

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by HSBC Bank Malta p.l.c. pursuant to the Listing Rules issued by the Listing Authority.

Quote:

During a meeting held on 2 August 2021, the Board of Directors of HSBC Bank Malta p.l.c. approved the attached Group and Bank interim condensed financial statements for the six-month financial period ending 30 June 2021.

2 August 2021

2021 Interim Results – Highlights

Satisfactory financial performance in the first half of the year reflecting favourable market movements which impacted the life insurance subsidiary and lower expected credit losses ('ECL') booked in relation to the bank's lending portfolio. The underlying business performance continues to be adversely impacted by lower and negative interest rates and reduced demand for corporate borrowing, credit card utilisation and personal loans arising from customer behaviour directly influenced by the Covid-19 pandemic. Operating expenses increased marginally, principally due to increased regulatory fees as a result of higher customer deposits held at year end 2020.

Financial performance (vs 1H20)

- Profit before tax increased by €15.6m to €17.5m due to positive performance reported by the life insurance subsidiary and lower ECL booked in relation to the bank's lending portfolio.
- Revenue increased by 16% driven by favourable market movements (equity and interest rates) positively impacting the life insurance subsidiary results. Excluding the insurance subsidiary, revenue decreased by 5% as a result of lower interest rates and subdued demand for corporate borrowing, credit cards and personal loans.
- ECL decreased by €6.8m to €1.9m. Higher ECL were booked in 2020 in view of the negative outlook prevailing at the time as a result of the Covid-19 outbreak.
- Cost Efficiency Ratio ('CER') improved to 72.9% compared to 83.0% in the same period last year.
- Costs are €1.1m higher than the same period in 2020. While the bank is still benefitting from the cost strategy announced in 2019, and ongoing cost management initiatives, additional regulatory fees were incurred due to higher deposits as at year end.
- During the first six months, lending decreased marginally by €8.9m (0.3%) and deposits grew by €56.6m (1%).
- Profit attributable to shareholders of €11.4m for the six months ended 30 June 2021 resulted in earnings per share of 3.2 cents compared with 0.3 cents in the same period in 2020.
- Common equity tier 1 capital ratio of 17.2% at 30 June 2021, down from 18.0% at the end of 2020 well above regulatory requirements.
- Return on equity of 4.7% for the six months ended 30 June 2021, compared with 0.5% for the same period in 2020.
- As the European Central Bank continues to recommend extreme prudence with regard to dividend distributions and since uncertainty still prevails in the marketplace, no interim dividend is being proposed. Restrictions imposed on capital distribution will end after 30 September 2021 when the ECB's current recommendation is due to expire.

Unquote



Dr George Brancaleone LL.D.

Company Secretary

This Company Announcement is issued by
HSBC Bank Malta p.l.c.

Company Secretary Tel: (+356) 2380 2404

Registered in Malta number C3177.

Registered Office: 116, Archbishop Street, Valletta VLT 1444, Malta.

HSBC Bank Malta p.l.c. is regulated and licensed to conduct investment services business by the Malta Financial Services Authority.

Listed on and is a member of the Malta Stock Exchange.

Directors' Report

Financial performance

Profit before tax for the six months ended 30 June 2021 was €17.5m, an increase of €15.6m from the same period in 2020. Higher profits reflect a positive performance by the life insurance subsidiary in view of favourable market movements and lower ECL booked in relation to the bank's lending portfolio.

Net interest income ('NII') decreased by €4.1m to €49.4m compared with €53.5m in the same period in 2020. The decrease in NII is mainly driven by lower interest rates and negative rates on excess liquidity. NII is also adversely impacted by the subdued demand for corporate borrowing, credit cards and personal loans in view of the Covid-19 pandemic. As a result, lower interest paid on deposits was offset by lower rates on debt securities, customer lending and bank placements.

Non-interest income (fees and commissions and trading income) increased by €0.9m with the increase mainly attributable to the commercial business. New money approvals for commercial customers increased over same period last year. This contributed to higher arrangement and commitment fees.

Operating expenses increased by €1.1m to €52.2m compared with €51.1m in the same period in 2020. While the bank continues to realise cost savings from the cost strategy announced in 2019 and ongoing proactive cost management measures, there was an increase in regulatory fees linked to higher customer deposits held at the prior year end.

ECL decreased by €6.8m to €1.9m compared with €8.7m in the same period in 2020. In 2020, higher ECL were booked to reflect the prevailing negative outlook and uncertainty of the Covid-19 pandemic. While ECL booked in 2020 were not released in view of the continued uncertainty in the market, increases in 2021 were limited to customers experiencing further deterioration.

HSBC Life Assurance (Malta) Limited reported a profit of €4.2m compared to a loss reported in the same period last year of €8.9m. The positive variance of €13.1m was mainly attributable to an improvement in the yield curve and financial markets which impacted revenue by €10.7m.

The effective tax rate is 35% in line with 2020. This translated into an interim tax expense of €6.1m.

Financial position and capital

Net loans and advances to customers amounted to €3,256m, a marginal decrease of €9m when compared to 31 December 2020. The bank saw marginal decreases in both commercial and retail banking driven by subdued demand for corporate facilities, credit cards and personal loans in view of the Covid-19 pandemic. While we saw an increase in new money approvals for commercial customers, utilisation remained low. The bank continued to experience growth in personal mortgages.

The bank's investment portfolio decreased by €22m to €856m. The portfolio was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-.

Customer accounts were €5,330m as at 30 June 2021, €57m or 1% higher than at 31 December 2020 driven by increases in both retail and commercial banking deposits. The bank has a robust advances-to-deposits ratio of 61% and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity tier 1 capital was 17.2% at 30 June 2021, compared to 18.0% at the end of 2020 and well above regulatory requirements. The total capital ratio decreased to 19.8% compared to 20.7% at 31 December 2020.

In July 2021, the ECB announced that the current restrictions on payment of dividends will be lifted after 30 September 2021. Given the current restrictions on payment of dividend as well as

the continued uncertainty in the market no dividend is being proposed.

Simon Vaughan Johnson, Director and Chief Executive Officer of HSBC Malta, said

"The performance in the first half of 2021 reflected the favourable market impact on the life insurance manufacturing business as well as the continued unfavourable impact of further declining interest rates. We also saw ECL stabilise following the increased ECL booked in 2020 as a result of the negative forward economic outlook prevailing at the time.

In May 2021, we inaugurated the new flagship branch at 80 Mill Street, Qormi. The investment in our new branch enables HSBC to provide a new way of banking in Malta that embodies our drive to deliver a suite of world-class banking services to our customers. We aim to offer an enhanced customer experience that is underpinned by convenience and flexibility, serving our customers until 7:00pm during the week.

In June 2021, we announced two voluntary redundancy schemes. We aim to create a leaner working model that is externally-focused and performance-led, building and investing in a bank that is fit for the future and which is centred around customers.

We continue to support our community through the HSBC Malta Foundation. The Foundation continues to support local charities such as Malta Hospice Movement and Malta Community Chest Fund. The Foundation continues to be very active in the sustainability space. In collaboration with the Malta Chamber of Commerce, we have launched a sustainability project, 'Establishing Malta's Framework for a Net Zero Carbon Building'. This project will be targeting the country's building and construction sector with the goal of raising standards in energy efficiency and conservation. Furthermore, the Foundation continues to promote Future Skills through projects such as the Human Capital Research Project and Prince's Trust International Achieve Programme.

During the first half of the year, we continued to provide stability and continuity of service to our customers in a highly uncertain environment. We have invested in new customer journeys with the aim of improving customer experience and successfully launched two-factor authentication via HSBC Malta's existing mobile banking App, thereby providing customers with ease of execution. We will continue to be focused on the future and on successfully executing our Safe Growth strategy. We are confident that, despite the challenging external environment, there are many opportunities ahead for a bank with HSBC's competitive strengths and we remain focused on delivering these services to the Maltese market, as we strive to open up a world of opportunity."

Financial summary

Income statement

	Group		Bank	
	Half-year to			
	30 Jun 2021 €000	30 Jun 2020 €000	30 Jun 2021 €000	30 Jun 2020 €000
Interest and similar income				
– on loans and advances to banks and customers and other assets	51,918	54,584	51,918	54,584
– on debt and other fixed income instruments	1,259	2,858	1,259	2,858
Interest expense	(3,775)	(3,966)	(3,775)	(3,966)
Net interest income	49,402	53,476	49,402	53,476
Fee income	12,873	11,404	11,142	9,803
Fee expense	(1,371)	(1,014)	(1,084)	(757)
Net fee income	11,502	10,390	10,058	9,046
Net trading income	2,628	2,809	2,628	2,809
Net income from financial instruments of insurance operations measured at fair value through profit or loss	18,200	(29,935)	–	–
Dividend income	–	13	1,462	2,013
Net insurance premium income	26,079	26,209	–	–
Movement in present value of in-force long-term insurance business	(571)	(2,278)	–	–
Other operating income	946	860	944	846
Total operating income	108,186	61,544	64,494	68,190
Net insurance claims, benefits paid and movement in liabilities to policyholders	(36,669)	6	–	–
Net operating income before change in expected credit losses and other credit impairment charges	71,517	61,550	64,494	68,190
Change in expected credit losses and other credit impairment charges	(1,903)	(8,676)	(1,903)	(8,676)
Net operating income	69,614	52,874	62,591	59,514
Employee compensation and benefits	(19,936)	(22,458)	(18,672)	(21,067)
General and administrative expenses	(28,644)	(25,162)	(26,344)	(22,959)
Depreciation of property, plant and equipment and right-of-use assets	(1,771)	(2,193)	(1,771)	(2,193)
Amortisation of intangible assets	(1,803)	(1,249)	(1,762)	(1,211)
Total operating expenses	(52,154)	(51,062)	(48,549)	(47,430)
Profit before tax	17,460	1,812	14,042	12,084
Tax expense	(6,090)	(637)	(4,767)	(4,234)
Profit for the period	11,370	1,175	9,275	7,850
Earnings per share	3.2c	0.3c		

Statements of comprehensive income

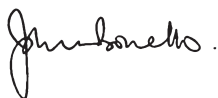
	Group		Bank	
	Half-year to			
	30 Jun 2021 €000	30 Jun 2020 €000	30 Jun 2021 €000	30 Jun 2020 €000
Profit for the period	11,370	1,175	9,275	7,850
Other comprehensive expense				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Debt instruments measured at fair value through other comprehensive income:	(2,758)	(2,598)	(2,758)	(2,598)
– fair value losses	(4,243)	(3,997)	(4,243)	(3,997)
– income taxes	1,485	1,399	1,485	1,399
Items that will not be reclassified subsequently to profit or loss:				
Properties:	390	–	390	–
– surplus arising on revaluation	433	–	433	–
– income taxes	(43)	–	(43)	–
Equity instruments designated at fair value through other comprehensive income:	1	2	1	2
– fair value gains	2	3	2	3
– income taxes	(1)	(1)	(1)	(1)
Other comprehensive expense for the period, net of tax	(2,367)	(2,596)	(2,367)	(2,596)
Total comprehensive income/(expense) for the period	9,003	(1,421)	6,908	5,254

Financial summary

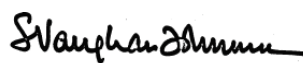
Statements of financial position

	Group		Bank	
	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	628,974	996,679	628,974	996,679
Items in course of collection from other banks	5,348	4,959	5,348	4,959
Financial assets mandatorily measured at fair value through profit or loss	761,297	733,670	–	–
Derivatives	4,112	6,574	4,112	6,574
Loans and advances to banks	1,057,771	589,259	1,052,450	583,439
Loans and advances to customers	3,255,811	3,264,664	3,255,811	3,264,664
Financial investments	855,658	877,485	855,656	877,483
Prepayments and accrued income	25,229	24,148	22,363	21,236
Current tax assets	836	1,813	505	505
Reinsurance assets	74,937	80,083	–	–
Other non-current assets held for sale	8,600	8,919	8,600	8,919
Investment in subsidiaries	–	–	30,859	30,859
Investment property	1,600	1,600	–	–
Property, plant and equipment	42,252	44,206	42,252	44,206
Intangible assets	55,114	54,342	14,582	13,152
Right-of-use assets	4,047	4,200	4,047	4,200
Deferred tax assets	29,630	27,130	29,630	27,130
Other assets	12,992	10,728	10,889	9,600
Total assets	6,824,208	6,730,459	5,966,078	5,893,605
Liabilities				
Deposits by banks	38	3,754	38	3,754
Customer accounts	5,329,580	5,272,961	5,368,212	5,313,754
Derivatives	4,084	6,551	4,084	6,551
Accruals and deferred income	17,057	14,843	13,267	11,202
Current tax liabilities	3,484	88	3,349	88
Liabilities under investment contracts	183,235	170,865	–	–
Liabilities under insurance contracts	651,584	648,028	–	–
Provisions for liabilities and other charges	20,983	21,031	19,293	19,341
Deferred tax liabilities	17,570	17,562	3,790	4,036
Subordinated liabilities	62,000	62,000	62,000	62,000
Other liabilities	49,945	34,362	46,278	31,251
Total liabilities	6,339,560	6,252,045	5,520,311	5,451,977
Equity				
Called up share capital	108,092	108,092	108,092	108,092
Revaluation reserve	27,907	32,718	27,907	32,718
Retained earnings	348,649	337,604	309,768	300,818
Total equity	484,648	478,414	445,767	441,628
Total liabilities and equity	6,824,208	6,730,459	5,966,078	5,893,605
Memorandum items				
Contingent liabilities	152,043	152,296	152,045	152,298
Commitments	1,007,537	1,071,319	1,007,537	1,071,319

The financial statements were approved and authorised for issue by the Board of Directors on 2 August 2021 and signed on its behalf by:



John Bonello
Chairman



Simon Vaughan Johnson
Chief Executive Officer

Statements of changes in equity

	Group			
	Share capital €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
At 1 Jan 2021	108,092	32,718	337,604	478,414
Profit for the period	–	–	11,370	11,370
Other comprehensive income				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	–	(2,757)	–	(2,757)
Properties:				
– surplus arising on revaluation, net of tax	–	390	–	390
– transfer to retained earnings, net of tax	–	(2,444)	2,444	–
Total other comprehensive income	–	(4,811)	2,444	(2,367)
Total comprehensive income for the period	–	(4,811)	13,814	9,003
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payment arrangements, net of tax	–	–	(52)	(52)
– dividends	–	–	(2,717)	(2,717)
Total contributions by and distributions to owners	–	–	(2,769)	(2,769)
At 30 Jun 2021	108,092	27,907	348,649	484,648
At 1 Jan 2020	108,092	32,202	329,672	469,966
Profit for the period	–	–	1,175	1,175
Other comprehensive expense				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	–	(2,596)	–	(2,596)
Total other comprehensive expense	–	(2,596)	–	(2,596)
Total comprehensive (expense)/ income for the period	–	(2,596)	1,175	(1,421)
Transactions with owners, recognised directly in equity				
Contributions by owners:				
– share-based payment arrangements, net of tax	–	–	325	325
At 30 Jun 2020	108,092	29,606	331,172	468,870

	Bank			
	Share capital €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
At 1 Jan 2021	108,092	32,718	300,818	441,628
Profit for the period	–	–	9,275	9,275
Other comprehensive income				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	–	(2,757)	–	(2,757)
Properties:				
– surplus arising on revaluation, net of tax	–	390	–	390
– transfer to retained earnings, net of tax	–	(2,444)	2,444	–
Total other comprehensive expense	–	(4,811)	2,444	(2,367)
Total comprehensive income for the period	–	(4,811)	11,719	6,908
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payment arrangements, net of tax	–	–	(52)	(52)
– dividends	–	–	(2,717)	(2,717)
Total contributions by and distributions to owners	–	–	(2,769)	(2,769)
At 30 Jun 2021	108,092	27,907	309,768	445,767
At 1 Jan 2020	108,092	32,202	286,341	426,635
Profit for the period	–	–	7,850	7,850
Other comprehensive expense				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	–	(2,596)	–	(2,596)
Total other comprehensive expense	–	(2,596)	–	(2,596)
Total comprehensive (expense)/income for the period	–	(2,596)	7,850	5,254
Transactions with owners, recognised directly in equity				
Contributions by owners:				
– share-based payment arrangements, net of tax	–	–	325	325
At 30 Jun 2020	108,092	29,606	294,516	432,214

Statements of cash flows

	Group		Bank	
	Half-year to			
	30 Jun 2021 €000	30 Jun 2020 €000	30 Jun 2021 €000	30 Jun 2020 €000
Cash flows from operating activities				
Interest, fees, loan recoveries and premium receipts	105,668	105,277	66,787	68,178
Interest, fees and claims payments	(41,656)	(40,224)	(5,215)	(4,884)
Payments to employees and suppliers	(47,687)	(51,816)	(42,966)	(47,022)
Cash flows from operating activities before changes in operating assets/liabilities	16,325	13,237	18,606	16,272
(Increase)/decrease in operating assets:				
– financial assets mandatorily measured at fair value through profit or loss	1,876	(8,921)	–	–
– reserve deposit with Central Bank of Malta	(2,567)	(2,742)	(2,567)	(2,742)
– loans and advances to customers and banks	77,702	(28,601)	77,702	(28,601)
– Treasury Bills	63,516	(168,141)	63,516	(168,141)
– other receivables	4,311	(1,076)	4,126	(1,052)
Increase/(decrease) in operating liabilities:				
– customer accounts and deposits by banks	48,389	181,333	47,136	168,534
– other payables	120	(6,184)	232	(5,969)
Net cash from/(used in) operating activities before tax	209,672	(21,095)	208,751	(21,699)
– tax paid	(2,738)	(2,834)	(2,269)	(2,061)
Net cash from/(used in) operating activities	206,934	(23,929)	206,482	(23,760)
Cash flows from investing activities				
Dividends received	–	13	950	1,313
Interest received from financial investments	6,408	7,271	6,408	7,271
Purchase of financial investments	(109,238)	(105,857)	(109,238)	(105,857)
Proceeds from sale and maturity of financial investments	126,128	100,540	126,128	100,540
Purchase of property, plant and equipment and intangible assets	(4,512)	(4,492)	(4,512)	(4,492)
Proceeds from sale of property, plant and equipment and intangible assets	60	746	60	746
Net cash from/(used in) investing activities	18,846	(1,779)	19,796	(479)
Cash flows used in financing activities				
Dividends paid	(2,717)	–	(2,717)	–
Net cash used in financing activities	(2,717)	–	(2,717)	–
Net increase/(decrease) in cash and cash equivalents	223,063	(25,708)	223,561	(24,239)
Cash and cash equivalents at beginning of period	782,704	561,649	776,884	551,493
Effect of exchange rate changes on cash and cash equivalents	(9,281)	2,700	(9,275)	2,700
Cash and cash equivalents at end of period	996,486	538,641	991,170	529,954

Notes on the financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

Our interim condensed consolidated financial statements have been prepared in accordance with Chapter 5 of the Listing Rules issued by the Listing Authority and the Prevention of Financial Markets Abuse Act 2005 and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC Bank Malta p.l.c. (the 'bank') and its subsidiary undertakings (collectively referred to as the 'local group') financial position and performance since the end of 2020. These financial statements should be read in conjunction with the *Annual Report and Accounts 2020*.

The condensed interim financial information has been extracted from the unaudited group's management accounts for the six months ended 30 June 2021. It has not been subject to an audit in accordance with the requirements of International Standards on Auditing nor to a review in accordance with the requirements of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

At 30 June 2021, there were no unendorsed standards effective for the half-year to 30 June 2021 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the local group.

Certain comparative amounts have been reclassified to comply with the current period's presentation.

Standards applied during the half-year to 30 June 2021

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

(b) Use of estimates and judgements

The preparation of financial information in accordance with the requirements of IFRSs as adopted by the EU requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the second half of 2021 could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2021 Interim Financial Results. Management's selection of the local group's accounting policies which contain critical estimates and judgements (listed below) as set out in the Notes of the *Annual Report and Accounts 2020* reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation of uncertainty involved:

- Expected credit losses on loans and advances;
- Valuation of financial instruments;
- Policyholder claims and benefits;
- Present value of in-force long-term assurance business ('PVIF').

Further information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment, related to the matters highlighted above, is included in Note 58 of the *Annual Report and Accounts 2020*.

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

There were no changes in the current period to the critical accounting estimates and judgements as set out in the *Annual Report and Accounts 2020*, except for the 'Measurement of the ECL estimates' as highlighted in Note 3.

(c) Composition of Group

There were no material changes in the composition of the local group in the half-year to 30 June 2021.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. It has not been endorsed for use in the EU. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The local group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely impact of its implementation remains uncertain.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 pandemic has had on the bank's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

(f) Accounting policies

The accounting policies that we applied for these interim condensed consolidated financial statements are consistent with those described on pages 60 to 72 of the *Annual Report and Accounts 2020*, as are the methods of computation.

2 Net operating income/(expense)

Net operating income/(expense) includes net income from Life insurance business, before elimination of intercompany balances. Net operating income/(expense) from Life insurance business is analysed as follows:

	Group	
	Half-year to	
	30 Jun	30 Jun
	2021	2020
	€000	€000
Net fee income	142	111
Net income/(expense) from financial instruments of insurance operations measured at fair value through profit or loss	18,200	(29,935)
Net insurance premium income	26,079	26,209
Movement in present value of in-force long-term insurance business	(571)	(2,278)
Other operating income	2	4
Total operating income/(expense)	43,852	(5,889)
Net insurance claims, benefits paid and movement in liabilities to policyholders	(36,669)	6
Net operating income/(expense)	7,183	(5,883)

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

The bank's exposure to credit risk mainly arises from its lending activities. In this respect, all lending activities are classified under either wholesale or personal lending.

Wholesale lending includes both small business owners served through Personal Banking as well as the financing of corporate and non-bank financial institutions both from a working capital perspective and investing primarily in income producing assets and, to a lesser extent, construction and development of the same. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects. In the following table, these wholesale lending exposures are presented as exposures to corporate and commercial entities as well as exposures to non-bank financial institutions. Non-bank financial institutions are mainly financial corporations other than banks and entities within group of companies that are mainly engaged in financial and insurance activities. Corporate and commercial entities are wholesale entities that have activities other than finance related.

The bank provides a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets acquired. The bank also offers loans secured on existing assets, such as first charges on residential property, and unsecured lending products such as overdrafts, credit cards and car loans.

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL, as well as the fair value of debt instruments measured at FVOCI and the associated allowance for ECL.

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

Transactions and balances with Retail Business Banking ('RBB') customers are classified as wholesale in the following tables, whereas these are reported under Wealth and Personal Banking ('WPB') in Note 4 Segmental analysis.

All credit card balances are classified as personal, whereas some of the balances held by corporate customers are reported under Commercial Banking ('CMB') in Note 4 Segmental analysis.

Summary of financial instruments to which the impairment requirements in IFRS9 are applied

	At 30 Jun 2021		At 31 Dec 2020	
	Gross carrying/ nominal amount €000	Allowance for ECL ¹ €000	Gross carrying/ nominal amount €000	Allowance for ECL ¹ €000
Loans and advances to customers at amortised cost:	3,318,070	(62,259)	3,324,573	(59,909)
– personal	2,290,299	(25,518)	2,294,363	(23,386)
– corporate and commercial	851,875	(31,349)	835,494	(32,153)
– non-bank financial institutions	175,896	(5,392)	194,716	(4,370)
Loans and advances to banks at amortised cost	1,052,452	(2)	583,447	(8)
Other financial assets measured at amortised cost:	451,091	(9,633)	747,951	(9,843)
– balances at central banks	412,441	(3)	711,497	(10)
– items in the course of collection from other banks	5,348	–	4,959	–
– accrued income and other assets ²	33,302	(9,630)	31,495	(9,833)
Total gross carrying amount on balance sheet	4,821,613	(71,894)	4,655,971	(69,760)
Loans and other credit-related commitments:	1,007,537	(1,690)	1,071,319	(1,693)
– personal	446,037	(14)	459,898	(31)
– corporate and commercial (including non-bank financial institutions)	541,957	(1,676)	591,421	(1,662)
– banks	19,543	–	20,000	–
Financial guarantee and similar contracts:	149,769	(692)	150,022	(727)
– personal	5,717	(31)	5,579	(31)
– corporate and commercial (including non-bank financial institutions)	144,052	(661)	144,443	(696)
Total nominal amount off balance sheet³	1,157,306	(2,382)	1,221,341	(2,420)
Total	5,978,919	(74,276)	5,877,312	(72,180)

	Fair value €000	Memorandum allowance for ECL €000	Fair value €000	Memorandum allowance for ECL €000
Debt instruments measured at fair value through other comprehensive income	855,623	(55)	877,452	(340)
Treasury Bills measured at fair value through other comprehensive income	192,235	(6)	256,302	(30)
Total	1,047,858	(61)	1,133,754	(370)

- 1 The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.
- 2 Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments and accrued income' and 'Other assets' as presented within the statement of financial position on page 5, include both financial and non-financial assets.
- 3 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.

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

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to customers at amortised cost:	2,875,836	302,664	139,570	3,318,070	(14,055)	(20,964)	(27,240)	(62,259)	0.5	6.9	19.5	1.9
– personal	2,146,462	49,521	94,316	2,290,299	(10,625)	(5,519)	(9,374)	(25,518)	0.5	11.1	9.9	1.1
– corporate and commercial	653,638	153,443	44,794	851,875	(2,754)	(10,730)	(17,865)	(31,349)	0.4	7.0	39.9	3.7
– non-bank financial institutions	75,736	99,700	460	175,896	(676)	(4,715)	(1)	(5,392)	0.9	4.7	0.2	3.1
Loans and advances to banks at amortised cost	1,052,452	–	–	1,052,452	(2)	–	–	(2)	–	–	–	–
Other financial assets measured at amortised cost	433,315	2,662	15,114	451,091	(5)	–	(9,628)	(9,633)	–	–	63.7	2.1
Loan and other credit-related commitments:	914,476	88,011	5,050	1,007,537	(652)	(839)	(199)	(1,690)	0.1	1.0	3.9	0.2
– personal	436,695	9,290	52	446,037	(13)	(1)	–	(14)	–	–	–	–
– corporate and commercial (including non-bank financial institutions)	458,238	78,721	4,998	541,957	(639)	(838)	(199)	(1,676)	0.1	1.1	4.0	0.3
– banks	19,543	–	–	19,543	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts:	117,334	30,931	1,504	149,769	(256)	(156)	(280)	(692)	0.2	0.5	18.6	0.5
– personal	5,693	24	–	5,717	(31)	–	–	(31)	0.5	–	–	0.5
– corporate and commercial (including non-bank financial institutions)	111,641	30,907	1,504	144,052	(225)	(156)	(280)	(661)	0.2	0.5	18.6	0.5
At 30 Jun 2021	5,393,413	424,268	161,238	5,978,919	(14,970)	(21,959)	(37,347)	(74,276)	0.3	5.2	23.2	1.2

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Debt instruments measured at fair value through other comprehensive income	855,623	–	–	855,623	(55)	–	–	(55)	–	–	–	–
Treasury Bills measured at fair value through other comprehensive income	192,235	–	–	192,235	(6)	–	–	(6)	–	–	–	–
At 30 Jun 2021	1,047,858	–	–	1,047,858	(61)	–	–	(61)	–	–	–	–

Notes on the financial statements

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

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost:	2,863,490	330,087	130,996	3,324,573	(13,600)	(19,136)	(27,173)	(59,909)	0.5	5.8	20.7	1.8
– personal	2,155,675	55,074	83,614	2,294,363	(9,617)	(5,421)	(8,348)	(23,386)	0.4	9.8	10.0	1.0
– corporate and commercial	624,100	164,471	46,923	835,494	(3,121)	(10,289)	(18,743)	(32,153)	0.5	6.3	39.9	3.8
– non-bank financial institutions	83,715	110,542	459	194,716	(862)	(3,426)	(82)	(4,370)	1.0	3.1	17.9	2.2
Loans and advances to banks at amortised cost	583,447	–	–	583,447	(8)	–	–	(8)	–	–	–	–
Other financial assets measured at amortised cost	729,548	3,798	14,605	747,951	(11)	(6)	(9,826)	(9,843)	–	0.2	67.3	1.3
Loan and other credit-related commitments:	944,705	124,980	1,634	1,071,319	(458)	(991)	(244)	(1,693)	–	0.8	14.9	0.2
– personal	449,176	10,608	114	459,898	(31)	–	–	(31)	–	–	–	–
– corporate and commercial (including non-bank financial institutions)	475,529	114,372	1,520	591,421	(427)	(991)	(244)	(1,662)	0.1	0.9	16.1	0.3
– banks	20,000	–	–	20,000	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts:	116,236	32,544	1,242	150,022	(235)	(194)	(298)	(727)	0.2	0.6	24.0	0.5
– personal	5,547	32	–	5,579	–	(31)	–	(31)	–	96.9	–	0.6
– corporate and commercial (including non-bank financial institutions)	110,689	32,512	1,242	144,443	(235)	(163)	(298)	(696)	0.2	0.5	24.0	0.5
At 31 Dec 2020	5,237,426	491,409	148,477	5,877,312	(14,312)	(20,327)	(37,541)	(72,180)	0.3	4.1	25.3	1.2

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Debt instruments measured at fair value through other comprehensive income	877,452	–	–	877,452	(340)	–	–	(340)	–	–	–	–
Treasury Bills measured at fair value through other comprehensive income	256,302	–	–	256,302	(30)	–	–	(30)	–	–	–	–
At 31 Dec 2020	1,133,754	–	–	1,133,754	(370)	–	–	(370)	–	–	–	–

Measurement of ECL estimates

Methodology

The recognition and measurement of ECL involves the use of significant judgement and estimation. The bank's methodology in relation to the adoption and generation of economic scenarios is described on pages 99 to 102 of the *Annual Report and Accounts 2020*. There have been no significant changes during the 1H21 period other than the changes in the probability % weighting for the Central, Upside, Downside and Additional Downside scenarios as described below.

How economic scenarios are reflected in the wholesale calculation of ECL

In line with HSBC's methodology, for the wholesale portfolio, Forward Economic Guidance ('FEG') is incorporated into the calculation of ECL through the estimation of the term structure of PD and LGD.

For PDs, the correlation of FEG to default rates is considered. In this respect, forward-looking PDs are approximated by using a proxy country's PDs and macroeconomic paths, shifted by a scalar. A suitable proxy is selected using the Bhattacharyya methodology which compares various proxy sites' principal component macroeconomic variables to local variables to determine the most suitable site. The scalar is then calculated, which is intended to capture the difference between the proxy and local sensitivities to economic shocks. For the LGD calculation, the correlation of FEG, derived from the assumed macroeconomic paths of the proxy site, to collateral values, which are in turn derived from the bank's data, is taken into account.

For credit impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on credit impaired loans that are individually considered not to be significant, the model incorporates forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

The following table describes key macroeconomic variables, reflecting those used by the proxy site, and the probabilities assigned in the consensus Central, Upside, Downside and Additional Downside scenarios.

Consensus scenarios (average 3Q21-2Q26)

	Wholesale lending			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
Real GDP Growth rate (%)	2.7	4.3	1.4	2.2
Consumer price index (%)	1.9	2.5	1.4	0.1
Unemployment (%)	5.0	4.1	6.2	8.5
Short-term interest risk (%)	0.7	0.7	0.2	0.3
House price index (%)	2.5	3.9	0.4	(0.6)
Probability (%)	50.0	5.0	30.0	15.0

Real GDP Growth rates (3Q21-2Q26)

	Wholesale lending			
	Parameters as at 30 June 2021			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
2021: Annual average growth rate (%)	6.1	6.9	5.2	4.4
2022: Annual average growth rate (%)	5.5	9.1	1.7	(0.3)
2023: Annual average growth rate (%)	2.2	5.0	0.2	4.0
Five year average growth rate (%)	2.7	4.3	1.4	2.2

How economic scenarios are reflected in the retail calculation of ECL

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

The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained above. The following tables describe key macroeconomic variables and the probabilities assigned in the consensus Central, Upside, Downside and Additional Downside scenarios.

Consensus scenarios (average 3Q21-2Q26)

	Retail lending			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
Real GDP Growth rate (%)	3.5	4.3	2.5	2.8
Unemployment (%)	3.9	3.2	4.7	7.0
House price index (%)	5.7	10.4	(0.3)	3.6
Probability (%)	50.0	5.0	30.0	15.0

Unemployment rates (3Q21-2Q26)

	Retail lending			
	Parameters as at 30 June 2021			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
2021: Annual average rate (%)	4.5	3.9	5.5	5.5
2022: Annual average rate (%)	4.1	2.5	6.6	7.5
2023: Annual average rate (%)	4.0	2.6	5.2	8.3
Five year average rate (%)	3.9	3.2	4.7	7.0

Economic scenarios sensitivity analysis of ECL estimates

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

As at 30 June 2021, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described above for the wholesale and retail portfolios, applying a 100% weighting to each scenario in turn.

In this respect, if the ECL outcome was estimated solely on the basis of the Central scenario, the credit loss allowances in respect of the wholesale and retail portfolios would decrease by €2.5m and €3.7m respectively, compared to the weighted average credit loss allowances estimated as at 30 June 2021. If the ECL outcome was estimated solely on the basis of the Downside scenario, the credit loss allowances in respect of the wholesale and retail portfolios would increase by €1.4m and €4.0m respectively, compared to the weighted average credit loss allowances estimated as at 30 June 2021. Similarly, if the ECL outcome was estimated solely on the basis of the Additional Downside scenario, the credit loss allowances in respect of the wholesale and retail portfolios would increase by €7.9m and €8.2m respectively, compared to the weighted average credit loss allowances estimated as at 30 June 2021.

Notes on the financial statements

Post-model adjustments

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

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

	Non-credit impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/nominal amount €000	Allowance for ECL €000	Gross carrying/nominal amount €000	Allowance for ECL €000	Gross carrying/nominal amount €000	Allowance for ECL €000	Gross carrying/nominal amount €000	Allowance for ECL €000
At 1 Jan 2021	3,912,437	(14,294)	491,409	(20,327)	148,477	(37,541)	4,552,323	(72,162)
Transfers of financial instruments:	5,360	(2,665)	(28,689)	3,068	23,329	(403)	–	–
– transfers from Stage 1 to Stage 2	(76,528)	521	76,528	(521)	–	–	–	–
– transfers from Stage 2 to Stage 1	93,903	(3,019)	(93,903)	3,019	–	–	–	–
– transfers from Stage 3	1,748	(220)	2,113	(239)	(3,861)	459	–	–
– transfers to Stage 3	(13,763)	53	(13,427)	809	27,190	(862)	–	–
Net remeasurement of ECL arising from stage transfers	–	2,810	–	(3,491)	–	(1,908)	–	(2,589)
Changes in risk parameters	–	(562)	–	(2,647)	–	(178)	–	(3,387)
Net new and further lending/ repayments	(19,674)	(254)	(38,452)	1,438	(9,402)	1,517	(67,528)	2,701
Assets written off	–	–	–	–	(1,166)	1,166	(1,166)	1,166
At 30 Jun 2021	3,898,123	(14,965)	424,268	(21,959)	161,238	(37,347)	4,483,629	(74,271)
ECL charge for the period								(2,109)
Recoveries								379
Other								671
Change in expected credit losses for the period								(1,059)
Assets written off								(1,166)
Change in expected credit losses and other credit impairment charges								(2,225)

	At 30 Jun 2021		6 months ended 30 Jun 2021
	Gross carrying/nominal amount €000	Allowance for ECL €000	ECL (charge)/release €000
As above	4,483,629	(74,271)	(2,225)
Balances at central banks	412,441	(3)	7
Loans and advances to banks measured at amortised cost	1,052,452	(2)	6
Items in course of collection	5,348	–	–
Other accrued interest on debt instruments	5,506	–	–
Loan and other credit related commitments – banks	19,543	–	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	5,978,919	(74,276)	(2,212)
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,047,858	(61)	309
Total allowance for ECL/total income statement ECL charge for the period		(74,337)	(1,903)

Changes in expected credit losses for the period comprise the reclassification of the discount unwind element to interest income, amounting to €0.6m for the period ended 30 June 2021 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

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

	Non-credit impaired				Credit-impaired			Total	
	Stage 1		Stage 2		Stage 3				
	Gross carrying/ nominal amount €000	Allowance for ECL €000	Gross carrying/ nominal amount €000	Allowance for ECL €000	Gross carrying/ nominal amount €000	Allowance for ECL €000	Gross carrying/ nominal amount €000	Allowance for ECL €000	
At 1 Jan 2020	4,270,104	(8,575)	109,916	(6,297)	136,508	(32,403)	4,516,528	(47,275)	
Transfers of financial instruments:	(368,156)	521	336,436	(992)	31,720	471	—	—	
– transfers from Stage 1 to Stage 2	(367,637)	2,098	367,637	(2,098)	—	—	—	—	
– transfers from Stage 2 to Stage 1	25,431	(1,116)	(25,431)	1,116	—	—	—	—	
– transfers from Stage 3	4,368	(492)	4,725	(602)	(9,093)	1,094	—	—	
– transfers to Stage 3	(30,318)	31	(10,495)	592	40,813	(623)	—	—	
Net remeasurement of ECL arising from stage transfers	—	1,380	—	(11,820)	—	(4,216)	—	(14,656)	
Changes in risk parameters	—	(8,477)	—	(2,833)	—	(5,191)	—	(16,501)	
Net new and further lending/ repayments	10,489	857	45,057	1,615	(17,728)	1,775	37,818	4,247	
Assets written off	—	—	—	—	(2,023)	2,023	(2,023)	2,023	
At 31 Dec 2020	3,912,437	(14,294)	491,409	(20,327)	148,477	(37,541)	4,552,323	(72,162)	
ECL release for the period								(24,887)	
Recoveries								755	
Other								902	
Change in expected credit losses for the year								(23,230)	
Assets written off								(2,023)	
Change in expected credit losses and other credit impairment charges								(25,253)	

	At 31 Dec 2020		12 months ended 31 Dec 2020	
	Gross carrying/ nominal amount €000	Allowance for ECL €000	ECL (charge)/ release €000	
As above	4,552,323	(72,162)	(25,253)	
Balances at central banks	711,497	(10)	9	
Loans and advances to banks measured at amortised cost	583,447	(8)	(7)	
Items in course of collection	4,959	—	—	
Other accrued interest on debt instruments	5,086	—	—	
Loan and other credit related commitments – banks	20,000	—	—	
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	5,877,312	(72,180)	(25,251)	
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,133,754	(370)	(338)	
Total allowance for ECL/total income statement ECL charge for the period		(72,550)	(25,589)	

The above disclosure provides a reconciliation by stage of the bank's gross carrying/nominal amount and allowances for loans and advances to customers, including the portion of loan and other credit-related commitments relating solely to loans and advances to customers excluding loans and other credit related commitments to banks.

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis, including the underlying CRR movements of the financial instruments transferring stage. Movements in ECL arising as a result of changes to the underlying PDs and LGDs, including as a result of changes in macroeconomic scenarios, are captured in the 'changes in risk parameters' line item. The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated allowance ECL impact from volume movements within the bank's lending portfolio.

The ECL charge for the period ended 30 June 2021 was significantly lower compared to same period in 2020. In 2020, higher ECL were driven by charges relating to the impact of the outbreak of the Covid-19 pandemic on economic conditions. While ECL booked in 2020 were not released in view of the continued uncertainty in the market, increases in 2021 were limited to customers experiencing further deterioration.

4 Segmental analysis

Class of business

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

- **Wealth and Personal Banking ('WPB')** offers a broad range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products, global asset management services and financial planning services).

Notes on the financial statements

- **Commercial Banking ('CMB')** offers a broad range of products and services to serve the needs of our commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit, lending, international trade and receivables finance. CMB also offers its customers access to products and services offered by other global businesses, for example Global Markets ('GM').
- **GM** provides tailored financial solutions to corporate and institutional clients. The client-focused business line delivers a full range of banking capabilities including assistance with managing risk via interest rate derivatives, the provision of foreign exchange spot and derivative products.

The local group's internal reporting to the Board of Directors and Senior Management is analysed according to these business lines. For each of the businesses, the Senior Management, in particular the Chief Executive Officer ('CEO'), reviews internal management reports in order to make decisions about allocating resources and assessing performance.

The Board considers that global businesses represent the most appropriate information for the users of the financial statements to best evaluate the nature and financial effects of the business activities in which the local group engages, and the economic environments in which it operates. As a result, the local group's operating segments are considered to be the global businesses.

Global business results are assessed by the CEO on the basis of adjusted performance that removes the effects of significant items. 'Significant items' refers collectively to the items that management and investors would ordinarily identify and consider separately to improve the understanding of the underlying trends in the business.

Results are presented in the tables below on an adjusted basis as required by IFRSs. As required by IFRS 8, reconciliation of the reported results to adjusted results by global business, excluding significant items, is also presented when applicable. The local group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributable to global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Where relevant, income and expense amounts presented include the results of inter-segment funding. All such transactions are undertaken on arm's length terms.

Adjusted profit before tax and balance sheet data

Adjusted performance is computed by adjusting reported results for the effects of significant items, which distort year-on-year comparisons. The local group considers adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant, and providing insight into how management assesses year-on-year performance. During the periods ended 30 June 2021 and 30 June 2020 there were no significant items requiring adjustment. Accordingly, the adjusted profit by global business reported below is the same as the reported profit.

	Wealth and Personal Banking		Commercial Banking		Global Markets		Group total	
	Half-year to							
	30 Jun 2021 €000	30 Jun 2020 €000	30 Jun 2021 €000	30 Jun 2020 €000	30 Jun 2021 €000	30 Jun 2020 €000	30 Jun 2021 €000	30 Jun 2020 €000
Net operating income before change in expected credit losses and other credit impairment charges	48,311	37,945	21,941	22,194	1,265	1,411	71,517	61,550
external	48,417	36,859	21,835	23,280	1,265	1,411	71,517	61,550
inter-segment	(106)	1,086	106	(1,086)	–	–	–	–
– of which: net interest income	34,523	37,875	14,879	15,601	–	–	49,402	53,476
Change in expected credit losses and other credit impairment charges	(1,852)	(5,668)	(51)	(3,008)	–	–	(1,903)	(8,676)
Net operating income	46,459	32,277	21,890	19,186	1,265	1,411	69,614	52,874
Total operating expenses	(38,419)	(38,313)	(13,417)	(12,408)	(318)	(341)	(52,154)	(51,062)
Adjusted/Reported profit before tax	8,040	(6,036)	8,473	6,778	947	1,070	17,460	1,812
	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000
Reported balance sheet data								
Loans and advances to customers (net)	2,267,814	2,274,296	987,997	990,368	–	–	3,255,811	3,264,664
Total external assets	5,187,498	5,035,973	1,631,961	1,687,340	4,749	7,146	6,824,208	6,730,459
Customer accounts	4,244,800	4,215,101	1,084,780	1,057,860	–	–	5,329,580	5,272,961

5 Fair value of financial and non-financial instruments

i Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are determined according to the following hierarchy:

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

The valuation techniques utilised in preparing these interim condensed financial statements are consistent with those applied in the preparation of financial statements for the year ended 31 December 2020. There were no transfers between levels of the fair value hierarchy during the period under review.

ii Disclosures in respect of fair values of financial instruments carried at fair value

The following table sets out the financial instruments by fair value hierarchy.

Financial instruments by fair value and basis of valuation

	Group			
	At 30 Jun 2021			
	Valuation techniques			
	Quoted market price Level 1 €000	Using observable inputs Level 2 €000	With significant unobservable inputs Level 3 €000	Total €000
Assets				
Treasury Bills	–	192,235	–	192,235
Derivatives	–	4,112	–	4,112
Financial assets mandatorily measured at fair value through profit or loss	752,653	3,736	4,908	761,297
Financial investments	855,623	–	35	855,658
	1,608,276	200,083	4,943	1,813,302
Liabilities				
Derivatives	–	4,084	–	4,084
Liabilities under investment contracts	183,235	–	–	183,235
	183,235	4,084	–	187,319
				At 31 Dec 2020
Assets				
Treasury Bills	–	256,302	–	256,302
Derivatives	–	6,574	–	6,574
Financial assets mandatorily measured at fair value through profit or loss	724,621	3,675	5,374	733,670
Financial investments	877,452	–	33	877,485
	1,602,073	266,551	5,407	1,874,031
Liabilities				
Derivatives	–	6,551	–	6,551
Liabilities under investment contracts	170,865	–	–	170,865
	170,865	6,551	–	177,416
				Bank
				At 30 Jun 2021
Assets				
Treasury Bills	–	192,235	–	192,235
Derivatives	–	4,112	–	4,112
Financial investments	855,623	–	33	855,656
	855,623	196,347	33	1,052,003
Liabilities				
Derivatives	–	4,084	–	4,084
	–	4,084	–	4,084
				At 31 Dec 2020
Assets				
Treasury Bills	–	256,302	–	256,302
Derivatives	–	6,574	–	6,574
Financial investments	877,452	–	31	877,483
	877,452	262,876	31	1,140,359
Liabilities				
Derivatives	–	6,551	–	6,551
	–	6,551	–	6,551

Notes on the financial statements

Reconciliation of the fair value measurements in Level 3

	Group		Bank	
	2021 €000	2020 €000	2021 €000	2020 €000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 Jan	5,374	11,379	–	4,507
Disposal/redemptions	(530)	(142)	–	–
Acquisitions	59	31	–	–
Exchange adjustments	–	–	–	–
Changes in fair value (recognised in profit or loss)	5	(433)	–	(32)
At 30 Jun	4,908	10,835	–	4,475

The financial assets mandatorily measured at fair value through profit or loss are principally attributable to insurance operations and those categorised within Level 3 mainly comprise holdings in units in collective investment schemes. These holdings consist of shares in alternative funds which are unlisted and have illiquid price sources. In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians, which is not necessarily supported by audited financial statements.

In view of the insignificance of the Level 3 assets in the context of the local group's total assets, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant.

There has been no change to the key unobservable inputs to Level 3 financial instruments as disclosed in the bank's *Annual Report and Accounts of 2020*.

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

The local group's land and buildings, within property, plant and equipment, comprises commercial branches, bank offices and other operational premises. All the recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy. Investment property comprises a commercial property owned by a subsidiary of the local group. The fair value measurement in respect of this investment property uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

	Group		Bank	
	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000
Assets				
Property	33,974	36,206	33,974	36,206
Investment property	1,600	1,600	–	–
	35,574	37,806	33,974	36,206

The local group's land and buildings within property, plant and equipment and investment property are fair valued annually by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Valuations are made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites together with their development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period.

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

Certain financial instruments are carried at amortised cost. The fair value of these financial instruments are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or the bank has the ability to re-price them at its own discretion, or because these are short-term in nature.

The following table sets out the carrying amounts of these financial instruments:

	Group		Bank	
	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000
Assets				
Balances with Central Bank of Malta and cash	436,739	740,377	436,739	740,377
Items in the course of collection from other banks	5,348	4,959	5,348	4,959
Loans and advance to banks	1,057,771	589,259	1,052,450	583,439
Loans and advance to customers	3,255,811	3,264,664	3,255,811	3,264,664
Accrued interest	22,302	21,965	19,703	19,282
Other assets ¹	10,942	10,551	10,688	10,330
	4,788,913	4,631,775	4,780,739	4,623,051
Liabilities				
Deposits by banks	38	3,754	38	3,754
Customer accounts	5,329,580	5,272,961	5,368,212	5,313,754
Subordinated liabilities	62,000	62,000	62,000	62,000
Accrued interest	1,724	2,137	1,480	1,933
Other liabilities ²	47,400	32,123	43,733	29,012
	5,440,742	5,372,975	5,475,463	5,410,453

1 Other assets include accrued income and committed letters of credit.

2 Other liabilities include bills payable, committed letters of credit and lease liabilities.

6 Asset encumbrance

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

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

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

Encumbered and unencumbered assets

	Group		Bank	
	30 Jun 2021 €000	31 Dec 2020 €000	30 Jun 2021 €000	31 Dec 2020 €000
Total assets	6,824,208	6,730,459	5,966,078	5,893,605
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	20,218	21,007	20,218	21,007
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	1,272	1,053	1,272	1,053
Less:				
Other assets that cannot be pledged as collateral	1,002,292	978,920	152,338	150,792
Assets available to support funding and collateral needs	5,800,426	5,729,479	5,792,250	5,720,753

Out of the €5,800,000,000 (2020: €5,729,000,000) assets available for the local group and €5,792,000,000 (2020: €5,721,000,000) for the bank, €4,423,000,000 (2020: €3,944,000,000) do not form part of the local group's and the bank's High Quality Liquid Assets ('HQLA') and are therefore not categorised as liquid assets. Credit claims and debt securities pledged against the provision of credit lines by the Central Bank of Malta amounting to €171,305,000 (2020: €83,450,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

7 Covid-19





In the first half of 2021, we continued to build on the enhancements made in 2020 to ensure we remain able to support our customers and strategic goals against the backdrop of the Covid-19 outbreak.

Having a clear purpose and strong values has never been more important, with the Covid-19 outbreak testing us all in ways we could never have anticipated. As the world changed over the course of the last 18 months, we adapted to new ways of working and endeavoured to provide support to our customers during this challenging period.

We have set out further ways that we have supported all of our stakeholders, including our customers, employees, investors, regulators and governments.

Supporting our stakeholders

The Covid-19 pandemic has created a great deal of uncertainty and disruption for our stakeholders. It is affecting everyone in different ways, with markets at different stages of the crisis. We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves.

Our stakeholders	How we have engaged
Customers 	<p>Many of our customers have exited their financial relief as moratoria programmes started coming to an end. At 30 June 2021 loans and advances subject to loans and advances subject to EBA compliant moratoria (legislative and non-legislative) amounted in total to €13,590,000 compared to €163,536,000 as at 31 December 2020.</p> <p>In 2020, the bank also confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee. In this respect, as at 30 June 2021, newly originated gross loans subject to the Malta Development Bank Covid-19 Guarantee Scheme amounted to €24,309,000 (31 December 2020: €14,284,000).</p>
Employees 	<p>We continue to monitor our employees' preferences for returning to the workplace, and see increasing support for a more flexible, hybrid approach in the future.</p> <p>Some changes made during the pandemic brought benefits to our customers and people. Many people felt just as or more productive at home, customer satisfaction improved; but people missed human interaction. As we move to hybrid working, our principles of Customer First, Team Commitment and Individual Flexibility, will help us design a better, healthier future.</p>
Investors 	<p>We are grateful for the constructive engagement that we have with our shareholders. The Board particularly values its face-to-face interactions with shareholders at the Annual General Meeting ('AGM'). However, following the introduction of social distancing measures and restrictions on public gatherings, the 2020 and 2021 AGMs were held remotely.</p>
Regulators and Governments 	<p>We proactively engaged with regulators and governments globally regarding the policy changes issued in response to the Covid-19 outbreak to help our customers and to contribute to an economic recovery. We continue to focus on customer interests as the recovery from the pandemic continues.</p>

8 Termination benefits

On 11 June 2021, the bank announced a strategic initiative to further improve its operational structure, benefitting from the HSBC Group's operating models, in order to drive efficiencies and enhance customer experience. The bank aims to create a leaner working model that is externally-focused and performance-led, building and investing in a bank that is fit for the future and which is centred around customers.

No provision was booked as at 30 June 2021 as the recognition criteria under IAS 19, Employee Benefits was not met. The restructuring costs to deliver these changes will be booked in the second half of the year. As the schemes are voluntary, the amount to be booked will depend on the number of applications.

Additional regulatory disclosures

Regulatory framework for 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 IV.

The Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements, Pillar 2 in relation to supervisory review process, and Pillar 3, market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of banks' application of the Basel Committee's framework. It also aims to assess their application of the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Pillar 3 disclosures

Purpose

HSBC Bank Malta p.l.c. (the Group) publishes its full Pillar 3 Disclosures in the *Annual Report and Accounts 2020*. For the interim reporting at 30 June 2021 disclosures include Own Funds, Leverage Ratios, Net Value of Exposures, Overview of risk weighted exposure amounts ('RWEAs'), Credit Quality of Forborne exposures, Liquidity Reporting and Covid-19 regulatory disclosures. These disclosures comprise quantitative and qualitative information in accordance with Part Eight of the Capital Requirements Regulation, as implemented by CRR II and the European Banking Authority ('EBA') guidelines on disclosure requirements.

The Pillar 3 disclosures are governed by the HSBC Group's disclosure policy framework. To give insight into movements during the period, we provide comparative figures, commentary of variances and flow tables for capital requirements. In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk weighted assets by article 92 of the Capital Requirements Regulation. Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Interim Report 2021* or to other locations.

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.

Comparatives

In our disclosures, to give insight into movements during the year, we provide comparative figures for the previous year or period, analytical review of variances and 'flow' tables for capital requirements.

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of RWEAs 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.

Where disclosures have been enhanced, or are new, we do not generally restate or provide prior period comparatives. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to HSBC's activities, we omit them and follow the same premise for comparative disclosures. The capital resources tables track the position from a CRD IV transitional to an end-point basis.

Additional regulatory disclosures

Table 1 EU KM1 – Key metrics template

Ref [*]		30 Jun 2021 €000	31 Dec 2020 €000
Available own funds (amounts)¹			
1	Common Equity Tier 1 ('CET1') capital [^]	408,266	415,426
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	390,758	396,744
2	Tier 1 capital [^]	408,266	415,426
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	390,758	396,744
3	Total capital [^]	470,266	477,426
	Total capital as if IFRS 9 transitional arrangements had not been applied	452,758	458,744
Risk-weighted exposure amounts			
4	Total risk exposure amount [^]	2,369,933	2,311,411
	Total RWEAs as if IFRS 9 transitional arrangements had not been applied	2,355,626	2,296,429
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%) [^]	17.2	18.0
	CET1 as if IFRS 9 transitional arrangements had not been applied	16.6	17.3
6	Tier 1 ratio (%) [^]	17.2	18.0
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	16.6	17.3
7	Total capital ratio (%) [^]	19.8	20.7
	Total capital as if IFRS 9 transitional arrangements had not been applied	19.2	20.0
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional CET1 SREP requirements (%)	1.3	2.3
EU 7b	Additional AT1 SREP requirements (%)	0.4	0.4
EU 7c	Additional T2 SREP requirements (%)	0.6	0.6
EU 7d	Total SREP own funds requirements (TSCR ratio) (%)	10.3	10.3
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	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 (%)	3.0	3.7
Leverage ratio			
13	Total exposure measure [^]	6,203,400	6,124,252
14	Leverage ratio (%) [^]	6.6	6.8
	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	6.3	6.5
EU 14d	Leverage ratio buffer requirement (%)	–	–
EU 14e	Overall leverage ratio requirement (%) ²	3.0	–
Liquidity Coverage Ratio³			
15	Total high-quality liquid assets ('HQLA') (Weighted value – average)	1,368,678	1,777,435
EU 16a	Cash outflows – Total weighted value	957,272	939,030
EU 16b	Cash inflows – Total weighted value	717,954	173,361
16	Total net cash outflows (adjusted value)	239,318	765,669
17	Liquidity coverage ratio (%)	571.9	232.1
Net Stable Funding Ratio			
18	Total available stable funding	4,926,614	4,866,385
19	Total required stable funding	2,752,096	2,926,648
20	NSFR ratio (%)	179.0	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.

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

1 Capital figures and ratios are reported using the CRR II transitional basis for capital instruments.

2 The Leverage ratio buffer requirement is introduced on 30 June 2021 under the CRR2.

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.

HSBC Bank Malta p.l.c. has adopted the regulatory transitional arrangements in CRR II 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 RWEAs. In the current period, the net add-back to the capital base amounted to €17,508,000.

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 Developments

Amendments to the Capital Requirements Regulation ('CRR2') and 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 credit valuation adjustment ('CVA') framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. The final standards will need to be transposed into the relevant local law before coming into effect.

The CRR2 represents the first tranche of changes to the regulatory framework to implement the Basel III Reforms, including the changes to market risk rules under the Fundamental Review of the Trading Book ('FRTB'), revisions to the standardised approach for measuring counterparty risk ('SA-CCR'), amendments to the large exposures rules, the new leverage ratio rules and the implementation of the net stable funding ratio ('NSFR').

With the entry into force of significant elements in June 2021, the remaining items of CRR2 not yet in force are the reporting requirements under new FRTB rules and the new leverage ratio buffer applicable to Global Systemically Important Institutions ('G-SIIs').

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. The subsequent EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament.

In July 2021 the ECB announced that, in light of the latest European macroeconomic projections, restrictions imposed on capital distribution will end after 30 September 2021 when the ECB current recommendation is due to expire.

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

The European Banking Authority ('EBA') launched a consultation in March 2021 on the Implementation Technical Standard ('ITS') of the future ESG disclosure requirements introduced by CRR2. The consultation closed in June 2021 and the final standards will be published later this year. The first disclosures will have to be performed by banks in 2023 based on 2022 data.

Article 8 of the EU Taxonomy Regulation requires undertakings, including banks, to report how and to what extent their activities qualify as environmentally sustainable. On 17 July 2020 the European Commission adopted new rules setting out minimum technical requirements for the methodology of EU climate benchmarks, which banks will have to perform for the first time by from 1 January 2022 based on December 2021 data.

Own Funds and Eligible Liabilities

The EBA published in May its final draft Regulatory Technical Standards ('RTS') on own funds and eligible liabilities. This RTS affects the operation of the prior permission process for the redemption of instruments and the assessment of the eligibility of certain own funds and eligible liabilities instruments and their current and future terms and conditions.

Also in May 2021, the Single Resolution Board ('SRB') published a revised policy on minimum requirements for own funds and eligible liabilities ('MREL') which notably introduces from 1 January 2022 a new MREL maximum distributable amount ('M-MDA') to restrict banks' earnings distribution in case of MREL breaches.

Other developments

In June 2021, the ECB launched a consultation on its revised policies for options and discretions available under CRR. The revision aims notably to update the ECB policies in light of CRR2.

Linkage to the Interim Report 2021

Basis of preparation

This section sets out the main reasons why the measurement of regulatory exposures is not directly comparable with the financial information presented in the *Interim Report 2021*.

The Pillar 3 Disclosures at 30 June 2021 are prepared in accordance with the regulatory capital adequacy concepts and rules, while the *Interim Report 2021* is prepared in accordance with IFRSs. The purpose of the regulatory balance sheet is to provide 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 if 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.

For regulatory reporting purposes, subsidiaries engaged in insurance activities are excluded from the regulatory consolidation and deducted from regulatory capital subject to thresholds. Therefore the investment in HSBC Life Assurance (Malta) Limited is excluded for the purpose of regulatory reporting.

Additional regulatory disclosures

The table below provides a full reconciliation of the local group's total own funds to the Statement of Financial Position within the interim financial statements as at 30 June 2021, as required by article 437(1)(a) of the CRR.

Table 2: Reconciliation between accounting and regulatory scope of consolidation

	Group	
	30 Jun 2021 €000	31 Dec 2020 €000
Common Equity Tier 1 ('CET') capital		
Called up share capital	108,092	108,092
Retained earnings	348,649	337,604
Revaluation reserve	27,907	32,718
Adjustments		
– Depositor Compensation Scheme	(20,193)	(20,781)
– intangible assets	(6,481)	(4,966)
– expected final dividend	–	(2,717)
– retained earnings – HSBC Life Assurance (Malta) Limited	(39,278)	(36,691)
– unverified profits for the period/year	(8,738)	–
– additional valuation adjustments	(1,056)	(1,147)
– IFRS 9 transitional adjustments	17,508	18,682
– Single Resolution Fund	(1,272)	(1,053)
– non performing loans	(16,872)	(14,315)
	408,266	415,426
Tier 2 capital		
Subordinated debt	62,000	62,000
	62,000	62,000
Total own funds	470,266	477,426

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 expected credit losses

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

Differences due to EAD and other differences

The carrying value of assets in the accounting records is usually measured at amortised cost or fair value as at the balance sheet date. The regulatory value includes 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.

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

	Balance sheet as in published financial statements €000	De-consolidation of insurance entity €000	Regulatory balance sheet €000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash	628,974	–	628,974
Items in course of collection from other banks	5,348	–	5,348
Financial assets mandatorily measured at fair value through profit or loss	761,297	(761,297)	–
Derivatives	4,112	–	4,112
Loans and advances to banks	1,057,771	(5,321)	1,052,450
Loans and advances to customers	3,255,811	–	3,255,811
Financial investments	855,658	–	855,658
Prepayments and accrued income	25,229	(2,308)	22,921
Current tax assets	836	(233)	603
Reinsurance assets	74,937	(74,937)	–
Other non-current assets held for sale	8,600	–	8,600
Investment in subsidiaries	–	28,578	28,578
Investment property	1,600	(1,600)	–
Property, plant and equipment	42,252	–	42,252
Intangible assets	55,114	(40,532)	14,582
Right-of-use assets	4,047	–	4,047
Deferred tax assets	29,630	–	29,630
Other assets	12,992	(2,164)	10,828
Total assets at 30 Jun 2021	6,824,208	(859,814)	5,964,394
Liabilities and equity			
Deposits by banks	38	–	38
Customer accounts	5,329,580	36,614	5,366,194
Derivatives	4,084	–	4,084
Accruals and deferred income	17,057	(3,194)	13,863
Current tax liabilities	3,484	–	3,484
Liabilities under investment contracts	183,235	(183,235)	–
Liabilities under insurance contracts	651,584	(651,584)	–
Provisions for liabilities and other charges	20,983	(1,690)	19,293
Deferred tax liabilities	17,570	(13,780)	3,790
Subordinated liabilities	62,000	–	62,000
Other liabilities	49,945	(3,667)	46,278
Total liabilities at 30 Jun 2021	6,339,560	(820,536)	5,519,024
Equity			
Called up share capital	108,092	–	108,092
Revaluation reserve	27,907	–	27,907
Retained earnings ¹	348,649	(39,278)	309,371
Total equity at 30 Jun 2021	484,648	(39,278)	445,370
Total liabilities and equity at 30 Jun 2021	6,824,208	(859,814)	5,964,394

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.

Additional regulatory disclosures

Disclosure on Own Funds

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

Table 4: Own funds disclosure (EU CC1)

Ref		At	
		30 Jun 2021 €000	31 Dec 2020 €000
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	108,092	108,092
	– of which: ordinary shares	108,092	108,092
2	Retained earnings ¹	294,424	281,034
3	Accumulated other comprehensive income (and other reserves)	27,907	32,718
EU 3a	Funds for general banking risk (related to BR09) ²	6,209	6,209
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	–	10,953
6	Common equity tier 1 capital before regulatory adjustments	436,632	439,006
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments ³	(1,056)	(1,147)
8	Intangible assets ⁴	(6,481)	(4,966)
9a	IFRS 9 transitional adjustments	17,508	18,682
9b	Non performing Loans ⁵	(16,872)	(14,315)
9c	Single Resolution Fund ⁶	(1,272)	(1,053)
26a	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR ⁷	(20,193)	(20,781)
28	Total regulatory adjustments to Common equity tier 1 ('CET1')	(28,366)	(23,580)
29	Common equity tier 1 ('CET1') capital	408,266	415,426
51	Tier 2 ('T2') capital before regulatory adjustments	62,000	62,000
58	Tier 2 ('T2') capital	62,000	62,000
59	Total capital (TC = T1 + T2)	470,266	477,426
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment		
	– of which: Items not deducted from CET1: direct holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	28,578	28,578
	– of which: Items not deducted from CET1: deferred tax assets arising from temporary differences	29,630	27,130
60	Total risk-weighted assets	2,369,933	2,311,411
	Capital ratios and buffers		
61	Common Equity Tier 1 ratio	17.2%	18.0%
62	Tier 1 ratio	17.2%	18.0%
63	Total capital ratio	19.8%	20.7%
64	Institution specific buffer requirement ratio	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 ⁸	–	–
67a	– of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.5%	1.5%
68	Common equity tier 1 available to meet buffers ⁴	3.0%	2.8%
	Amounts below the threshold for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	29,630	27,130

- 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, the deduction of the general banking reserve as this is reported separately in row EU 3a, and the deduction of unverified profits for the period.
- 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.
- Additional value adjustments are deducted from CET1. These are calculated on all assets measured at fair value.
- 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 Exposure Amounts ('RWEA'), where the portion subject to RWEA shall be risk weighted at 100% which at period ended 30 June 2021 amounted to €8,101,000.
- The deduction from capital of €16,872,000 represents a deduction from own funds where Non Performing loans are not sufficiently covered by provisions, in line with Article 3 of the Capital Requirement Regulation and ECB guidance to banks on non-performing loans. Furthermore as from June 21 this amount includes the prudential treatment under Pillar 1 for NPEs applicable to all banks established in the EU.
- Irrevocable Payment Commitment ('IPC') of €1,272,000 to the Single Resolution Board in terms of the Recovery and Resolution Regulations.
- Pledged in favour of the Depositor Compensation Scheme as at 30 June 2021, that are not available to the local group for unrestricted and immediate use to cover risk of losses as soon as they occur.
- The bank does not have any systemic risk buffer as at period ended 30 June 2021.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total weighted on and off balance sheet exposures, and further netting possibilities on market instruments. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. Although there is currently no binding leverage ratio requirement on the bank, the risk of excess leverage is managed as part of the bank's 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 following is the local group's leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

Table 5: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1 LRSum)

Ref*		At	
		30 Jun 2021 €000	31 Dec 2020 €000
1	Total assets as per published financial statements	6,824,208	6,730,459
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(859,814)	(838,248)
8	– derivative financial instruments	9,245	2,925
10	– off balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	240,365	228,534
12	– other adjustments	(10,604)	582
13	Total exposure measure	6,203,400	6,124,252

* The references identify the lines prescribed in the EBA template that are applicable and where there is a value.

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

Table 6: Leverage ratio common disclosure (EU LR2 LRCom)

Ref*		At	
		30 Jun 2021 €000	31 Dec 2020 €000
	On balance sheet exposures (excluding derivatives) ¹		
1	On balance sheet items (excluding derivatives)	5,976,375	5,909,799
6	Assets deducted in determining Tier 1 capital	(28,366)	(23,580)
7	Total on balance sheet exposures (excluding derivatives and SFTs**)	5,948,009	5,886,219
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivative transactions ²	5,781	6,574
9	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	9,245	2,925
13	Total derivative exposures	15,026	9,499
	Other Off-Balance Sheet exposures		
19	Off balance sheet exposures at gross notional amount	1,145,646	1,152,359
20	Adjustments for conversion to credit equivalent amounts	(905,281)	(923,825)
22	Total other off balance sheet exposures	240,365	228,534
	Capital and total exposures		
23	Tier 1 capital	408,266	415,426
24	Total leverage ratio exposure	6,203,400	6,124,252
	Leverage ratios		
25	Leverage ratio (%) – transitional	6.6	6.8
26	Regulatory minimum leverage ratio requirement (%) ³	3.0	–

* The references identify the lines prescribed in the EBA template that are applicable and where there is a value.

** Securities Financed Transactions.

¹ Article 429a(1) of CRR2 allows banks to exclude central bank exposures from the leverage ratio exposure measures. Banks shall report the exempted amount in a separate row EU-22a on this table. HSBC Bank Malta p.l.c. has opted out of the exemption, and as a result row 'EU-22a' is not disclosed.

² The replacement cost associated with SA-CCR is effective from 30 June 2021.

³ The Leverage ratio requirement is effective from 30 June 2021 under the CRR2.

Additional regulatory disclosures

Table 7: Leverage ratio – Split of on balance sheet exposures (excluding derivatives and exempted exposures) (EU LR3 LRSpl)

Ref*		At	
		30 Jun 2021 €000	31 Dec 2020 €000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	5,976,375	5,909,799
EU-3	Banking book exposures of which:	5,976,375	5,909,799
EU-5	– exposures treated as sovereigns	1,160,038	1,441,731
EU-6	– exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	487,216	583,342
EU-7	– institutions	631,213	323,754
EU-8	– secured by mortgages of immovable properties	2,305,163	2,233,925
EU-9	– retail exposures	262,277	262,997
EU-10	– corporate	865,583	778,079
EU-11	– exposures in default	119,901	110,192
EU-12	– other exposures (e.g. equity and other non-credit obligation assets)	144,984	175,779

* The references identify the lines prescribed in the EBA template that are applicable and where there is a value.

Capital buffers

The local group is compliant with the CRD IV capital requirements. In respect of the local group, 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 IV 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. These buffers were phased in over the period from 1 January 2016 to 31 December 2019.

CRD IV 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 RWEAs, 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 table below discloses 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		Own funds requirement weights	Counter-cyclical capital buffer rate
		Exposure value for SA [^]	of which: general credit exposures		
€000	€000	€000	€000	%	%
Malta	3,343,070	135,271	135,271	88.6	–
Bulgaria	4	1	1	–	0.5
Czech Republic	29	2	2	–	0.5
Hong Kong	47	4	4	–	1.0
Luxembourg	–	–	–	–	0.5
Norway	8	1	1	–	1.0
Others	431,620	17,451	17,451	11.4	–
Total at 30 Jun 2021	3,774,778	152,730	152,730	100.0	

[^] Figures have been prepared on an IFRS9 transitional basis.

Table 9: Amount of institution-specific countercyclical capital buffer

	Group [^]	
	30 Jun 2021 €000	31 Dec 2020 €000
Total risk amount	2,369,933	2,311,411
Institution specific countercyclical buffer rate (%)	–	–
Institution specific countercyclical buffer requirement	1	1

[^] Figures have been prepared on an IFRS9 transitional basis.

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.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Bank Malta p.l.c.
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') 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'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	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	Four approaches to calculating CCR and determining exposure values are defined by the Basel Committee: mark-to-market, original exposure, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, foundation IRB or advanced IRB.	We use the mark-to-market approach to calculate to 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 or IRB approaches.	For 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 market risk capital requirement is measured using the standard rules.
Operational risk	The Basel Committee allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We currently use the standardised approach in determining our operational risk capital requirement.

Table 10: Overview of RWEAs ('OV1')

	Risk-weighted assets [^]	Minimum capital requirements ^{^,1}	Risk-weighted assets	Minimum capital requirements ¹
	30 Jun 2021 €000	30 Jun 2021 €000	31 Dec 2020 €000	31 Dec 2020 €000
1 Credit risk (excluding CCR)	1,977,526	158,202	1,928,384	154,271
2 – of which: the standardised approach	1,977,526	158,202	1,928,384	154,271
6 Counterparty Credit Risk – CCR	9,204	736	5,993	479
7 – of which: mark to market	8,185	654	5,993	479
EU 8b – of which: credit valuation adjustment	1,019	82	–	–
20 Market risk	467	37	548	44
21 – of which: the standardised approach	467	37	548	44
23 Operational risk	237,216	18,977	237,216	18,977
24 – of which: standardised approach	237,216	18,977	237,216	18,977
27 Amounts below the thresholds for deduction (subject to 250% risk weight)	145,520	11,642	139,270	11,141
29 Total	2,369,933	189,594	2,311,411	184,912

[^] Figures have been prepared on an IFRS9 transitional basis.

¹ This represents the minimum total capital charge set at 8% of risk weighted exposure amount ('RWEAs') by article 92 of the Capital Requirements Regulation.

Additional regulatory disclosures

Table 11: Net value of exposure

	Group		
	30 Jun 2021		
	Net value of exposure [^] €000	Risk-weighted assets [^] €000	Capital Required ^{1,^} €000
Central governments or central banks	1,163,554	82,430	6,594
Public sector entities	422,454	—	—
Multilateral development banks	158,332	—	—
Institutions	661,069	133,658	10,693
Corporates	1,469,502	570,421	45,634
Retail exposures	679,661	196,224	15,698
Secured by mortgages on immovable property	2,305,163	849,678	67,974
Exposures in default	129,919	128,668	10,293
Items associated with particularly high risk	21,153	27,364	2,189
Equity exposures	81	81	6
Other items	128,420	142,707	11,417
Credit risk	7,139,308	2,131,231	170,498
Operational risk		237,216	18,977
Foreign exchange risk		467	37
Credit Valuation Adjustment		1,019	82
Total		2,369,933	189,594
Own funds			
Common Equity Tier 1			408,266
Tier 2			62,000
Total own funds			470,266
Total capital ratio			19.8%

	31 Dec 2020		
	Net value of exposure [^] €000	Risk-weighted assets [^] €000	Capital Required ^{1,^} €000
	Central governments or central banks	1,455,295	67,826
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 RWEAs.

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 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.

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 below tables provide a summary of credit risk exposure by exposure class and approach. The average net exposure value of this financial period is based on the last four end of quarter observations.

Credit risk mitigation techniques – overview ('CR3')

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

Table 12: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques (EU CR3)

	Unsecured: carrying amount	Secured: carrying amount	of which: secured	
			by collateral	by financial guarantees
	€000	€000	€000	€000
1 Loans ¹	1,936,678	2,792,192	2,503,761	288,431
2 Debt securities	1,047,797	–	–	–
3 Total at 30 Jun 2021	2,984,475	2,792,192	2,503,761	288,431
4 – of which non-performing exposures	9,950	102,380	102,380	–
5 – of which defaulted	9,950	102,380	102,380	–

¹ The amount featuring in this row include also cash balances at central banks and other demand deposits.

Credit risk exposures and credit risk mitigant techniques

Table 13: Credit risk exposure and CRM effects (EU CR4)

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWEAs and RWEA density	
	On-balance sheet amount [^]	Off-balance sheet amount [^]	On-balance sheet amount [^]	Off-balance sheet amount [^]	RWEAs	RWEA density
	€000	€000	€000	€000	€000	%
Asset classes¹						
1 Central governments or central banks	1,160,038	981	1,454,162	43,883	82,430	6
3 Public sector entities	328,884	93,570	176,359	1	–	–
4 Multilateral development banks	158,332	–	158,332	–	–	–
6 Institutions	631,213	25,343	631,213	19,901	131,497	20
7 Corporates	865,583	597,895	706,026	89,435	564,397	71
8 Retail	262,277	417,384	260,010	1,649	196,224	75
9 Secured by mortgages on immovable property	2,305,163	–	2,305,163	–	849,678	37
10 Exposures in default	119,901	10,018	119,580	315	128,668	107
11 Items associated with particularly high risk	16,483	4,670	16,175	2,068	27,364	150
15 Equity exposures	81	–	81	–	81	100
16 Other items	128,420	–	128,420	–	142,707	111
17 Total at 30 Jun 2021	5,976,375	1,149,861	5,955,521	157,252	2,123,046	35

Asset classes ¹	1,441,731	11,647	1,726,936	51,754	67,826	4
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	778,078	622,747	625,378	89,973	542,858	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 Items associated with particularly high risk	39,306	11,911	38,977	5,590	66,850	150
15 Equity exposures	33	–	33	–	33	100
16 Other items	136,442	–	136,442	–	146,452	107
17 Total at 31 December 2020	5,909,799	1,211,593	5,890,194	149,270	2,067,654	34

[^] Figures have been prepared on an IFRS9 transitional basis.

¹ Derivative instruments exposures are not included in the above table.

Credit risk

Table 14: Standardised approach (EU CR5)

Exposure classes	Risk weight									Total ¹	of which: unrated
	€000										
	0%	20%	35%	50%	75%	100%	150%	250%			
1 Central governments or central banks	1,426,628	41,774	–	–	–	–	–	29,630	1,498,032	30,135	
3 Public sector entities	176,352	–	–	–	–	–	–	–	176,352	–	
4 Multilateral development banks	158,332	–	–	–	–	–	–	–	158,332	–	
6 Institutions	–	648,365	–	1,851	–	898	–	–	651,114	465	
7 Corporates	–	5,867	–	416,584	–	370,971	–	–	793,422	631,148	
8 Retail exposures	–	–	–	–	259,929	–	–	–	259,929	259,929	
9 Exposures secured by mortgages on immovable property	–	–	1,924,768	375,644	–	–	–	–	2,300,412	2,300,412	
10 Exposures in default	–	–	–	–	–	95,154	17,304	–	112,458	112,458	
11 Exposures associated with particularly high risk	–	–	–	–	–	–	17,257	–	17,257	17,257	
15 Equity exposures	–	–	–	–	–	81	–	–	81	81	
16 Other items	24,301	5,348	–	–	–	70,193	–	28,578	128,420	128,420	
17 Total at 30 Jun 2021	1,785,613	701,354	1,924,768	794,079	259,929	537,297	34,561	58,208	6,095,809	3,480,305	

1 Amounts presented in this table represent exposure value after credit risk mitigants ('CRM') and credit conversion factor ('CCF') excluding IFRS 9 transitional adjustment.

Non-performing and forborne exposures

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The definition of credit-impaired (Stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments.

Under the EBA definition, exposures cease to be reported as forborne if they pass three tests:

- the forborne exposure must have been considered to be performing for a 'probation period' of at least two years;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- no exposure to the debtor is more than 30 days past due at the end of the probation period.

Table 15: 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	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	of which: forborne non-performing exposures
		Total	of which: defaulted	of which: impaired				
010 Loans and advances	50,104	89,153	89,153	89,153	(3,944)	(20,270)	81,425	61,955
050 Other financial corporations	26,722	451	451	451	(1,202)	–	378	378
060 Non-financial corporations	8,615	38,312	38,312	38,312	(1,472)	(15,024)	22,776	16,803
070 Households	14,767	50,390	50,390	50,390	(1,270)	(5,246)	58,271	44,774
100 Total at 30 June 2021	50,104	89,153	89,153	89,153	(3,944)	(20,270)	81,425	61,955
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

The following table provides information 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 Property, Plant and Equipment ('PP&E') and investment properties.

Table 16: Collateral obtained by taking possession and execution processes (EU CQ7)

	At 30 Jun 2021		At 31 Dec 2020	
	Collateral obtained by taking possession		Collateral obtained by taking possession	
	Value at initial recognition €000	Accumulated negative changes €000	Value at initial recognition €000	Accumulated negative changes €000
020 Other than PP&E	4,765	86	4,855	86
030 Residential immovable property	1,568	59	1,658	59
040 Commercial Immovable property	3,156	8	3,156	8
070 Other	41	19	41	19
080 Total	4,765	86	4,855	86

Table 17 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 30 June 2021 was 3.67% (2020: 3.52%) calculated in line with the EBA guidelines.

Table 17: 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 €000	Not past due or past due ≤ 30 days €000	Past due > 30 days ≤ 90 days €000	Total €000	Unlikely to pay but not past due or past due ≤ 90 days €000	Past due > 90 days ≤ 180 days €000	Past due > 180 days ≤ 1 year €000	Past due > 1 year ≤ 2 years €000	Past due > 2 years ≤ 5 years €000	Past due > 5 years ≤ 7 years €000	Past due > 7 years €000	of which: defaulted €000
005 Cash balances at central banks and other demand deposits	991,462	991,462	–	–	–	–	–	–	–	–	–	–
010 Loans and advances	3,660,104	3,656,372	3,732	139,570	78,394	6,373	5,755	12,887	21,666	4,081	10,414	139,570
020 Central banks	40,792	40,792	–	–	–	–	–	–	–	–	–	–
030 General governments	152,510	152,510	–	–	–	–	–	–	–	–	–	–
040 Credit institutions	437,987	437,987	–	–	–	–	–	–	–	–	–	–
050 Other financial corporations	176,083	176,079	4	460	386	–	–	–	–	–	74	460
060 Non-financial corporations	667,955	667,818	137	45,235	16,922	353	2,475	6,710	16,460	739	1,576	45,235
070 – of which: SMEs	419,341	419,204	137	44,431	16,922	353	2,475	6,710	16,460	739	772	44,431
080 Households	2,184,777	2,181,186	3,591	93,875	61,086	6,020	3,280	6,177	5,206	3,342	8,764	93,875
090 Debt securities	1,047,858	1,047,858	–	–	–	–	–	–	–	–	–	–
110 General governments	890,675	890,675	–	–	–	–	–	–	–	–	–	–
120 Credit institutions	157,183	157,183	–	–	–	–	–	–	–	–	–	–
150 Off-balance-sheet exposures	1,150,752	1,150,752	–	6,554	6,554	–	–	–	–	–	–	6,554
160 Central banks	981	981	–	–	–	–	–	–	–	–	–	–
170 General governments	93,577	93,577	–	–	–	–	–	–	–	–	–	–
180 Credit institutions	26,752	26,752	–	–	–	–	–	–	–	–	–	–
190 Other financial corporations	74,181	74,181	–	–	–	–	–	–	–	–	–	–
200 Non-financial corporations	507,444	507,444	–	6,502	6,502	–	–	–	–	–	–	6,502
210 Households	447,817	447,817	–	52	52	–	–	–	–	–	–	52
220 Total at 30 Jun 2021	6,850,176	6,846,444	3,732	146,124	84,948	6,373	5,755	12,887	21,666	4,081	10,414	146,124

Credit risk

Table 17: Credit quality of performing and non-performing exposures by past due days (EU CQ3) (continued)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	of which: defaulted
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
005	Cash balances at central banks and other demand deposits	778,046	778,046	—	—	—	—	—	—	—	—	—	—
010	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
020	Central banks	24,476	24,476	—	—	—	—	—	—	—	—	—	—
030	General governments	148,881	148,881	—	—	—	—	—	—	—	—	—	—
040	Credit institutions	497,381	497,381	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	194,733	194,733	—	459	385	—	—	—	—	—	74	459
060	Non-financial corporations	653,060	652,090	970	47,141	18,656	65	531	8,262	16,790	1,263	1,574	47,141
070	– of which: SMEs	404,654	403,684	970	46,308	18,649	65	531	8,262	16,790	1,214	797	46,308
080	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
090	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	1,218,465	—	2,876	2,876	—	—	—	—	—	—	2,876
170	General governments	107,372	107,372	—	—	—	—	—	—	—	—	—	—
180	Credit institutions	29,180	29,180	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	70,242	70,242	—	—	—	—	—	—	—	—	—	—
200	Non-financial corporations	550,649	550,649	—	2,775	2,775	—	—	—	—	—	—	2,775
210	Households	461,022	461,022	—	101	101	—	—	—	—	—	—	101
220	Total at 31 Dec 2020	6,847,190	6,840,693	6,497	133,872	68,183	6,050	8,379	12,088	24,042	4,008	11,122	133,872

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. The IFRS 9 stages have the following characteristics:

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

Table 18: Performing and non-performing exposures and related provisions (EU CR1)

	Gross carrying amount/nominal amount					
	Performing exposures			Non-performing exposures		
	€000	of which: Stage 1 €000	of which: Stage 2 €000	€000	of which: Stage 2 €000	of which: Stage 3 €000
At 30 Jun 2021						
005	Cash balances at central banks and other demand deposits	991,462	991,462	–	–	–
010	Loans and advances	3,660,104	3,357,440	302,664	139,570	139,570
020	Central banks	40,792	40,792	–	–	–
030	General governments	152,510	152,510	–	–	–
040	Credit institutions	437,987	437,987	–	–	–
050	Other financial corporations	176,083	76,376	99,707	460	460
060	Non-financial corporations	667,955	511,669	156,286	45,235	45,235
070	– of which: SMEs	419,341	307,969	111,372	44,431	44,431
080	Households	2,184,777	2,138,106	46,671	93,875	93,875
090	Debt securities	1,047,858	1,047,858	–	–	–
110	General governments	890,675	890,675	–	–	–
120	Credit institutions	157,183	157,183	–	–	–
150	Off-balance-sheet exposures	1,150,752	1,031,810	118,942	6,554	6,554
160	Central banks	981	981	–	–	–
170	General governments	93,577	93,577	–	–	–
180	Credit institutions	26,752	26,502	250	–	–
190	Other financial corporations	74,181	43,545	30,636	–	–
200	Non-financial corporations	507,444	428,516	78,928	6,502	6,502
210	Households	447,817	438,689	9,128	52	52
220	Total	6,850,176	6,428,570	421,606	146,124	146,124

	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collaterals and financial guarantees received		
	Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, negative changes in fair value due to credit risk and provisions			Accumulated partial write-off €000	On performing exposures €000	On non-performing exposures €000
	€000	of which: Stage 1 €000	of which: Stage 2 €000	€000	of which: Stage 2 €000	of which: Stage 3 €000			
At 30 Jun 2021									
005	Cash balances at central banks and other demand deposits	(5)	(5)	–	–	–	–	–	–
010	Loans and advances	(35,021)	(14,057)	(20,964)	(27,240)	–	(27,240)	(11,724)	2,629,147
020	Central banks	–	–	–	–	–	–	–	–
030	General governments	(28)	(28)	–	–	–	–	–	153,755
040	Credit institutions	–	–	–	–	–	–	–	–
050	Other financial corporations	(5,393)	(677)	(4,716)	(1)	–	(1)	–	100,867
060	Non-financial corporations	(13,535)	(2,745)	(10,790)	(17,867)	–	(17,867)	(11,718)	358,316
070	– of which: SMEs	(11,494)	(2,261)	(9,233)	(17,064)	–	(17,064)	(11,718)	193,539
080	Households	(16,065)	(10,607)	(5,458)	(9,372)	–	(9,372)	(6)	2,016,209
090	Debt securities	(61)	(61)	–	–	–	–	–	–
110	General governments	(58)	(58)	–	–	–	–	–	–
120	Credit institutions	(3)	(3)	–	–	–	–	–	–
150	Off-balance-sheet exposures	(1,903)	(908)	(995)	(479)	–	(479)	–	–
160	Central banks	–	–	–	–	–	–	–	–
170	General governments	(5)	(5)	–	–	–	–	–	–
180	Credit institutions	(1)	–	(1)	–	–	–	–	–
190	Other financial corporations	(294)	(100)	(194)	–	–	–	–	–
200	Non-financial corporations	(1,558)	(759)	(799)	(479)	–	(479)	–	–
210	Households	(45)	(44)	(1)	–	–	–	–	–
220	Total	(36,990)	(15,031)	(21,959)	(27,719)	–	(27,719)	(11,724)	2,629,147

Credit risk

Table 18: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
		€000	of which: Stage 1 €000	of which: Stage 2 €000	€000	of which: Stage 2 €000	of which: Stage 3 €000
At 31 December 2020							
005	Cash balances at central banks and other demand deposits	778,046	778,046	—	—	—	—
010	Loans and advances	3,716,555	3,385,859	330,696	130,996	—	130,996
020	Central banks	24,476	24,476	—	—	—	—
030	General governments	148,881	148,881	—	—	—	—
040	Credit institutions	497,381	497,381	—	—	—	—
050	Other financial corporations	194,733	84,189	110,544	459	—	459
060	Non-financial corporations	653,060	483,068	169,992	47,141	—	47,141
070	– of which: SMEs	404,654	285,888	118,766	46,308	—	46,308
080	Households	2,198,024	2,147,864	50,160	83,396	—	83,396
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
170	General governments	107,372	107,372	—	—	—	—
180	Credit institutions	29,180	28,664	516	—	—	—
190	Other financial corporations	70,242	40,213	30,029	—	—	—
200	Non-financial corporations	550,649	434,133	116,516	2,775	—	2,775
210	Households	461,022	450,559	10,463	101	—	101
220	Total	6,847,190	6,358,970	488,220	133,872	—	133,872

		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Collaterals and financial guarantees received			
		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	of which: Stage 1 €000	of which: Stage 2 €000	€000	of which: Stage 2 €000	of which: Stage 3 €000	€000	€000	€000
At 31 December 2020										
005	Cash balances at central banks and other demand deposits	(18)	(18)	—	—	—	—	—	—	
010	Loans and advances	(32,743)	(13,601)	(19,142)	(27,173)	—	(27,173)	(12,073)	2,643,517	
020	Central banks	—	—	—	—	—	—	—	—	
030	General governments	(51)	(51)	—	—	—	—	—	148,873	
040	Credit institutions	—	—	—	—	—	—	—	—	
050	Other financial corporations	(4,290)	(864)	(3,426)	(82)	—	(82)	—	120,239	
060	Non-financial corporations	(13,513)	(3,104)	(10,409)	(18,777)	—	(18,777)	(12,027)	349,751	
070	– of which: SMEs	(10,782)	(2,491)	(8,291)	(17,995)	—	(17,995)	(12,027)	181,803	
080	Households	(14,889)	(9,582)	(5,307)	(8,314)	—	(8,314)	(46)	2,024,654	
090	Debt securities	—	—	—	—	—	—	—	—	
110	General governments	—	—	—	—	—	—	—	—	
120	Credit institutions	—	—	—	—	—	—	—	—	
160	Off-balance-sheet exposures	(1,878)	(693)	(1,185)	(542)	—	(542)	—	—	
170	General governments	(2)	(2)	—	—	—	—	—	—	
180	Credit institutions	(5)	(5)	—	—	—	—	—	—	
190	Other financial corporations	(208)	(146)	(62)	—	—	—	—	—	
200	Non-financial corporations	(1,601)	(509)	(1,092)	(542)	—	(542)	—	—	
210	Households	(62)	(31)	(31)	—	—	—	—	—	
220	Total	(34,639)	(14,312)	(20,327)	(27,715)	—	(27,715)	(12,073)	2,643,517	

The following tables provide information on payment moratoria and forbearance measures to both existing loans, and public guarantees to new lending in the context of Covid-19.

Table 19: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria

		Gross carrying amount								
		Number of obligors	Residual maturity of moratoria							
			€000	of which: legislative moratoria €000	of which: expired €000	<= 3 months €000	> 3 months <= 6 months €000	> 6 months <= 9 months €000	> 9 months <= 12 months €000	> 1 year €000
At 30 Jun 2021										
1	Loans and advances for which moratorium was offered	2,111	435,547							
2	Loans and advances subject to moratorium (granted)	1,764	421,455	421,455	407,865	8,453	5,137	–	–	
3	– of which: Households		225,594	225,594	214,913	8,194	2,487	–	–	
4	– of which: Collateralised by residential immovable property		221,919	221,919	211,409	8,113	2,397	–	–	
5	– of which: Non-financial corporations		111,159	111,159	108,250	259	2,650	–	–	
6	– of which: Small and Medium-sized Enterprises		59,705	59,705	56,796	259	2,650	–	–	
7	– of which: Collateralised by commercial immovable property		31,049	31,049	28,399	–	2,650	–	–	
At 31 December 2020										
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	–	–	

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

		Gross carrying amount						
		Total	Performing			Non-performing		
			€000	€000	of which: exposures with forbearance measures €000	of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) €000	€000	of which: exposures with forbearance measures €000
At 30 Jun 2021								
1	Loans and advances subject to moratorium	13,590	3,770	75	259	9,820	9,820	9,820
2	– of which: Households	10,681	861	75	–	9,820	9,820	9,820
3	– of which: Collateralised by residential immovable property	10,510	814	52	–	9,696	9,696	9,696
4	– of which: Non-financial corporations	2,909	2,909	–	259	–	–	–
5	– of which: Small and Medium-sized Enterprises	2,909	2,909	–	259	–	–	–
6	– of which: Collateralised by commercial immovable property	2,650	2,650	–	–	–	–	–

Credit risk

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

	Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
	Total		Performing			Non performing		
	€000	€000	€000	€000	€000	€000	€000	
At 30 Jun 2021								
1 Loans and advances subject to moratorium	(1,426)	(43)	–	(13)	(1,383)	(1,383)	(1,383)	4,701
2 – of which: Households	(1,387)	(4)	–	–	(1,383)	(1,383)	(1,383)	4,701
3 – of which: Collateralised by residential immovable property	(1,308)	(4)	–	–	(1,304)	(1,304)	(1,304)	4,597
4 – of which: Non-financial corporations	(38)	(38)	–	(13)	–	–	–	–
5 – of which: Small and Medium-sized Enterprises	(38)	(38)	–	(13)	–	–	–	–
6 – of which: Collateralised by commercial immovable property	(26)	(26)	–	–	–	–	–	–

	Gross carrying amount						
	Total		Performing			Non-performing	
	€000	€000	€000	€000	€000	€000	€000
At 31 December 2020							
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	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		
	€000	€000	€000	€000	€000	€000	€000	
At 31 December 2020								
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)	–	–	–	–

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. The following table gives insight on the loans and advances under the public guarantee scheme as at 30 June 2021.

Table 21: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis

	Gross carrying amount		Maximum amount of the guarantee that can be considered	Inflows linked to new lending	
	€000	of which: forborne €000	Public guarantees received €000	€000	
At 30 Jun 2021					
1	Newly originated loans and advances subject to public guarantee schemes	24,309	–	21,878	11,489
4	– of which: Non-financial corporations	20,309	–	18,278	7,489
5	– of which: Small and Medium-sized Enterprises	14,667			
6	– of which: Collateralised by commercial immovable property	33			
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			

Counterparty credit risk

Overview

Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to counterparties in both the trading and non-trading books. The following table 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 IV to calculate exposure values for CCR: mark-to-market, original exposure, standardised and IMM. Exposure values calculated under these approaches are used to determine RWEAs. HSBC Malta 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 Malta 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 regional level or even Group level.
- Credit exposure monitoring is performed by the WMR subfunction.

Credit Valuation Adjustments ('CVA')

Credit valuation adjustments ('CVA') represent the risk of loss as a result of adverse changes to the credit quality of counterparties in derivative transaction where we follow the standardised approach.

Credit authority for CCR

HSBC Malta WCR has a delegated approval authority for Corporates. Depending on the level of the credit limit, credit approval might require concurrence from HSBC Bank plc WCMR and Group WCMR if above HSBC Malta delegated approval authority. Sovereigns, Intra-Group and Banks limits require HSBC Bank plc/Group WCR concurrence whatever the amount of the limit.

All credit limits are reviewed at least once a year. At the request of the local Relationship Manager and potentially the Global Relationship Manager, HSBC Malta WMR may recommend credit limit application to the relevant credit authority, in for specific limit requests. WMR's recommendations highlight the main risk drivers and is 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 committed amount. 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 PFE (Potential Future Exposure). 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. For Funds, risk is controlled at both an umbrella fund and individual fund level. 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 22: Analysis of counterparty credit risk ('CCR') exposure by approach (EU CCR1)¹

		Replacement cost €000	Potential future exposure €000	Alpha used for computing regulatory exposure value €000	Exposure value post-CRM €000	RWEA €000
1	Mark to Market (SA-CCR)	4,129	5,208	1.4	13,072	8,185
6	Total at 30 Jun 2021	4,129	5,208	1.4	13,072	8,185

		Replacement cost €000	Potential future exposure €000	EAD post-CRM €000	RWEAs €000
1	Mark to market	6,574	2,925	9,499	5,993
11	Total at 31 December 2020	6,574	2,925	9,499	5,993

¹ As the bank does not use the original exposure method, notional values are not reported.

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

		At 30 Jun 2021	
		Exposure value €000	RWEA €000
4	Transactions subject to the Standardised method	4,595	1,019
5	Total transactions subject to own funds requirements for CVA risk	4,595	1,019

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

Table 24: Standardised approach – CCR exposures by regulatory exposure class and risk weights (EU CCR3)

		Risk weight €000							Total exposure value €000	
Exposure classes		0%	10%	20%	50%	75%	100%	150%	Others	
1	Central governments or central banks	2,535	–	–	–	–	–	–	–	2,535
6	Institutions	–	–	318	4,195	–	–	–	–	4,513
7	Corporates	–	–	–	–	–	6,024	–	–	6,024
11	Total exposure value at 30 Jun 2021	2,535	–	318	4,195	–	6,024	–	–	13,072

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 2020*.

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 a 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 components of capital requirement under the standardised approach.

Table 25: Market risk under standardised approach

	At 30 Jun 2021		At 31 Dec 2020	
	RWEAs €000	Capital requirements €000	RWEAs €000	Capital requirements €000
Outright products				
3 – foreign exchange risk	467	37	548	44

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 26: Quantitative information of LCR (EU LIQ1)

EU 1a	Quarter ending on 30 Jun 2021	Total unweighted value (average)				Total weighted value (average)			
		Jun'21	Mar'21	Dec'20	Sep'20	Jun'21	Mar'21	Dec'20	Sep'20
		€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					1,368,678	1,470,139	1,777,435	1,492,669
Cash – Outflows									
2	Retail deposits and deposits from small business customers	4,303,634	4,301,127	4,262,898	4,182,490	308,305	305,516	298,784	293,100
3	– of which: Stable deposits	3,055,711	3,086,784	3,101,664	3,041,083	152,786	154,339	155,083	152,054
4	– of which: Less stable deposits	1,247,923	1,214,343	1,161,234	1,141,407	155,519	151,177	143,701	141,046
5	Unsecured wholesale funding	1,037,741	1,018,407	1,028,957	936,966	472,329	475,030	462,994	439,971
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	373,721	324,111	373,128	324,947	88,679	76,383	88,439	76,845
7	Non-operational deposits (all counterparties)	664,020	694,296	655,830	612,019	383,650	398,647	374,554	363,126
10	Additional requirements	932,387	989,632	1,048,847	968,326	109,246	118,166	140,977	121,738
11	Outflows related to derivative exposures and other collateral requirements	13,866	13,854	25,942	43,414	13,866	13,854	25,942	43,414
12	Outflows related to loss of funding on debt products	1	–	–	–	–	–	–	–
13	Credit and liquidity facilities	918,520	975,778	1,022,905	924,912	95,380	104,312	115,035	78,324
14	Other contractual funding obligations	62,706	38,861	24,845	27,441	56,119	38,861	24,845	27,441
15	Other contingent funding obligations	225,441	228,608	231,779	217,080	11,272	11,589	11,430	10,854
16	Total Cash Outflows					957,272	949,163	939,030	893,103
Cash – Inflows									
18	Inflows from fully performing exposures	735,919	578,339	158,494	237,530	720,619	562,265	145,641	225,659
19	Other cash inflows	13,960	13,863	186,215	282,852	13,960	13,863	27,720	43,430
20	Total Cash Inflows	749,879	592,202	344,709	520,382	734,579	576,128	173,361	269,089
EU-20c	Inflows subject to 75% cap	4,921,432	4,932,476	4,947,995	4,749,227	717,954	711,872	704,273	669,828
Total Adjusted Value									
EU-21	Liquidity Buffer					1,368,678	1,470,139	1,777,435	1,492,669
22	Total Net Cash Outflows					239,318	373,035	765,669	624,015
23	Liquidity Coverage Ratio					571.9%	394.1%	232.1%	239.2%

HSBC Bank Malta plc 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 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'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 plc 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 ensures adequacy through HSBC's liquidity and funding management framework which ensures that all foreseeable funding commitments and deposit withdrawals can be met

Liquidity risk management

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 plc 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 plc takes the following forms:

- Calculation of the LCR, which is a thirty-day stress;
- Calculation of the Internal Liquidity Metric which is a 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 27: Net Stable Funding Ratio (EU LIQ2)

		Unweighted value by residual maturity at 30 Jun 2021				Weighted value €000
		No maturity €000	< 6 months €000	6 months to < 1yr €000	≥ 1yr €000	
Available stable funding ('ASF') Items						
1	Capital items and instruments	500,292	–	–	–	500,292
2	Own funds	500,292	–	–	–	500,292
4	Retail deposits		4,303,641	–	–	3,995,335
5	Stable deposits		3,055,718	–	–	2,902,932
6	Less stable deposits		1,247,923	–	–	1,092,403
7	Wholesale funding:		1,107,453	13,451	503	430,987
8	Operational deposits		373,721	–	–	186,861
9	Other wholesale funding		733,732	13,451	503	244,126
11	Other liabilities:		37,386	–	–	–
13	All other liabilities and capital instruments not included in the above categories		37,386	–	–	–
14	Total available stable funding ('ASF')					4,926,614
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					20,248
17	Performing loans and securities:		974,263	249,380	3,067,085	2,492,194
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		785,848	180,003	85,831	254,418
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		170,769	54,153	454,017	2,237,776
21	– of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk-		89,418	11,946	199,460	1,436,185
22	Performing residential mortgages		17,646	15,224	2,527,237	–
23	– of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		4,648	2,655	1,926,465	–
26	Other assets:		13,023	4,701	174,294	182,789
29	NSFR derivative assets		28			28
30	NSFR derivative liabilities before deduction of variation margin posted		4,084			204
31	All other assets not included in the above categories		8,911	4,701	174,294	182,557
32	Off-balance sheet items		1,137,296	–	–	56,865
33	Total RSF					2,752,096
34	Net Stable Funding Ratio (%)					179.0%

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

I confirm that to the best of my knowledge:

- the interim condensed financial statements give a true and fair view of the financial position of the local group and the bank as at 30 June 2021, as well as of their financial performance and cash flows for the period then ended, in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and
- the Directors' Report includes a fair review of the information required under Listing Rule 5.81 to 5.84.



Simon Vaughan Johnson

Chief Executive Officer

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