HSBC Bank Malta p.l.c.

Pillar 3 Disclosures at 31 December 2021

HSBC

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Additional regulatory disclosures

Introduction

Regulatory framework for Pillar 3 disclosures

Under the European Central Bank ('ECB') Single Supervisory Mechanism ('SSM'), HSBC Bank Malta p.l.c. falls under the direct supervision of both the ECB, as well as the Malta Financial Services Authority ('MFSA') via the Joint Supervisory Team ('JST'), the latter consisting of representatives of the ECB and MFSA.

The two regulatory bodies receive information on the capital adequacy requirements for HSBC Bank Malta p.l.c. as an entity. At a consolidated level, we calculate capital for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision (the 'Basel Committee') as implemented by the European Union ('EU') in the amended Capital Requirements Regulation and Directive collectively known as CRR/CRD.

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

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

During 2019 the EU published a legislation aimed at reducing risks and enhancing the resilience in the banking sector across the EU. The rules within capital requirements regulation ('CRR2') were also revised along with the capital requirements directive ('CRD V'). The leverage ratio, own funds requirements and eligible liabilities, counterparty credit risk and the net stable funding ratio were subject to the changes implemented by CRR2. The revised regulation gives more clarity on the banks' obligations to disclose on forborne, performing and non-performing exposures, non-financial guarantees received including collateral, and disclosures on remuneration. In order to promote market discipline and move towards a worldwide standardised approach, during 2021 the EBA adopted new guidelines 'Final draft implementing technical standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013. 'The revised standards which are entirely binding became effective as from 28 June 2021 and incorporate the changes introduced under CRR2, aligning the disclosures framework with the standards under Basel Pillar 3.

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The local group, comprising HSBC Bank Malta p.l.c. along with its subsidiary HSBC Global Asset Management (Malta) Ltd., through its internal verification procedures, is satisfied that these ARDs are presented fairly.

Pillar 3 disclosures

Purpose

HSBC Bank Malta p.l.c.'s Pillar 3 disclosures at 31 December 2021 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with the relevant articles of Part 8 of the CRR and the European Banking Authority's ('EBA') final standards on revised Pillar 3 disclosures.

In light of the fact that the local group is considered a significant subsidiary of HSBC Holdings plc within the local market, and subject to consolidated supervision at the level of HSBC Holdings plc, the local group is exempt from full disclosure requirements laid down in Part Eight of the CRR.

The Pillar 3 disclosures are governed by the Group's disclosure policy framework. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to an internal review process in accordance with the banks' financial reporting and governance processes.

Basis of preparation

The financial information contained in this disclosure has been prepared on a consolidated basis (please refer to note 3a 'Basis of Consolidation'). In our disclosures, we provide comparative figures for the previous year to facilitate the analysis. Key ratios and figures are reflected throughout the Pillar 3 2021 disclosures. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives.

The Pillar 3 disclosure for HSBC Bank Malta p.l.c. is available on the HSBC websites, www.hsbc.com or www.hsbc.com.mt, simultaneously. This Pillar 3 disclosure includes regulatory information complementing the financial and risk information presented there and is in line with the requirements of regulatory disclosures.

The information published within this document have been prepared as per the EBAs reporting framework 3.0 issued in March 2021 and effective from June 2021. The new reporting framework aims at facilitating the institutions' compliance with disclosure requirements and improving the consistency and quality of the information disclosed. The updates are mainly driven by changes during the adoption process of Implementing Technical Standards ('ITS') on supervisory reporting and the ITS on public disclosures.

As a result of the new reporting framework, the following quantitative tables which were published in the Additional Regulatory Disclosures until December 2020, have been dropped for the reporting of December 2021, either because the requirement to disclose no longer exists or because the table is replaced by another table.

Additional Regulatory Disclosures	
At 31 December 2020	**At 31 December 2021**
Total and average net amount of exposures (EU CRB-B)	Dropped as requirement no longer exists
Geographical breakdown of exposures (EU CRB-C)	Dropped. Covered by template EU CQ4
Concentration of exposures by industry or counterparty types (EU CRB-D)	Dropped. Covered by template EU CQ5
Maturity of exposures (EU CRB-E)	Dropped. Covered by template EU CR1
Credit quality of exposures by industry or counterparty types (EU CR1-B)	Dropped. Covered by template EU CQ5
Credit quality of exposures by geography (EU CR1-C)	Dropped. Covered by template EU CQ4
Ageing of past-due exposures (EU CR1-D)	Dropped. Covered by template EU CQ3
Non-performing and forborne exposures (EU CR1-E)	Dropped. Covered by template EU CR1
Changes in the stock of general and specific credit risk adjustments (EU CR2-A)	Dropped as requirement no longer exists
Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B)	Dropped. Covered by template EU CR2

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of Risk Weighted Assets ('RWAs') by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Regulatory Developments

Covid-19

The Covid-19 outbreak has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of measures related to customer support, operational capacity and amendments to the transitional IFRS9 extension agreement, capital and liquidity frameworks which are now being gradually removed.

In the second half of 2021, the ECB ended its restrictions on capital distribution as well as the liquidity relief allowing banks to operate below 100 per cent of the Liquidity Coverage Ratio ('LCR'). The ECB further announced in February 2022 that banks are expected to operate again above their capital buffers and Pillar 2 guidance defined by the Supervisory Review and Evaluation Process ('SREP') from 01 January 2023.

The Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to the Credit Valuation Adjustment ('CVA') framework. In October 2021, the European Commission ('EC') published a first draft of the rules implementing the reforms in the EU ('CRR3' or 'CRD6'). The rules will now be subject to an extensive negotiation process with the EU Council and Parliament before they are finalised. The EC has proposed an implementation date of 1 January 2025 with an output floor phased-in until 2030.

The draft rules include some significant deviations from the Basel III Reforms. These include:

- on the credit risk side, a new strategic investment category benefitting from a more favourable treatment and a phase-in for credit conversion factors of unconditionally cancellable commitments. It is also proposed that the SME and infrastructure supporting factors are maintained;
- the retention of the option to neutralise the impact of past losses on operational risk RWAs;
- the retention of the exemptions from the CVA capital charges that currently apply;
- options to mitigate the impact and timing of implementation of the new market risk framework, should other jurisdictions make amendments.

The EC's proposals also enhance the focus on Environmental Social and Governance ('ESG') risks with the European Banking Authority's ('EBA') report on a dedicated prudential treatment being brought forward by two years to 2023 and banks required to identify, disclose and manage ESG risks at an individual level.

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

In November 2021, the ECB published a report on its supervisory review of banks' approaches to manage climate risk in which it concludes that banks are not close to meeting its expectations on climate risk and that progress is slow. An updated report is expected in the first quarter of 2022 with additional feedback from the ECB. A full review will occur in 2022 alongside the ECB's stress test on climate-related risk.

Article 8 of the EU's Taxonomy Regulation requires undertakings, including banks, to report how and to what extent their activities qualify as environmentally sustainable. These disclosures will be made for the first time in early 2022 based on December 2021 data.

In January 2022 the EBA published its final draft Implementing Technical Standard ('ITS') on Pillar 3 disclosures on ESG risks. The ITS introduced a set of templates on qualitative and quantitative data which requires the disclosure of prudential information on ESG risks, transition and physical risks. The first disclosures will be made in early 2023 based on December 2022 data.

EBA Stress Test

In 2021, HSBC Bank Malta p.l.c. has been selected to participate in the ECB 2021 SSM SREP Stress Test, leveraging of the EBA methodology and requirements. The stress test which forms part of Malta's Supervisory Review and Evaluation Process ('SREP') is identical in all aspects to the full EBA Stress Testing Submission. HSBC Bank Malta p.l.c. has elected an early adoption of the SREP decision related to the Pillar 2 guidance which takes effect from 01 March 2022.

Minimum own funds and eligible liability issuance

In December 2021, HSBC Bank Malta p.l.c. entered into an unsecured loan agreement amounting to € 60 million with HSBC Bank plc. This unsecured loan has been recognised as a "borrowing from group undertakings" and was entered into to meet the interim target of the minimum own funds and eligible liabilities ('MREL') as set by the Single Resolution Board ('SRB'). The unsecured loan is considered an eligible liability with a 10-year maturity with an early repayment option on the 9th year in favour of HSBC Bank Malta p.l.c.

Other developments

In August 2021, the EU adopted technical standards on the contractual recognition of stay powers for contracts governed by third-country law. Subsequently, the EU also adopted standards on the impracticability of recognition of bail-in powers for the same type of contracts. Finally, the EU adopted an ITS for banks to notify the above to their supervisory authorities. In September 2021, the EBA published its final guidelines to assess breaches of the Large Exposure limits which applied from 1 January 2022.

In November 2021, the EBA published its final draft Regulatory Technical Standards ('RTS') specifying the types of factors and conditions to be considered for the assessment of the appropriateness of risk weights and of minimum loss given default values for real estate exposures. Furthermore, in December 2021, the EBA published its final draft RTS on credit risk adjustment for defaulted exposures under the standardised approach, which now takes into account discounts for banks buying non-performing loans.

Also in November 2021, the EBA published its final draft ITS on the Interest Rate Risk in the Banking Book ('IRRBB') Pillar 3 disclosures. Furthermore, in December 2021, it launched three consultations specifying technical aspects of the IRRBB revised framework. The EBA is consulting on its guidelines on IRRBB and credit spread risk arising from non-trading book activities, as well as on technical standards on the IRRBB standardised approach and IRRBB supervisory outlier test.

The EC launched a consultation in December 2021 on the macro-prudential framework for the EU's banking sector covering notably the overall design and functioning of the buffer framework.

Risk management

Our risk management framework

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 and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring of the risk environment, and promotes risk awareness and a sound operational and strategic decision making process. It also ensures we have a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities.

Culture

HSBC has long recognised the importance of a strong culture. Our culture refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. It is instrumental in aligning the behaviours of individuals with our attitude to assuming and managing risk, which helps to ensure that our risk profile remains in line with our risk appetite. The fostering of a strong culture is a key responsibility of our senior executives.

Our culture is also reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and global strategy.

Risk governance

The Board has ultimate responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the Risk Committee.

Executive accountability for the ongoing monitoring, assessment and management of the risk environment, and the effectiveness of the risk management framework resides with the Chief Risk Officer who is supported by the Risk Management Meeting ('RMM') of the Executive Committee.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. These senior managers are supported by global functions. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures. More information on the three lines of defence is found in section 'Non financial risk' sub-section 'Organisation and Responsibilities'.

We use a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates the reporting and escalation to the RMM.

Risk appetite

Risk appetite is a key component of our management of risk. It describes the type and quantum of risk that HSBC Bank Malta p.l.c. is willing to accept in achieving its strategic goals. At HSBC, risk appetite is managed through a global risk appetite framework and articulated in a risk appetite statement ('RAS'), which is reviewed and approved by the Board during the year to make sure it remains fit for purpose.
Our risk appetite informs our strategic and financial planning process, defining the desired forward-looking risk profile of the bank. It is also integrated within other risk management tools, such as stress testing, to ensure consistency in risk management.

Risk management and internal control systems

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and risk types they are willing to accept in achieving HSBC Bank Malta p.l.c.'s business objectives. On behalf of the Board, the Audit Committee has responsibility for oversight of risk management and internal controls over financial reporting, and the Risk Committee has responsibility for oversight of risk management and internal controls other than for financial reporting.

Risk measurement and reporting systems

Our risk measurement and reporting systems are designed to help ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed, and that information is delivered in a timely manner for those risks to be successfully managed and mitigated. We continue to invest significant resources in IT systems and processes in order to maintain and improve our risk management capabilities.

HSBC Bank Malta p.l.c. leverages on the risk measurement and reporting structures which provide a common operating model for integrated risk management and control framework that is deployed at HSBC Group level. This model sets out the respective responsibilities of HSBC Group and HSBC Bank Malta p.l.c.'s risk and compliance functions in respect of risk governance and oversight, approval authorities and lending guidelines, scorecards, management information and reporting, and relations with third parties such as regulators, rating agencies and auditors.

The Key Metrics (KM1) provides users of Pillar 3 data with a time series set of key prudential metrics covering HSBC Bank Malta p.l.c.'s available capital (including buffer requirements and ratios), the Risk Weighted Exposure Assets ('RWEAs'), the leverage ratio, the Liquidity Coverage Ratio ('LCR') and the Net Stable Funding Ratio ('NSFR'). HSBC Bank Malta p.l.c. applies the transitional arrangement for the impact of expected credit loss accounting on regulatory capital, and in line with the regulation the following table provides information on the impact on HSBC Bank Malta p.l.c's regulatory capital and leverage ratios compared to the "fully loaded" capital and leverage ratios had the transitional arrangement not been applied.

Table 1: Key metrics (KM1)

Ref*		At 31 Dec 2021	31 Dec 2020
	Available capital (€000)+		
1	Common equity tier 1 ('CET1') capital^	**412,424**	415,426
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**397,593**	396,744
2	Tier 1 capital^	**412,424**	415,426
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**397,593**	396,744
3	Total capital^	**474,424**	477,426
	Total capital as if IFRS 9 transitional arrangements had not been applied	**459,593**	458,744
	Risk-weighted assets ('RWAs') (€000)		
4	Total RWAs^	**2,243,665**	2,311,411
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**2,232,148**	2,296,429
	Capital ratios (%)		
5	Common Equity Tier 1 ratio (%)	**18.4**	18.0
	CET1 as if IFRS 9 transitional arrangements had not been applied	**17.8**	17.3
6	Tier 1 ratio (%)	**18.4**	18.0
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**17.8**	17.3
7	Total capital ratio (%)	**21.1**	20.7
	Total capital as if IFRS 9 transitional arrangements had not been applied	**20.6**	20.0
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	**2.3**	2.3
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	***1.3***	*1.3*
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	***1.7***	*1.7*
EU 7d	Total SREP own funds requirements (%)	**10.3**	10.3
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer requirement	**2.5**	2.5
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**—**	—
9	Institution specific countercyclical capital buffer (%)	**—**	—
EU 9a	Systemic risk buffer (%)	**—**	—
10	Global Systemically Important Institution buffer (%)	**—**	—
EU 10a	Other Systemically Important Institution buffer (%)	**1.5**	1.5
11	Combined buffer requirement (%)	**4.0**	4.0
EU 11a	Overall capital requirements (%)	**14.3**	14.3
12	CET1 available after meeting the total SREP own funds requirements (%)[1]	**8.1**	7.7
	Leverage ratio[2]		
13	Total exposure measure	**6,528,035**	6,124,252
14	Leverage ratio (%)^	**6.3**	6.8
	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**6.1**	6.5
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	**—**	—
EU 14b	*of which: to be made up of CET1 capital (percentage points)*	**—**	—
EU 14c	Total SREP leverage ratio requirements (%)	**3**	—
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	**—**	—
EU 14e	Overall leverage ratio requirement (%)	**3**	—
	Liquidity Coverage Ratio ('LCR')[3]		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**1,518,839**	1,512,384
EU 16a	Cash outflows - Total weighted value	**1,011,015**	930,876
EU 16b	Cash inflows - Total weighted value	**732,429**	276,218
16	Total net cash outflow (€000)	**351,401**	654,658
	LCR ratio (%)	**471.3**	233.2
	Net Stable Funding Ratio		
18	Total available stable funding	**5,174,663**	4,866,385
19	Total required stable funding	**2,601,704**	2,926,648
20	NSFR ratio (%)	**198.9**	166.3

* *The references in this, and subsequent tables, identify the lines prescribed in the relevant European Banking Authority ('EBA') template where applicable and where there is a value.*
\+ *Capital figures and ratios are reported using the CRR2 transitional basis for capital instruments.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Comparative for Row 12 (CET1 after meeting the total SREP own funds requirements) is being restated in accordance with current year reporting.*
2 *Leverage ratio is calculated using CRR2 for capital instruments.*
3 *The EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation do not apply to liquidity coverage measures. LCR is calculated as at the end of each period rather than using average values.*

Table 2: Net value of exposure at the end of year

	Group		
	At 31 Dec		
	2021		
	Net value of exposure at the end of year^	Risk-weighted assets^	Capital Required[1,^]
	€000	€000	€000
Central governments or central banks	**2,036,465**	**81,095**	**6,488**
Public sector entities	**448,517**	**—**	**—**
Multilateral development banks	**121,596**	**—**	**—**
Institutions	**357,368**	**75,190**	**6,015**
Corporates	**1,328,146**	**513,339**	**41,068**
Retail exposures	**665,276**	**215,928**	**17,274**
Secured by mortgages on immovable property	**2,180,171**	**795,092**	**63,607**
Exposures in default	**159,768**	**171,352**	**13,708**
Items associated with particularly high risk	**19,534**	**24,051**	**1,924**
Equity exposures	**81**	**81**	**6**
Other exposures	**125,566**	**138,090**	**11,047**
Credit risk	**7,442,488**	**2,014,218**	**161,137**
Operational risk		**227,726**	**18,218**
Foreign exchange risk		**252**	**20**
CVA Risk		**1,469**	**118**
Total		**2,243,665**	**179,493**
Own funds			
Common Equity Tier 1			**412,424**
Tier 2			**62,000**
Total own funds			**474,424**
Total capital ratio			**21.1%**

	At 31 Dec		
	2020		
Central governments or central banks	1,455,295	67,826	5,426
Public sector entities	442,838	1	—
Multilateral development banks	237,859	—	—
International Organisations	10,013	—	—
Institutions	354,454	121,959	9,757
Corporates	1,406,422	548,455	43,876
Retail exposures	685,805	195,466	15,637
Secured by mortgages on immovable property	2,233,924	809,676	64,774
Exposures in default	116,588	116,930	9,354
Items associated with particularly high risk	51,217	66,850	5,348
Equity exposures	33	33	3
Other items	136,442	146,451	11,716
Credit risk	7,130,890	2,073,647	165,891
Operational risk		237,216	18,977
Foreign exchange risk		548	44
Total		2,311,411	184,912
Own funds			
Common Equity Tier 1			415,426
Tier 2			62,000
Total own funds			477,426
Total capital ratio			20.7%

^ *Figures have been prepared on an IFRS9 transitional basis.*

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

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

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

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

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit impaired book. In the current period, the net add-back to the capital base amounted to €14,831,000.

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

Regulatory Balance Sheet 2021

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 2 on the Financial Statements, differs from that used for regulatory purposes, which provides a point in time value of all on balance sheet assets. The regulatory exposure value includes an estimation of risk, and is expressed as the amount expected to be outstanding in and when the counterparty defaults. Moreover the regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation. Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 (subject to thresholds).

Table 3 – EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance sheet as in published financial statements	De-consolidation of insurance entity	Regulatory balance sheet
	€000	€000	€000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash	**1,496,407**	**–**	**1,496,407**
Items in course of collection from other banks	**4,453**	**–**	**4,453**
Financial assets mandatorily measured at fair value through profit or loss	**767,808**	**(767,808)**	**–**
Derivatives	**4,640**	**–**	**4,640**
Loans and advances to banks	**619,273**	**(6,211)**	**613,062**
Loans and advances to customers	**3,196,725**	**–**	**3,196,725**
Financial investments	**845,735**	**–**	**845,735**
Prepayments and accrued income	**20,558**	**(2,182)**	**18,376**
Current tax assets	**3,669**	**(1,810)**	**1,859**
Reinsurance assets	**77,972**	**(77,972)**	**–**
Other non-current assets held for sale	**6,673**	**–**	**6,673**
Investment in subsidiaries	**–**	**28,578**	**28,578**
Investment property	**1,600**	**(1,600)**	**–**
Property, plant and equipment	**41,923**	**(2)**	**41,921**
Intangible assets	**50,168**	**(34,146)**	**16,022**
Right-of-use assets	**2,569**	**–**	**2,569**
Deferred tax assets	**29,119**	**–**	**29,119**
Other assets	**5,513**	**(688)**	**4,825**
Total assets at 31 Dec 2021	**7,174,805**	**(863,841)**	**6,310,964**
Liabilities and equity			
Deposits by banks	**1,397**	**–**	**1,397**
Customer accounts	**5,621,195**	**34,187**	**5,655,382**
Items in the course of transmission to other banks	**21,573**	**–**	**21,573**
Derivatives	**4,592**	**–**	**4,592**
Accruals and deferred income	**21,976**	**(3,673)**	**18,303**
Current tax liabilities	**499**	**–**	**499**
Liabilities under investment contracts	**185,137**	**(185,137)**	**–**
Liabilities under insurance contracts	**658,197**	**(658,197)**	**–**
Provisions for liabilities and other charges	**21,252**	**(1,130)**	**20,122**
Deferred tax liabilities	**15,005**	**(11,283)**	**3,722**
Borrowings from group undertaking	**60,000**	**–**	**60,000**
Subordinated liabilities	**62,000**	**–**	**62,000**
Other liabilities	**12,245**	**(3,850)**	**8,395**
Total liabilities at 31 Dec 2021	**6,685,068**	**(829,083)**	**5,855,985**
Equity			
Called up share capital	**108,092**	**–**	**108,092**
Revaluation reserve	**24,330**	**–**	**24,330**
Retained earnings[1]	**357,315**	**(34,758)**	**322,557**
Total equity at 31 Dec 2021	**489,737**	**(34,758)**	**454,979**
Total liabilities and equity at 31 Dec 2021	**7,174,805**	**(863,841)**	**6,310,964**

1 *The retained earnings also includes other movements in the equity. The balance sheet components are used in the calculation of the regulatory capital in table 4 (Own funds disclosure EU CC1). This table shows items at their accounting values which might be subject to adjustments in the calculation of regulatory capital.*

Table 4: Principal entities with a different regulatory and accounting scope of consolidation (LI3)

			At 31 Dec 2021			
			Method of regulatory consolidation			
	Principal activities	Method of accounting consolidation	Fully consolidated	Proportional consolidation	Neither consolidated nor deducted	Deducted from capital subject to thresholds[1]
HSBC Bank Malta p.l.c.	Credit Institution	Fully consolidated	●			
HSBC Global Asset Management (Malta) Ltd.	Fund Management	Fully consolidated	●			
HSBC Life Assurance (Malta) Ltd	Life Assurance	Fully consolidated				●

1 *The investment in HSBC Life Assurance (Malta) Ltd. does not exceed the thresholds and is therefore risk weighted at 250%.*

Explanations of differences between accounting and regulatory exposure amounts

Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet amounts subject to credit risk regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. We apply a credit conversion factor ('CCF') to these items and add potential future exposures ('PFE') for counterparty credit risk.

Differences due to financial collateral

Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas accounting value is before such deductions.

Differences due to expected credit losses

The carrying value of assets is net of credit risk adjustments.

Differences due to EAD modelling and other differences

The carrying value of assets is usually measured at amortised cost or fair value as at the balance sheet date. Other differences include IFRS 9 transitional arrangements applicable to standardised credit risk exposure.

Differences due to credit risk mitigation

In counterparty credit risk ('CCR'), differences arise between accounting carrying values and regulatory exposure as a result of the application of credit risk mitigation and the use of modelled exposures.

Capital management

Approach and policy

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

HSBC Bank Malta p.l.c. manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2021, HSBC Bank Malta p.l.c. complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital.

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

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

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

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

  – Credit risk,
  – Operational risk,
  – Interest rate risk in the banking book,
  – Insurance risk and
  – Residual risks.

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the sensitivities of the core assumptions included in HSBC Bank Malta p.l.c.'s capital plans to the adverse effect of extreme but plausible events. Stress testing allows senior management to formulate its response, including risk mitigating actions, in advance of conditions starting to reflect the stress scenarios identified.

The actual market stresses experienced by the financial system in recent years and more recently through Covid-19 have been used to inform the capital planning process and further develop the stress scenarios employed within HSBC Bank Malta p.l.c.

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

Risks to capital

Beyond the stress testing framework, a list of the main risks with associated potential impacts on HSBC Bank Malta p.l.c capital ratios is reviewed regularly. These risks are identified as possibly affecting Risk-Weighted Assets ('RWAs') and/or capital position. They can either result from expected regulatory and model changes, or from structural and activity related items. These risks are monitored regularly within the Asset & Liability Committee and the Risk Management Meetings. For the relevant categories of risk, scenario analysis are performed. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

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

Capital

The Basel III framework also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Regulatory capital is the capital which HSBC Bank Malta p.l.c. is required to hold in accordance with the rules established by regulators; and Economic capital is the internally calculated capital requirement to support risks to which HSBC Bank Malta p.l.c. is exposed and forms a core part of the internal capital adequacy assessment process.

Overview of regulatory capital framework

Main features of CET1 and T2 instruments issued by HSBC Bank Malta p.l.c.

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

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

Tier 2 capital comprises eligible subordinated debt and any related share premiums.

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

Our T2 capital which consists of subordinated debt with HSBC Bank plc is repayable at par on maturity and must have an original maturity of a least five years. It may be called and redeemed by the issuer; subject to prior consent from the ECB.

A list of the main features of HSBC Bank Malta p.l.c. regulatory capital instruments prepared in accordance with the instructions provided in Annex III of the Regulation 1423/2013 are presented in the table on the following page.

Table 5: Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA)

Capital Instruments Main Features	HSBC Ordinary shares	Subordinated Tier 2 Regulatory Capital 2028
Issuer	HSBC Bank Malta p.l.c.	
Unique identifier	MT0000030107	N/A
Governing Law(s) of the instrument	Maltese Law	Maltese Law
Regulatory Treatment	–	–
Transitional CRR rules	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2
Eligible at solo/(sub)consolidated /solo and (sub)consolidated	Solo and (Sub) consolidated	Solo and (Sub) consolidated
Amount recognised in regulatory capital	108,091,800	62,000,000
Nominal amount of instrument	108,091,800	62,000,000
Issue price	N/A	At par (€100 per bond)
Redemption price	N/A	At €100
Accounting classification	Share Equity	Liability – amortised cost
Original date of issuance	January 27, 1993*	December 14, 2018
Perpetual or dated	N/A	Dated
Original maturity date	No	December 14, 2028
Issuer call subject to prior supervisory approval	No	Yes
Coupons/dividends		
Fixed or floating dividend coupon	Floating	Floating
Coupon rate and any related index	N/A	3 month EURIBOR
Existence of dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory
Existence of step up or other incentive to redeem	N/A	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
Position in subordination hierarchy in liquidation	Subordinated to HSBC Subordinated Tier 2 Capital	Subordinated to senior creditors and depositors
Non-compliant transitional features	No	No

* *Date when the bank was initially listed on the Malta Stock Exchange*

The full Terms and Conditions (T&Cs) of the HSBC Ordinary Shares are available in the Memorandum and Articles of Association; an electronic copy is available on our website (https://www.about.hsbc.com.mt/investor relations) under section Company Notifications – Announcements. The full T&Cs of the T2 Regulatory Capital 2028 is available by contacting the company secretary of HSBC Bank Malta p.l.c. (companysecretarymalta@hsbc.com). Information with respect to any capital instrument in these documents should not be used for investment advice and does not constitute an offer to sell or solicitation of an offer to buy any such capital instrument or any advice or recommendation with respect to any such capital instrument. When making a decision about investments, investors as well as prospective investors should seek the advice of a professional financial adviser.

Further to the above, the local group's total own funds include other items the terms of which are described below.

Retained earnings

The retained earnings represent earnings not paid out as dividends. Profits form part of Own funds only if those profits have been verified by the local group's independent external auditor. The local group may only make distributions out of profits available for this purpose.

Accumulated other comprehensive income

Property revaluation reserve

This represents the surplus arising on the revaluation of the local group's property net of related deferred tax effects. This reserve is not available for distribution.

Financial investments reserve

This represents the cumulative net change in fair values of financial investments held by the local group, net of related deferred tax effects.

Disclosure on Own Funds

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

Table 6: Composition of regulatory own funds (EU CC1)

		At	
		31 Dec	31 Dec
Ref		**2021**	2020
	Common equity tier 1 (CET1) capital: instruments and reserves	**€000**	€000
1	Capital instruments and the related share premium accounts	**108,092**	108,092
	– *of which: ordinary shares*	***108,092***	*108,092*
2	Retained earnings[1]	**296,659**	281,034
3	Accumulated other comprehensive income (and other reserves)	**24,330**	32,718
3a	Funds for general banking risk (related to BR09)[2]	**6,209**	6,209
EU-5a	Independently reviewed profits net of any foreseeable charge or dividend	**11,633**	10,953
6	**Common equity tier 1 capital before regulatory adjustments**	**446,923**	439,006
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments[3]	**(1,083)**	(1,147)
8	Intangible assets[4]	**(5,062)**	(4,966)
27a	Other regulatory adjustments[5]	**(28,354)**	(17,467)
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**(34,499)**	(23,580)
29	**Common equity tier 1 (CET1) capital**	**412,424**	415,426
36	Additional Tier 1 (AT1) capital before regulatory adjustments	**—**	—
45	Tier 1 capital (T1 = CET1 + AT1)	**412,424**	415,426
51	**Tier 2 (T2) capital before regulatory adjustments**	**62,000**	62,000
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**—**	—
58	**Tier 2 (T2) capital**	**62,000**	62,000
59	**Total capital (TC = T1 + T2)**	**474,424**	477,426
60	Total Risk exposure amount	**2,243,665**	2,311,411
	Capital ratios and buffers		
61	Common equity tier 1	**18.4%**	18.0%
62	Tier 1	**18.4%**	18.0%
63	Total capital	**21.1%**	20.7%
64	Institution specific buffer requirement	**9.8%**	9.8%
65	– *of which: capital conservation buffer requirement*	***2.5%***	*2.5%*
66	– *of which: counter cyclical buffer requirement*	***—%***	*—%*
67	– *of which: systemic risk buffer requirement* [6]	***—%***	*—%*
67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	***1.5%***	*1.5%*
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	***1.3%***	*1.3%*
68	Common Equity Tier 1 available to meet buffers	**11.6%**	11.5%
	Amounts below the threshold for deduction (before risk weighting)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**28,578**	28,578
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**29,119**	27,130

1 *The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiary engaged in insurance activities from the regulatory consolidation. Furthermore the amount represents the closing Retained Earnings excluding Profit for the Year after proposed dividends.*
2 *The local group is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'. This reserve refers to the amount allocated by the bank from its retained earnings, to a non-distributable reserve against potential risks linked to the local group's non-performing loans and advances. .*
3 *Additional value adjustments are deducted from CET1. These are calculated on all assets measured at fair value.*
4 *On 12 November 2020, EU Commission Delegated Legislation (EU/2020/2176) was enacted which replaced the full CET1 capital deduction on Software Assets with a combination of CET1 deductions and Risk Weighted Assets ('RWA'), where the portion subject to RWA shall be risk weighted at 100% which at year end 31 December 2021 amounted to €10,951,000.*
5 *The disclosures in row 27a 'Other Regulatory Adjustments' is introduced for the reporting period December 2021 to align to the EBA reporting framework 3.0, replacing the disclosures in rows 9a, 9b ,9c and 26a for the comparative period.*
6 *The bank does not have any systemic risk buffer as at year end 31 December 2021.*

Table 7: Reconciliation between accounting and regulatory scope of consolidation

	At	
	31 Dec 2021 €000	31 Dec 2020 €000
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**357,315**	337,604
Revaluation reserve	**24,330**	32,718
Adjustments		
– depositor compensation scheme	**(20,193)**	(20,781)
– intangible assets	**(5,062)**	(4,966)
– expected final dividend	**(8,010)**	(2,717)
– retained earnings - HSBC Life Assurance (Malta) Ltd	**(34,804)**	(36,691)
– prudential valuation adjustment	**(1,083)**	(1,147)
– IFRS 9 transitional adjustments	**14,831**	18,682
– single resolution fund	**(1,272)**	(1,053)
– Non performing Loans	**(21,720)**	(14,315)
	412,424	415,426
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
	62,000	62,000
Total own funds	**474,424**	477,426

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk requirements. These requirements are expressed in terms of RWAs. The table provides information on the scope of permissible approaches and our adopted approach by risk type.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Bank Malta p.l.c.
Non-counterparty Credit risk	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters. Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. Expected Losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.	For consolidated Group reporting, we have adopted the standardised approach for our business in accordance with Article 317. Under the standardised approach the local group utilises risk weights determined by exposure class, credit risk mitigation and credit ratings as outlined in the CRR.
Counterparty credit risk	Three approaches to calculating CCR and determining exposure values are defined by the CRR, mark-to-market, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, IRB foundation or IRB advanced. Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.	In order to determine exposures at default, HSBC Bank Malta p.l.c. uses the mark-to-market approach to calculate the CCR exposure value as defined in Article 274 of the Capital Requirements Regulation.
Equity	For the non-trading book, equity exposures can be assessed under standardised, simplified or IRB approaches.	For HSBC Bank Malta p.l.c. reporting purposes, all non-trading book equity exposures are treated under the standardised approach.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR and Incremental Risk Charge ('IRC').	For HSBC Bank Malta p.l.c. the market risk capital requirement is measured using the standard rules.
Operational risk	The CRR includes a capital requirement for operational risk, based on three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach; banks apply different percentages to the total operating income to each of eight defined business lines. Thirdly, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	HSBC Bank Malta p.l.c. has historically adopted and currently uses the standardised approach in determining its operational risk capital requirements.

Capital buffers

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

The local group is required to maintain a capital conservation buffer of 2.5%, O-SII buffer of 1.5% and the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU. These capital buffers are to be composed of CET1 capital, as a percentage of the Risk Weighted Assets.

The countercyclical capital buffer is an additional capital buffer introduced by Basel III to achieve the broader macro prudential goal of protecting the banking sector in periods of excess aggregate credit growth.

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

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

Table 8: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (EU CCyB1)

	Group				
	General credit exposures	**Own funds requirement**			
	Exposure value for SA^	***of which: general credit exposures***	**Total**	**Own funds requirement weights**	**Counter-cyclical capital buffer rate**
Breakdown per country	**€000**	***€000***	**€000**	**%**	**%**
Malta	**3,281,352**	***137,439***	**137,439**	**92.47**	**—**
Bulgaria	**197**	***16***	**16**	**0.01**	**1.00**
Czech Republic	**26**	***2***	**2**	**—**	**0.50**
Hong Kong	**6**	***—***	**—**	**—**	**1.00**
Luxembourg	**5**	***1***	**1**	**—**	**0.50**
Norway	**—**	***—***	**—**	**—**	**0.50**
Others	**281,475**	***11,177***	**11,177**	**7.52**	**—**
Total at 31 December 2021	**3,563,061**	***148,635***	**148,635**	**100.00**	

	Group				
	General credit exposures	Own funds requirement			
	Exposure value for SA^, 1	*of which: general credit exposures*[1]	Total[1]	Own funds requirement weights	Counter-cyclical capital buffer rate
Breakdown per country	€000	*€000*	€000	%	%
Malta	3,381,127	*139,744*	139,744	93.00	—
Bulgaria	4	*1*	1	—	0.50
Czech Republic	32	*2*	2	—	0.50
Hong Kong	44	*3*	3	—	1.00
Luxembourg	1	*—*	—	—	0.25
Norway	12	*1*	1	—	1.00
Slovakia	—	*—*	—	—	1.00
Other	262,802	*10,511*	10,511	7.00	—
Total at 31 December 2020	3,644,022	*150,262*	150,262	100.00	

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

1 *Column 'Exposure value for SA' represents the exposure at default ('EAD') amounts and is disclosed as per the EBA guidelines. Comparative figures are being restated in accordance with current year reporting logic whereby EAD is the value of exposures after deducting provisions and credit risk mitigants. In prior periods the disclosure within this table was presented using the net value of exposures, which is the value of exposures after deducting provisions.*

Table 9: Amount of institution-specific countercyclical capital buffer (EU CCyB2)

	Group^	
	2021	2020
	€000	€000
Total risk amount	**2,243,665**	2,311,411
Institution specific countercyclical buffer rate (%)	**—**	—
Institution specific countercyclical buffer requirement	**3**	1

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

In addition to the measures above, CRD sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. The 'systemic risk buffer' may range between 0% and 5%. In the case of the local group, the higher of the O-SII buffer and the systemic risk buffer applies.

Table EU OV1 is presented in accordance with Article 438 (c) to (f) of the CRR, and shows a breakdown by exposure class of the total RWEAs as well as the capital that is required for credit, market and operational risks.

Table 10: Overview of RWAs (OV1)[1]

		At			
		31 Dec 2021	**31 Dec 2021**	31 Dec 2020	31 Dec 2020
		Risk-weighted assets^	**Minimum capital requirements^,1**	Risk-weighted[2] assets	Minimum capital[2] requirements
		€000	**€000**	€000	€000
1	Credit risk (excluding CCR)	**2,001,551**	**160,124**	2,067,654	165,412
2	– *of which: the standardised approach*	***2,001,551***	***160,124***	*2,067,654*	*165,412*
6	Counterparty credit risk - CCR	**14,136**	**1,131**	5,993	479
7	– *of which the standardised approach*	***12,667***	***1,013***	*5,993*	*479*
EU 8b	– *of which credit valuation adjustment - CVA*[3]	***1,469***	***118***	—	—
19	Market risk	**252**	**20**	548	44
20	– *of which: the standardised approach*	***252***	***20***	*548*	*44*
23	Operational risk	**227,726**	**18,218**	237,216	18,977
24	– *of which: standardised approach*	***227,726***	***18,218***	*237,216*	*18,977*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)[4]	**72,796**	**5,824**	139,270	11,141
29	**Total**	**2,243,665**	**179,493**	2,311,411	184,912

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *'Capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
2 *Comparative figures are being restated in accordance with current year reporting.*
3 *Introduced in June 2022.*
4 *Amounts are presented for information only and excluded from the Total.*

Pillar 2 and Internal Capital Adequacy Assessment Process

Pillar 2

Pillar 2 (supervisory review process) aims to reinforce the minimum capital requirements of Pillar 1. This includes efforts by banks to assess their capital adequacy and by supervisors to review such assessment.

A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process ('ICAAP'), conducted by HSBC Bank Malta p.l.c. to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. As part of this ICAAP, a range of stress tests are applied to the bank's capital plan. These tests, coupled with the economic capital framework, are used to assess the internal capital adequacy. This assessment process is summarized in an annual ICAAP report which is approved by the Board of HSBC Bank Malta p.l.c. A Capital Adequacy Statement is issued to the Joint Supervisory Team which provides the views of management on the capital adequacy of HSBC Bank Malta p.l.c. and is signed off by the Executive and the Board of Directors.

Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirements and guidance. This process can also include specific demands on all aspects of the bank's management. The SREP results in a Pillar 2 requirement ('P2R') and a Pillar 2 guidance ('P2G'), which are added to the Pillar 1 requirements ('P1R').

The Overall Capital Requirement, applicable on total capital is composed of the P1R and the P2R add-on, and the cumulated regulatory buffers. This stands as the applicable regulatory minimum on total capital for a bank falling under ECB supervision.

The Total SREP capital requirement, which is composed only of the P1R and the P2R requirement add-on applicable on the total capital ratio, is the ratio that banks should respect under stressed scenarios.

As a result of the annual SREP, the ECB has maintained at 2.25 percent the P2R for HSBC Bank Malta p.l.c. for the year 2022. Following the ECB decision on the 8 April 2020 amending the composition of the P2R to be held in the form of 56.25 per cent of CET 1 and 75 per cent of Tier 1, as a minimum.

HSBC Bank Malta p.l.c. is required to meet on a consolidated basis a minimum capital ratio of at least 14.25 per cent. The OCR is composed of : the 8 per cent P1R, the 2.25 per cent P2R and 4 per cent CBR. The requirement of CET1 is 9.77 per cent[1] excluding P2G.

Internal capital adequacy assessment process

The Asset and Liability Committee, the Risk Committee and ultimately the Board, examine the Bank's regulatory and economic capital profiles, in order to ensure that capital resources:

- remain sufficient to support the bank's risk profile and outstanding commitments;
- exceed current regulatory requirements, and that the bank is well placed to meet those expected in the future;
- allow the bank to remain adequately capitalised in the event of a severe economic downturn stress scenario; and
- remain consistent with the strategic and operational goals, and the shareholders and investors' expectations.

Stress testing forms an integral part of the ICAAP and highlights potential adverse unexpected outcomes that could arise under baseline and adverse scenarios. The ICAAP provides a quantitative indication of how much capital might be required to absorb the losses, should such scenarios occur.

1 *The 9.77% excludes the AT1 (P1R and P2R) which are currently managed through CET1.*

The minimum regulatory capital that HSBC Bank Malta p.l.c. is required to hold is determined by the rules and guidance established by the Joint Supervisory Team. These capital requirements are a primary influence shaping the business planning process, in which RWA targets are established for global businesses in accordance with the bank's strategic direction and risk appetite.

The economic capital assessment is a more risk-sensitive measure, as it covers a wider range of risks and takes account of substantial diversification of risk accruing from the bank's operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into the management of risk. Economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon with a 99.95% confidence level.

The ICAAP and its constituent economic capital calculations are examined by the Joint Supervisory Team as part of its supervisory review and evaluation process. The ICAAP examination coupled with the EBA stress testing exercise inform the regulator's view of the P2R and P2G.

A strong level of integration between risk and capital management frameworks helps optimising the response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including counterparty credit risk, market and operational risk, non-trading book interest rate risk, insurance risk and pension risk.

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

The minimum requirement for own funds and eligible liabilities ('MREL') is set by Single Resolution Board ('SRB') to ensure that Banks maintain at all times sufficient eligible instruments to facilitate the implementation of the preferred resolution strategy. HSBC Bank Malta p.l.c. is subject to the MREL requirements as revised in 2019 through amendments to the EU Bank Recovery and Resolution Directive 2014/59/EU ('BRRD'); Regulation 806/2014/EU establishing a Single Resolution Mechanism ('SRMR'), the Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD') (the Banking Package).

This MREL requirement can be met with own funds and eligible liabilities in line with the SRB Policy under the Banking Package. HSBC Bank Malta p.l.c. Interim Targets for internal MREL commencing 01 January 2022 have been communicated at the maximum of 19.87 per cent of RWAs in addition to a combined buffer requirement of 2.5 per cent and 5.91 per cent of leverage exposures. As at 31 December 2021, HSBC Bank Malta p.l.c. has been able to meet the MREL requirements through own funds and other internal eligible liabilities.

Leverage ratio

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

The new banking package published in June 2019 ('CRR2') introduced a minimum leverage ratio requirement of 3 per cent applicable as of 28 June 2021. The leverage ratio has become a binding Pillar 1 own-funds requirement since that date. The risk of excess leverage is managed as part of HSBC Bank Malta p.l.c.'s risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

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

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

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

The ECB announced on 18 June 2021 that banks under its supervision may continue to exclude until March 2022 certain central bank exposures from the leverage ratio, due to persisting exceptional macroeconomic circumstances resulting from the Covid-19 pandemic. However, banks who choose to apply the exemption will also have to recalibrate their minimum 3 per cent leverage ratio requirement upwards such that only the increase of central bank exposures since the beginning of the pandemic effectively benefit from the leverage ratio relief. HSBC Bank Malta p.l.c. opted out of excluding certain central bank exposures from the leverage ratio. The local group's leverage ratio at 31 December 2021 is well above the 3% minimum requirement and therefore no additional capital is needed.

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

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

Table 11: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1)

		At 31 Dec	
		2021	2020
		€000	€000
1	Total assets as per published financial statements	**7,174,805**	6,730,459
	Adjustments for:		
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(863,841)**	(838,248)
8	Adjustment for derivative financial instruments	**15,142**	2,925
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**222,170**	228,534
12	Other adjustments	**(20,241)**	582
13	**Total exposure measure**	**6,528,035**	6,124,252

Table 12: Leverage ratio common disclosure (EU LR2)

		At 31 Dec	
		2021	2020
		€000	€000
	On-balance sheet exposures (excluding derivatives)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**6,320,582**	5,909,798
6	(Asset amounts deducted in determining Tier 1 capital)	**(34,499)**	(23,579)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,286,083**	5,886,219
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	**7,231**	6,574
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**12,551**	2,925
13	**Total derivative exposures**	**19,782**	9,499
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**1,104,643**	1,152,359
20	(Adjustments for conversion to credit equivalent amounts)	**(882,473)**	(923,825)
22	**Off-balance sheet exposures**	**222,170**	228,534
	Capital and total exposure measure		
23	Tier 1 capital	**412,424**	415,426
24	Total exposure measure	**6,528,035**	6,124,252
	Leverage ratios		
25	**Leverage ratio (%) – transitional**	**6.3**	6.8
26	**Regulatory minimum leverage ratio requirement (%)**	**3.0**	N/A

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

Table 13: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives and exempted exposures) – (EU LR3)

		At 31 Dec	
		2021	2020
		€000	€000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)[1]	**6,320,582**	5,909,799
EU-3	*Banking book exposures, of which:*	***6,320,582***	*5,909,799*
EU-5	exposures treated as sovereigns	**2,034,590**	1,441,731
EU-6	exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**464,593**	583,342
EU-7	institutions	**342,958**	323,754
EU-8	secured by mortgages of immovable properties	**2,180,171**	2,233,925
EU-9	retail exposures	**286,784**	262,997
EU-10	corporate	**726,314**	778,079
EU-11	exposures in default	**145,851**	110,192
EU-12	other exposures (e.g. equity and other non-credit obligation assets)[1]	**139,321**	175,779

1 Comparatives are being restated in accordance with current year reporting.

Credit risk

Overview and Responsibilities

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

The principal objectives of our credit risk functions are:-

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

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

These credit risk functions work closely with other parts of Risk, for example with Operational Risk on the internal control framework and with Risk Strategy on the risk appetite process. In addition, they work jointly with Risk Strategy and Finance on stress testing.

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

Our credit risk procedures operate through a hierarchy of personal credit limit approval authorities. The chief executive acting under authorities delegated by the board and Group standards, is accountable for credit risk and other risks faced by the business. In turn, the chief executive delegates authority to operating chief risk officer and management teams on an individual basis. HSBC Bank Malta p.l.c. is responsible for the quality and performance of its credit portfolios in accordance with the HSBC Bank plc standards. Above these thresholds of delegated personal credit limit approval authorities, approval must be sought from the regional credit risk and / or the global credit risk function as appropriate.

Credit risk management

Credit risk

Our exposure to credit risk arises from a wide range of customer and products, and the risk rating systems in place to measure and monitor these risks are correspondingly diverse. Senior management receives a variety of reports on our credit risk exposures, including expected credit losses, total exposures and RWEAs, as well as updates on specific portfolios that are considered to have heightened credit risk.

Credit risk exposures are generally measured and managed in portfolios of either customer types or product categories. Risk rating systems are designed to assess the default propensity of, and loss severity associated with distinct customers who are typically managed as individual relationships or, in the case of retail business exposures, on a product portfolio basis.

Risk rating systems for retail exposures are generally quantitative in nature, applying techniques such as behavioural analysis across product portfolios comprising large numbers of homogeneous transactions. Rating systems for individually managed relationships typically use customer financial statements and market data analysis, but also qualitative elements and a final subjective overlay to better reflect any idiosyncratic elements of the customer's risk profile.

A fundamental principle of our policy and approach is that analytical risk rating systems and scorecards are all valuable tools at the disposal of management. The wholesale credit process provides for at least an annual review of facility limits granted. Review may be more frequent, as required by circumstances such as the emergence of adverse risk factors.

We constantly seek to improve the quality of our risk management. HSBC Bank Malta p.l.c.'s IT systems that process credit risk data continue to be enhanced in order to deliver both comprehensive management information in support of business strategy and solutions to evolving regulatory reporting requirements. HSBC Bank Malta p.l.c. adheres to the HSBC Group standards that govern the process through which risk rating systems are initially developed, judged fit for purpose, approved and implemented. They also govern the conditions under which analytical risk model outcomes can be overridden by decision takers and the process of model performance monitoring and reporting. The emphasis is on an effective dialogue between business line and risk management, suitable independence of decision takers, and a good understanding and robust challenge on the part of senior management.

Like other facets of risk management, analytical risk rating systems are not static. They are subject to review and modification in light of the changing environment, the greater availability and quality of data, and any deficiencies identified through internal and external regulatory review. Structured processes and metrics are in place to capture relevant data and feed this into continuous model improvement.

In response to the onset of the Covid-19 pandemic, credit risk appetite was reviewed and adjusted in line with expected impact, as well to support measures aimed at assisting clients through the pandemic.

The tables below set out details of HSBC Bank Malta p.l.c.'s credit risk exposures by exposure class and approach. Further explanation of HSBC Bank Malta p.l.c.'s approach to credit risk, including detail of the past due and impaired exposure, and its approach to credit risk impairment, can be found in the Annual Report and Accounts of HSBC Bank Malta p.l.c.

Credit quality of exposures by exposures class and instruments

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

Table 14: Performing and non-performing exposures and related provisions (EU CR1)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			Of which stage 1	*Of which stage 2*		*Of which stage 2*	*Of which stage 3*		*Of which stage 1*	*Of which stage 2*		*Of which stage 2*	*Of which stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*
005	**Cash balances at central banks and other demand deposits**	1,482,449	*1,482,449*	—	—	—	—	(10)	*(10)*	—	—	—	—
010	**Loans and advances**	3,463,718	*3,208,159*	*255,559*	168,411	—	*168,411*	(30,355)	*(14,740)*	*(15,615)*	(27,677)	—	*(27,677)*
020	Central banks	41,486	*41,486*	—	—	—	—	—	—	—	—	—	—
030	General governments	151,226	*151,226*	—	—	—	—	(29)	*(29)*	—	—	—	—
040	Credit institutions	335,044	*335,044*	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	121,534	*38,629*	*82,905*	4,471	—	*4,471*	(3,444)	*(344)*	*(3,100)*	(286)	—	*(286)*
060	Non-financial corporations	623,866	*498,037*	*125,829*	75,086	—	*75,086*	(10,655)	*(2,473)*	*(8,182)*	(19,245)	—	*(19,245)*
070	– *of which SMEs*	*339,589*	261,690	77,899	*74,247*	—	74,247	*(8,037)*	(1,741)	(6,296)	*(18,404)*	—	(18,404)
080	Households	2,190,562	*2,143,737*	*46,825*	88,854	—	*88,854*	(16,227)	*(11,894)*	*(4,333)*	(8,146)	—	*(8,146)*
090	**Debt securities**	1,073,872	*1,073,872*	—	—	—	—	(76)	*(76)*	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	952,434	*952,434*	—	—	—	—	(75)	*(75)*	—	—	—	—
120	Credit institutions	121,438	*121,438*	—	—	—	—	(1)	*(1)*	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**	1,096,893	*987,901*	*108,992*	11,205	—	*11,205*	(1,135)	*(642)*	*(493)*	(635)	—	*(635)*
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
170	General governments	105,528	*105,528*	—	—	—	—	(7)	*(7)*	—	—	—	—
180	Credit institutions	15,967	*15,967*	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	56,324	*29,647*	*26,677*	—	—	—	(95)	*(55)*	*(40)*	—	—	—
200	Non-financial corporations	511,378	*437,242*	*74,136*	11,096	—	*11,096*	(988)	*(535)*	*(453)*	(635)	—	*(635)*
210	Households	407,696	*399,517*	*8,179*	109	—	*109*	(45)	*(45)*	—	—	—	—
220	**Total at 31 Dec 2021**	7,116,932	*6,752,381*	*364,551*	179,616	—	*179,616*	(31,576)	*(15,468)*	*(16,108)*	(28,312)	—	*(28,312)*

			Collateral and financial guarantees received	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
005	**Cash balances at central banks and other demand deposits**	—	—	—
010	**Loans and advances**	(10,620)	2,711,128	101,612
020	Central banks	—	—	—
030	General governments	—	151,195	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	67,976	382
060	Non-financial corporations	(10,620)	402,019	21,066
070	– *of which SMEs*	(10,620)	181,654	21,066
080	Households	—	2,089,938	80,164
090	**Debt securities**	—	—	—
100	Central banks	—	—	—
110	General governments	—	—	—
120	Credit institutions	—	—	—
130	Other financial corporations	—	—	—
140	Non-financial corporations	—	—	—
150	**Off-balance-sheet exposures**			
160	Central banks			
170	General governments			
180	Credit institutions			
190	Other financial corporations			
200	Non-financial corporations			
210	Households			
220	**Total at 31 Dec 2021**	(10,620)	2,711,128	101,612

1 *Comparative figures are being restated in accordance with current year reporting.*

Table 14: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, negative changes in fair value due to credit risk and provisions		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*		*of which stage 1*	*of which stage 2*		*of which stage 2*	*of which stage 3*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
	At 31 December 2020												
005	Cash balances at central banks and other demand deposits	778,046	778,046	—	—	—	—	(18)	(18)	—	—	—	—
010	Loans and advances	3,716,555	3,385,859	330,696	130,996	—	130,996	(32,743)	(13,601)	(19,142)	(27,173)	—	(27,173)
020	Central banks	24,476	24,476	—	—	—	—	—	—	—	—	—	—
030	General governments	148,881	148,881	—	—	—	—	(51)	(51)	—	—	—	—
040	Credit institutions	497,381	497,381	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	194,733	84,189	110,544	459	—	459	(4,290)	(864)	(3,426)	(82)	—	(82)
060	Non-financial corporations	653,060	483,068	169,992	47,141	—	47,141	(13,513)	(3,104)	(10,409)	(18,777)	—	(18,777)
070	*– of which: SMEs*	404,654	285,888	118,766	46,308	—	46,308	(10,782)	(2,491)	(8,291)	(17,995)	—	(17,995)
080	Households	2,198,024	2,147,864	50,160	83,396	—	83,396	(14,889)	(9,582)	(5,307)	(8,314)	—	(8,314)
010	Debt securities	1,134,124	1,134,124	—	—	—	—	—	—	—	—	—	—
110	General governments	886,476	886,476	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	247,648	247,648	—	—	—	—	—	—	—	—	—	—
160	Off-balance-sheet exposures	1,218,465	1,060,941	157,524	2,876	—	2,876	(1,878)	(693)	(1,185)	(542)	—	(542)
170	General governments	107,372	107,372	—	—	—	—	(2)	(2)	—	—	—	—
180	Credit institutions	29,180	28,664	516	—	—	—	(5)	(5)	—	—	—	—
190	Other financial corporations	70,242	40,213	30,029	—	—	—	(208)	(146)	(62)	—	—	—
200	Non-financial corporations	550,649	434,133	116,516	2,775	—	2,775	(1,601)	(509)	(1,092)	(542)	—	(542)
210	Households	461,022	450,559	10,463	101	—	101	(62)	(31)	(31)	—	—	—
220	Total	6,847,190	6,358,970	488,220	133,872	—	133,872	(34,639)	(14,312)	(20,327)	(27,715)	—	(27,715)

			Collaterals and financial guarantees received	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
	At 31 December 2020			
005	Cash balances at central banks and other demand deposits	—	—	—
010	Loans and advances	(12,073)	2,643,517	109,356
020	Central banks	—	—	—
030	General governments	—	148,873	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	120,239	378
060	Non-financial corporations	(12,027)	349,751	28,700
070	*– of which: SMEs*	*(12,027)*	*181,803*	*28,651*
080	Households	(46)	2,024,654	80,278
090	Debt securities	—	—	—
110	General governments	—	—	—
120	Credit institutions	—	—	—
160	Off-balance-sheet exposures			
170	General governments			
180	Credit institutions			
190	Other financial corporations			
200	Non-financial corporations			
210	Households			
220	Total	(12,073)	2,643,517	109,356

Credit concentration risk

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

Credit concentration risk analysed by counterparty

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 15.1% of the total loan portfolio as at end of 2021. These exposures are strictly monitored by management and every reasonable step is taken to reduce this concentration and spread risk over a wider customer base with further growth in the loan portfolio.

The maximum on-balance sheet credit exposure to any client, group of connected clients or counterparty as at 31 December 2021 amounted to €183,418,000 before taking account of collateral or other credit enhancements.

Within its daily operations, the local group transacts with counterparty banks and other financial institutions. By conducting these transactions, the local group is running the risk of losing funds due to the possible delays in the repayment of existing and future obligations by counterparty banks. To mitigate this risk, the local group places short-term funds solely with pre-approved counterparties subject to pre-established limits determined on the basis of the respective institution's credit rating as well as with its parent. The positions are checked against the limits on a daily basis and in real time.

As prescribed in article 400(2)(c), in light of the fact that the local group is subject to prudential supervision on a consolidated basis, the local group's exposure with its parent is exempt from limits to large exposures outlined in article 395(1) of the CRR. Similarly, the local group invests in debt securities issued by the government of Malta, and given that these exposures attract a 0% risk weight they are exempt from large exposure limits.

Expected Loss ('EL') and credit risk adjustments

The local group analyses credit loss experience in order to assess the performance of our risk measurement and control processes, and to inform our understanding of the implications for risk and capital management of dynamic changes occurring in the risk profile of our exposures.

HSBC Bank Malta p.l.c. adopted IFRS9 framework which uses the following three stage model for impairments that looks at the changes in credit quality:

- stage 1: Those financial assets that are unimpaired and without a significant increase in credit risk. A 12-month allowance for ECL is recognised;
- stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised; and
- stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.

When comparing regulatory EL with measures of Expected Credit Losses ('ECL') under IFRS 9, differences in the definition and scope of each should be considered. These can give rise to material differences in the way economic, business and methodological drivers are reflected quantitatively in the accounting and regulatory measures of loss.

In general, HSBC Bank Malta p.l.c. calculates ECL using three main components namely probability of default, loss given default, and exposure at default.

ECL include impairment allowances (or provisions, against commitments and guarantees) calculated for a 12-month period ('12-month ECL'), for the remaining life of an exposure ('lifetime ECL'), and on financial assets that are considered to be in default or otherwise credit impaired. ECL resulting from default events that are possible:

- within the next 12 months are recognised for financial instruments in stage 1; and
- beyond 12 months are recognised for financial instruments in stages 2 and 3.

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Change in ECL and other credit impairment charges represents the movement in the ECL during the year including write-offs, recoveries and foreign exchange losses. EL represents the one-year regulatory expected loss accumulated in the book at the balance sheet date.

Credit risk adjustments ('CRAs') encompass the impairment allowances or provisions balances, and changes in ECL and other credit impairment charges.

Further information on the measurement of loans and advances is disclosed in Note 3 of the Significant accounting policies within the *Annual Report and Accounts*.

Impaired loans and advances

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

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

The table below analyses the change in stock of specific credit risk adjustment for the financial year ended 31 December 2021.

Table 15: Changes in the stock of non-performing loans and advances (EU CR2)

		At 31 Dec 2021 Gross carrying amount €000
010	Initial stock of non-performing loans and advances	130,996
020	Inflows to non-performing portfolios	67,802
030	Outflows from non-performing portfolios	(30,387)
	– *of which:*	
040	*due to write-offs*	*(1,900)*
050	*due to other situations*	*(28,487)*
060	Final stock of non-performing loans and advances	168,411

Defaulted exposures

The accounting definition of "impaired" and the regulatory definition of "default" are generally aligned. For particular retail exposures regulatory default is identified at 180 days past due, while the exposures are identified as impaired at 90 days past due.

Table 16 presents an analysis of performing and non-performing exposures by days past due. The gross NPL ratio at 31 Dec 2021 was 4.64% (3.52% in 2020) calculated in line with the EBA guidelines.

Table 16: Credit quality of performing and non-performing exposures by past due days EU CQ3

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
	At 31 December 2021												
5	**Cash balances at central banks and other demand deposits**[1]	**1,482,449**	**1,482,449**	—	—	—	—	—	—	—	—	—	—
10	**Loans and advances**	**3,463,718**	**3,454,499**	**9,219**	**168,411**	**89,480**	**15,763**	**26,195**	**5,239**	**17,692**	**6,776**	**7,266**	***168,411***
20	Central banks	**41,486**	**41,486**	—	—	—	—	—	—	—	—	—	—
30	General governments	**151,226**	**151,226**	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	**335,044**	**335,044**	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	**121,534**	**121,534**	—	**4,471**	**719**	—	**3,693**	—	—	—	**59**	***4,471***
60	Non-financial corporations	**623,866**	**620,983**	**2,883**	**75,086**	**28,985**	**8,583**	**19,484**	**124**	**12,788**	**3,614**	**1,508**	***75,086***
70	– *of which: SMEs*	***339,589***	***336,706***	***2,883***	***74,247***	***28,985***	***8,583***	***19,484***	***124***	***12,788***	***3,613***	***670***	***74,247***
80	Households	**2,190,562**	**2,184,226**	**6,336**	**88,854**	**59,776**	**7,180**	**3,018**	**5,115**	**4,904**	**3,162**	**5,699**	***88,854***
90	**Debt securities**	**1,073,872**	**1,073,872**	—	—	—	—	—	—	—	—	—	—
110	General governments	**952,434**	**952,434**	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	**121,438**	**121,438**	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**	**1,096,893**			**11,205**								***11,205***
170	General governments	**105,528**			—								—
180	Credit institutions	**15,967**			—								—
190	Other financial corporations	**56,324**			—								—
200	Non-financial corporations	**511,378**			**11,096**								***11,096***
210	Households	**407,696**			**109**								***109***
220	**Total**	**7,116,932**	**6,010,820**	**9,219**	**179,616**	**89,480**	**15,763**	**26,195**	**5,239**	**17,692**	**6,776**	**7,266**	***179,616***
	At 31 December 2020												
5	Cash balances at central banks and other demand deposits[1]	778,046	778,046	—	—	—	—	—	—	—	—	—	—
10	Loans and advances	3,716,555	3,710,058	6,497	130,996	65,307	6,050	8,379	12,088	24,042	4,008	11,122	*130,996*
20	Central banks	24,476	24,476	—	—	—	—	—	—	—	—	—	—
30	General governments	148,881	148,881	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	497,381	497,381	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	194,733	194,733	—	459	385	—	—	—	—	—	74	*459*
60	Non-financial corporations	653,060	652,090	970	47,141	18,656	65	531	8,262	16,790	1,263	1,574	*47,141*
70	– *of which: SMEs*	*404,654*	*403,684*	*970*	*46,308*	*18,649*	*65*	*531*	*8,262*	*16,790*	*1,214*	*797*	*46,308*
80	Households	2,198,024	2,192,497	5,527	83,396	46,266	5,985	7,848	3,826	7,252	2,745	9,474	*83,396*
90	Debt securities	1,134,124	1,134,124	—	—	—	—	—	—	—	—	—	—
110	General governments	886,476	886,476	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	247,648	247,648	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	1,218,465			2,876								*2,876*
170	General governments	107,372											—
180	Credit institutions	29,180											—
190	Other financial corporations	70,242											—
200	Non-financial corporations	550,649			2,775								*2,775*
210	Households	461,022			101								*101*
220	Total	6,847,190	5,622,228	6,497	133,872	65,307	6,050	8,379	12,088	24,042	4,008	11,122	133,872

1 *Comparative figures are restated in accordance with current year reporting*

Table 17: Quality of non-performing exposures by geography (EU CQ4)

		Gross carrying/nominal amount						
			Of which non-performing	*Of which defaulted*	*Of which subject to impairment*	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		€000	€000	€000	€000	€000	€000	€000
010	On-balance-sheet exposures	4,706,001	*168,411*	*168,411*	4,706,001	(58,108)	–	–
	Europe	4,501,076	165,325	165,325	4,501,076	(57,825)	–	–
020	Malta	4,002,856	*161,434*	*161,434*	*4,002,856*	(57,458)	–	–
030	Belgium	2,204	–	–	*2,204*	(12)	–	–
040	Switzerland	1,168	–	–	*1,168*	(6)	–	–
050	Germany	119,575	–	–	*119,575*	(15)	–	–
060	France	151,088	*229*	*229*	*151,088*	(13)	–	–
070	United Kingdom	155,205	*2,575*	*2,575*	*155,205*	(215)	–	–
080	Poland	255	*186*	*186*	*255*	(5)	–	–
090	Netherlands	568	*150*	*150*	*568*	(5)	–	–
100	Other countries	68,157	*751*	*751*	*68,157*	(96)	–	–
	North America	44,434	*2,141*	*2,141*	*44,434*	(81)	–	–
110	Canada	2,644	*1,482*	*1,482*	*2,644*	(18)	–	–
120	United States	1,929	*659*	*659*	*1,929*	(63)	–	–
130	Other countries	39,861	–	–	*39,861*	–	–	–
	Asia	22,997	*115*	*115*	*22,997*	(18)	–	–
140	Other countries	22,997	*115*	*115*	*22,997*	(18)	–	–
	Middle East	137,487	*830*	*830*	*137,487*	(184)	–	–
150	United Arab Emirates	135,100	*639*	*639*	*135,100*	(151)	–	–
160	Other countries	2,387	*191*	*191*	*2,387*	(33)	–	–
170	**Other geographical**	7	–	–	*7*	–	–	–
180	Off-balance-sheet exposures	1,108,098	*11,205*	*11,205*			1,770	
	Europe	1,104,764	11,203	11,203			1,770	
190	Malta	1,086,621	*11,203*	*11,203*			1,768	
200	Belgium	1,882	–	–			–	
210	Switzerland	83	–	–			–	
220	Germany	539	–	–			–	
230	France	8,843	–	–			–	
240	United Kingdom	3,716	–	–			2	
250	Poland	23	–	–			–	
260	Netherlands	290	–	–			–	
270	Other countries	2,767	–	–			–	
	North America	620	2	2			–	
280	Canada	184	–	–			–	
290	United States	436	*2*	*2*			–	
	Asia	792	–	–			–	
310	Other countries	792	–	–			–	
	Middle East	1,879	–	–			–	
320	United Arab Emirates	484	–	–			–	
330	Other countries	1,395	–	–			–	
340	**Other geographical area**	43	–	–			–	
350	**Total at 31 Dec 2021**	5,814,099	*179,616*	*179,616*	*4,706,001*	(58,108)	1,770	–

1 Cash balances at central banks and other demand deposits are not included in the above table.
2 Amounts shown by geographical region and country/territory in this table are based on the country/territory of residence of the counterparty.

Table 18: Credit quality of loans and advances to non-financial corporations by industry (EU CQ5)

		Gross carrying amount					
			Of which non-performing	*Of which defaulted*	*Of which loans and advances subject to impairment*	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		€000	€000	€000	€000	€000	€000
010	Agriculture, forestry and fishing	606	*99*	*99*	*606*	(14)	—
020	Mining and quarrying	—	—	—	—	—	—
030	Manufacturing	54,142	*8,105*	*8,105*	*54,142*	(3,275)	—
040	Electricity, gas, steam and air conditioning supply	75,398	—	—	*75,398*	(184)	—
050	Water supply	33,276	—	—	*33,276*	(7)	—
060	Construction	23,242	*3,305*	*3,305*	*23,242*	(867)	—
070	Wholesale and retail trade	211,915	*14,340*	*14,340*	*211,915*	(5,059)	—
080	Transport and storage	14,045	*16*	*16*	*14,045*	(186)	—
090	Accommodation and food service activities	92,554	*25,758*	*25,758*	*92,554*	(10,344)	—
100	Information and communication	32,129	*1*	*1*	*32,129*	(1,698)	—
110	Real estate activities	111,586	*13,937*	*13,937*	*111,586*	(3,085)	—
120	Financial and insurance activities	506	—	—	*506*	(6)	—
130	Professional, scientific and technical activities	6,436	*26*	*26*	*6,436*	(51)	—
140	Administrative and support service activities	4,282	*454*	*454*	*4,282*	(351)	—
150	Public administration and defense, compulsory social security	5,861	—	—	*5,861*	(1)	—
160	Education	4,029	*3,549*	*3,549*	*4,029*	(556)	—
170	Human health services and social work activities	24,928	*5,056*	*5,056*	*24,928*	(4,051)	—
180	Arts, entertainment and recreation	287	*105*	*105*	*287*	(20)	—
190	Other services	3,730	*335*	*335*	*3,730*	(145)	—
200	**Total at 31 Dec 2021**	698,952	*75,086*	*75,086*	*698,952*	(29,900)	—

Table 19: Credit quality of forborne exposures (EU CQ1)

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	*of which: defaulted*	*of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*of which: forborne non-performing exposures*
		€000	€000	*€000*	*€000*	€000	€000	€000	*€000*
010	**Loans and advances**	68,861	115,032	*115,032*	*115,032*	(6,518)	(20,541)	80,815	*60,337*
050	Other financial corporations	26,155	4,459	*4,459*	*4,459*	(1,194)	(279)	410	*378*
060	Non-financial corporations	27,094	63,526	*63,526*	*63,526*	(4,143)	(15,583)	23,902	*17,888*
070	Households	15,612	47,047	*47,047*	*47,047*	(1,181)	(4,679)	56,503	*42,071*
100	**Total at 31 Dec 2021**	68,861	115,032	*115,032*	*115,032*	(6,518)	(20,541)	80,815	*60,337*
010	Loans and advances	22,805	80,995	*80,995*	*80,995*	(2,887)	(20,502)	77,318	*57,508*
050	Other financial corporations	—	451	*451*	*451*	—	(80)	298	*298*
060	Non-financial corporations	8,063	39,805	*39,805*	*39,805*	(1,502)	(16,055)	27,596	*21,143*
070	Households	14,742	40,739	*40,739*	*40,739*	(1,385)	(4,367)	49,424	*36,067*
100	Total at 31 Dec 2020	22,805	80,995	*80,995*	*80,995*	(2,887)	(20,502)	77,318	*57,508*

Additional disclosures on measures applied in response to the Covid-19 outbreak

The following tables provide information on payment moratoria and forbearance measures to existing loans and public guarantees to new lending in the context of Covid-19. These temporary additional disclosures were announced on 2 June 2020 by the European Banking Authority ('EBA'), and set out its expectations on how the disclosures guidelines are to be applied.

Loans and advances subject to legislative and non-legislative moratoria

As at 31 December 2021, there were no outstanding gross loans and advances subject to general payment moratoria. The following table shows the comparative as at 31 December 2020.

Table 20: Information on loans and advances subject to EBA Compliant moratoria (legislative and non-legislative)

		Gross carrying amount						
		Total	Performing			Non-performing		
				of which: exposures with forbearance measures	*of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		*of which: exposures with forbearance measures*	*of which: unlikely to pay that are not past-due or past-due <= 90 days*
	At 31 December 2020	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances subject to moratorium	163,536	158,426	601	99,964	5,110	4,994	4,638
2	– *of which: Households*	41,621	36,511	601	1,227	5,110	4,994	4,638
3	– *of which: Collateralised by residential immovable property*	41,080	36,011	580	1,227	5,069	4,973	4,607
4	– *of which: Non-financial corporations*	65,676	65,676	—	62,147	—	—	—
5	– *of which: Small and Medium-sized Enterprises*	45,394	45,394	—	41,957	—	—	—
6	– *of which: Collateralised by commercial immovable property*	37,215	37,215	—	33,861	—	—	—

		Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Total	Performing			Non performing			
				of which: exposures with forbearance measures	*of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		*of which: exposures with forbearance measure*	*of which: unlikely to pay that are not past-due or past-due <= 90 days*	Inflows to non-performing exposures
	At 31 December 2020	€000	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances subject to moratorium	(5,173)	(4,998)	(2)	(4,541)	(175)	(162)	(165)	5,057
2	– *of which: Households*	(344)	(169)	(2)	(32)	(175)	(162)	(165)	5,057
3	– *of which: Collateralised by residential immovable property*	(329)	(168)	(2)	(32)	(161)	(161)	(157)	5,026
4	– *of which: Non-financial corporations*	(2,347)	(2,347)	—	(2,298)	—	—	—	—
5	– *of which: Small and Medium-sized Enterprises*	(2,225)	(2,225)	—	(2,177)	—	—	—	—
6	– *of which: Collateralised by commercial immovable property*	(1,995)	(1,995)	—	(1,948)	—	—	—	—

Table 21: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria

			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		***Of which: legislative moratoria***	***Of which: expired***	**<= 3 months**	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
	At 31 December 2021		**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	Loans and advances for which moratorium was offered	1,983	387,590							
2	Loans and advances subject to moratorium (granted)	1,678	374,391	374,391	374,391	—	—	—	—	—
3	– *of which: Households*	—	214,189	214,189	214,189	—	—	—	—	—
4	– *of which: Collateralised by residential immovable property*	—	211,689	211,689	211,689	—	—	—	—	—
5	– *of which: Non-financial corporations*	—	106,792	106,792	106,792	—	—	—	—	—
6	– *of which: Small and Medium-sized Enterprises*	—	52,113	52,113	52,113	—	—	—	—	—
7	– *of which: Collateralised by commercial immovable property*	—	45,415	45,415	45,415	—	—	—	—	—

Table 21: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria (continued)

			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		*Of which: legislative moratoria*	*Of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
	At 31 December 2020		€000	*€000*	*€000*	€000	€000	€000	€000	€000
1	Loans and advances for which moratorium was offered	2,224	442,605							
2	Loans and advances subject to moratorium (granted)	1,821	430,158	*430,158*	*266,622*	42,874	119,377	1,285	—	—
3	– *of which: Households*	—	*238,718*	238,718	197,097	*13,205*	*27,131*	*1,285*	—	—
4	– *of which: Collateralised by residential immovable property*	—	*233,914*	233,914	192,834	*13,017*	*26,778*	*1,285*	—	—
5	– *of which: Non-financial corporations*	—	*102,727*	102,727	37,051	*18,923*	*46,753*	—	—	—
6	– *of which: Small and Medium-sized Enterprises*	—	*56,159*	56,159	10,765	*4,933*	*40,461*	—	—	—
7	– *of which: Collateralised by commercial immovable property*	—	*43,171*	43,171	5,956	*15,109*	*22,106*	—	—	—

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis

In May 2020, HSBC Bank Malta p.l.c. confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme. This government-backed scheme provides banks with credit risk mitigation in respect of loans granted to eligible and viable businesses which may be experiencing cash flow and liquidity pressures resulting from the adverse business conditions following the Covid-19 outbreak.

Table 22: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis

		Gross carrying amount		**Public guarantees received**	**Inflows linked to new lending**
			of which: forborne	**Maximum amount of the guarantee that can be considered**	**Gross carrying amount**
	At 31 December 2021	**€000**	***€000***	**€000**	**€000**
1	Newly originated loans and advances subject to public guarantee schemes	**37,760**	**5,659**	**33,984**	**15,830**
4	– *of which: Non-financial corporations*	***33,974***	***5,659***	***30,577***	***15,830***
5	– *of which: Small and Medium-sized Enterprises*	***17,670***	**—**		
6	– *of which: Collateralised by commercial immovable property*	***15,076***	**—**		
	At 31 December 2020				
1	Newly originated loans and advances subject to public guarantee schemes	14,284	—	12,676	2,973
4	– *of which: Non-financial corporations*	*14,284*	—	*12,676*	*2,973*
5	– *of which: Small and Medium-sized Enterprises*	*10,784*	—		
6	– *of which: Collateralised by commercial immovable property*	*3,255*	—		

Risk mitigation

Our approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided on an unsecured basis.

Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Detailed policies cover the acceptability, structuring and terms with regards to the availability of credit risk mitigation such as collateral security. These policies together with the setting of suitable valuation parameters are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Policy and procedures

Policies and procedures govern the protection of our position from the outset of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to WPB and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. Facilities to small and medium-sized enterprises ('SME's') are commonly granted against guarantees given by their owners and/or directors.

For credit risk mitigants in the form of immovable property, the key determinant of concentration is geographic; use of immovable property mitigants for risk management purposes is entirely property situated in Malta.

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. Collateral values are determined through a combination of professional appraisals and house price indices. Specifically, HSBC Bank Malta p.l.c. utilises the price index to update its mortgage portfolio value at 6-monthly intervals, or more frequently as the need arises, for example, where market conditions are subject to significant change. Professional valuations are obtained on an annual basis for high value impaired mortgage loans. Valuation of collateral on commercial real estate is obtained on a 3-yearly basis (in line with article 208 of EU regulation 575/2013), with valuation of commercial property securing defaulted exposures being obtained on an annual basis.

In addition, revaluation is also sought where, for example, as part of the regular credit assessment of the obligor, material concerns arise in relation to the performance of the collateral. CRE revaluation also commonly occurs where a decline in the obligor's credit quality gives cause for concern that the principal payment source may not fully meet the obligation.

Other forms of Credit Risk Mitigation

Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank. In our corporate lending portfolio, we also take guarantees from corporates as part of a parent/subsidiary or common parent relationships.

Recognition of risk mitigation under the standardised approach

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

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

Table 23: Collateral obtained by taking possession and execution processes EU-CQ7

		2021		2020	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
		€000	**€000**	€000	€000
1	Property, plant and equipment (PP&E)	**—**	**—**	—	—
2	Other than PP&E	**4,128**	**(252)**	4,855	(86)
3	Residential immovable property	**1,383**	**(34)**	1,658	(59)
4	Commercial Immovable property	**2,723**	**(208)**	3,156	(8)
7	Other	**22**	**(10)**	41	(19)
8	**Total at 31 December**	**4,128**	**(252)**	4,855	(86)

Table 24: Credit risk mitigation techniques – overview (CR3)

		Exposures unsecured: carrying amount	Exposures secured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
		€000	**€000**	**€000**	**€000**
1	Loans	**2,301,841**	**2,812,737**	**2,530,726**	**282,011**
2	Debt securities	**1,073,872**	**—**	**—**	**—**
3	**Total at 31 December 2021**	**3,375,713**	**2,812,737**	**2,530,726**	**282,011**
4	*– of which non performing exposure*	***66,798***	***101,613***	***101,613***	**—**
5	*– of which: defaulted*	***66,798***	***101,613***	***101,613***	**—**
1	Loans	1,761,256	2,864,340	2,581,464	282,876
2	Debt securities	1,134,124	—	—	—
3	Total at 31 December 2020	2,895,380	2,864,340	2,581,464	282,876
4	*– of which: defaulted*	*24,696*	*106,300*	*106,300*	—

1 *Comparative figures are restated in accordance with current year reporting.*

Credit risk exposures and credit risk mitigant techniques

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

Table 25: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		On-balance sheet amount	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWAs**	**RWA density**
		€000	**€000**	**€000**	**€000**	**€000**	**%**
	Asset classes[1]						
1	Central governments or central banks	**2,034,590**	**—**	**2,318,632**	**47,868**	**81,095**	**3**
3	Public sector entities	**342,997**	**105,520**	**191,687**	**31**	**—**	**—**
4	Multilateral development banks	**121,596**	**—**	**121,596**	**—**	**—**	**—**
6	Institutions	**342,958**	**14,410**	**342,958**	**9,444**	**75,190**	**21**
7	Corporates	**726,314**	**585,028**	**579,556**	**74,884**	**500,672**	**77**
8	Retail	**286,784**	**378,492**	**284,703**	**3,254**	**215,928**	**75**
9	Secured by mortgages on immovable property	**2,180,171**	**—**	**2,180,171**	**—**	**795,092**	**36**
10	Exposures in default	**145,851**	**13,917**	**144,935**	**1,254**	**171,352**	**117**
11	Higher-risk categories	**13,674**	**5,860**	**13,437**	**2,597**	**24,051**	**150**
15	Equity	**81**	**—**	**81**	**—**	**81**	**100**
16	Other items	**125,566**	**—**	**125,566**	**—**	**138,090**	**110**
17	**Total at 31 December 2021**	**6,320,582**	**1,103,227**	**6,303,322**	**139,332**	**2,001,551**	**—**
1	Central governments or central banks	1,441,731	11,647	1,726,936	51,754	67,826	4
3	Public sector entities	335,470	107,368	186,448	—	1	—
4	Multilateral development banks	237,859	—	237,859	—	—	—
5	International Organisations	10,013	—	10,013	—	—	—
6	Institutions	323,754	28,715	323,754	1,394	121,562	37
7	Corporates	778,079	622,747	625,378	89,973	542,859	76
8	Retail	262,997	422,809	260,392	259	195,466	75
9	Secured by mortgages on immovable property	2,233,924	—	2,233,924	—	809,676	36
10	Exposures in default	110,192	6,396	110,038	300	116,930	106
11	Higher-risk categories	39,306	11,911	38,977	5,590	66,850	150
15	Equity	33	—	33	—	33	100
16	Other items	136,442	—	136,442	—	146,452	107
17	Total at 31 December 2020	5,909,800	1,211,593	5,890,194	149,270	2,067,655	34

1 *Derivative instruments exposures are not included in the above table, on which RWA's amounted to €12,667,000 in 2021 (2020: €5,993,000).*

Table 26: Standardised approach (EU CR5)

	Exposure classes	Risk weight 0%	20%	35%	50%	70%	75%	100%	150%	250%	Total	*Of which: unrated*
1	Central governments or central banks	**2,295,887**	**41,494**	**—**	**—**	**—**	**—**	**—**	**—**	**29,119**	**2,366,500**	***1,271,931***
3	Public sector entities	**191,718**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**191,718**	***38***
4	Multilateral development banks	**121,596**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**121,596**	***—***
6	Institutions	**—**	**337,680**	**—**	**14,138**	**—**	**—**	**584**	**—**	**—**	**352,402**	***584***
7	Corporates	**—**	**6,859**	**—**	**266,798**	**—**	**—**	**380,783**	**—**	**—**	**654,440**	***380,783***
8	Retail exposures	**—**	**—**	**—**	**—**	**—**	**287,957**	**—**	**—**	**—**	**287,957**	***287,957***
9	Exposures secured by mortgages on immovable property	**—**	**—**	**1,908,975**	**271,196**	**—**	**—**	**—**	**—**	**—**	**2,180,171**	***2,180,171***
10	Exposures in default	**—**	**—**	**—**	**—**	**—**	**—**	**95,862**	**50,327**	**—**	**146,189**	***146,189***
11	Exposures associated with particularly high risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**16,034**	**—**	**16,034**	***16,034***
15	Equity exposures	**—**	**—**	**—**	**—**	**—**	**—**	**81**	**—**	**—**	**81**	***81***
16	Other items	**26,781**	**4,453**	**—**	**—**	**—**	**—**	**65,754**	**—**	**28,578**	**125,566**	***125,566***
17	**Total at 31 Dec 2021**	**2,635,982**	**390,486**	**1,908,975**	**552,132**	**—**	**287,957**	**543,064**	**66,361**	**57,697**	**6,442,654**	***4,409,334***

The above table provides a breakdown of exposures by risk weights and asset class post conversion factor and post risk mitigation techniques. Derivatives are excluded.

Counterparty credit risk

Overview

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

The table below sets out details of the local Group's counterparty credit risk exposures through its over the counter ('OTC') derivative exposures.

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

CCR management in HSBC Bank Malta p.l.c. is performed through different levels:

- Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') subfunction within the Risk function, either at local level or at regional level or even at Group level.
- Credit exposure monitoring is performed by the WMR subfunction.

Credit authority for CCR

HSBC Bank Malta p.l.c.'s WCR has a delegated approval authority for Corporates. Depending on the level of the credit limit and customer risk rating (CRR), credit approval might require concurrence from the Group WMR if above HSBC Bank Malta p.l.c.'s delegated approval authority. Sovereigns', Intra-Group and Banks' limits require the Group WCR's concurrence irrespective of the amount of the facility.

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

Credit limit set up for CCR management

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

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

Counterparty-level limits

Category A ('Cat A') limits

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

Category B ('Cat B') limits

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

Category S ('Cat S') limits

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

Portfolio-level limits

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

Table 27: Analysis of counterparty credit risk ('CCR') exposure by approach (EU CCR1)

		Replacement cost	Potential future exposure	Alpha used for computing regulatory exposure value	EAD post-CRM	RWAs
		€000	€000	€000	€000	€000
1	SA-CCR (for derivatives)	**5,165**	**8,177**	**1.4**	**18,679**	**12,667**
11	**Total at 31 December 2021**	**5,165**	**8,177**	**1.4**	**18,679**	**12,667**
1	SA-CCR (for derivatives)	6,574	2,925		9,499	5,993
11	Total at 31 December 2020	6,574	2,925		9,499	5,993

Table 28: Transactions subject to own funds requirements for CVA risk - EU CCR2

	At 31 Dec 2021	
	Exposure value	RWEA
Transactions subject to the Standardised method	**8,308**	**1,469**
Total transactions subject to own funds requirements for CVA risk	**8,308**	**1,469**

The following table presents information on the risk weighting of CCR exposures under the standardised approach by regulatory portfolio.

Table 29: Standardised approach – CCR exposures by regulatory exposure class and risk weights (EU CCR3)

	Risk weight €000								Total exposure €000
Exposure classes	0%	10%	20%	50%	75%	100%	150%	Others	
Central governments or central banks	**1,875**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,875**
Corporates	**—**	**—**	**—**	**8,274**	**—**	**8,530**	**—**	**—**	**16,804**
Total exposure value	**1,875**	**—**	**—**	**8,274**	**—**	**8,530**	**—**	**—**	**18,679**

Market Risk

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

There were no material changes to the policies and practices for the management of market risk during 2021. A summary of our current policies and practices for the management of market risk is set out in Note 4 (e) of the Annual Report and Accounts.

Exposure to Market risk

Exposure to market risk is split into two portfolios:

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

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

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

Table 30: Market risk under standardised approach (MR1)

		At	
		31 Dec 2021	31 Dec 2020
		RWAs €000	RWAs €000
	Outright products		
3	Foreign exchange risk	**252**	548

Non-Financial Risk ('NFR') - previously known as Operational Risk

Overview

HSBC Bank Malta p.l.c defines NFR as the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during our day-to-day operations while taking financial risks. Non-financial risks may have an impact on our management of financial risks, for example, inaccurate financial reporting may lead to unexpected capital or liquidity risk, or a trading process failure may result in higher market risk taking.

Notable sources of NFR include external, non-authorised activities, errors and omissions including events characterised by a low probability but with a high impact in case of occurrence.

We have historically experienced NFR losses in the following major categories:

- External Fraud event
- Transaction processing

Further information can be found in The Report of the Directors under section Non-financial Risks of the Annual Report and Accounts.

The following table reports our operational risk capital requirements for the current year.

Table 31: Non Financial Risk RWEAs and capital required (EU-OR1)

		Relevant indicator			Own funds requirement	Risk exposure amount
		Year 3	Year 2	Year 1		
		€000	€000	€000	€000	€000
	Standardised Approach					
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA)	**139,090**	**132,150**	**127,940**	**18,218**	**227,726**

Organisation and responsibilities

Responsibility for managing non-financial risk lies with our people. During 2021 we continued to strengthen our approach to managing non-financial risk as set out in the Risk Management Framework ('RMF'). The framework sets out our approach to governance and risk appetite and provides a single view of non-financial risks that matter the most and associated controls. The enhancement and embedding of the risk appetite framework for non-financial risk, and the improvement of the consistency of the adoption of the end-to-end risk and control assessment processes remained a focus in 2021. While there remains more to do, we made progress in strengthening the control environment and the management of non-financial risk.

In line with the increasing threat landscape that the industry faces within non-financial risk, we formed the new operational and resilience risk-sub-function in 2020. Operational and Resilience Risk is a combined risk stewardship and oversight function, which ensures governance and management of Operational and Resilience Risk through the delivery and embedding of effective frameworks, and continuous oversight and assurance of end to end processes, risks and controls. The effectiveness of first line of defence risk and control owners and second line of defence risk stewards in managing HSBC's Non-Financial Risk processes and practices is reported through the Risk Management Meeting ('RMM').

Non-financial risk is organised as a specific risk discipline within our Risk function, managed by the Head of Operational Risk and the Head of Resilience Risk, who together are responsible for monitoring the effectiveness of the internal control environment, the level of operational losses and the resilience risk taxonomies.

Activity to strengthen the three lines of defence ('LOD') model continued to be a key focus in 2021.

The First LOD 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.

The Second LOD review and challenge the First LOD's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second LOD is independent of the risk-taking activities undertaken by the First LOD and includes CROs, Risk Stewards and the Operational and Resilience Risk (ORR) function.

The third LOD is Internal Audit, which provides independent assurance to management and the non-executive Risk and Audit Committees that our risk management, governance and internal control processes are designed and operating effectively.

Measurement and monitoring

We have codified our RMF in a high level standard, supplemented by detailed policies. These policies explain our approach to identifying, assessing, monitoring and controlling financial and non-financial risk, and give guidance on mitigating actions to be taken when weaknesses are identified.

Monitoring risk exposure against risk appetite and tolerance on a regular basis, and setting out our risk acceptance process, drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

Risk scenario analysis provides a top down, forward-looking assessment of risks to help determine whether they are being effectively managed within our risk appetite or whether further management action is required. Business managers are responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The RMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Risk and control assessment approach

Non-financial risk and control assessments are performed by individual business units and functions. The risk and control assessment process is designed to provide business areas and functions with a forward-looking view of non-financial risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage non-financial risks within acceptable levels. Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment; and
- investigating whether cost-effective insurance cover is available to mitigate the risk.

Recording

We use a Group-wide risk management system to record the results of our non-financial risk management process. Non-financial risk and control assessments as described above, are inputted and maintained by business units. Business management monitors and follow up the progress of documented action plans. Operational risk losses are entered into the group-wide risk management system and reported to RMM, the Risk Committee of the Board, and the Board itself, on a regular basis. Loss capture thresholds are in line with industry standards.

Continuity of business operations during Covid-19 pandemic

As a result of the Covid-19 outbreak, business continuity responses have been successfully implemented and the majority of service level agreements have been maintained. We have not experienced any major impacts to the supply chain for our third party service providers due to Covid-19. The risk of damage or theft to our physical assets or criminal injury to our employees remains unchanged and no significant incidents have impacted our buildings or staff.

Other risks

Reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of the local Group and result in financial or non-financial effects or loss of confidence in HSBC Bank Malta p.l.c. Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. We have taken, and are taking measures to enhance our AML, sanctions and other regulatory compliance frameworks.

Sustainability risk

Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.

Sustainability risk is:

- measured by assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high-risk transactions; and
- managed using sustainability risk policies covering project finance lending and sector-based sustainability policies for sectors and themes with potentially large environmental or social impacts.

Interest rate risk in the banking book

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

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

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

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

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

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

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

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

The ΔEVE are based on EBA Standard Outlier Test (SOT) +/-200bps and the 6 BCBS Outlier Test shocks:

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

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

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

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

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

An EVE value represents the present value of future banking book cashflows that could be distributed to equity providers under a managed run off scenario. EVE is a regulatory metric and limit of sensitivity as prescribed against Total Capital and Standard outlier test. Interest rate risk in the banking book will give rise to volatility in expected NII due to movements in interest rates. One way to measure interest rate risk in the banking book is to assess this volatility using NII sensitivity analysis. There are no regulatory prescribed limits on NII sensitivity.

Table 32: Interest Rate Risk in the Banking Book (EU-IRRBB1)

		2021	2020	2021	2020
	Supervisory shock scenarios	Changes of the economic value of equity		Changes of the net interest income	
1	Parallel up	**(29,700)**	(21,360)	**21,000**	16,000
2	Parallel down	**7,920**	2,610	**(19,000)**	(14,000)
3	Steepener	**(4,540)**	(4,320)		
4	Flattener	**9,080**	6,510		
5	Short rates up	**(1,130)**	700		
6	Short rates down	**7,390**	2,190		

In accordance with Article 448(1), point (g) CRR, the average and longest repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties is 3 years.

Risk management of insurance operations

We operate an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term life contracts.

By focusing largely on the personal lines of business, we are able to optimise volumes and diversify individual insurance risks.

We choose to manufacture these insurance products in our subsidiary HSBC Life Assurance (Malta) Ltd based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the group. We also engage with external third party insurance providers to provide general insurance as part of specific propositions or in relation to home loans.

The risk profile of our insurance manufacturing business is measured using an economic capital approach. Assets and liabilities are measured on a market consistent basis, and a capital requirement is defined to ensure that there is a less than one-in-200 chance of insolvency over a one-year time horizon, given the risks to which the business is exposed. The methodology for the economic capital calculation is aligned to the Solvency II insurance capital regulations.

HSBC Life Assurance (Malta) Ltd is excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted at 250%).

Liquidity and funding

Liquidity management across the group

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risks are managed by HSBC Bank Malta p.l.c. on a standalone basis with no implicit reliance assumed on any other Group entity (unless pre-committed). HSBC Group's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

HSBC Bank Malta p.l.c. manages its liquidity and funding risks in line with the HSBC Group framework.

Strategies and processes in the management of liquidity risk

HSBC has an internal liquidity and funding risk management framework ('LFRF'), which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken locally (by country) in compliance with the Group's LFRF, and with practices and limits set by the Markets Treasury through the RMM and approved by the Board. HSBC Bank Malta p.l.c's policy is that it should be self-sufficient in funding its own activities.

The key aspects of the internal LFRF which is used to ensure that HSBC maintains an appropriate overall liquidity risk profile are:

- the bank is to manage liquidity and funding risk on a standalone basis without reliance on other members of the group or central banks and other shareholders;
- minimum liquidity coverage ratio ('LCR') requirement;
- minimum net stable funding ratio ('NSFR') requirement or other appropriate metric;
- annual individual liquidity adequacy assessment;
- liquidity funds transfer pricing; and
- forward looking funding assessments.

Structure and Organisation of the liquidity risk management function

The Asset, Liability & Capital Management ('ALCM') team is responsible for the application of the LFRF for HSBC Bank Malta p.l.c. The elements of the LFRF are underpinned by a robust governance framework, the two major elements of which are:

- Asset and Liability Management Committees ('ALCOs'); and
- Annual individual liquidity adequacy assessment process ('ILAAP') used to validate risk tolerance and set risk appetite.

HSBC Bank Malta p.l.c. is required to prepare an internal liquidity adequacy assessment ('ILAA') document at an appropriate frequency. The final objective of the ILAA, approved by the Board of Directors, is to verify that HSBC Bank Malta p.l.c. maintains liquidity resources which are adequate in both amount and quality at all times, ensuring that there is no significant risk that its liabilities cannot be met as they fall due, maintaining a prudent funding profile.

Management of liquidity and funding risk

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

The LCR is calculated as per Commission Delegated Regulation 2015/61 (LCR Delegated Act) supplementing the CRR.

Net stable funding ratio ('NSFR')

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The NSFR is calculated based on CRR2, which became effective in June 2021.

Liquid Assets

Liquid assets consist in any unencumbered liquid securities and available cash held by Markets Treasury. They are managed at HSBC Bank Malta p.l.c. level. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

Overall adequacy of liquidity risk management

HSBC Bank Malta p.l.c. is required to manage liquidity risk and funding risk in accordance with the LFRF, which includes the preparation of an Individual Liquidity Adequacy Assessment ('ILAA') document, to ensure that:

- liquidity resources are adequate, both as to the amount and quality;
- there is no significant risk that liabilities cannot be met as they fall due;
- a prudent structural funding profile is maintained;
- adequate liquidity resources continue to be maintained; and
- that the liquidity risk framework is adequate and robust.

The two key objectives of the ILAAP process are to:

- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- validate the risk tolerance/appetite set by HSBC Bank Malta p.l.c. by demonstrating that reverse stress testing scenarios are acceptably remote; and vulnerabilities have been assessed through the use of severe stress scenarios.

The final conclusion of the ILAA, approved by the Board of Directors, is that HSBC Bank Malta p.l.c.:

- maintains liquidity resources which are adequate in both amount and quality at all times,
- ensures that there is no significant risk that its liabilities cannot be met as they fall due, and
- ensures its liquidity resources contain an adequate amount of high quality liquid assets ('HQLA') and maintains a prudent funding profile.

Liquidity stress testing

HSBC Bank Malta p.l.c. undertakes liquidity stress testing to test that its risk appetite is appropriate, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the business.

HSBC Bank Malta p.l.c. also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead Bank Malta p.l.c. to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken.

Several different stress testing scenarios are run to test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

Liquidity risk management

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

Table 33: Quantitative information of LCR (EU LIQ1)

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on 31 Dec 2021	**Dec'21**	Sep'21	Jun'21	Mar'21	**Dec'21**	Sep'21	Jun'21	Mar'21
EU 1b	Number of data points used in the calculation of averages	**–**	–	–	–	**12**	12	12	12
		€000	€000	€000	€000	**€000**	€000	€000	€000
High-Quality Liquid Assets									
1	Total high-quality liquid assets (HQLA), after application of haircuts in line with Article 9 of regulation (EU) 2015/61					**1,518,839**	1,496,819	1,533,770	1,553,392
Cash – Outflows									
2	Retail deposits and deposits from small business customers	**4,335,213**	4,291,950	4,250,999	4,212,689	**310,967**	304,946	300,119	295,169
3	*– of which: Stable deposits*	***3,073,643***	*3,075,721*	*3,067,719*	*3,059,049*	***153,682***	*153,786*	*153,386*	*152,952*
4	*– of which: Less stable deposits*	***1,261,570***	*1,216,229*	*1,183,280*	*1,153,640*	***157,285***	*151,160*	*146,733*	*142,217*
5	Unsecured wholesale funding	**1,100,454**	1,052,867	1,012,354	1,010,673	**515,568**	489,389	468,226	475,602
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	***392,002***	*373,650*	*358,802*	*353,515*	***93,139***	*88,696*	*85,069*	*83,832*
7	*Non-operational deposits (all counterparties)*	***708,452***	*679,217*	*653,552*	*657,158*	***422,429***	*400,693*	*383,157*	*391,770*
10	Additional requirements	**965,000**	987,772	995,278	991,530	**118,089**	119,486	121,697	114,186
11	*Outflows related to derivative exposures and other collateral requirements*	***16,107***	*20,956*	*28,083*	*26,276*	***16,107***	*20,956*	*28,083*	*26,276*
13	*Credit and liquidity facilities*	***948,893***	*966,816*	*967,195*	*965,254*	***101,982***	*98,530*	*93,614*	*87,910*
14	Other contractual funding obligations	**62,367**	57,436	46,838	28,697	**55,406**	50,913	40,216	28,695
15	Other contingent funding obligations	**219,770**	227,458	227,887	222,346	**10,985**	11,370	11,391	11,113
16	Total Cash Outflows					**1,011,015**	976,104	941,649	924,765
Cash – Inflows									
18	Inflows from fully performing exposures	**732,751**	588,045	408,750	297,743	**715,032**	571,352	395,726	285,424
19	Other cash inflows	**17,397**	22,423	29,494	27,523	**17,397**	22,423	29,494	27,523
EU-19b	(Excess inflows from a related specialised credit institution)					**–**	–	–	–
20	Total Cash Inflows	**750,148**	610,468	438,244	325,266	**732,429**	593,775	425,220	312,947
EU-20c	*Inflows subject to 75% cap*	**750,148**	610,468	438,244	325,266	**732,429**	593,775	425,220	312,947
Total Adjusted Value									
EU-21	Liquidity Buffer					**1,518,839**	1,496,819	1,533,770	1,553,392
22	Total Net Cash Outflows					**351,401**	382,330	516,429	611,818
23	Liquidity Coverage Ratio					**471.3%**	414.3%	335.7%	264.6%

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

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

The key functions supporting liquidity management are the following:

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

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

HSBC Bank Malta p.l.c.'s liquidity reporting includes LCR, NSFR, AMM (maturity ladder, concentration of funding by counterparty, concentration of funding by product type, prices for various maturities, rollover of funding, concentration of counterbalancing capacity),

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

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

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

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

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

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

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

The large, diversified and stable customer base reduces the funding concentration risk for the bank. The top 20 bank's deposit names only comprised 6% of total customer deposits.

Table 34: Net Stable Funding Ratio (EU LIQ2)

		Unweighted value by residual maturity at 31 Dec 2021				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding ('ASF') Items		€000	€000	€000	€000	€000
1	Capital items and instruments	–	–	–	**516,933**	**516,933**
2	Own funds		–	–	**516,933**	**516,933**
4	Retail deposits		**4,450,950**	–	–	**4,125,788**
5	Stable deposits		**3,090,204**	–	–	**2,935,694**
6	Less stable deposits		**1,360,746**	–	–	**1,190,094**
7	Wholesale funding:		**1,266,717**	**5,678**	**60,501**	**531,942**
8	Operational deposits		**427,768**	–	–	**213,884**
9	Other wholesale funding		**838,949**	**5,678**	**60,501**	**318,058**
11	Other liabilities:		**25,294**	–	–	–
13	All other liabilities and capital instruments not included in the above categories		**25,294**	–	–	–
14	**Total available stable funding ('ASF')**					**5,174,663**
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					**20,930**
17	Performing loans and securities:		**704,160**	**174,093**	**2,896,952**	**2,354,268**
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		**526,404**	**35,957**	**50,001**	**120,620**
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		**108,371**	**69,460**	**940,473**	**2,233,648**
21	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk-*		***11,847***	***13,793***	***261,235***	***1,188,539***
22	Performing residential mortgages		**69,385**	**68,676**	**1,906,478**	–
23	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***57,404***	***56,703***	***1,459,790***	–
26	Other assets:		**43,084**	**6,109**	**146,216**	**172,497**
29	NSFR derivative assets		**48**			**48**
30	NSFR derivative liabilities before deduction of variation margin posted		**4,498**			**225**
31	All other assets not included in the above categories		**38,538**	**6,109**	**146,216**	**172,224**
32	Off-balance sheet items		**1,080,180**	–	–	**54,009**
33	**Total RSF**					**2,601,704**
34	**Net Stable Funding Ratio (%)**					**198.9%**

Business risk

Business risk is the potential negative effect on profits and capital from the local Group not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our risk appetite, business planning and stress testing processes, so that our business model and planned activities are monitored, resourced and capitalised consistent with the commercial, economic and risk environment in which the local Group operates, and that any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non-recourse portfolio, we do not report any dilution risk, as we obtain an indemnity from the seller that indemnifies us against this risk. Moreover, factoring transactions involve lending at a discount to the face-value of the receivables which provides protection against dilution risk.

Remuneration policy

Information on the bank’s Remuneration Policy and practices is disclosed in the Remuneration Report section within the Annual Report and Accounts.

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