets for minimum requirement for own funds and eligible liabilities ('MREL') as set by the Single Resolution Board.

The loan, which is unsecured and has been granted on normal commercial terms, is for a period of 10 years with maturity date of 16 December 2031, with an option of early repayment and subject to the terms and conditions of the Loan Agreement and applicable laws and regulations. It bears interest at a rate equal to three-month Euribor plus a margin of 117 basis points. As at 31 December 2023, the interest rate was 5.10% (2022: 3.25%).

In December 2023, the bank has agreed to a transfer arrangement of the above mentioned €60,000,000 loan agreement with HSBC Bank plc, by virtue of which the loan agreement was transferred to HSBC Continental Europe, as the new parent company of HSBC Bank Malta p.l.c. following the change of control in November 2022. No changes to the terms and conditions of the original loan agreement were made.

In January 2023, the bank entered into a €30,000,000 loan agreement with HSBC Continental Europe. This loan is unsecured and has been granted on normal commercial terms for a period of 4 years with maturity date of 30 January 2027 and an option of early repayment, subject to the terms and conditions of the Loan Agreement and applicable laws and regulations. It bears interest at a rate equal to three-month Euribor plus a margin of 127 basis points. As at 31 December 2023, the interest rate was 5.22%.

The purpose of these loans is to enable the Bank to meet the minimum requirement for own funds and eligible liabilities ('MREL') as set by the Single Resolution Board. Both loans are designated as, and will constitute, the lower ranking liabilities referred to in regulation 108(4) of the Recovery and Resolution Regulations (Subsidiary Legislation 330.09).

41 Subordinated liabilities

As at 31 December 2022, the bank's subordinated liabilities comprised a €62,000,000 subordinated unsecured loan stock, with maturity date of 14 December 2028, issued in December 2018 to HSBC Bank plc and having a floating rate linked to three-month Euribor. As at 31 December 2022, the interest rate was 4.11%.

On 14 December 2023, the €62,000,000 subordinated unsecured loan stock was repaid in full in terms of the early redemption option included in the contractual agreement. On the same date, a new subordinated loan amounting to €65,000,000 was entered into with HSBC Continental Europe. The term of the subordinated loan is 10 years, with a maturity date of 14 December 2033 and an option of early redemption after 5 years. It bears interest at a rate equal to three-month Euribor plus a margin of 237 basis points. As at 31 December 2023, the interest rate was 6.33%.

The subordinated liabilities will, in the event of the winding up of the bank, be subordinated to the claims of depositors and other creditors. The bank did not have any defaults of interest or other breaches with respect to its subordinated liabilities during the current and comparative periods.

42 Called up share capital

	Group/Bank	
	2023	2022
	€000	€000
Authorised		
470,000,000 ordinary shares of 30 cent each	**141,000**	141,000
Issued and fully paid up		
360,306,099 ordinary shares of 30 cent each	**108,092**	108,092

43 Reserves

Revaluation reserve

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

	Group/Bank
	€000
On land and buildings	
1 Jan 2022	**23,599**
– surplus arising on revaluation	**185**
– deferred tax on revaluation loss	**(19)**
– transfer to retained earnings upon realisation through disposal	**(1,396)**
– deferred tax on transfer upon realisation through disposal	**140**
31 Dec 2022	**22,509**
– surplus arising on revaluation	**1,826**
– deferred tax on revaluation surplus	**(183)**
31 Dec 2023	**24,152**
On financial investments	
1 Jan 2022	**731**
– fair value adjustments	**(35,655)**
– deferred tax on fair value adjustments	**12,479**
31 Dec 2022	**(22,445)**
– fair value adjustments	**13,386**
– deferred tax on fair value adjustments	**(4,685)**
31 Dec 2023	**(13,744)**
Total revaluation reserve	
Total at 31 Dec 2022	**64**
Total at 31 Dec 2023	**10,408**

44 Contingent liabilities, contractual commitments and guarantees

	Group Contract amount		Bank Contract amount	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Guarantees and other contingent liabilities:				
– financial guarantees	**10,279**	11,787	**10,279**	11,787
– performance and other guarantees	**156,601**	137,399	**156,601**	137,399
– standby letters of credit	**17,689**	18,130	**17,689**	18,130
– other contingent liabilities	**15,926**	14,934	**15,876**	14,934
At 31 Dec	**200,495**	182,250	**200,445**	182,250
Commitments:				
– documentary credits	**6,216**	17,816	**6,216**	17,816
– standby facilities, credit lines and other commitments to lend	**832,443**	824,504	**832,443**	824,504
At 31 Dec	**838,659**	842,320	**838,659**	842,320

The local group provides guarantees and standby letters of credit on behalf of third party customers. These are generally provided in the normal course of the local group's banking business. The maximum potential amount of future payments which the local group could be required to make at 31 December is disclosed in the table above. The risks and exposures arising from guarantees and standby letters of credit are captured and managed in accordance with the local group's overall credit risk management policies and procedures. Guarantees and standby letters of credit have a term of less than one year.

Guarantees provided by the local group comprise financial guarantees as well as performance and other guarantees. Financial guarantees are within the scope of the impairment requirements emanating from IFRS 9 in view of the fact that these represent irrevocable commitments which exposes the local group to credit risk. In contrast, performance and other guarantees represent transaction-related guarantees and, as such, do not meet the definition of financial guarantees in accordance with IFRS 9. Similarly, standby letters of credit represent exposures relating to particular contracts or to non-financial transactions. In this respect, performance guarantees and standby letters of credit fall outside the scope of the impairment requirements emanating from IFRS 9 in view of the fact that such contracts do not give rise to credit risk. Consequently, the local group assesses whether such contracts give rise to provisions or contingent liabilities in line with the requirements emanating from IAS 37.

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon. As a significant portion of guarantees and standby letters of credit is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

Other contingent liabilities relate to possible future contributions payable to the Depositor Compensation Scheme ('DCS') and the Single Resolution Fund ('SRF'), as well as legal claims against the bank.The DCS provides compensation, up to certain limits, to eligible customers of credit institutions that are unable, or likely to be unable, to pay claims against them. The DCS may impose a further contribution on the bank to the extent the contributions imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate contribution to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the DCS, changes in the level of protected products (including deposits and investments) and the population of DCS members at the time. At 31 December 2023, assets pledged in favour of the DCS comprised debt securities measured at fair value through other comprehensive income with a carrying amount of €13,262,000 (2022: €11,050,000). The Depositor Compensation Scheme reserve amounts to €12,735,000 (2022: €11,111,000). A contingent liability for an identical amount is disclosed in the table above to reflect the possibility that this commitment becomes payable.

In addition, in accordance with article 70(3) of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, the available financial means of the SRF may include irrevocable payment commitments which are fully backed by unencumbered collateral of low-risk assets. The share of irrevocable payment commitments cannot exceed 30% of the total amount of contributions. At 31 December 2023, irrevocable payment commitments to the SRF amounted to €1,760,000 (2022: €1,513,000), reflecting cash collateral amounting to 22.5% of total payment obligations to the SRF. The cash collateral is classified within 'Other assets' in the statement of financial position. In addition, a contingent liability for an identical amount is disclosed in the table above to reflect the possibility that this commitment becomes payable.

Other contingent liabilities also include legal claims against the bank amounting to €1,744,000 (2022: €2,310,000) . Based on legal advice, it is not considered probable that settlement will require the outflow of economic benefits in the case of these legal claims, or the amount of the obligation cannot be reliably measured. The above commitments exclude commitments in relation to capital expenditure which are disclosed in Note 45.

The local group also enters into loan commitments in the form of documentary credits, undrawn formal standby facilities and credit lines and other commitments to lend. These represent irrevocable commitments to lend and, as such, give rise to an exposure to credit risk in the event that these contracts are fully drawn and the client defaults. The local group measures ECL in respect of such commitments in accordance with the impairment requirements emanating from IFRS 9.

The expected credit loss allowances relating to financial guarantees and commitments is disclosed in Note 4.

45 Capital commitments

Capital commitments as at 31 December 2023 amounting to €14,953,000 (2022: €1,164,000) are mainly related to the acquisition of property, plant and equipment.

46 Cash and cash equivalents

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Balances of cash and cash equivalents are analysed below:				
Cash	**33,582**	29,500	**33,582**	29,500
Malta Government Treasury Bills of three months or less	**—**	232,346	**—**	232,346
Balances with Central Bank of Malta (excluding reserve deposit) of three months or less	**1,199,750**	1,209,987	**1,199,750**	1,209,987
Loans and advances to banks of one month or less	**602,291**	481,646	**597,940**	475,370
Items in course of collection from other banks	**8,427**	6,921	**8,427**	6,921
Less: Items in course of transmission to other banks	**(18,359)**	(27,397)	**(18,359)**	(27,397)
Per Statements of Cash Flows	**1,825,691**	1,933,003	**1,821,340**	1,926,727
Adjustment to reflect balances with contractual maturity of more than one or three months as applicable	**561,599**	362,361	**561,507**	362,361
Per Statements of Financial Position	**2,387,290**	2,295,364	**2,382,847**	2,289,088
Analysed as follows:				
Cash and balances with Central Bank of Malta	**1,291,059**	1,298,853	**1,291,059**	1,298,853
Malta Government Treasury Bills	**385,580**	284,494	**385,580**	284,494
Loans and advances to banks	**720,583**	732,493	**716,140**	726,217
Items in course of collection from other banks	**8,427**	6,921	**8,427**	6,921
Items in course of transmission to other banks	**(18,359)**	(27,397)	**(18,359)**	(27,397)
	2,387,290	2,295,364	**2,382,847**	2,289,088

47 Segmental information

Our global businesses

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

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

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

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

Global business results are assessed by the CEO on the basis of adjusted performance that removes the effects of significant items. 'Significant items' refers collectively to the items that management and investors would ordinarily identify and consider separately to improve the understanding of the underlying trends in the business.

Results are presented in the tables on the next page on an adjusted basis as required by IFRSs. As required by IFRS 8, reconciliation of the reported results to adjusted results by global business, excluding significant items, are also presented on the next page. The local group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Where relevant, income and expense amounts presented include the results of inter-segment funding. All such transactions are undertaken on arm's length terms.

Adjusted profit before tax and balance sheet data

Adjusted performance is computed by adjusting reported results for the effects of significant items, which distort year-on-year comparisons. The local group considers adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant, and providing insight into how management assesses year-on-year performance.

During 2023, there were no significant items requiring adjustment. Accordingly, the adjusted profit by global business reported below is the same as the reported profit.

During 2022, the bank incurred restructuring costs amounting to €1,558,000 attributable to the local group and bank to continue implementing the bank's latest strategic initiative, which demanded the issuance of a Voluntary Redundancy Scheme as outlined in Note 16, which was treated as a significant item in view of its non-recurring nature. As a result, the adjusted profit by global business reported on the next page is higher than the reported profit.

	Group			
	2023			
	Wealth and Personal Banking	**Commercial Banking**	**Global Markets**	**Group Total**
	€000	**€000**	**€000**	**€000**
Net interest income	**143,027**	**52,785**	**—**	**195,812**
– external	**127,887**	**67,925**	**—**	**195,812**
– internal	**15,140**	**(15,140)**	**—**	**—**
Net non-interest income	**12,063**	**11,376**	**3,615**	**27,054**
Insurance service result	**5,030**	**—**	**—**	**5,030**
Net income/(expense) from assets and liabilities of insurance businesses, measured at fair value	**48,068**	**—**	**—**	**48,068**
Insurance finance (expense)/income	**(44,294)**	**—**	**—**	**(44,294)**
Net operating income before loan impairment charges	**163,894**	**64,161**	**3,615**	**231,670**
Change in expected credit losses and other credit impairment charges	**1,308**	**3,272**	**—**	**4,580**
Net operating income	**165,202**	**67,433**	**3,615**	**236,250**
Employee compensation and benefits	**(32,390)**	**(9,716)**	**(501)**	**(42,607)**
General and administrative expenses	**(38,447)**	**(12,593)**	**(337)**	**(51,377)**
Depreciation and impairment of property, plant and equipment and right-of-use assets	**(2,708)**	**(451)**	**(9)**	**(3,168)**
Amortisation and impairment of intangible assets	**(3,846)**	**(1,372)**	**(26)**	**(5,244)**
Total operating expenses	**(77,391)**	**(24,132)**	**(873)**	**(102,396)**
Reported/Adjusted profit before tax	**87,811**	**43,301**	**2,742**	**133,854**
Reported balance sheet data				
Loans and advances to customers (net)	**2,192,535**	**891,308**	**—**	**3,083,843**
Financial assets mandatorily measured at fair value through profit or loss	**693,024**	**—**	**—**	**693,024**
Total external assets	**5,701,093**	**1,945,396**	**14,430**	**7,660,919**
Customer accounts	**4,518,941**	**1,622,579**	**—**	**6,141,520**
Liabilities under investment contracts	**156,958**	**—**	**—**	**156,958**
Insurance contract liabilities	**519,363**	**—**	**—**	**519,363**

	2022[1]			
	Wealth and Personal Banking	Commercial Banking	Global Markets	Group Total
	€000	€000	€000	€000
Net interest income	75,821	32,421	—	108,242
– external	75,894	32,348	—	108,242
– internal	(73)	73	—	—
Net non-interest income	13,440	13,286	3,799	30,525
Insurance service result	5,278	—	—	5,278
Net income/(expense) from assets and liabilities of insurance businesses, measured at fair value	(74,744)	—	—	(74,744)
Insurance finance (expense)/income	76,496	—	—	76,496
Net operating income before loan impairment charges	96,291	45,707	3,799	145,797
Change in expected credit losses and other credit impairment charges	(2,691)	12,252	—	9,561
Net operating income	93,600	57,959	3,799	155,358
Employee compensation and benefits	(28,642)	(8,336)	(416)	(37,394)
General and administrative expenses	(39,694)	(12,607)	(363)	(52,664)
Depreciation and impairment of property, plant and equipment and right-of-use assets	(2,635)	(654)	(12)	(3,301)
Amortisation and impairment of intangible assets	(3,465)	(1,364)	(24)	(4,853)
Total operating expenses	(74,436)	(22,961)	(815)	(98,212)
Adjusted profit before tax	19,164	34,998	2,984	57,146
Reported balance sheet data				
Loans and advances to customers (net)	2,264,031	911,136	—	3,175,167
Financial assets mandatorily measured at fair value through profit or loss	660,446	—	—	660,446
Total external assets	5,649,610	1,660,474	26,562	7,336,646
Customer accounts	4,545,286	1,425,672	—	5,970,958
Liabilities under investment contracts	162,123	—	—	162,123
Insurance contract liabilities	499,507	—	—	499,507

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 has been restated accordingly.*

Reconciliation of reported and adjusted profit by global business

A reconciliation of reported and adjusted profit by global business in respect of the financial year ended 31 December 2022 is shown in the table below.

	Group			
	2022			
	Wealth and Personal Banking	Commercial Banking	Global Markets	Group Total
	€000	€000	€000	€000
Adjusted profit before tax	19,173	34,989	2,984	57,146
Significant item:				
– Restructuring provision	(1,288)	(252)	(18)	(1,558)
Reported profit before tax	17,885	34,737	2,966	55,588

48 Related party transactions

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

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

The ultimate parent company of the local group and the bank is and remains HSBC Holdings plc, a company incorporated in England, with its registered address at 8, Canada Square, London E14 5HQ, United Kingdom.

Related parties of the local group and the bank include subsidiaries, the ultimate parent, all entities controlled by the ultimate parent, key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank Malta p.l.c., being the Directors and the bank's Executive Committee members (excluding General Counsel, Head of Internal Audit, Head of Human Resources and Head of Communications).

(a) Transactions, arrangements and agreements involving Directors and other key management personnel

Particulars of transactions, arrangements and agreements entered into with Directors and other key management personnel, close family members and companies controlled or jointly controlled by them:

	Group/Bank			
	Highest balance during the year	**Balance at end of year**	Highest balance during the year	Balance at end of year
	2023	**2023**	2022	2022
	€000	**€000**	€000	€000
Loans and advances to customers	**2,411**	**2,411**	2,131	2,131
Commitments to lend	**1,040**	**612**	854	563
Deposits	**2,660**	**2,256**	3,647	3,072

The above banking facilities are part of long-term commercial relationships and were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

(b) Compensation of Directors and other key management personnel

The following represents the compensation of Directors and other key management personnel in exchange for services rendered to the local group and the bank for the period they served during the year.

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Directors' emoluments (including Non-Executive Directors)				
Salaries and other emoluments	**1,844**	2,033	**1,223**	1,271
Benefits	**107**	124	**98**	117
Share-based payments	**43**	32	**43**	32
	1,994	2,189	**1,364**	1,420
Other key management personnel				
Salaries and other emoluments	**1,674**	742	**1,674**	742
Benefits	**67**	56	**67**	56
Share-based payments	**24**	8	**24**	8
	1,765	806	**1,765**	806

Directors' emoluments for the local group include the compensation of certain key management personnel of the bank amounting to €340,000 (2022: €488,000) that also serve as Directors of subsidiary companies, as well as the compensation of Non-Executive Directors of subsidiary companies amounting to €65,000 (2022: €64,000).

(c) Balances and transactions with other related parties

Balance and transactions with HSBC Continental Europe

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Assets				
Derivatives	**10,386**	20,161	**10,386**	20,161
Loans and advances to banks	**712,524**	659,843	**709,320**	659,843
Prepayments, accrued income and other assets	**1,520**	921	**1,520**	921
Liabilities				
Deposits by banks	**3,853**	—	**3,853**	—
Borrowings from group undertaking	**90,000**	—	**90,000**	—
Subordinated liabilities	**65,000**	—	**65,000**	—
Accruals, deferred income and other liabilities	**1,066**	438	**1,066**	438
Income statement				
Interest income	**28,082**	6,126	**28,082**	6,126
Interest expense	**1,617**	230	**1,617**	230
Fee income	**55**	112	**55**	112
Fee expense	**148**	78	**144**	84
Net trading income	**(886)**	9,006	**(886)**	9,006
Other income	**25**	24	**25**	24
General and administrative expenses	**680**	696	**680**	696

Balance and transactions with HSBC Bank plc

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Assets				
Derivatives	**2,664**	3,925	**2,664**	3,925
Loans and advances to banks	**2,353**	53,322	**1,133**	51,494
Prepayments, accrued income and other assets	**502**	189	**409**	189
Liabilities				
Derivatives	**446**	1,587	**446**	1,587
Deposits by banks	**712**	1,074	**712**	1,074
Borrowings from a group undertaking	**—**	60,000	**—**	60,000
Subordinated liabilities	**—**	62,000	**—**	62,000
Accruals, deferred income and other liabilities	**667**	1,157	**69**	219
Income statement				
Interest income	**1,062**	343	**1,062**	343
Interest expense	**5,600**	2,048	**5,600**	2,048
Fee income	**378**	—	**—**	—
Fee expense	**32**	2	**32**	2
Net trading income	**(6)**	15,664	**(6)**	15,664
Other income	**98**	22	**98**	22
General and administrative expenses	**922**	485	**363**	41

Balances and transactions with other subsidiaries of HSBC Holdings plc

	Group		Bank	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Assets				
Loans and advances to banks	**4,685**	15,406	**4,688**	13,717
Prepayments, accrued income and other assets	**358**	1,076	**311**	911
Liabilities				
Deposits by banks	**51**	469	**51**	469
Customer accounts	**2,743**	3,266	**2,743**	3,266
Accruals, deferred income and other liabilities	**17,532**	10,468	**16,351**	8,116
Income statement				
Interest income	**249**	566	**249**	566
Interest expense	**1**	5	**1**	5
Fee income	**938**	1,504	**—**	—
Fee expense	**153**	154	**7**	5
Net trading income	**4**	2	**4**	2
Other income	**373**	266	**373**	266
General and administrative expenses	**28,272**	27,347	**27,384**	25,859

Balances and transactions with local group entities

	Bank	
	2023	2022
	€000	€000
Assets		
Prepayments, accrued income and other assets	**1,399**	1,087
Investment in subsidiaries	**30,859**	30,859
Liabilities		
Customer accounts	**30,749**	39,434
Income statement		
Fee income	**2,311**	3,584
Net trading income	**12**	14
Dividend income	**769**	1,308

The outstanding balances, reflected in tables above, arose from the ordinary course of business and are of substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

49 Effects of adoption of IFRS 17

On 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', and as required by the standard, applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the local group's consolidated statement of financial position as at 1 January 2022, as well as the income statement for the year ended 31 December 2022.

Further information about the effect of adoption of IFRS 17 is provided in Note 2 'Basis of preparation' on page 75.

IFRS 17 transition impact on the Group consolidated statement of financial position at 1 January 2022

	Reported Group numbers	Removal of PVIF and IFRS 4	IFRS 17 Restatement	Reclassif-ication	Restated Group numbers	Total movements
	€000	€000	€000	€000	€000	€000
Assets						
Financial assets mandatorily measured at fair value through profit or loss	767,808	—	—	—	767,808	—
Loans and advances to banks	619,273	—	—	—	619,273	—
Loans and advances to customers	3,196,725	—	—	—	3,196,725	—
Financial investments	845,735	—	—	—	845,735	—
Intangible assets	50,168	(33,565)	—	—	16,603	(33,565)
Deferred tax assets	29,119	—	—	767	29,886	767
Reinsurance contract assets	77,972	—	(77,707)	(202)	63	(77,909)
All other assets	1,588,005	—	77	1,263	1,589,345	1,340
Total assets	7,174,805	(33,565)	(77,630)	1,828	7,065,438	(109,367)
Liabilities and equity						
Liabilities						
Insurance contract liabilities	658,197	—	(76,635)	811	582,373	(75,824)
Deferred tax liabilities	15,005	—	(12,123)	767	3,649	(11,356)
All other liabilities	6,011,866	—	—	250	6,012,116	250
Total liabilities	6,685,068	—	(88,758)	1,828	6,598,138	(86,930)
Total equity	489,737	(33,565)	11,128	—	467,300	(22,437)
Total liabilities and equity	7,174,805	(33,565)	(77,630)	1,828	7,065,438	(109,367)

Transition drivers

Removal of PVIF and IFRS 4 balances

The PVIF intangible asset of €33,565,000 previously reported under IFRS 4 within 'Intangible assets' arose from the upfront recognition of future profits associated with in-force insurance contracts. The PVIF intangible asset is no longer reported following the transition to IFRS 17, as future profits are deferred within the CSM. Other assets and insurance contract liabilities which were previously measured in terms of IFRS 4 have been remeasured in accordance with IFRS 17.

IFRS 17 reinstatements

Recognition of the IFRS 17 fulfilment cash flows

The measurement of the insurance and reinsurance contract liabilities and assets under IFRS 17 are based on groups of insurance contracts and include a liability or asset for fulfilling the insurance and reinsurance contracts, such as premiums, directly attributable expenses, insurance benefits and claims including policyholder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance and reinsurance contract liability or asset, together with the risk adjustment for non-financial risk.

Recognition of the IFRS 17 CSM

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the profit and loss over the expected coverage period. The reinsurance CSM can represent either a deferred cost (asset) or gain (liability).

Tax effect

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

Transition impact - Equity

At transition, the local group's total equity reduced by €22,437,000. The primary drivers of the change included: the removal of IFRS 4 based balances including the PVIF intangible asset recognised under the group's historical accounting convention and IFRS 4 based insurance assets and liabilities; recognition of the contractual service margin under IFRS 17; and establishment of the remaining IFRS 17 assets and liabilities including the best estimate of future cash flows and risk adjustment. These changes are also adjusted for the effect of tax.

IIFRS 17 transition impact on the Group consolidated income statement for the year ended 31 December 2022

	Reported Group numbers	Removal of PVIF and IFRS 4-based revenue	Effect of IFRS 17	Restated Group numbers
	€000	€000	€000	€000
Net interest income	108,242	—	—	108,242
Net fee income	22,054	—	(400)	21,654
Net insurance premium income	50,691	(50,691)	—	—
Insurance revenue	—	—	15,565	15,565
Insurance service expense	—	—	(5,475)	(5,475)
Net expenses from reinsurance contracts	—	—	(4,812)	(4,812)
Insurance service result	—	—	5,278	5,278
Net expense from assets and liabilities of insurance businesses, measured at fair value through profit or loss	(76,000)	—	1,256	(74,744)
Insurance finance income	—	—	76,496	76,496
Net trading income	7,689	—	—	7,689
Other operating income	4,292	(2,775)	(335)	1,182
Total operating income	116,968	(53,466)	82,295	145,797
Net insurance claims and benefits paid and movement in liabilities to policyholders	33,677	(33,677)	—	—
Net operating income before change in expected credit losses and other credit impairment charges	150,645	(87,143)	82,295	145,797
Change in expected credit losses and other credit impairment charges	9,561	—	—	9,561
Net operating income	160,206	(87,143)	82,295	155,358
Employee compensation and benefits	(40,103)	—	1,151	(38,952)
General and administrative expenses	(54,698)	—	2,034	(52,664)
Depreciation of property, plant and equipment and right-of-use assets	(3,301)	—	—	(3,301)
Amortisation and impairment of intangible assets	(4,853)	—	—	(4,853)
Total operating expenses	(102,955)	—	3,185	(99,770)
Profit before tax	57,251	(87,143)	85,480	55,588
Tax charge	(19,680)	—	274	(19,406)
Profit for the period	37,571	(87,143)	85,754	36,182

Transition drivers for the income statement

Removal of IFRS 4-based revenue items and introduction of IFRS 17 - income statement line items

As a result of the removal of the PVIF intangible asset, the associated revenue of €2,775,000 that was reported in 2022 within Other operating income is no longer reported under IFRS 17. This includes the removal of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances.

On the implementation of IFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items ‘Net insurance premium income’, ‘Net insurance claims and benefits paid and movement in liabilities to policyholders’ were also removed. For further information, please refer to Note 2(a).

50 Fiduciary activities

The local group provides fiduciary services to individuals and retirement benefit plans, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer.

The local group receives fee income for providing these services. Assets held in a fiduciary capacity are not assets of the local group and are not recognised in the statements of financial position. The local group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2023, total assets held by the local group on behalf of customers amounted to €463,983,000 (2022: €484,773,000).

51 Unconsolidated structured entities

The term ‘unconsolidated structured entities’ refers to all structured entities that are not controlled by the local group. The local group has established and manages investment funds to provide customers with investment opportunities.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	– These vehicles are financed through the issue of units to investors.	– Investments in units issued by the fund
	– To generate fees from managing assets on behalf of third party investors.	– Management fees

As fund manager, the local group is entitled to receive a management and performance fee based on the assets under management. The total management fees earned during the year were €2,963,000 (2022: €3,211,000) as presented under ‘Fee income’ in profit or loss.

The table below shows the total assets of unconsolidated structured entities in which the local group has an interest at the reporting date, and the maximum exposure to loss in relation to those interests. The maximum exposure to loss from the local group’s interests in unconsolidated structured entities represents the maximum loss that the local group could incur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

	2023	2022
	€000	€000
Carrying amount of units in HSBC managed investment funds - classified as financial investments measured at fair value through profit or loss	**90,166**	82,543
Total assets of HSBC managed funds	**312,342**	301,919

The maximum exposure to loss is equivalent to the carrying amount of the assets held at the reporting date.

52 Registered office and ultimate parent company

The addresses of the registered and principal offices of the bank and its subsidiary companies included in the consolidated financial statements can be found in a separate statement which is filed at the Registrar of Companies in accordance with the provisions of the Third Schedule to the Companies Act, 1995.

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

Currently, the ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc and the immediate parent company is HSBC Continental Europe (‘HBCE’), which are incorporated and registered in the United Kingdom and France respectively. The registered address of HSBC Holdings plc is 8, Canada Square, London E14 5HQ, United Kingdom and the registered address of HBCE is 38, avenue Kléber – 75116 Paris, France. Copies of the HSBC Holdings plc Annual Report and Accounts may be obtained from its registered office or viewed on www.hsbc.com.

53 Investor compensation scheme

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

54 Critical estimates and judgements

This note contains information about critical judgements, significant assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment and that have the most significant effects on the amounts recognised in the financial statements.

Information about assumptions and estimation uncertainties relating to fair valuation of financial instruments is disclosed in Note 5.

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

(a) Expected credit loss allowances on loans and advances

Credit loss allowances represent management's best estimate of expected credit losses in the loan portfolios and other financial assets subject to IFRS 9 impairment requirements at the balance sheet date. In this respect, management is required to exercise judgement in a number of areas including in:

- defining what is considered to be a SICR;
- determining the lifetime and point of initial recognition of revolving facilities;
- calibrating PD, LGD and EAD models which support the ECL calculations, including making assumptions and estimates about how models react to relevant information about current and future economic conditions;
- selecting economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected losses; and
- making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.

In particular, the measurement of the expected credit loss allowances is an area that requires the use of complex models and of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current and future macroeconomic conditions are such that the level of expected credit losses is likely to be greater or less than historical experience. The PD, LGD and EAD models, which support the measurement of ECL, are reviewed regularly in light of differences between loss estimates and actual loss experience, although available information in respect of the local group's historical loss experience since the initial adoption of IFRS 9 is still contained.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, detailed in Note 4(b)(iii). In addition, many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole is sensitive.

The level of estimation uncertainty and judgement has remained elevated since 31 December 2022 as a result of the economic effects of the significant inflationary pressures and the ensuing elevated interest rate environment being currently experienced. The latter is the direct consequence of a response by the European Central Bank ('ECB') as well as other national central banks across Europe from a monetary policy perspective, with announced increases in interest rates designed to curb the spiralling effect of inflationary pressures. In addition, the level of macroeconomic uncertainty is exacerbated by global geopolitical conflicts, particularly the ongoing military conflict between Russia and Ukraine as well as the escalation of the military conflict between Israel and Hamas in the Middle East. In this respect, the level of estimation uncertainty and judgement has remained high during 2023.

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

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

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

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

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

Specifically in respect of the mortgage portfolio, the selection of the macroeconomic variables used to determine forward-looking point-in-time PDs as well as the calibration of the impact of changes in macroeconomic variables on modelled ECL remain key assumptions. The ECL model for mortgages takes into consideration two macroeconomic variables, namely unemployment and real GDP growth, with relative 80:20 weights applied respectively. In this respect, the determination of the relative weights requires a significant level of expert judgement to be applied by management.

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

Judgement was required in determining whether individually significant loans have experienced a SICR or a UTP event within the wholesale portfolio. In this respect, as part of management's response to the current inflationary pressures and high interest rate environment, the Bank assesses and individually rates those individually significant borrowers within wholesale sub-portfolios deemed mostly impacted by these macroeconomic pressures through individual periodic credit assessments on the basis of recently obtained management information, including forecasts. As part of these credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

In view of the above, management considered the sensitivity of the ECL outcome to the macroeconomic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario. The effect of economic uncertainty on the ECL outcome is disclosed in the sensitivity analysis presented in Note 4(b)(iii) within the section entitled 'Economic scenarios sensitivity analysis of ECL estimates'. The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes as there is a high degree of estimation uncertainty in the numbers representing tail risk scenarios when assigned a 100% weighting.

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

For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flows to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The heightened level of uncertainty within the local property market, driven by the current inflationary pressures and elevated interest rate environment, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of these macroeconomic pressures will not be fully known until market conditions stabilise.

(b) Valuation of insurance contract liabilities

Transition classification

The standard is applied retrospectively using a fully retrospective approach ('FRA') as if it had always existed unless it is impracticable to do so, in which case either a modified retrospective approach ('MRA') or a fair value approach ('FVA') can be used. Impracticability assessments were performed based on the requirements of IFRS 17 and took in consideration the availability of data and systems and the requirement not to apply hindsight within the measurement.

Following the completion of impracticability assessments, the local group applied the following approaches for both insurance and reinsurance contracts:

- FRA is applied to new business issued from 2020 onwards. FRA contributes to 20% of the CSM at the transition date.
- The FVA is applied for all other business issued when FRA is not practicable to be applied. The FVA approach contributes to 80% of the CSM balance at the transition date.
- FVA is applied to reinsurance.

The local group has determined that it would be impracticable to apply the full retrospective approach where any of the following conditions existed:

- The effects of the full retrospective application were not determinable, for example:
  - Some reasonable and supportable information about actual historical cash flows might have been available from the local group's systems, but in many cases such information was only available at higher levels or different levels of aggregation compared to the groups as required under IFRS 17. This lack of information made it impracticable to accurately calculate the fulfilment cash flows ('FCF') on a retrospective basis and to segregate groups based on profitability.
  - The information necessary to estimate the effect of contracts derecognised before the transition date on allocation of the CSM between past and future periods on the transition date was not available in many cases.
- The full retrospective application required assumptions that would have been made in an earlier period, for example:
  - For contracts with direct participation features, the insurance subsidiary's expectations regarding the policyholder's share of underlying assets at contract inception would not have been possible to recreate without the use of hindsight;
  - Difficulties in retrieving relevant reliable information existed where assumptions developed at the date of initial recognition were not on an IFRS 17 basis (such as discount rates, risk adjustment for non-financial risk or expenses);
  - Changes in assumptions have not been historically documented on an ongoing basis;
  - The older the in force contracts (such as term life products), the more challenging it would have been to retrieve data from the past on assumptions.
- The full retrospective application required significant estimates of amounts, and it was impossible to distinguish objectively between information about those estimates that provided evidence of circumstances that (i) existed on the date at which those amounts were to be recognised, measured or disclosed; and (ii) would have been available when the consolidated financial statements for that prior period were authorised for issue, and other information, for example:
  - The local group had limited or no information required for the allocation of acquisition cash flows to respective groups of insurance contracts issued or expected to be issued, and other overhead expenses to respective groups under IFRS 17. Systems have not been tracking or allocating acquisition costs, because previous accounting policies did not require this. In addition, the allocation of applicable overheads to groups of contracts required information that has not historically been tracked/recorded.
  - The local group has not historically been accumulating information about the changes in estimates that would have been recognised in profit or loss for each accounting period, because they did not relate to future service, and the extent to which changes in the FCF would have been allocated to the loss component.

Determination of the fair value of insurance contract liabilities on transition

Under the FVA approach as required by IFRS 17, the valuation of insurance liabilities on transition is based on the requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Under the FVA the CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts including required profit, and the future cash flows committed to under the contract (the fulfilment cash flows - determined using IFRS 17 principles). There is significant judgement involved in determining an appropriate fair value, as there is lack of observable data for actual transactions for closed book insurance businesses and a range of possible modelling approaches. In determining the fair value the local group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities, and the discount rate that would be applied within the IFRS 13 calculation.

The approach for setting these included the following:

- The discount rate was derived with an allowance for an illiquidity premium that takes into account the level of 'matching' between the local group's assets and related liabilities.
- A profit margin was determined considering the level of capital that a market participant would be required to hold under Solvency II regulations and the associated cost of capital. These assumptions were set taking into account the assumptions that a hypothetical market participant would consider.

Coverage units

The local group's approach to the determination of coverage units is set out in Note 3(i). Significant judgement was involved in the determination of the approach that most faithfully represents the nature of the local group's business and the benefits that are ascribed to the policyholder over the duration of insurance contracts, as the standard does not specify a required basis for determination of coverage units. This judgement is most significant for investment services, which constitute the most material element of service for most of the local group's contracts. The local group determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time. The quantity of benefit selected is therefore a constant measure.

Discount rates

The discount rate methodology is a fundamental assumption underpinning the IFRS 17 reporting. While IFRS 17 does not specify the actual methodology of setting the discount rate, it requires that the methodology should be market consistent, set based on the liability characteristics, and that only financial risk should be allowed for in the discount rate. The local group has elected to apply a bottom up approach where risk-free rates are adjusted for an illiquidity premium as set out in Note 3(i). In setting the risk-free rate the local group uses a market observable approach where either swaps or government bond yields are used as the reference instruments. This selection depends on factors such as information availability, term structure, and currency. In setting the illiquidity premium the local group determines a market consistent spread of a reference portfolio, applied when the illiquidity of the cash flows are clearly identifiable. Therefore, the illiquidity premium varies by the level at which assets are managed and the illiquidity characteristics of the liabilities.

The table below shows a comparison of the 10 and 20 year risk free rates used within the valuation of the liabilities:

	2023	2022
Rate 10Y (%)	**2.39**	3.09
Rate 20Y (%)	**2.41**	2.76

Expenses

IFRS 17 requires the determination of whether cash flows are directly attributable to the acquisition or fulfilment of insurance contracts. Insurance acquisition cash flows are included in the measurement of a group of insurance contracts only if they are directly attributable to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. When estimating fulfilment cash flows, the local group also allocates fixed and variable overheads cash flows directly attributable to the fulfilment of insurance contracts. Judgement is involved in identifying and allocating costs and this determination has been informed by time study assessments which consider factors such as the allocation of frontline staff costs related to distribution including salaries, commissions and bonuses, and associated overhead allocations. For further information in relation to expenses which are directly attributable to the acquisition or fulfilment of insurance contracts please refer to Note 17.

Estimates of future cash flows to fulfil insurance contracts

Included in the measurement of each group of contracts within the scope of IFRS 17 are all of the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability-weighted expected future cash flows. The local group estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the local group uses information about past events, current conditions and forecasts of future conditions. The local group's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios.

Where estimates of expenses-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis such as activity-based costing method. The local group has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature. Expenses of an administrative policy maintenance nature are allocated to groups of contracts based on the number of contracts in force within groups.

Acquisition cash flows are typically allocated to groups of contracts based on gross premiums written. This includes an allocation of acquisition cash flows among existing as well as future groups of insurance contracts issued.

Claims settlement-related expenses are allocated based on the number of claims expected for all groups, where such expenses are allocated based on claims costs.

For the Life Risk and Savings contracts, uncertainty in the estimation of future claims and benefit payments and premium receipts arises primarily from the unpredictability of long-term changes in the mortality rates, the lapse rate, and uncertainties regarding future inflation rates and expenses growth.

For the participating contracts, uncertainty in the estimation of future claims and benefit payments arises primarily from the variability in policyholder behaviour. The guarantee on embedded investment contracts with DPF was measured using a closed form model. The guarantee was measured using a full range of scenarios representing possible future interest rate environments.

Mortality

The estimation of future benefit payments and premiums arising from long-term insurance contracts is the local group's most critical accounting estimate. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the local group. Estimates are made as to the expected number of deaths for each of the years in which the local group is exposed to risk. The local group bases these estimates on industry standard mortality tables. A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in the table below are adjusted by the expected mortality based on a statistical investigation into the local group's mortality experience.
The estimated number of deaths determines the value of future benefit payments. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the local group has significant exposure to mortality risk. The local group is also exposed to the volatility of the yield curve. New estimates are made each subsequent year to reflect the current long-term outlook.

For the sensitivities to mortality and/or morbidity rates please refer to Note 4(f).

The principal assumptions used to value the life reserves of the main classes of business were as follows:

At 31 Dec 2023		
Class of business	**Renewal expense (p.a.)**	**Mortality**
Life direct participating and investment DPF	**€34.8**	**85% TM08 / 85% TF08**
Life other	**€34.8**	**85% TM08 / 85% TF08**

At 31 Dec 2022		
Class of business	Renewal expense (p.a.)	Mortality
Life direct participating and investment DPF	€23.7	85% TM08 / 85% TF08
Life other	€23.7	85% TM08 / 85% TF08

Expenses and inflation

The local group estimates expected maintenance expenses by considering the current level of expenses, expected reductions in certain expense categories, expected inflation and policy values. The local group assesses and holds a provision for potential future shortfalls for the period that per-policy costs are forecast to be higher than current assumed income. The potential future expense shortfalls are reliant on achieving the new business sales plan. A 25% reduction to the future volumes will lead to a negative impact on profit before tax amounting to €4.1 million (2022: €2.7 million).

Expense inflation is based on the French inflation swap curve modified to estimate future inflation for Malta. The local group's selected inflation assumptions consider the current macroeconomic environment and reflect expectations of 'excess inflation' over the coming three calendar years. Expense inflation is calculated as a blend of wage inflation and price inflation, with the latter based on an adjusted French inflation curve. The assumed wage inflation from the 4th projection year 2027 onwards is fixed at 2% p.a. with higher p.a. rates taken in the intervening period. This assumption is informed by the Central Bank of Malta's inflation forecast published by the end of 2023 (2.9% as from 2024 onwards) and a commitment by the local group to control salary related cost. This results in a term dependent expense inflation assumption ranging from 1.9% p.a. to 2.2% p.a. (2022: 2.5% p.a. to 2.4% p.a.).

Sensitivities of key assumptions are disclosed in Note 4(f).

(c) Valuation of financial instruments

The local group's financial instruments measured at fair value comprise Treasury Bills, derivative instruments, financial assets mandatorily measured at fair value through profit or loss relating to the insurance business, as well as a portfolio of debt and equity instruments classified within 'Financial investments' measured at fair value through other comprehensive income.

The local group applies a range of valuation techniques, dependent on instrument type and available market data, predominantly based upon discounted cash flow analyses. The key assumptions and valuation techniques applied in the estimation of the fair value of the above mentioned financial instruments are described in Note 5.

(d) Measurement of post employment and other long-term employee benefits

The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement for medical grounds. The local group's liabilities in respect of these present obligations arising from the collective agreement are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method, which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build the final obligation.

The calculation of the defined benefit pension obligation includes assumptions in respect of the discount rate, inflation rate, expected future salary levels, experience of employee departures and mortality rates. In this respect, a range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or other comprehensive income. Management determines these assumptions in consultation with the independent actuaries.

The key assumptions used in calculating the defined benefit pension obligation for the principal plan are described in Note 39.

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

Group Income Statements

	2023	2022	2021	2020	2019
	€000	€000	€000	€000	€000
Interest receivable and similar income	**213,876**	116,639	105,710	113,598	120,573
Interest expense	**(18,064)**	(8,397)	(7,952)	(7,696)	(10,462)
Net interest income	**195,812**	108,242	97,758	105,902	110,111
Net non-interest income	**35,858**	37,555	33,535	27,521	41,672
Change in expected credit losses and other credit impairment charges	**4,580**	9,561	995	(25,589)	(389)
Operating expenses	**(102,396)**	(99,770)	(105,406)	(97,391)	(120,685)
Profit before tax	**133,854**	55,588	26,882	10,443	30,709
Tax expense	**(47,098)**	(19,406)	(9,127)	(2,871)	(10,541)
Profit for the year	**86,756**	36,182	17,755	7,572	20,168
Earnings per share	**€0.24**	€0.10	€0.05	€0.02	€0.06

Group Statements of Comprehensive Income

	2023	2022	2021	2020	2019
	€000	€000	€000	€000	€000
Profit for the year	**86,756**	36,182	17,755	7,572	20,168
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Debt instruments measured at fair value through other comprehensive income/ available-for-sale investments:	**8,697**	(23,177)	(6,095)	753	311
– fair value (losses)/gains	**13,380**	(35,657)	(9,377)	1,159	478
– income taxes	**(4,683)**	12,480	3,282	(406)	(167)
Items that will not be reclassified subsequently to profit or loss:					
Properties:	**1,643**	166	2,150	304	(475)
– surplus/(loss) arising on revaluation	**1,826**	185	2,389	338	(528)
– income taxes	**(183)**	(19)	(239)	(34)	53
Post employment benefit obligations:	**(14)**	893	292	(446)	(619)
– remeasurement of post employment benefit obligations	**(22)**	1,374	450	(686)	(952)
– income taxes	**8**	(481)	(158)	240	333
Equity instruments designated at fair value through other comprehensive income:	**4**	1	1	2	—
– fair value gains	**6**	2	2	3	—
– income taxes	**(2)**	(1)	(1)	(1)	—
Other comprehensive income, net of tax	**10,330**	(22,117)	(3,652)	613	(783)
Total comprehensive income	**97,086**	14,065	14,103	8,185	19,385

Five-year comparison: Statements of financial position

	2023 €000	2022 €000	2021 €000	2020 €000	2019 €000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**1,676,639**	1,583,348	1,495,135	995,627	585,176
Items in course of collection from other banks	**8,427**	6,921	4,453	4,959	3,436
Financial assets mandatorily measured at fair value through profit or loss	**693,024**	660,446	767,808	733,670	754,020
Derivatives	**13,577**	25,745	4,640	6,574	5,320
Loans and advances to banks	**720,583**	732,507	619,273	589,259	676,031
Loans and advances to customers	**3,083,843**	3,175,167	3,196,725	3,264,664	3,257,433
Financial investments	**1,315,859**	1,004,770	845,735	877,485	943,603
Prepayments, accrued income and other assets	**33,699**	34,092	28,683	35,928	37,691
Current tax assets	**1,153**	3,496	3,669	1,813	1,719
Reinsurance contract assets	**2,557**	2,959	63	80,083	78,945
Non-current assets held for sale	**5,816**	5,173	6,673	8,919	8,422
Investment property	**—**	—	1,600	1,600	9,788
Right-of-use assets	**2,284**	2,459	2,569	4,200	4,685
Property, plant and equipment	**51,694**	44,627	41,923	44,206	47,403
Intangible assets	**20,762**	19,169	16,603	54,342	61,518
Deferred tax assets	**31,002**	35,767	29,886	27,130	22,427
Total assets	**7,660,919**	7,336,646	7,065,438	6,730,459	6,497,617
Liabilities					
Deposits by banks	**5,117**	2,861	1,397	3,754	840
Customer accounts	**6,141,520**	5,970,958	5,621,195	5,272,961	4,976,580
Items in the course of transmission to other banks	**18,359**	27,397	21,573	21,372	23,473
Liabilities under investment contracts	**156,958**	162,123	185,137	170,865	183,706
Derivatives	**5,748**	10,252	4,592	6,551	5,190
Accruals, deferred income and other liabilities	**55,055**	42,550	34,471	27,833	59,189
Current tax liabilities	**35,190**	2,104	499	88	2,489
Insurance contract liabilities	**519,363**	499,507	582,373	648,028	658,470
Provisions	**21,849**	20,080	21,252	21,031	33,271
Deferred tax liabilities	**3,727**	3,569	3,649	17,562	22,443
Borrowings from a group undertaking	**90,000**	60,000	60,000	—	—
Subordinated liabilities	**65,000**	62,000	62,000	62,000	62,000
Total liabilities	**7,117,886**	6,863,401	6,598,138	6,252,045	6,027,651
Total equity	**543,033**	473,245	467,300	478,414	469,966
Total liabilities and equity	**7,660,919**	7,336,646	7,065,438	6,730,459	6,497,617
Memorandum items					
Guarantees and other contingent liabilities	**200,495**	182,250	164,388	174,355	181,491
Commitments	**838,659**	842,320	967,739	1,071,319	1,075,524

From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The comparative information in respect of the financial year ended 31 December 2022 and 31 December 2021 has been restated accordingly.

Five-year comparison: Statements of cash flows

	2023	2022	2021	2020	2019
	€000	€000	€000	€000	€000
Net cash from/(used in) operating activities	**165,291**	618,670	745,603	158,480	(204,056)
Cash flows from investing activities					
Dividends received	**—**	—	—	33	29
Interest received from financial investments	**11,097**	6,142	11,897	14,746	16,229
Purchase of financial investments	**(568,904)**	(464,793)	(221,697)	(214,787)	(315,277)
Proceeds from sale and maturity of financial investments	**283,058**	255,296	249,667	263,519	270,965
Purchase of property, plant and equipment, investment property and intangible assets	**(16,055)**	(12,808)	(8,508)	(7,677)	(6,980)
Proceeds on sale of property, plant and equipment, investment property and intangible assets	**—**	1,600	56	7,903	1,865
Net cash flows from/(used in) investing activities	**(290,804)**	(214,563)	31,415	63,737	(33,169)
Cash flows from financing activities					
Dividends paid	**(27,190)**	(8,010)	(2,717)	—	(8,197)
Proceeds from borrowings from a group undertaking	**30,000**		60,000	—	—
Issue of subordinated liabilities	**65,000**	—	—	—	—
Repayment of subordinated liabilities	**(62,000)**	—	—	—	—
Net cash from/(used in) financing activities	**5,810**	(8,010)	57,283	—	(8,197)
Net increase/(decrease) in cash and cash equivalents	**(119,703)**	396,097	834,301	222,217	(245,422)

Five-year comparison: Accounting ratios

	2023	2022	2021	2020	2019
	%	%	%	%	%
Net operating income before loan impairment charges to total assets	**3.0**	2.0	1.9	2.0	2.3
Operating expenses to total assets	**1.3**	1.4	1.5	1.4	1.9
Cost efficiency ratio	**44.2**	68.4	80.3	73.0	80.2
Profit before tax to total assets	**1.7**	0.8	0.4	0.2	0.5
Profit before tax to equity	**24.6**	11.7	5.8	2.2	6.5
Profit after tax to equity	**17.1**	7.7	3.8	1.6	4.3

	2023	2022	2021	2020	2019
Shares in issue (millions)	**360.3**	360.3	360.3	360.3	360.3
Net assets per 30 cent share (euro)	**1.5**	1.3	1.3	1.3	1.3
Earnings per 30 cent share (euro)	**0.24**	0.10	0.05	0.02	0.06
Dividend per 30 cent share (euro)					
– gross	**0.15**	0.06	0.03	0.01	0.02
– net	**0.10**	0.04	0.02	0.01	0.01
Dividend cover	**2.5**	2.8	2.2	2.8	5.1

Branches and offices

Malta offices

Registered Office/Head Office

116 Archbishop Street, Valletta VLT 1444
Tel: 2380 2380

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

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

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

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

Trade Services
80 Mill Street, Qormi QRM 3101
Tel: 2380 1828

Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Card Operations
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Contact Centre
Operations Centre
80 Mill Street, Qormi QRM 3101
Tel: 2380 2380

Inheritance Unit
80 Mill Street, Qormi QRM 3101
Tel: 2380 3360/1/2/3/4

Legal Office
32 Merchants Street, Valletta VLT 1173
Tel: 2380 2411

Contracts Centre
32 Merchants Street, Valletta VLT 1173
Tel: 2380 3382

Branches

Birkirkara
1 Naxxar Road BKR 9049
Tel: 2380 2380

Gzira
196 The Strand GZR 1023
Tel: 2380 2380

Mosta
61/63 Constitution Street MST 9058
Tel: 2380 2380

Paola
12 Antoine De Paule Square PLA 1261
Tel: 2380 2380

Qormi
80 Mill Street QRM 3101
Tel: 2380 2380

Rabat
12 Saqqajja Square RBT 1190
Tel: 2380 2380

Sliema
Airways House, High Street SLM 1549
Tel: 2380 2380

Swieqi
St Andrew's Road SWQ 9020
Tel: 2380 2380

Valletta
32 Merchants Street VLT 1173
Tel: 2380 2380

Zejtun
25th November Avenue ZTN 2018
Tel: 2380 2380

Zurrieq
36/38/40 Main Street ZRQ 1318
Tel: 2380 2380

Gozo office

Victoria
90 Republic Street VCT 1017
Tel: 2380 2380

Subsidiary companies

HSBC Global Asset Management (Malta) Limited

80 Mill Street Qormi QRM 3101
Tel: 2380 5128

HSBC Life Assurance (Malta) Ltd

80 Mill Street Qormi QRM 3101
Tel: 2380 8699

Independent auditor's report

To the Shareholders of HSBC Bank Malta p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Consolidated financial statements and the Parent Company ("the bank") financial statements (the "financial statements") of HSBC Bank Malta p.l.c. give a true and fair view of the Consolidated and the Parent Company's financial position as at 31 December 2023, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

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

What we have audited

HSBC Bank Malta p.l.c.'s financial statements comprise:

- the Consolidated and Parent Company income statements and statements of comprehensive income for the year ended 31 December 2023;
- the Consolidated and Parent Company statements of financial position as at 31 December 2023;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

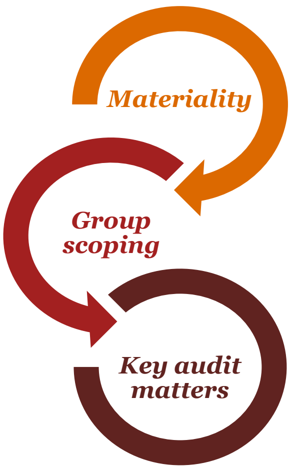
We are independent of the bank and its subsidiaries in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements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

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

The non-audit services that we have provided to the bank and its subsidiaries, in the period from 1 January 2023 to 31 December 2023, are disclosed in note [17] to the financial statements.

Our audit approach

Overview



- Overall group materiality: €4.1 million, which represents approximately 5% of the two-year average profit before tax adjusted for non-recurring items.

- The group audit engagement team carried out a full scope audit on the bank. The financial statements of HSBC Life Assurance (Malta) Ltd were audited by a component auditor within the same office as the group audit engagement team. HSBC Global Asset Management (Malta) Limited was deemed immaterial.

- Credit loss allowances in respect of loans and advances to customers
- Implementation of IFRS 17: Transition methodology, judgements and related estimates
- Valuation of insurance contract liabilities

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

Materiality

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

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

Overall group materiality	€4,077,000
How we determined it	Approximately 5% of the two-year average profit before tax adjusted for non-recurring items
Rationale for the materiality benchmark applied	We chose the profit before tax adjusted for non-recurring items as the benchmark because in our view it is the benchmark against which the performance of the local group is most commonly measured by users and is a generally accepted benchmark. Average profit before tax over the past two financial years was chosen due to the significant increase in net interest income experienced during the financial year ended 31 December 2023 as a result of the increasing interest rate environment. We considered the two-year average profit before tax to be more reflective of the financial position and performance of the local group. We chose 5% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €203,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. The development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. In general, the bank calculates ECL by using the following key inputs: probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). The maximum period	During our audit of the financial statements for the year ended 31 December 2023, we continued to focus on the key drivers of the estimation of ECL and assessed the continuing appropriateness of management assumptions and key parameters. Discussions with the Audit Committee included: • Inputs and assumptions within the bank's ECL models, for which we provided updates on the results of our testing procedures; • the application of forward economic guidance, particularly in the context of the estimated impact of the macroeconomic challenges driven by the global inflationary pressures and the ensuing elevated interest rate environment, together with geopolitical uncertainties driven by the ongoing military

considered when measuring ECL is the maximum period over which the bank is exposed to credit risk. The bank also applies overlays where management's view is that the calculated ECLs based on these key inputs do not fully capture the risks within the bank's portfolios.

ECL calculation for Wholesale exposures

Credit loss allowances relating to all loans and advances within the Wholesale portfolio are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, the bank uses an ECL model that relies on risk parameters, specifically proxy PDs, determined at HSBC Group level. Through-The-Cycle ('TTC') PDs are determined by reference to a Global Master Scale which captures historical default rates at credit rating level observed in respect of similar portfolios held by the HSBC Group across a number of countries. TTC PDs are converted to Point-in-Time ('PiT') PDs on the basis of correlations attributable to the proxy country/portfolio within the HSBC Group that has the credit risk characteristics which are most similar to those of the bank's portfolio. In addition, the output proxy PD is further adjusted using a scalar to reflect local macroeconomic conditions.

The LGD used for the Wholesale portfolio is driven by the loan-to-value ratio of the individual facilities and takes into account other assumptions, including market value haircut (which includes costs to sell), time to sell and the impact of discounting the collateral from the date of realisation back to the date of default.

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

conflict between Russia and Ukraine and the escalation of the Middle East conflict;

- considerations around post-model adjustments, mainly in response to the impact of the inflationary pressures and elevated interest rate environment being experienced, and the estimation uncertainty involved in determining ECLs on the basis of historical experience;
- observations in relation to the control processes around the estimation of ECLs in respect of individually significant loans classified within the Wholesale portfolio, including the inputs to the calculations; and
- considerations in respect of the governance framework around the implementation of model changes.

ECL calculation for non-defaulted Wholesale exposures and for all Retail exposures

We understood and critically assessed the models used for ECL estimation in both Wholesale and Retail portfolios. Since modelling assumptions and parameters are based on historic data, we assessed the impact of the current circumstances on the adequacy of key model parameters, since these are not necessarily reflective of the circumstances and economic conditions observed during the period covered by the model development data. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, calibration of PDs/loss rates and LGDs, segmentation, selection of macroeconomic variables and post-model adjustments. Model calculations were also tested independently.

The design and operating effectiveness of key controls management has established across the processes relevant to the ECL models were tested as follows:

- Model performance monitoring, including reconciliation of model parameters against approved models.
- Review and challenge of multiple economic scenarios by an expert panel and internal governance committee.
- Inputs of critical data into source systems, and the flow and transformation of data between source systems to the impairment calculation engine.
- Review and challenge to assess ECL output and approval of overlays.

SICR event. The application of the SICR criteria used by management therefore involves a significant level of judgement. Due to the macroeconomic uncertainties being experienced, the bank performed an assessment in order to identify borrowers whose financial performance is deemed to be particularly susceptible to the potential impact of the current inflationary and elevated interest rate environment in order to assess whether a SICR event has occurred. For defaulted (Stage 3) exposures within the Wholesale portfolio, discounted cash flow models are utilised in order to estimate ECLs. Judgement is required to determine when a default has occurred and then to estimate the expected future cash flows related to that loan which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows. The bank is also required to assess multiple scenarios in this respect, which scenarios will have probabilities attached. *ECL calculation for Retail exposures* Credit loss allowances relating to all loans and advances within the Retail portfolio (Stages 1, 2 and 3), comprising mortgages, personal loans and overdrafts as well as credit cards are determined through the use of ECL models, which inherently require a significant level of judgement to be applied by management in the determination of key assumptions and calibration of key model parameters. The models are used to calculate ECLs based on key assumptions, such as loss rates (reflecting a combined impact of PDs and EADs) and loss severities (including the impact of implied cure rates, valuation haircuts of collateral in the case of mortgages, and recovery rates). Loss rates and LGDs are estimated using internally developed statistical models and historical model development data based on the bank's own experience as available at the reporting date. The LGD for the mortgage portfolio is also driven by the loan-to-value ratio of exposures, taking into account similar assumptions as those applied for the Wholesale portfolio, as well as the status of the perfection of collateral and the vintage years in default. The model for loss severities in respect of the mortgage	We determined that we could rely on these controls for the purposes of our audit. Substantive procedures were performed as follows: • Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the bank's portfolios, risk profile, credit risk management practices and the macroeconomic environment. • Tested a sample of loans within the Wholesale portfolio to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management, taking into consideration the impact of the current macroeconomic environment on the repayment capabilities of the sampled borrowers. • Challenged the criteria used to allocate an exposure to stage 1, 2 or 3 in accordance with IFRS 9 and tested exposures in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. • Tested the completeness and accuracy of the critical data, extracted from the underlying systems, that is utilised within the models for the purposes of the year end ECL calculation. • Reviewed the script codes for the impairment engine against business requirements and our expectations of how the calculation should operate. • Risk based testing of models, including a review of the continuing appropriateness of model assumptions. We tested the assumptions, inputs and formulas used in ECL models on a sample basis. This included assessing the appropriateness of model design and formulas used, and recalculating PDs, LGDs and EADs on a sample basis. • For both the Wholesale and Mortgage portfolios, assessed the reasonableness of modelled PDs through a comparison of historically predicted and observed default rates. • For the Mortgage portfolio, assessed the reasonableness of market value haircuts and time to sell assumptions used as inputs to modelled LGDs. We also tested the accuracy of the bank's data in respect of the status of perfection of collateral and the vintage years in default, assessing the key judgements applied by management to identify the

portfolio takes into consideration multiple work-out options. The loss severities for the remaining Retail portfolios are based on the bank's recovery history. Staging in respect of Retail portfolios is determined at segment level in view of the homogeneity in nature and relatively low value of retail exposures. Segmentation is determined on the basis of the relevant identified credit risk characteristics for each portfolio. Exposures classified within the Mortgage portfolio are segmented by reference to delinquency status, past delinquency in the previous 12 months, as well as a behavioural score in case of exposures with no history of delinquency throughout the previous 12 months. Segmentation in respect of the other retail portfolios is based on current delinquency status. A SICR threshold is determined in respect of each retail portfolio by reference to the average PD twelve months prior to exposures falling more than 30 days past due. In this respect, PDs are estimated in respect of each segment and segments with a PD in excess of the SICR threshold are classified as stage 2 exposures. The local impact of the inflationary pressures being currently experienced in the local economy and the ensuing elevated interest rate environment has increased the level of uncertainty around judgements made in determining the timing of defaults and in respect of staging, particularly within the Mortgage portfolio. In this respect, these inflationary pressures might be reasonably expected to impact the affordability of repayments within the Mortgage portfolio due to the rapid rise in the cost of living being experienced locally together with the potential resultant impact on market interest rates. Such inflationary pressures are deemed to be partially mitigated by government support measures, including subsidies on energy prices and foodstuffs. For the purposes of avoiding the cliff edge effect on ECLs upon the unwinding of government support schemes, as well as to capture risks which are not fully captured by the selected macroeconomic variables applied in the ECL model, an overlay was applied by the bank determined on the basis of quantitative assumptions in respect of borrower affordability and levels of net disposable income to enable the identification	exposures which are deemed to carry a higher level of risk in the estimation of ECL. • Assessed critically the criteria used by management for identifying borrowers whose financial performance is deemed to be particularly susceptible to the potential impact of the significant inflationary pressures and elevated interest rate environment being experienced. For Wholesale exposures, we independently performed an assessment to identify borrowers whose credit quality is deemed to be more sensitive to such macroeconomic uncertainties and to estimate the potential impact on ECLs arising from further downgrades in credit ratings. For Mortgages, we assessed the appropriateness of the post-model adjustment intended to address early identification of SICR events in respect of those exposures which are deemed to be more susceptible to inflationary pressures and increases in interest rates. • Independent testing of model calculations. • Tested the multiple macroeconomic scenarios and variables using our experts to assess their reasonableness. We assessed the appropriateness of changes effected to factor the impact of the current macroeconomic environment, including the recalibration of probability weights. We assessed whether the severity of the forecasted macroeconomic variables was appropriate and challenged the correlation and impact of the macroeconomic factors on the ECL. Our testing of models and model assumptions did not highlight material differences. Based on the evidence obtained, we found that the model assumptions, data used within the models and overlays to be reasonable. *ECL calculation for defaulted Wholesale exposures* For defaulted exposures within the Wholesale portfolio, the appropriateness of the methodology and policy used to calculate ECLs was independently assessed. We understood and evaluated the processes for identifying default events within loan portfolios, as well as the impairment assessment processes. In respect of defaulted exposures, the design and operating effectiveness of key controls established by management were tested over: • The timeliness of the performance and review of the credit file review processes.

of SICR or Unlikeliness-to-Pay ('UTP') events as early as possible.

Forward-looking scenarios applied in the ECL calculation of loans and advances to customers

Under IFRS 9, the bank is also required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables and environments, into the ECL estimates. A number of macroeconomic scenarios based on the selected macroeconomic variables are considered to capture non-linearity across credit portfolios. The complexity attributable to this factor requires management to develop multiple macroeconomic scenarios involving the use of significant judgements.

The bank utilises a methodology to generate the economic inputs applied within the ECL models. Specifically, the bank applies four macroeconomic scenarios to capture the current economic environment, reflecting management's view of the range of potential outcomes.

For Retail portfolios, the impact of macroeconomic scenarios on PDs is modelled at a portfolio level. In contrast, no impact is modelled on LGDs. The macroeconomic variables applied to retail exposures are specific to Malta. For Mortgages, these comprise unemployment, real Gross Domestic Product ('GDP') growth, and the House Price Index ('HPI'), whereas unsecured Retail portfolios are linked to either unemployment or real GDP growth.

The forward-looking PDs and LGDs applied in respect of non-credit impaired Wholesale exposures are modelled by reference to a proxy country's macroeconomic paths, shifted by a scalar to reflect the difference between the proxy country's and local sensitivities to economic shocks. The most suitable proxy country is determined using a methodology designed to compare proxy sites' principal component macroeconomic variables to local variables. The selected macroeconomic variables applied in the ECL calculation of non-credit impaired Wholesale exposures comprise the proxy country's real GDP growth rate, unemployment rate, consumer price index, short-term interest rate, and HPI. For credit impaired Wholesale exposures, LGD estimates take into account

- The determination of which loans and advances are credit-impaired, including the timely identification of such defaulted exposures.

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

Substantive procedures were performed in respect of identification of defaults as follows:

- Selected a sample of performing loans, including from within those sectors that we consider to be particularly impacted by the current macroeconomic environment, which had not been identified by management as potentially defaulted, to form our own judgement as to whether management's judgement was appropriate and to further challenge whether all relevant events had been identified by management.

Substantive procedures were performed on defaulted exposures in respect of the estimation of the size of the respective ECL provisions, as follows:

- Reviewed the credit files of a selected sample of corporate loans to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements (such as market value haircuts and time to sell for gone concern assessments) were appropriate given the borrowers' circumstances.
- Challenged the appropriateness of the scenarios being applied for the exposures referred to above, particularly in respect of the extent to which they consider the potential impact of the current macroeconomic environment on the local property market, together with their respective probability weights, by forming an independent view of the market value haircuts and time to sell assumptions used by the bank under different scenarios in determining the recoverability of the selected corporate loans.
- Challenged the reasonableness of the use of a going concern assessment in respect of a sample of individually significant defaulted exposures, as well as the appropriateness of the methodology applied by management to estimate ECL under a going concern scenario.
- Tested key inputs to and reperformed the impairment calculation used to derive expected cash flows under different scenarios.

independent recovery valuations provided by external consultants, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. The current inflationary economic environment and the ensuing macroeconomic uncertainty induced by the general increase in interest rates, together with geopolitical uncertainties driven by the ongoing Russia-Ukraine conflict and the escalation of the Middle East conflict towards the end of 2023, have significantly impacted macroeconomic factors such as GDP, unemployment, the consumer price index and interest rates, increasing the uncertainty around judgements made in determining the severity and likelihood of macroeconomic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience. In this respect, the selection of the macroeconomic variables applied to modelled PDs as well as the methodology used to calibrate the sensitivity of PDs to changes in macroeconomic conditions require a significant level of expert judgement. Data used in the impairment calculation is sourced from a number of systems, including systems that are not necessarily used for the preparation of accounting records. This increases risk around completeness and accuracy of certain data used to create assumptions and operate the models. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed. The bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus due to the subjective nature of specific data inputs into the calculation and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Accordingly, summarising the key areas relevant to the bank's measurement of ECLs would include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL;	• Assessed the appropriateness of a sample of property valuations securing impaired loans through our experts. • Tested the perfection of security in line with the bank's policy. In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.

• Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; • Measurements of individually assessed provisions including the assessment of multiple scenarios; and • The measurement and application of post-model adjustments designed to capture risks not captured by the model. Relevant references in the financial statements: • Accounting policies: Note 3(b); • Credit risk management: Note 4(b); • Note on Change in expected credit losses and other credit impairment charges: Note 15; • Note on Loans and advances to customers: Note 25; and • Critical estimates and judgements: Note 54(a).	
Implementation of IFRS 17: Transition methodology, judgements and related estimates IFRS 17 became effective for periods beginning on or after 1 January 2023, replacing IFRS 4, 'Insurance Contracts'. As a result, the local group has adopted IFRS 17 in these financial statements. The 2022 opening statement of financial position and the 2022 comparatives have been restated in order to comply with the requirements of IFRS 17, and are presented within these financial statements. Transition to IFRS 17 introduces significant changes to the recognition, measurement and presentation of (re-)insurance contract liabilities (or assets), and requires significant judgement to estimate the impact on 1 January 2022 (the 'transition date') and 31 December 2022 ('comparative period'). IFRS 17 adoption has resulted in a significant reduction in the local group's accumulated profit at the transition date (€22.4 million). This is primarily due to the derecognition of the present value of in force business and the establishment of the Contractual Service Margin ('CSM') on adopting IFRS 17. The CSM is the mechanism in IFRS 17 by which profits are deferred and amortised over the duration of a contract.	Our audit procedures addressing the implementation of IFRS 17 included inter alia the following procedures using our IFRS 17 and actuarial specialist team members: • We assessed the methodology applied against the IFRS 17 requirements and assessed the application of the methodology to the local group and its products, including Variable Fee Approach eligibility; • We obtained an understanding of and challenged the key methodologies, judgements and assumptions used to develop and calculate the transition balance sheet and restated comparatives on adopting IFRS 17, including the determination of the level of contract aggregation; • We obtained an understanding of management's approach to transition including the selection of the fully retrospective and fair value approaches (the 'transition approaches'), and challenged management's assessment of impracticability of adopting the fully retrospective approach to measure the transition CSM; • We tested the CSM model's compliance with IFRS 17 by inter alia examining a risk based sample of management's test cases to

The key methodology, judgements and assumptions first applied on transition to the new standard include: • The determination of the date before which it is impracticable to apply the fully retrospective approach to calculate the CSM on transition; • The approach applied to determine the fair value of the CSM on transition, including the selection of assumptions used in this calculation; • The determination of IFRS 17 groups of contracts at which calculations will be undertaken, including determining the onerousness of contracts; • The methodology to be applied in calculating IFRS 17 liabilities, including risk adjustment and CSM; and • Variable Fee Approach eligibility for certain portfolios of contracts. There is a risk that the CSM modelling is not appropriate or the agreed methodology has not been implemented correctly in the CSM model. There is also a risk of error within the accounting logic used to eventually populate the General Ledger. There is a risk that the key judgements and estimates applied at transition and for 2022 restatement are not described in an appropriate level of detail for users of the financial statements to understand the decisions made by management. Relevant references in the financial statements: • Basis of preparation: Note 2(a); • Accounting policies: Note 3(i); • Note on Insurance business: Note 10; • Note on Effects of adoption of IFRS 17: Note 49; and • Critical estimates and judgements: Note 54(b).	demonstrate that the CSM model is materially compliant with the requirements of the standard for the measurement models used by the local group. We also tested the accounting logic and assessed its compliance with the requirements of the standard; • We tested the inputs and outputs to/from the CSM model on a sample basis by inter alia performing testing of controls and substantive testing (including over key reconciliations) in relation to completeness and accuracy of data flows; • We performed testing over the calculations and assumptions used to determine the fair value of (re-)insurance contracts CSM at the transition date; and • We tested the adequacy and compliance of the new quantitative and qualitative disclosures in the financial statements. Based on the audit procedures performed, we consider the transition methodology, judgements and related estimates to be consistent with the explanations and evidence obtained.
Valuation of insurance contract liabilities As described above, the local group has adopted IFRS 17 'Insurance contracts'. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues, reinsurance contracts it holds and investment	We performed the following audit procedures to test the valuation of insurance contract liabilities (including best estimate liabilities, risk adjustment and contractual service margin), using our IFRS 17 and actuarial specialist team members: • Tested the design and, where applicable, operating effectiveness of the controls in place

contracts with discretionary participating features it issues. As at 31 December 2023, the local group recorded insurance contract liabilities of €519.4 million. As explained in Note 3(i), the local group's insurance contract liabilities are measured as the total of fulfilment cash flows (comprising the best estimates of future cash flows and risk adjustment) and contractual service margin, the determination of which required judgement and interpretation. This includes the selection of accounting policies and the use of complex methodologies. Management's selection and application of appropriate methodologies requires significant professional judgement. The valuation also requires the determination of assumptions about future events, both internal and external to the business, giving rise to estimation uncertainty. The valuation of these liabilities is complex and sensitive to changes in assumptions. We focused on this area due to its materiality and the subjectivity of the judgements made. As part of our consideration of the entire set of assumptions, we focused particularly on expense assumptions, and mortality, morbidity and lapse assumptions as these are considered the most significant and judgemental, considered individually below. In addition, the complexity of the IFRS 17 adoption has been considered separately in the key audit matter above titled 'Implementation of IFRS 17: Transition methodology, judgements and related estimates'.	over the determination of the insurance contract liabilities, including those relating to model inputs, model operation and extraction of results from the actuarial model; • Tested the design and, where applicable, the operating effectiveness of controls related to the completeness and accuracy of policyholder data used in the valuation of insurance contract liabilities; • Tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source; • Applied our industry knowledge and experience to assess the appropriateness of the methodology, model and assumptions used against recognised actuarial practices; • Tested management's controls in respect of the valuation and assumption setting processes; • Performed testing over the actuarial model calculations. We have placed reliance on model baselining carried out as part of our prior audits and examined the analysis of change in modelled results, to assess whether the model continues to operate as expected; and • Performed model testing over the CSM engine (see separate key audit matter pertaining to Implementation of IFRS 17).
<u>Valuation of insurance contract liabilities - expense assumptions</u> The valuation of insurance contract liabilities includes estimated future expenses that are expected to be incurred in the administration and maintenance of the existing policies to their maturity and includes an allowance for future inflation. The assumptions used require judgement, particularly with respect to the allocation of expenses to future maintenance, the estimation of policy volumes and future cost inflation. IFRS 17 brought about certain changes to the treatment of expenses, requiring the local group	In respect of the expense assumptions, we performed the following additional procedures using our IFRS 17 and actuarial specialist team members: • We have tested and challenged the appropriateness of the allocation between attributable and non-attributable expenses on a sample basis; • We have reviewed, and where relevant, challenged the appropriateness of these cost allocations in the context of IFRS 17 requirements (see separate key audit matter pertaining to Implementation of IFRS 17) and actual costs incurred during the year (by inter

to analyse expenses between acquisition costs, directly attributable expenses and non-attributable (i.e. out of scope) expenses. The valuation of the insurance contract liabilities is sensitive to changes in allocations between categories and changes in assumptions.	alia obtaining an understanding of variance prepared by management); • We have assessed the impact of the current inflationary environment on the assumptions. In this respect, we understood and challenged the basis on which expenses are projected by reference to market observable data (inflation curve), and further understood the main drivers of the increase in per policy expenses (disclosed in Note 54) and challenged management’s intent to carry out certain future actions linked to attributable expenses by inter alia confirming that these actions were approved by the Board of Directors; and • We have assessed the reasonableness of the policy volumes used in the expense calculation.
Valuation of insurance contract liabilities - mortality, morbidity and lapse assumptions Insurance contract liabilities are sensitive to the choice of assumptions, with those relevant to mortality, morbidity and lapse assumptions highlighted as amongst those having the biggest impact. There is a risk that the assumptions are not appropriate given the variability in experience and the relatively small size of the local group’s business, given the pool of data from which to assess experience. In setting mortality, morbidity and lapse assumptions, management utilise the local group's own historic experience, supplemented with additional external data in the calculation of the appropriate assumptions. In doing so there is a risk that mortality, morbidity and lapse assumptions are not appropriate. With the adoption of IFRS 17, the local group is now required to set assumptions on a best estimate basis (i.e. without margins). Relevant references in the financial statements: • Accounting policies: Note 3(i); • Note on Insurance business: Note 10; and • Critical estimates and judgements: Note 54(b).	In respect of the mortality, morbidity and lapse assumptions, we performed the following additional procedures using our actuarial specialist team members: • We tested the design and operation of controls within the experience analysis and input of assumptions into the model processes; • Tested the results of the most recent mortality, morbidity and lapse experience analysis against the judgements applied in setting the assumptions; • Tested the appropriateness of the local group’s experience analysis methodology by comparing against industry best practice; • Tested the appropriateness of the assumptions in light of the specific characteristics of the business and industry practices; and • Reviewed management’s sense checks and performed internal reasonableness analytics over the impacts of any assumption changes. In respect of all the assumptions referred to above, we have reviewed the management’s approach to setting the assumptions, assessed the assumptions’ appropriateness based on internal and external data (where available), and tested management’s governance and controls over the assumption basis review. We also reviewed the modelled results and manual adjustments, and we assessed the reasonableness of

	management's analysis of the changes in the carrying amounts. Based on the work performed, we found the valuation of insurance contract liabilities (including best estimate, risk adjustment and contractual service margin) to be consistent with the explanations and evidence obtained.

How we tailored our group audit scope

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the local group, the accounting processes and controls, and the industry in which the local group operates.

The group audit engagement team carried out a full scope audit on the Parent Company. The financial statements of HSBC Life Assurance (Malta) Ltd were audited by a component auditor within the same office as the group audit engagement team and, in this respect, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements of the local group as a whole. The figures of HSBC Global Asset Management (Malta) Limited are deemed to be immaterial in the context of the local group's results.

The audit engagement team of the local group performed all of this work by applying the overall materiality at the level of the local group's consolidated financial statements, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the local group financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises all of the information presented in the *Annual Report and Accounts 2023* (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the local group's and the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the local group or the bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the local group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the local group's and the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the local group's or the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the local group or the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the local group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Report on compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by reference to Capital Markets Rule 5.55.6

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the Annual Financial Report of HSBC Bank Malta p.l.c. for the year ended 31 December 2023, entirely prepared in a single electronic reporting format.

Responsibilities of the directors

The directors are responsible for the preparation of the Annual Financial Report, including the consolidated financial statements and the relevant mark-up requirements therein, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibilities

Our responsibility is to obtain reasonable assurance about whether the Annual Financial Report, including the consolidated financial statements and the relevant electronic tagging therein, complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the Annual Financial Report, in accordance with the requirements of the ESEF RTS.
- Obtaining the Annual Financial Report and performing validations to determine whether the Annual Financial Report has been prepared in accordance with the requirements of the technical specifications of the ESEF RTS.
- Examining the information in the Annual Financial Report to determine whether all the required taggings therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF RTS.

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

Opinion

In our opinion, the Annual Financial Report for the year ended 31 December 2023 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

Other reporting requirements

The *Annual Report and Accounts 2023* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Financial Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report and Accounts 2023* and the related Directors' responsibilities	Our responsibilities	Our reporting
Report of the Directors The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements. With respect to the information required by paragraphs 8 and 11 of the Sixth Schedule to the Act, our responsibility is limited to ensuring that such information has been provided.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Statement of Compliance with the Code of Principles of Good Corporate Governance The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in the Annual Financial Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Capital Markets Rules. The Statement's required minimum contents are determined by reference to Capital Markets Rule 5.97. The Statement provides explanations as to how the bank has complied with the provisions of the Code, presenting the extent to which the bank has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.	We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the bank and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements. We are also required to assess whether the Statement of Compliance includes all the other information required to be presented as per Capital Markets Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the bank's corporate governance procedures or its risk and control procedures.	In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority. We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
Remuneration report The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare a Remuneration report, including the contents listed in Appendix 12.1 to Chapter 12 of the Capital Markets Rules.	We are required to consider whether the information that should be provided within the Remuneration report, as required in terms of Appendix 12.1 to Chapter 12 of the Capital Markets Rules, has been included.	In our opinion, the Remuneration report has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

	Other matters prescribed by the Maltese Banking Act (Cap. 371) In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the bank, so far as appears from our examination of those books; • the bank's financial statements are in agreement with the books of account; • in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.	In our opinion: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the bank, so far as appears from our examination of those books; • the bank's financial statements are in agreement with the books of account; and • to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us. We also have responsibilities under the Capital Markets Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

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

Appointment

We were first appointed as auditors of the local group and bank on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

Norbert Paul Vella
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

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HSBC Bank Malta p.l.c.

116 Archbishop Street
Valletta VLT 1444
Malta
Telephone: 356 2380 2380
www.hsbc.com.mt