COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by HSBC Bank Malta p.l.c. in compliance with the Capital Markets Rules issued by the Malta Financial Services Authority.

Quote:

During a meeting held on 1 August 2022, 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 2022.

1 August 2022

2022 Interim Results – Highlights

Satisfactory financial performance achieved in the first half of the year which reflects a significant recovery on a non-performing loan and favourable market conditions positively impacting the performance of the insurance subsidiary. Strong growth was reported in net fee income and net trading income, while net interest income continued to be adversely impacted by tightened margins and negative interest rates on surplus liquidity. Total operating expenses increased mainly as a result of a change in legislation impacting the cash contribution payable to the Depositor Compensation Scheme and higher amortisation and depreciation linked to the bank's investment in software and property development. The bank's capital was negatively impacted by adverse price movements on financial instruments classified as hold-to-collect-and-sell.

Financial performance (vs same period in 2021)

- Profit before tax increased by €6.0m to €23.5m, mainly as a result of a significant recovery on a non-performing loan partially offset by an increase in regulatory fees paid and provisioned as a result of the change in legislation regulating the Depositor Compensation Scheme.
- Revenue decreased by 3% due to lower net interest income as margins continued tightening and excess liquidity was placed at negative rates. The negative variances were partially offset by higher net fee and trading income.
- A release of €11.8m was reported on Expected Credit Losses ('ECL') resulting in a positive variance of €13.7m compared to the first half of 2021 ('H1 2021'). This release is mainly attributable to a recovery on a non-performing loan which was largely provided for in prior years.
- Costs were €5.3m higher than the same period in 2021. This increase was largely driven by higher regulatory fees as a result of a change in the legislation regulating cash contributions towards the Depositor Compensation Scheme.
- During the first six months, deposits grew by €360.7m (6%) and loans to customers decreased marginally by €4.4m (0.1%).
- Profit attributable to shareholders of €15.5m for the six months ended 30 June 2022 resulted in earnings per share of 4.3 cents which compared favourably with 3.2 cents in the same period in 2021.
- Common equity tier 1 capital ratio of 16.3% as at 30 June 2022 was down from 18.4% at the end of 2021, though remained above regulatory requirements. The deterioration in the capital ratio was driven by adverse movements on financial instruments classified as hold-to-collect-and-sell, as a result of the increase in term market yield curves in the first six months. No interim dividend is being recommended in view of prevailing economic uncertainty.
- Return on equity of 6.5% for the six months ended 30 June 2022 compared favourably with 4.7% for the same period in 2021.
- Cost Efficiency Ratio ('CER') increased to 83.1% compared to 72.9% in the same period last year mainly as a result of higher regulatory fees. Excluding the higher Depositor Compensation Scheme charge and provision driven by the change in legislation, CER amounted to 75.9%.

Unquote

Dr Paula Mamo LL.D.
Company Secretary

This Company Announcement is issued by
HSBC Bank Malta p.l.c.
Company Secretary Tel: (+356) 2380 2474

Registered in Malta number C3177
Registered office: 116, Archbishop, Valletta VLT 1444, Malta
HSBC Bank Malta p.l.c authorised by the Malta Financial Services Authority to provide investment services under the Investment Services Act 1994.
HSBC Bank Malta p.l.c. is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Ltd under the Insurance Distribution Act (Cap. 487 of the Laws of Malta)

Directors' Report

Financial performance

Profit before tax for the six months ended 30 June 2022 was €23.5m, an increase of €6.0m from the same period in 2021. Higher profits reflect a significant recovery on a non-performing loan partially offset by an increase in regulatory fees as a result of the change in legislation regulating the Depositor Compensation Scheme.

Non-funds income (fees and commissions and trading income) increased by €1.9m. Increased fees and commissions were mainly a result of higher credit card usage, account fees and growth in transaction banking revenues within the Commercial Banking business, including good progress made on foreign exchange income resulting in higher trading income. The growth in income from transaction banking is in line with the bank's 'safe growth' strategy.

Net interest income ('NII') decreased by €3.2m to €46.2m compared with €49.4m in the same period in 2021. The decrease in NII was mainly driven by lower interest rates as margins continued tightening and some of the excess liquidity is being placed at negative rates. Customer deposits as at 30 June 2022 increased by €652m compared to the same period last year.

Operating expenses increased by €5.3m to €57.4m, compared with €52.2m in the same period in 2021. This was mainly due to higher regulatory fees as a change in the Depositor Compensation Scheme legislation was enacted in the first half of 2022 ('H1 2022') requiring banks to anticipate the cash contributions payable in 2023 and 2024. There was also an increase in the depreciation of tangible assets and amortisation of intangible assets arising from investments made by the bank in property and software developments.

ECL decreased by €13.7m resulting in a release of €11.8m compared to a charge of €1.9m in the same period in 2021. This release was mainly attributable to a significant recovery on a commercial non-performing loan which was largely provided for in prior years. No other significant releases were booked in H1 2022, primarily reflecting heightened levels of economic uncertainty and increasing inflationary pressures, in part due to the broader impact of the Russia-Ukraine war.

HSBC Life Assurance (Malta) Ltd reported a profit of €2.7m compared to €4.2m in the same period last year. While the insurance subsidiary benefited from the direct impact of the increased interest rate expectations, reflected in the revision of the yield curve and movements on the financial securities' prices, lower income was earned on fees and shareholders' bonuses calculated by reference to lower equity and bond prices. The decrease in fees and shareholders' bonuses was higher than the net income increase on the yield curve and the financial securities' prices, when compared to the same period last year.

The effective tax rate was 34% in line with 2021. This translated into an interim tax expense of €8.0m.

Financial position and capital

Net loans and advances to customers amounted to €3,192m, a marginal decrease of €4m when compared to 31 December 2021. While this marginal decrease was experienced in the Commercial Banking lending business, the bank continued to improve the asset quality by reducing non-performing loans in both Commercial Banking and Wealth and Personal Banking. The Commercial Banking business also generated a significant increase in corporate new money applications whereby volumes during H1 2022 represent 75% of the volumes reported in 2021, however utilisation remains low.

The bank's investment portfolio decreased by €29m to €816m and was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-. In H1 2022, the bank established a hold-to-collect portfolio, which is carried at amortised cost and thus is not sensitive to market movements.

Customer accounts were €5,982m as at 30 June 2022, €361m or 6% higher than at 31 December 2021, driven by increases in both Retail and Commercial Banking deposits. The bank has a satisfactory advances-to-deposits ratio of 53%, and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity tier 1 capital was 16.3% as at 30 June 2022, compared to 18.4% at the end of 2021. The total capital ratio decreased to 19.0% compared to 21.1% at 31 December 2021. The deterioration in the capital ratios was driven by adverse movements on financial instruments classified as hold-to-collect-and-sell, as a result of the increase in term market yield curves, impacting negatively revaluation reserves by €20.6m. While the capital ratios are still well above regulatory requirements, no interim dividend is being recommended in view of prevailing economic uncertainty.

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

"The performance in the first half of 2022 reflected a significant recovery of a commercial loan which was partially offset by increased regulatory fees as a result of a change in the legislation. It is pleasing to see that we have achieved good growth in net fee and trading income, as a result of higher transaction banking and trading activities, successfully leveraging HSBC's strength as the leading international bank in Malta. While we have started to see improvements in interest rates, net interest income continued to be impacted by tighter margins, negative interest rates and higher surplus liquidity.

Economic uncertainty remains as Malta, like many other countries, emerges from the Covid-19 pandemic, government support measures unwind and inflationary pressures prevail as a result of the Russia-Ukraine war. In June 2022, HSBC Bank Malta and The Malta Chamber held a joint webinar on 'The Global Economic Outlook 2022', focusing on how uncertainty and increasing commodity prices are affecting the prospects for the global economy.

HSBC Malta recognises the importance of actively promoting and implementing environmental and climate initiatives within the community. We aim to be net zero by 2030 and to support our customers on this very important and transformational journey. HSBC Malta is a proud and committed founding member of the Malta ESG Alliance that was launched last month.

Malta was taken off the Financial Action Task Force "grey list" in June 2022. This decision, along with a positive trajectory in interest rates and a strong and focused safe growth plan, gives us confidence for the future."

Financial summary

Income statement

	Group		Bank	
	Half-year to			
	30 Jun 2022 €000	30 Jun 2021 €000	**30 Jun 2022 €000**	30 Jun 2021 €000
Interest and similar income				
– on loans and advances to banks and customers	**50,266**	51,918	**50,266**	51,918
– on debt and other fixed income instruments	**1,003**	1,259	**1,003**	1,259
Interest expense	**(5,031)**	(3,775)	**(5,031)**	(3,775)
Net interest income	**46,238**	49,402	**46,238**	49,402
Fee income	**13,912**	12,873	**12,166**	11,142
Fee expense	**(1,638)**	(1,371)	**(1,325)**	(1,084)
Net fee income	**12,274**	11,502	**10,841**	10,058
Net trading income	**3,757**	2,628	**3,757**	2,628
Net (expense)/income from financial instruments of insurance operations measured at fair value through profit or loss	**(64,070)**	18,200	**–**	–
Dividend income	**–**	–	**1,308**	1,462
Net insurance premium income	**26,242**	26,079	**–**	–
Movement in present value of in-force long-term insurance business	**1,821**	(571)	**–**	–
Other operating income	**1,247**	946	**1,246**	944
Total operating income	**27,509**	108,186	**63,390**	64,494
Net insurance claims, benefits paid and movement in liabilities to policyholders	**41,602**	(36,669)	**–**	–
Net operating income before change in expected credit losses and other credit impairment charges	**69,111**	71,517	**63,390**	64,494
Change in expected credit losses and other credit impairment charges	**11,833**	(1,903)	**11,833**	(1,903)
Net operating income	**80,944**	69,614	**75,223**	62,591
Employee compensation and benefits	**(19,599)**	(19,936)	**(18,440)**	(18,672)
General and administrative expenses	**(33,233)**	(28,644)	**(30,799)**	(26,344)
Depreciation of property, plant and equipment and right-of-use assets	**(2,295)**	(1,771)	**(2,294)**	(1,771)
Amortisation of intangible assets	**(2,310)**	(1,803)	**(2,284)**	(1,762)
Total operating expenses	**(57,437)**	(52,154)	**(53,817)**	(48,549)
Profit before tax	**23,507**	17,460	**21,406**	14,042
Tax expense	**(8,002)**	(6,090)	**(7,296)**	(4,767)
Profit for the period	**15,505**	11,370	**14,110**	9,275
Earnings per share	**4.3c**	3.2c		

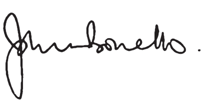
Statements of comprehensive income

	Group		Bank	
	Half-year to			
	30 Jun 2022 €000	30 Jun 2021 €000	**30 Jun 2022 €000**	30 Jun 2021 €000
Profit for the period	**15,505**	11,370	**14,110**	9,275
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:	**(20,593)**	(2,758)	**(20,593)**	(2,758)
– fair value losses	**(31,682)**	(4,243)	**(31,682)**	(4,243)
– income taxes	**11,089**	1,485	**11,089**	1,485
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:	**2**	1	**2**	1
– fair value gains	**3**	2	**3**	2
– income taxes	**(1)**	(1)	**(1)**	(1)
Other comprehensive expense for the period, net of tax	**(20,591)**	(2,367)	**(20,591)**	(2,367)
Total comprehensive income/(expense) for the period	**(5,086)**	9,003	**(6,481)**	6,908

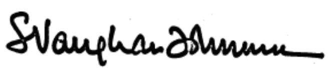
Statements of financial position

	Group		Bank	
	30 Jun 2022 €000	31 Dec 2021 €000	**30 Jun 2022 €000**	31 Dec 2021 €000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**1,730,057**	1,496,407	**1,730,057**	1,496,407
Items in course of collection from other banks	**9,356**	4,453	**9,356**	4,453
Financial assets mandatorily measured at fair value through profit or loss	**671,303**	767,808	**—**	—
Held for trading derivatives	**19,088**	4,640	**19,088**	4,640
Loans and advances to banks	**782,571**	619,273	**776,215**	613,062
Loans and advances to customers	**3,192,339**	3,196,725	**3,192,339**	3,196,725
Financial investments	**816,429**	845,735	**816,427**	845,733
Prepayments and accrued income	**19,955**	20,558	**17,519**	17,591
Current tax assets	**3,237**	3,669	**1,353**	1,353
Reinsurance assets	**57,561**	77,972	**—**	—
Other non-current assets held for sale	**4,739**	6,673	**4,739**	6,673
Investment in subsidiaries	**—**	—	**30,859**	30,859
Investment property	**1,600**	1,600	**—**	—
Property, plant and equipment	**40,983**	41,923	**40,981**	41,921
Intangible assets	**51,713**	50,168	**15,822**	16,022
Right-of-use assets	**2,317**	2,569	**2,317**	2,569
Deferred tax assets	**38,374**	29,119	**38,374**	29,119
Other assets	**12,435**	5,513	**10,694**	4,848
Total assets	**7,454,057**	7,174,805	**6,706,140**	6,311,975
Liabilities				
Deposits by banks	**14,718**	1,397	**14,718**	1,397
Customer accounts	**5,981,905**	5,621,195	**6,023,310**	5,657,681
Items in the course of transmission to other banks	**27,790**	21,573	**27,790**	21,573
Held for trading derivatives	**18,494**	4,592	**18,494**	4,592
Accruals and deferred income	**26,884**	21,976	**22,393**	17,634
Current tax liabilities	**3,310**	499	**2,999**	—
Liabilities under investment contracts	**164,187**	185,137	**—**	—
Liabilities under insurance contracts	**566,910**	658,197	**—**	—
Provisions for liabilities and other charges	**20,438**	21,252	**19,308**	20,122
Deferred tax liabilities	**15,491**	15,005	**3,563**	3,722
Borrowings from group undertaking	**60,000**	60,000	**60,000**	60,000
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Other liabilities	**15,297**	12,245	**11,205**	8,395
Total liabilities	**6,977,424**	6,685,068	**6,265,780**	5,857,116
Equity				
Called up share capital	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	**2,483**	24,330	**2,483**	24,330
Retained earnings	**366,058**	357,315	**329,785**	322,437
Total equity	**476,633**	489,737	**440,360**	454,859
Total liabilities and equity	**7,454,057**	7,174,805	**6,706,140**	6,311,975
Memorandum items				
Contingent liabilities	**144,789**	143,064	**144,792**	143,066
Commitments	**972,153**	967,739	**972,153**	967,739

The financial statements were approved and authorised for issue by the Board of Directors on 1 August 2022 and signed on its behalf by:



John Bonello
Chairman



Simon Vaughan Johnson
Chief Executive Officer

Statements of changes in equity

	Group			
	Share capital	Revaluation reserve	Retained earnings	Total equity
	€000	€000	€000	€000
At 1 Jan 2022	**108,092**	**24,330**	**357,315**	**489,737**
Profit for the period	**—**	**—**	**15,505**	**15,505**
Other comprehensive expense (net of tax)				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	**—**	**(20,591)**	**—**	**(20,591)**
Properties:				
– transfer to retained earnings, net of tax	**—**	**(1,256)**	**1,256**	**—**
Total other comprehensive expense	**—**	**(21,847)**	**1,256**	**(20,591)**
Total comprehensive expense for the period	**—**	**(21,847)**	**16,761**	**(5,086)**
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payment arrangements, net of tax	**—**	**—**	**(8)**	**(8)**
– dividends	**—**	**—**	**(8,010)**	**(8,010)**
Total contributions by and distributions to owners	**—**	**—**	**(8,018)**	**(8,018)**
At 30 Jun 2022	**108,092**	**2,483**	**366,058**	**476,633**
At 1 Jan 2021	108,092	32,718	337,604	478,414
Profit for the period	—	—	11,370	11,370
Other comprehensive expense (net of tax)				
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)	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

Statements of changes in equity (continued)

	Bank			
	Share capital	**Revaluation reserve**	**Retained earnings**	**Total equity**
	€000	**€000**	**€000**	**€000**
At 1 Jan 2022	**108,092**	**24,330**	**322,437**	**454,859**
Profit for the period	**–**	**–**	**14,110**	**14,110**
Other comprehensive expense (net of tax)				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	**–**	**(20,591)**	**–**	**(20,591)**
Properties:				
– transfer to retained earnings, net of tax	**–**	**(1,256)**	**1,256**	**–**
Total other comprehensive expense	**–**	**(21,847)**	**1,256**	**(20,591)**
Total comprehensive expense for the period	**–**	**(21,847)**	**15,366**	**(6,481)**
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payment arrangements, net of tax	**–**	**–**	**(8)**	**(8)**
– dividends	**–**	**–**	**(8,010)**	**(8,010)**
Total contributions by and distributions to owners	**–**	**–**	**(8,018)**	**(8,018)**
At 30 Jun 2022	**108,092**	**2,483**	**329,785**	**440,360**
At 1 Jan 2021	108,092	32,718	300,818	441,628
Profit for the period	–	–	9,275	9,275
Other comprehensive expense (net of tax)				
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

Statements of cash flows

	Group		Bank	
	Half-year to			
	30 Jun 2022 €000	30 Jun 2021 €000	**30 Jun 2022 €000**	30 Jun 2021 €000
Cash flows from operating activities				
Interest, fees, loan recoveries and premium receipts	**107,509**	105,668	**68,505**	66,787
Interest, fees and claims payments	**(41,802)**	(41,656)	**(5,794)**	(5,215)
Payments to employees and suppliers	**(49,303)**	(47,687)	**(45,050)**	(42,966)
Cash flows from operating activities before changes in operating assets/liabilities	**16,404**	16,325	**17,661**	18,606
(Increase)/decrease in operating assets:				
– financial assets mandatorily measured at fair value through profit or loss	**7,847**	1,876	**—**	—
– reserve deposit with Central Bank of Malta	**(2,581)**	(2,567)	**(2,581)**	(2,567)
– loans and advances to customers and banks	**54,895**	77,702	**54,895**	77,702
– Treasury Bills	**(14,375)**	63,516	**(14,375)**	63,516
– other receivables	**(2,267)**	4,311	**(2,267)**	4,126
Increase/(decrease) in operating liabilities:				
– customer accounts and deposits by banks	**368,032**	48,389	**373,783**	47,136
– other payables	**(576)**	120	**(1,024)**	232
Net cash from operating activities before tax	**427,379**	209,672	**426,092**	208,751
– tax paid	**(2,454)**	(2,738)	**(2,159)**	(2,269)
Net cash from operating activities	**424,925**	206,934	**423,933**	206,482
Cash flows from investing activities				
Dividends received	**—**	—	**850**	950
Interest received from financial investments	**3,693**	6,408	**3,693**	6,408
Purchase of financial investments	**(99,484)**	(109,238)	**(99,484)**	(109,238)
Proceeds from sale and maturity of financial investments	**99,178**	126,128	**99,178**	126,128
Purchase of property, plant and equipment and intangible assets	**(2,438)**	(4,512)	**(2,438)**	(4,512)
Proceeds from sale of property, plant and equipment and intangible assets	**13**	60	**13**	60
Net cash from investing activities	**962**	18,846	**1,812**	19,796
Cash flows used in financing activities				
Dividends paid	**(8,010)**	(2,717)	**(8,010)**	(2,717)
Net cash used in financing activities	**(8,010)**	(2,717)	**(8,010)**	(2,717)
Net increase in cash and cash equivalents	**417,877**	223,063	**417,735**	223,561
Cash and cash equivalents at beginning of period	**1,599,671**	782,704	**1,593,517**	776,884
Effect of exchange rate changes on cash and cash equivalents	**(25,568)**	(9,281)	**(23,113)**	(9,275)
Cash and cash equivalents at end of period	**1,991,980**	996,486	**1,988,139**	991,170

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 2021. These financial statements should be read in conjunction with the *Annual Report and Accounts 2021.*

The condensed interim financial information has been extracted from the unaudited group's management accounts for the six months ended 30 June 2022. 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 2022, there were no unendorsed standards effective for the half-year to 30 June 2022 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 restated to comply with the current period's presentation.

Standards applied during the half-year to 30 June 2022

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 2022 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 2022 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 2021* 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; and
- 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 2021*.

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 2021*, 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 2022.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. 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 standard has been endorsed for use in the EU. The local group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are being embedded in the local group.

(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 56 to 68 of the *Annual Report and Accounts 2021*, as are the methods of computation.

In the period under review some debt securities were classified as hold-to-collect. The hold-to-collect portfolio are financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost . The local group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

2 Net operating income

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 2022	30 Jun 2021
	€000	€000
Net fee income	**195**	142
Net (expense)/income from financial instruments of insurance operations measured at fair value through profit or loss	**(64,070)**	18,200
Net insurance premium income	**26,242**	26,079
Movement in present value of in-force long-term insurance business	**1,821**	(571)
Other operating income	**1**	2
Total operating (expense)/income	**(35,811)**	43,852
Net insurance claims, benefits paid and movement in liabilities to policyholders	**41,602**	(36,669)
Net operating income	**5,791**	7,183

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 the 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 IFRS 9 are applied

	At 30 Jun 2022		At 31 Dec 2021	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	€000	**€000**	€000	€000
Loans and advances to customers at amortised cost:	**3,246,144**	**(53,805)**	3,254,757	(58,032)
– personal	**2,287,194**	**(21,400)**	2,290,194	(24,470)
– corporate and commercial	**850,408**	**(28,552)**	839,153	(29,835)
– non-bank financial institutions	**108,542**	**(3,853)**	125,410	(3,727)
Loans and advances to banks at amortised cost	**776,215**	**—**	613,064	(2)
Other financial assets measured at amortised cost:	**1,504,557**	**(9,355)**	1,273,258	(9,696)
– balances at central banks	**1,468,129**	**(14)**	1,241,462	(8)
– items in the course of collection from other banks	**9,356**	**—**	4,453	—
– debt instruments measured at amortised cost	**100**	**—**	—	—
– accrued income and other assets[2]	**26,972**	**(9,341)**	27,343	(9,688)
Total gross carrying amount on balance sheet	**5,526,916**	**(63,160)**	5,141,079	(67,730)
Loans and other credit-related commitments:	**972,153**	**(1,082)**	967,739	(1,173)
– personal	**417,338**	**(53)**	406,384	(15)
– corporate and commercial (including non-bank financial institutions)	**543,122**	**(1,029)**	552,613	(1,158)
– banks	**11,693**	**—**	8,742	—
Financial guarantee and similar contracts:	**142,601**	**(930)**	140,359	(597)
– personal	**6,112**	**(30)**	5,712	(31)
– corporate and commercial (including non-bank financial institutions)	**136,489**	**(900)**	134,647	(566)
Total nominal amount off balance sheet[3]	**1,114,754**	**(2,012)**	1,108,098	(1,770)
Total	**6,641,670**	**(65,172)**	6,249,177	(69,500)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	€000	**€000**	€000	€000
Debt instruments measured at fair value through other comprehensive income	**816,292**	**(36)**	845,700	(69)
Treasury Bills measured at fair value through other comprehensive income	**237,782**	**(4)**	228,172	(7)
Total	**1,054,074**	**(40)**	1,073,872	(76)

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 4, 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	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:	**2,867,186**	**235,684**	**143,274**	**3,246,144**	**(13,679)**	**(16,229)**	**(23,897)**	**(53,805)**	**0.5**	**6.9**	**16.7**	**1.7**
– personal	**2,153,341**	**57,465**	**76,388**	**2,287,194**	**(10,573)**	**(5,284)**	**(5,543)**	**(21,400)**	**0.5**	**9.2**	**7.3**	**0.9**
– corporate and commercial	**683,082**	**104,965**	**62,361**	**850,408**	**(2,809)**	**(7,873)**	**(17,870)**	**(28,552)**	**0.4**	**7.5**	**28.7**	**3.4**
– non-bank financial institutions	**30,763**	**73,254**	**4,525**	**108,542**	**(297)**	**(3,072)**	**(484)**	**(3,853)**	**1.0**	**4.2**	**10.7**	**3.5**
Loans and advances to banks at amortised cost	**776,215**	**—**	**—**	**776,215**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**1,490,018**	**1,230**	**13,309**	**1,504,557**	**(15)**	**—**	**(9,340)**	**(9,355)**	**—**	**—**	**70.2**	**0.6**
Loan and other credit-related commitments:	**895,565**	**67,233**	**9,355**	**972,153**	**(473)**	**(130)**	**(479)**	**(1,082)**	**0.1**	**0.2**	**5.1**	**0.1**
– personal	**402,199**	**14,755**	**384**	**417,338**	**(51)**	**(2)**	**—**	**(53)**	**—**	**—**	**—**	**—**
– corporate and commercial (including non-bank financial institutions)	**481,673**	**52,478**	**8,971**	**543,122**	**(422)**	**(128)**	**(479)**	**(1,029)**	**0.1**	**0.2**	**5.3**	**0.2**
– banks	**11,693**	**—**	**—**	**11,693**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial guarantee and similar contracts:	**113,116**	**28,373**	**1,112**	**142,601**	**(209)**	**(122)**	**(599)**	**(930)**	**0.2**	**0.4**	**53.9**	**0.7**
– personal	**6,102**	**10**	**—**	**6,112**	**(30)**	**—**	**—**	**(30)**	**0.5**	**—**	**—**	**0.5**
– corporate and commercial (including non-bank financial institutions)	**107,014**	**28,363**	**1,112**	**136,489**	**(179)**	**(122)**	**(599)**	**(900)**	**0.2**	**0.4**	**53.9**	**0.7**
At 30 Jun 2022	**6,142,100**	**332,520**	**167,050**	**6,641,670**	**(14,376)**	**(16,481)**	**(34,315)**	**(65,172)**	**0.2**	**5.0**	**20.5**	**1.0**

	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	**816,292**	**—**	**—**	**816,292**	**(36)**	**—**	**—**	**(36)**	**—**	**—**	**—**	**—**
Treasury Bills measured at fair value through other comprehensive income	**237,782**	**—**	**—**	**237,782**	**(4)**	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**
At 30 Jun 2022	**1,054,074**	**—**	**—**	**1,054,074**	**(40)**	**—**	**—**	**(40)**	**—**	**—**	**—**	**—**

	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:	2,830,787	255,559	168,411	3,254,757	(14,740)	(15,615)	(27,677)	(58,032)	0.5	6.1	16.4	1.8
– personal	2,151,181	49,779	89,234	2,290,194	(11,933)	(4,386)	(8,151)	(24,470)	0.6	8.8	9.1	1.1
– corporate and commercial	641,574	122,874	74,705	839,153	(2,466)	(8,129)	(19,240)	(29,835)	0.4	6.6	25.8	3.6
– non-bank financial institutions	38,032	82,906	4,472	125,410	(341)	(3,100)	(286)	(3,727)	0.9	3.7	6.4	3.0
Loans and advances to banks at amortised cost	613,064	—	—	613,064	(2)	—	—	(2)	—	—	—	—
Other financial assets measured at amortised cost	1,257,175	1,252	14,831	1,273,258	(8)	—	(9,688)	(9,696)	—	—	65.3	0.8
Loan and other credit-related commitments:	876,295	81,973	9,471	967,739	(455)	(374)	(344)	(1,173)	0.1	0.5	3.6	0.1
– personal	397,997	8,268	119	406,384	(15)	—	—	(15)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	469,556	73,705	9,352	552,613	(440)	(374)	(344)	(1,158)	0.1	0.5	3.7	0.2
– banks	8,742	—	—	8,742	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts:	111,606	27,019	1,734	140,359	(187)	(119)	(291)	(597)	0.2	0.4	16.8	0.4
– personal	5,702	10	—	5,712	(31)	—	—	(31)	0.5	—	—	0.5
– corporate and commercial (including non-bank financial institutions)	105,904	27,009	1,734	134,647	(156)	(119)	(291)	(566)	0.1	0.4	16.8	0.4
At 31 Dec 2021	5,688,927	365,803	194,447	6,249,177	(15,392)	(16,108)	(38,000)	(69,500)	0.3	4.4	19.5	1.1

	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	845,700	—	—	845,700	(69)	—	—	(69)	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	228,172	—	—	228,172	(7)	—	—	(7)	—	—	—	—
At 31 Dec 2021	1,073,872	—	—	1,073,872	(76)	—	—	(76)	—	—	—	—

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 96 to 100 of the *Annual Report and Accounts 2021*.

During the period under review, the Downside scenario was amended to explore the implications of a prolonged period of high price inflation, a more aggressive upward path for policy interest rates, higher unemployment and a global recession. In this scenario, the Russia-Ukraine war leads to a sustained supply shock that keeps inflation elevated above the baseline for a longer period than in the other scenarios.

The scenario assumes that major central banks are slow to respond, but as inflation expectations start to de-anchor from the inflation target, they resort to taking stronger action. The rise in interest rates is expected to cause a severe credit crunch that ultimately results in a global economic contraction later in the projection period. The probability weight assigned on the Downside scenario as shown in the following tables is 30%.

As highlighted below there was 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 3Q22-2Q27)

	Wholesale lending			
	Parameters as at 30 June 2022			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
	%	%	%	%
Real GDP Growth rate	1.6	2.7	0.2	0.4
Consumer price index	3.2	4.3	3.6	2.8
Unemployment	4.1	3.7	6.1	6.7
Short-term interest risk	2.3	2.3	2.6	1.1
House price index	3.3	4.6	(1.3)	(1.8)
Probability	50.0	10.0	30.0	10.0

Real GDP Growth rates (3Q22-2Q27)

	Wholesale lending			
	Parameters as at 30 June 2022			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
	%	%	%	%
2022: Annual average growth rate	3.7	4.1	3.2	2.4
2023: Annual average growth rate	1.4	3.5	(0.6)	(5.3)
2024: Annual average growth rate	1.6	4.1	(2.2)	0.7
Five year average growth rate	1.6	2.7	0.2	0.4

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 3Q22-2Q27)

	Retail lending			
	Parameters as at 30 June 2022			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
	%	%	%	%
Real GDP Growth rate	3.1	3.7	2.0	2.0
Unemployment	3.6	2.9	4.0	6.5
House price index	5.3	6.0	1.1	(2.0)
Probability	50.0	10.0	30.0	10.0

Unemployment rates (3Q22-2Q27)

	Retail lending			
	Parameters as at 30 June 2022			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
	%	%	%	%
2021: Annual average rate	3.6	3.0	3.6	4.6
2022: Annual average rate	3.6	2.2	3.7	6.7
2023: Annual average rate	3.6	2.5	3.9	7.9
Five year average rate	3.6	2.9	4.0	6.5

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 2022, 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 €5.1m and €1.0m respectively, compared to the weighted average credit loss allowances estimated as at 30 June 2022. 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 decrease by €0.3m and €0.07m respectively, compared to the weighted average credit loss allowances estimated as at 30 June 2022. 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 €6.3m and €7.0m respectively, compared to the weighted average credit loss allowances estimated as at 30 June 2022.

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			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2022	3,817,513	(15,382)	365,803	(16,108)	194,447	(38,000)	4,377,763	(69,490)
Transfers of financial instruments:	18,494	(1,645)	(14,356)	398	(4,138)	1,247	–	–
– transfers from stage 1 to stage 2	(47,170)	290	47,170	(290)	–	–	–	–
– transfers from stage 2 to stage 1	66,317	(1,497)	(66,317)	1,497	–	–	–	–
– transfers from stage 3	2,477	(454)	8,113	(1,159)	(10,590)	1,613	–	–
– transfers to stage 3	(3,130)	16	(3,322)	350	6,452	(366)	–	–
Net remeasurement of ECL arising from stage transfers	–	1,788	–	(2,099)	–	(265)	–	(576)
Changes in risk parameters	–	512	–	(301)	–	423	–	634
Net new and further lending/ repayments	36,550	365	(18,927)	1,629	(21,568)	589	(3,945)	2,583
Assets written off	–	–	–	–	(1,691)	1,691	(1,691)	1,691
At 30 Jun 2022	3,872,557	(14,362)	332,520	(16,481)	167,050	(34,315)	4,372,127	(65,158)
ECL charge for the period								4,332
Recoveries								8,572
Other								588
Change in expected credit losses for the period								13,492
Assets written off								(1,691)
Change in expected credit losses and other credit impairment charges								11,801

	At 30 Jun 2022		6 months ended 30 Jun 2022
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,372,127	(65,158)	11,801
Balances at central banks	1,468,129	(14)	(6)
Loans and advances to banks measured at amortised cost	776,215	–	2
Debt instruments measured at amortised cost	100	–	–
Items in course of collection	9,356	–	–
Accrued interest on debt instruments and other accrued income	4,050	–	–
Loan and other credit related commitments – banks	11,693	–	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	6,641,670	(65,172)	11,797
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,054,074	(40)	36
Total allowance for ECL/total income statement ECL release for the period	N/A	(65,212)	11,833

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 2022 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			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2021	3,912,437	(14,294)	491,409	(20,327)	148,477	(37,541)	4,552,323	(72,162)
Transfers of financial instruments:	(36,284)	(2,998)	(35,553)	7,215	71,837	(4,217)	—	—
– transfers from stage 1 to stage 2	(83,796)	590	83,796	(590)	—	—	—	—
– transfers from stage 2 to stage 1	66,557	(3,480)	(66,557)	3,480	—	—	—	—
– transfers from stage 3	1,546	(189)	3,932	(555)	(5,478)	744	—	—
– transfers to stage 3	(20,591)	81	(56,724)	4,880	77,315	(4,961)	—	—
Net remeasurement of ECL arising from stage transfers	—	3,395	—	(1,904)	—	(3,405)	—	(1,914)
Changes in risk parameters	—	(1,317)	—	(2,902)	—	29	—	(4,190)
Net new and further lending/ repayments	(58,640)	(168)	(90,053)	1,810	(21,559)	2,826	(170,252)	4,468
Assets written off	—	—	—	—	(4,308)	4,308	(4,308)	4,308
At 31 Dec 2021	3,817,513	(15,382)	365,803	(16,108)	194,447	(38,000)	4,377,763	(69,490)
ECL release for the period								2,672
Recoveries								1,114
Other								1,215
Change in expected credit losses for the year								5,001
Assets written off								(4,308)
Change in expected credit losses and other credit impairment charges								693

	At 31 Dec 2021		12 months ended 31 Dec 2021
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,377,763	(69,490)	693
Balances at central banks	1,241,462	(8)	2
Loans and advances to banks measured at amortised cost	613,064	(2)	6
Items in course of collection	4,453	—	—
Accrued interest on debt instruments and other accrued income	3,693	—	—
Loan and other credit-related commitments – banks	8,742	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	6,249,177	(69,500)	701
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,073,872	(76)	294
Total allowance for ECL/total income statement ECL release for the period	N/A	(69,576)	995

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 release for the period ended 30 June 2022 resulted in a positive variance of €13.7m when compared to same period in 2021 . This release was mainly attributable to a recovery on a non-performing loan which was largely provided for in prior years.

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).

- **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 2022 and 30 June 2021 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 2022 €000	30 Jun 2021 €000	**30 Jun 2022 €000**	30 Jun 2021 €000	**30 Jun 2022 €000**	30 Jun 2021 €000	**30 Jun 2022 €000**	30 Jun 2021 €000
Net operating income before change in expected credit losses and other credit impairment charges	**45,575**	48,311	**21,609**	21,941	**1,927**	1,265	**69,111**	71,517
external	**45,859**	48,417	**21,325**	21,835	**1,927**	1,265	**69,111**	71,517
inter-segment	**(284)**	(106)	**284**	106	**–**	–	**–**	–
– of which: net interest income	***32,252***	*34,523*	***13,986***	*14,879*	**–**	–	***46,238***	*49,402*
Change in expected credit losses and other credit impairment charges	**1,864**	(1,852)	**9,969**	(51)	**–**	–	**11,833**	(1,903)
Net operating income	**47,439**	46,459	**31,578**	21,890	**1,927**	1,265	**80,944**	69,614
Total operating expenses	**(43,573)**	(38,419)	**(13,497)**	(13,417)	**(367)**	(318)	**(57,437)**	(52,154)
Adjusted/Reported profit before tax	**3,866**	8,040	**18,081**	8,473	**1,560**	947	**23,507**	17,460

	30 Jun 2022 €000	31 Dec 2021 €000	**30 Jun 2022 €000**	31 Dec 2021 €000	**30 Jun 2022 €000**	31 Dec 2021 €000	**30 Jun 2022 €000**	31 Dec 2021 €000
Reported balance sheet data								
Loans and advances to customers (net)	**2,268,378**	2,268,268	**923,961**	928,457	**–**	–	**3,192,339**	3,196,725
Total external assets	**5,755,735**	5,510,516	**1,678,525**	1,658,929	**19,797**	5,360	**7,454,057**	7,174,805
Customer accounts	**4,511,175**	4,380,261	**1,470,730**	1,240,934	**–**	–	**5,981,905**	5,621,195

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 2021. 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 2022			
	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	€000	€000	€000	€000
Assets				
Treasury Bills	**–**	**237,782**	**–**	**237,782**
Held for trading derivatives	**–**	**19,088**	**–**	**19,088**
Financial assets mandatorily measured at fair value through profit or loss	**663,158**	**4,119**	**4,026**	**671,303**
Financial investments measured at fair value through other comprehensive income	**816,292**	**–**	**37**	**816,329**
	1,479,450	**260,989**	**4,063**	**1,744,502**
Liabilities				
Held for trading derivatives	**–**	**18,494**	**–**	**18,494**
Liabilities under investment contracts	**164,187**	**–**	**–**	**164,187**
	164,187	**18,494**	**–**	**182,681**
	At 31 Dec 2021			
Assets				
Treasury Bills	–	228,172	–	228,172
Derivatives	–	4,640	–	4,640
Financial assets mandatorily measured at fair value through profit or loss	759,325	3,873	4,610	767,808
Financial investments measured at fair value through other comprehensive income	845,700	–	35	845,735
	1,605,025	236,685	4,645	1,846,355
Liabilities				
Held for trading derivatives	–	4,592	–	4,592
Liabilities under investment contracts	185,137	–	–	185,137
	185,137	4,592	–	189,729

	Bank			
	At 30 Jun 2022			
Assets				
Treasury Bills	**–**	**237,782**	**–**	**237,782**
Held for trading derivatives	**–**	**19,088**	**–**	**19,088**
Financial investments measured at fair value through other comprehensive income	**816,292**	**–**	**35**	**816,327**
	816,292	**256,870**	**35**	**1,073,197**
Liabilities				
Held for trading derivatives	**–**	**18,494**	**–**	**18,494**
	–	**18,494**	**–**	**18,494**
	At 31 Dec 2021			
Assets				
Treasury Bills	–	228,172	–	228,172
Held for trading derivatives	–	4,640	–	4,640
Financial investments measured at fair value through other comprehensive income	845,700	–	33	845,733
	845,700	232,812	33	1,078,545
Liabilities				
Held for trading derivatives	–	4,592	–	4,592
	–	4,592	–	4,592

Reconciliation of the fair value measurements in Level 3

	Group		Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 Jan	**4,610**	5,374	**—**	—
Disposal/redemptions	**(615)**	(530)	**—**	—
Acquisitions	**31**	59	**—**	—
Changes in fair value (recognised in profit or loss)	**—**	5	**—**	—
At 30 Jun	**4,026**	4,908	**—**	—

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 2021.*

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	31 Dec	**30 Jun**	31 Dec
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Assets				
Property	**34,284**	34,422	**34,284**	34,422
Investment property	**1,600**	1,600	**—**	—
	35,884	36,022	**34,284**	34,422

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 is 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 2022 €000	31 Dec 2021 €000	**30 Jun 2022 €000**	31 Dec 2021 €000
Assets				
Balances with Central Bank of Malta and cash	**1,492,275**	1,268,235	**1,492,275**	1,268,235
Items in the course of collection from other banks	**9,356**	4,453	**9,356**	4,453
Loans and advances to banks	**782,571**	619,273	**776,215**	613,062
Loans and advances to customers	**3,192,339**	3,196,725	**3,192,339**	3,196,725
Financial investments measured at amortised cost	**100**	–	**100**	–
Accrued interest	**16,538**	17,772	**14,073**	15,281
Other assets[1]	**11,291**	6,479	**11,328**	5,886
	5,504,470	5,112,937	**5,495,686**	5,103,642
Liabilities				
Deposits by banks	**14,718**	1,397	**14,718**	1,397
Customer accounts	**5,981,905**	5,621,195	**6,023,310**	5,657,681
Items in the course of transmission to other banks	**27,790**	21,573	**27,790**	21,573
Borrowings from group undertaking	**60,000**	60,000	**60,000**	60,000
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**1,584**	1,431	**1,357**	1,215
Other liabilities[2]	**12,864**	9,751	**8,760**	5,903
	6,160,861	5,777,347	**6,197,935**	5,809,769

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 2022 €000	31 Dec 2021 €000	**30 Jun 2022 €000**	31 Dec 2021 €000
Total assets	**7,454,057**	7,174,805	**6,706,140**	6,311,975
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	**18,023**	20,021	**18,023**	20,021
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,513**	1,272	**1,513**	1,272
Less:				
Other assets that cannot be pledged as collateral	**914,655**	996,892	**175,524**	143,235
Assets available to support funding and collateral needs	**6,519,866**	6,156,620	**6,511,080**	6,147,447

Out of the €6,520,000,000 (2021: €6,157,000,000) assets available for the local group and €6,511,000,000 (2021: €6,147,000,000) for the bank, €4,042,000,000 (2021: €3,924,000,000) 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 €172,423,000 (2021: €169,607,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

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 2022, 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

HSBC Bank Malta p.l.c.

116 Archbishop Street
Valletta VLT 1444
Malta
Telephone: 356 2380 2380
www.hsbc.com.mt