

# **HSBC Bank Malta p.l.c.**

## **Statement of Compliance with the Code of Principles of Good Corporate Governance**

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

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

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

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

### Compliance with the Code

#### Principle 1: The Board

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

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

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

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

Board Members are accountable for their performance and that of their delegates to shareholders and other relevant stakeholders. Besides having a broad knowledge of the bank's business, they are also conversant with the statutory and regulatory requirements

regulating this business. Directors regularly attend Board meetings and allocate sufficient time to perform their duties.

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

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

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

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

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

#### Principle 2: Chairman and Chief Executive Officer

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

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

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

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

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

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

### Principle 3: Composition of the Board

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

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

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

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

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

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

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

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

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

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

In determining the independence or otherwise of its Directors, the Board has considered, *inter alia*, the principles relating to

independence embodied in the Code, the local group's own practice as well as general principles of good practice.

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

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

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

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

### Principle 4: The Responsibilities of the Board

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

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

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

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

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

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

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

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

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

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

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

## Audit Committee

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

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

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

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

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

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

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

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

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

temporarily filled by John Bonello, until Henri Mizzi's replacement is announced.

## Attendance at Audit Committee meetings

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

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

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

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

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

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

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

## Risk Committee

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

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

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

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

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

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

#### Attendance at Risk Committee meetings

	<b>Attended</b>
Manfred Galdes	<b>6 out of 6</b>
Ingrid Azzopardi	<b>6 out of 6</b>
Yiannos Michaelides	<b>6 out of 6</b>

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

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

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

#### Remuneration and Nomination Committee ('RemNom' Committee)

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

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

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

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

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

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

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

#### Executive Committee ('ExCo')

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

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

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

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

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

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

#### The Risk Management Meeting ('RMM')

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

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



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## The Asset and Liability Management Committee ('ALCO')

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

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

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

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

## Principle 5: Board meetings

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

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

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

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

### Directors' attendance at Board Meetings in 2023

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

## Principle 6: Information and professional development

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

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

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

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

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

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

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

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

## Principle 7: Evaluation of the Board performance

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

## Principle 8: Committees

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

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

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

The bank communicates with shareholders in the following ways:

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

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

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

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

## Principle 11: Conflicts of interests

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

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

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

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

## Principle 12: Corporate Social Responsibility

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

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

## Non-compliance with the Code

### Principle 9 (Code Provision 9.3 and Code Provision 9.4)

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

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

## Internal control Capital Markets Rule 5.97.4

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

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

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

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

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

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

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



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

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

## Capital Markets Rule 5.97.5

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

## General meetings

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

The Annual General Meeting deals with what is termed as 'ordinary business', namely the receiving or adoption of the annual financial statements, the declaration of a dividend, the appointment and

remuneration of the Board (which may or may not involve an election), the appointment of the external auditors, and the grant of the authority to the Board to fix the external auditors' emoluments. Other business which may be transacted at a General Meeting will be dealt with as Special Business.

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

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