HSBC Bank Malta p.l.c.

Pillar 3 Disclosures at 30 June 2022

HSBC

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, capital is calculated 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 local group, comprises HSBC Bank Malta p.l.c. along with its subsidiary HSBC Global Asset Management (Malta) Ltd. HSBC Life Assurance (Malta) Ltd is excluded from the regulatory scope of consolidation by eliminating assets, liabilities and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted at 250%)

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 framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy. Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

These Additional Regulatory Disclosures ('ARDs') are aimed at providing the local group's stakeholders further insight to the local group's capital structure, adequacy and risk management practices. The disclosures outlined below have been prepared in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994, issued by the MFSA. Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive — Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation — Pillar 2) of the European Parliament and of the Council of 26 June 2013. In order to promote market discipline and move towards a worldwide standardised approach, during 2021 the EBA adopted new guidelines 'Final draft implementing technical standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013'.

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 Annual Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The local group, through its internal verification procedures, is satisfied that these ARDs are presented fairly.

Pillar 3 disclosures

Purpose

HSBC Bank Malta p.l.c.'s Pillar 3 disclosures at 30 June 2022 comprise all information required under Pillar 3, both quantitative and qualitative. They are prepared in accordance with the relevant articles of Part 8 of the CRR and the European Banking Authority's ('EBA') final standards on revised Pillar 3 disclosures.

In light of the fact that the local group is considered a significant subsidiary of HSBC Holdings plc (group), and subject to consolidated supervision at the level of HSBC Holdings plc. The local group is exempt from full disclosure requirements laid down in Part Eight of the CRR. This document also includes disclosures required on a quarterly basis in accordance with CRR article 433a where applicable.
The Pillar 3 disclosures are governed by the Group's disclosure policy framework. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to an internal review process in accordance with the bank's financial reporting and governance processes.

Regulatory Developments

The Basel III Reforms ('the Reforms')

In October 2021, the European Commission ('EC') published a first draft of the rules implementing the reforms in the European Union (the third Capital Requirements Regulation or 'CRR3' and the sixth Capital Requirements Directive or 'CRD6'), with a proposed implementation date of 1 January 2025. The draft rules are now subject to an extensive negotiation process with the EU Council and Parliament before they are finalised and currently include some significant deviations from the reforms.

In May 2022, the EBA also launched a consultation to explore whether and how environmental risks are to be incorporated into the Pillar 1 prudential framework. This follows the EC's proposals to bring forward the EBA report on a dedicated prudential treatment for Environmental, Social and Governance ('ESG') risks by two years to June 2023.

ESG related risks and disclosures requirements

In March 2022, the ECB published its updated assessment on the progress made by EU banks in disclosing meaningful information on climate and environmental risks. During the course of 2022, the ECB will conduct several climate-related supervisory activities. These include the first climate stress test performed between March and July 2022 and will also include a review on how banks will incorporate climate and environmental risks into their processes.

In April 2022, the EC published a consultation on ESG ratings and sustainability factors in credit ratings following the European Securities and Markets Authority ('ESMA') call for evidence in February 2022. This will help the EC evaluate the need for a possible policy initiative on this topic.

In March 2022, the European Supervisory Authorities ('ESAs') issued a joint statement on the application of the Sustainable Finance Disclosure Regulation ('SFDR') with their expectations about the explicit quantification of the product disclosures under Article 5 and 6 of the Taxonomy Regulation and the use of estimates in the interim period. In April 2022, the Commission adopted Regulatory Technical Standards ('RTS') for SFDR which the ESAs further clarified in June 2022. The RTS will apply from 1 January 2023, ending the interim period.

In April 2022, the European Financial Reporting Advisory Group ('EFRAG') launched a consultation on draft European Sustainability Reporting Standards Exposure ('ESRS') Drafts. These correspond to the first set of standards required under the proposal of the Corporate Sustainability Reporting Directive ('CSRD') and covers environmental, social and governance matters.

In June 2022, the European Parliament and Council reached provisional political agreement on the CSRD which amends the Non-Financial Reporting Directive ('NFRD') and introduces more detailed reporting requirements on sustainability issues. The CSRD broadens the scope for EU entities and also includes non-EU entities with substantial activity in the EU.

In July 2022, the European Commission has released the amendment to the EU taxonomy Commission Delegated Regulation to include technical screening criteria for economic activities in the fossil gas and nuclear energy sectors. This Regulation shall apply from 1 January 2023.

Other developments

In April 2022, the EU adopted technical standards on the Interest Rate Risk in the Banking Book ('IRRBB') Pillar 3 disclosures.

Risk management key metrics

The Key Metrics table (EU KM1) presented below gives a time series set of key prudential metrics covering HSBC Bank Malta p.l.c.'s available capital, including buffer requirements and ratios, its Risk Weighted Exposure Assets (RWEA), Leverage Ratio (LR), Liquidity Coverage Ratio (LCR), including also Net Stable Funding Ratio (NSFR). The related input components within EU KM1 follow the definition of the amended version of Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).

HSBC Bank Malta p.l.c. applies the transitional arrangement for the impact of expected credit loss accounting on regulatory capital; and in line with the regulation the following table provides information on the impacts on HSBC Bank Malta p.l.c's regulatory capital and leverage ratios compared to the "fully loaded" capital and leverage ratios had the transitional arrangement not been applied.

Table 1: EU KM1 – Key metrics template

Ref*		**30 Jun 2022 €000**	31 Mar 2022 €000	31 Dec 2021 €000	30 Sep 2021 €000	30 Jun 2021 €000
Available capital (€000)+						
1	Common equity tier 1 ('CET1') capital^	**375,075**	392,349	412,424	396,028	408,266
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**366,985**	381,405	397,593	380,948	390,758
2	Tier 1 capital^	**375,075**	392,349	412,424	396,028	408,266
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**366,985**	381,405	397,593	380,948	390,758
3	Total capital^	**437,075**	454,349	474,424	458,028	470,266
	Total capital as if IFRS 9 transitional arrangements had not been applied	**428,985**	443,405	459,593	442,948	452,758
Risk-weighted exposure amounts (RWEA)						
4	Total risk-weighted exposure amount^	**2,297,339**	2,241,360	2,243,665	2,440,723	2,369,933
	Total RWEAs as if IFRS 9 transitional arrangements had not been applied	**2,291,238**	2,231,119	2,232,148	2,428,525	2,355,626
Capital ratios (%)						
5	Common Equity Tier 1 ratio (%)^	**16.3**	17.5	18.4	16.2	17.2
	CET1 as if IFRS 9 transitional arrangements had not been applied	**16.0**	17.1	17.8	15.7	16.6
6	Tier 1 ratio (%)^	**16.3**	17.5	18.4	16.2	17.2
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.0**	17.1	17.8	15.7	16.6
7	Total capital ratio (%)^	**19.0**	20.3	21.1	18.8	19.8
	Total capital as if IFRS 9 transitional arrangements had not been applied	**18.7**	19.9	20.6	18.2	19.2
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)[1]	**2.3**	2.3	2.3	2.3	2.3
EU 7b	– *of which: to be made up of CET1 capital (percentage points)*[1]	***1.3***	*1.3*	*1.3*	*1.3*	*1.3*
EU 7c	– *of which: to be made up of Tier 1 capital (percentage points)*[1]	***1.7***	*1.7*	*1.7*	*1.7*	*1.7*
EU 7d	Total SREP own funds requirements (%)[1]	**10.3**	10.3	10.3	10.3	10.3
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**—**	—	—	—	—
EU 9a	Systemic risk buffer (%)	**—**	—	—	—	—
10	Global Systemically Important Institution buffer (%)	**—**	—	—	—	—
EU	Other Systemically Important Institution buffer (%)	**1.5**	1.5	1.5	1.5	1.5
11	Combined buffer requirement (%)	**4.0**	4.0	4.0	4.0	4.0
EU	Overall capital requirements (%)	**14.3**	14.3	14.3	14.3	14.3
12	CET1 available after meeting the total SREP own funds requirements (%)[2]	**8.6**	9.8	10.7	8.5	9.5
Leverage ratio[2]						
13	Total exposure measure	**6,925,928**	6,664,138	6,528,035	6,459,498	6,203,400
14	Leverage ratio (%)^	**5.4**	5.9	6.3	6.1	6.6
	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**5.3**	5.7	6.1	5.9	6.3
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU	Total SREP leverage ratio requirements (%)	**3.0**	3.0	3.0	3.0	3.0
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU	Overall leverage ratio requirement (%)	**3.0**	3.0	3.0	3.0	3.0
Liquidity Coverage Ratio (LCR)[3]						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	**2,468,986**	2,487,859	2,222,872	1,367,829	1,368,678
EU	Cash outflows - Total weighted value	**1,205,819**	1,073,449	1,034,782	1,102,549	957,272
EU	Cash inflows - Total weighted value	**620,384**	328,968	448,437	1,033,764	717,954
16	Total net cash outflows (adjusted value)	**585,435**	744,481	586,345	275,637	239,318
17	Liquidity coverage ratio (%)	**421.7**	334.2	379.1	496.2	571.9
Net Stable Funding Ratio						
18	Total available stable funding	**5,370,199**	5,251,632	5,174,663	5,008,418	4,926,614
19	Total required stable funding	**2,664,712**	2,575,075	2,601,704	2,760,422	2,752,096
20	NSFR ratio (%)	**201.5**	203.9	198.9	181.4	179.0

* *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 *Comparatives for June 2021 are being restated in accordance with current period reporting.*

2 *Capital figures and ratios are reported using the CRR II transitional basis for capital instruments. Comparatives for prior quarters are being restated in accordance with current year reporting.*

3 *The EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation do not apply to liquidity coverage measures. LCR is calculated as at the end of each period rather than using average values.*

Table 2: Net value of exposure

	Group		
	30 Jun 2022		
	Net value of exposure^	**Risk-weighted assets^**	**Capital Required[1,^]**
	€000	**€000**	**€000**
Central governments or central banks	**2,284,879**	**95,936**	**7,675**
Public sector entities	**419,500**	**—**	**—**
Multilateral development banks	**106,966**	**—**	**—**
Institutions	**705,884**	**189,787**	**15,183**
Corporates	**1,110,629**	**415,661**	**33,253**
Retail exposures	**759,059**	**253,131**	**20,250**
Secured by mortgages on immovable property	**2,172,288**	**794,666**	**63,573**
Exposures in default	**134,041**	**147,331**	**11,786**
Items associated with particularly high risk	**20,321**	**22,735**	**1,819**
Equity exposures	**83**	**83**	**7**
Other exposures	**128,314**	**139,536**	**11,163**
Credit risk	**7,841,964**	**2,058,866**	**164,709**
Operational risk		**227,726**	**18,218**
Foreign exchange risk		**1,051**	**84**
CVA Risk		**9,696**	**776**
Total		**2,297,339**	**183,787**
Own funds			
Common Equity Tier 1			**375,075**
Tier 2			**62,000**
Total own funds			**437,075**
Total capital ratio (%)			**19.0**

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

^ *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 as per article 92 of the Capital Requirements Regulation.*

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 €8,091,000.

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.

Linkage to the Interim Report 2022

The basis of consolidation for the purpose of financial accounting is based on the IFRS requirements. The IFRS requirements differ from the requirements used for regulatory purposes, since IFRS provides a point in time value of all on balance sheet assets. On the other hand the regulatory exposure value includes an estimation of risk, and is expressed as the amount expected to be outstanding if or when the counterparty defaults. Moreover the regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation. The subsidiary engaged in insurance activities is excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 (subject to thresholds) or otherwise risk weighted at 250%.

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

	Balance sheet as in published financial statements	De-consolidation of insurance entity	Regulatory balance sheet
	€000	€000	€000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash	**1,730,057**	**–**	**1,730,057**
Items in course of collection from other banks	**9,356**	**–**	**9,356**
Financial assets mandatorily measured at fair value through profit or loss	**671,303**	**(671,303)**	**–**
Held for trading derivatives	**19,088**	**–**	**19,088**
Loans and advances to banks	**782,571**	**(6,356)**	**776,215**
Loans and advances to customers	**3,192,339**	**–**	**3,192,339**
Financial investments	**816,429**	**–**	**816,429**
Prepayments and accrued income	**19,955**	**(2,199)**	**17,756**
Current tax assets	**3,237**	**(1,876)**	**1,361**
Reinsurance assets	**57,561**	**(57,561)**	**–**
Other non-current assets held for sale	**4,739**	**–**	**4,739**
Investment in subsidiaries	**–**	**28,578**	**28,578**
Investment property	**1,600**	**(1,600)**	**–**
Property, plant and equipment	**40,983**	**(2)**	**40,981**
Intangible assets	**51,713**	**(35,891)**	**15,822**
Right-of-use assets	**2,317**	**–**	**2,317**
Deferred tax assets	**38,374**	**–**	**38,374**
Other assets	**12,435**	**(1,739)**	**10,696**
Total assets at 30 Jun 2022	**7,454,057**	**(749,949)**	**6,704,108**
Liabilities and equity			
Deposits by banks	**14,718**	**–**	**14,718**
Customer accounts	**5,981,905**	**38,938**	**6,020,843**
Items in the course of transmission to other banks	**27,790**	**–**	**27,790**
Derivatives	**18,494**	**–**	**18,494**
Accruals and deferred income	**26,884**	**(3,898)**	**22,986**
Current tax liabilities	**3,310**	**(164)**	**3,146**
Liabilities under investment contracts	**164,187**	**(164,187)**	**–**
Liabilities under insurance contracts	**566,910**	**(566,910)**	**–**
Provisions for liabilities and other charges	**20,438**	**(1,130)**	**19,308**
Deferred tax liabilities	**15,491**	**(11,928)**	**3,563**
Borrowings from group undertaking	**60,000**	**–**	**60,000**
Subordinated liabilities	**62,000**	**–**	**62,000**
Other liabilities	**15,297**	**(4,105)**	**11,192**
Total liabilities at 30 Jun 2022	**6,977,424**	**(713,384)**	**6,264,040**
Equity			
Called up share capital	**108,092**	**–**	**108,092**
Revaluation reserve	**2,483**	**–**	**2,483**
Retained earnings[1]	**366,058**	**(36,565)**	**329,493**
Total equity at 30 Jun 2022	**476,633**	**(36,565)**	**440,068**
Total liabilities and equity at 30 Jun 2022	**7,454,057**	**(749,949)**	**6,704,108**

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.*

Capital management

Approach and policy

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

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

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

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

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

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

- credit risk;
- operational risk;
- interest rate risk in the banking book;
- insurance risk; and
- residual risks.

Stress testing

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

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

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

Risks to capital

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

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

Capital Measurement

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

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

Overview of regulatory capital framework

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

For regulatory purposes, a bank's capital base can be divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on the degree of permanence and loss absorbency exhibited. HSBC Bank Malta p.l.c.'s capital base is divided into two (out of three) main categories, namely Common Equity Tier 1 and Tier 2, but holds no instruments under Additional Tier1. The main features of capital issued by HSBC Bank Malta p.l.c. are described below.

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

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

Our T2 capital which consists of subordinated debt with HSBC Bank plc is repayable at par on maturity in year 2028; it may be called and redeemed by the issuer; subject to the prior consent from the ECB.

Additional information on the composition of CET1, regulatory adjustments and T2 are disclosed in table EU CC1.

The full Terms and Conditions (T&Cs) of the HSBC Ordinary Shares are available in the Memorandum and Articles of Association; an electronic copy is available on our website (https://www.about.hsbc.com.mt/investor relations) under section Company Notifications – Announcements.

The full T&Cs of the Tier 2 Regulatory Capital 2028 is available by contacting the company secretary of HSBC Bank Malta p.l.c. (companysecretarymalta@hsbc.com). Information with respect to any capital instrument in these documents should not be used for investment advice and does not constitute an offer to sell or solicitation of an offer to buy any such capital instrument or any advice or recommendation with respect to any such capital instrument. When making a decision about your investments, you should seek the advice of a professional financial adviser.

Retained earnings

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

Accumulated other comprehensive income

Property revaluation reserve

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

Financial investments reserve

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

Disclosure on Own Funds

The local group is required to complete the own funds disclosure template ('EU CC1') in accordance with Article 437 of the CRR and provides a breakdown of the constituent elements of HSBC Bank Malta p.l.c.'s own funds.

Table 4: Own funds disclosure (EU CC1)

		At	
		30 Jun 2022	31 Dec 2021
Ref		**€000**	€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]	**309,541**	296,659
3	Accumulated other comprehensive income (and other reserves)	**2,483**	24,330
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	**—**	11,633
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**426,325**	446,923
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional valuation adjustments[3]	**(1,092)**	(1,083)
8	Intangible assets	**(6,080)**	(5,062)
22	Amount exceeding the 17,65% threshold (negative amount)	**(8,225)**	—
23	– *of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	***(3,511)***	—
25	– *of which: deferred tax assets arising from temporary differences*	***(4,714)***	—
27a	**Other regulatory adjustments**	**(35,853)**	(28,354)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(51,250)**	(34,499)
29	**Common Equity Tier 1 (CET1) capital**	**375,075**	412,424
51	**Tier 2 ('T2') capital before regulatory adjustments**	**62,000**	62,000
57	**Total regulatory adjustments to tier 2 (T2) capital**	**—**	—
58	**Tier 2 ('T2') capital**	**62,000**	62,000
59	**Total capital (TC = T1 + T2)**	**437,075**	474,424
60	**Total risk exposure amount**	**2,297,339**	2,243,665
	Capital ratios and buffers		
61	Common Equity Tier 1 ratio	**16.3%**	18.4%
62	Tier 1 ratio	**16.3%**	18.4%
63	Total capital ratio	**19.0%**	21.1%
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 requirement4*	**—**	—
EU-67	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	***1.5%***	*1.5%*
EU-67	– *of which: additional own funds requirements to address the risks other than the risk of excessive leverage*	***1.3%***	*1.3%*
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements ~**	**8.6%**	10.7%
	Amounts below the threshold for deduction (before risk weighting)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**28,578**	28,578
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	**38,374**	29,119

~ *Comparative figures are restated in according with current year reporting.*

1 *The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiary engaged in insurance activities from the regulatory consolidation, 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.*

2 *The local group is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'. This reserve refers to the amount allocated by the bank from its retained earnings, to a non-distributable reserve against potential risks linked to the local group's non-performing loans and advances.*

3 *Additional value adjustments are deducted from CET1. These are calculated on all assets and liabilities measured at fair value.*

4 *The bank does not have any systemic risk buffer as at period ended 30 June 2022.*

Table 5: Reconciliation between accounting and regulatory scope of consolidation

	Group	
	30 Jun 2022 €000	31 Dec 2021 €000
Common Equity Tier 1 ('CET') capital		
Called up share capital	**108,092**	108,092
Retained earnings	**366,058**	357,315
Revaluation reserve	**2,483**	24,330
Adjustments		
– Depositor Compensation Scheme	**(17,903)**	(20,193)
– intangible assets	**(6,080)**	(5,062)
– expected final dividend	**—**	(8,010)
– retained earnings – HSBC Life Assurance (Malta) Ltd	**(36,606)**	(34,804)
– unverified profits for the period	**(13,702)**	—
– prudential valuation adjustments	**(1,092)**	(1,083)
– IFRS 9 transitional adjustments	**8,091**	14,831
– Single Resolution Fund	**(1,513)**	(1,272)
– non performing loans	**(24,528)**	(21,720)
– Amount exceeding the 17.65% threshold	**(8,225)**	—
CET 1 Capital after adjustments	**375,075**	412,424
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
Total own funds	**437,075**	474,424

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. The bank applies a credit conversion factor ('CCF') to these items and adds 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.

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 RWEAs.

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. 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 the CCR exposure value as defined in Article 274 of the Capital Requirements Regulation.
Equity	For the non-trading book, equity exposures can be assessed under standardised 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.

Capital buffers

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

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

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

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

Table 6: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (EU CCyB1)

	Group				
	General credit exposures	Own funds requirement			
	Exposure value for SA^	*of which: general credit exposures*	Total	Own funds requirement weights	Counter-cyclical capital buffer rate
	€000	*€000*	€000	%	%
Malta	3,281,628	*136,923*	136,923	96.5	–
Bulgaria	6	*1*	1	–	0.5
Czech Republic	24	*1*	1	–	0.5
Hong Kong	124	*10*	10	–	1.0
Luxembourg	–	–	–	–	0.5
Norway	5	–	–	–	1.5
Others	122,673	*4,917*	4,917	3.5	–
Total at 30 Jun 2022	3,404,460	*141,852*	141,852	100.0	

Table 6: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (EU CCyB1) ('continued')

	Group				
	General credit exposures	Own funds requirement			
	Exposure value for SA^	*of which: general credit exposures*	Total	Own funds requirement weights	Counter-cyclical capital buffer rate
	€000	*€000*	€000	%	%
Malta	3,281,352	*137,439*	137,439	92.5	—
Bulgaria	197	*16*	16	—	1.0
Czech Republic	26	*2*	2	—	0.5
Hong Kong	6	—	—	—	1.0
Luxembourg	5	*1*	1	—	0.5
Norway	—	—	—	—	0.5
Others	281,475	*11,177*	11,177	7.5	—
Total at 31 Dec 2021	3,563,061	*148,635*	148,635	100.0	

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

Table 7: Amount of institution-specific countercyclical capital buffer (EU CCyB2)

	Group^	
	30 Jun 2022	31 Dec 2021
	€000	€000
Total risk exposure amount	**2,297,339**	2,243,665
Institution specific countercyclical buffer rate (%)	**—**	—
Institution specific countercyclical buffer requirement	**2**	3

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

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

Table EU OV1 is presented in accordance with Article 438 (c) to (f) of the CRR, and shows a breakdown by exposure class of the total RWEAs as well as the capital that is required for credit, market and operational risks. The figures in the below table have been prepared on an IFRS9 transitional basis.

Table 8: Overview of RWEAs ('OV1')

		Risk-weighted assets	Risk-weighted assets	Risk-weighted assets	**Minimum capital requirements^**	Minimum capital requirements^
		30 Jun 2022	31 Mar 2022	31 Dec 2021	**30 Jun 2022**	31 Mar 2022
		€000	€000	€000	**€000**	€000
1	Credit risk (excluding CCR)	**2,034,183**	1,985,583	**2,001,551**	**162,735**	158,847
2	– *of which: the standardised approach*	***2,034,183***	*1,985,583*	***2,001,551***	***162,735***	*158,847*
6	Counterparty Credit Risk – CCR	**34,379**	27,232	**14,136**	**2,750**	2,179
7	– *of which: standardised approach*	***24,683***	*24,419*	***12,667***	***1,974***	*1,954*
EU 8b	– *of which:* credit valuation adjustment (CVA)	***9,696***	*2,813*	***1,469***	***776***	*225*
20	Position, foreign exchange and commodities risks (Market risk)	**1,051**	819	**252**	**84**	66
21	– *of which: the standardised approach*	***1,051***	*819*	***252***	***84***	*66*
23	Operational risk	**227,726**	227,726	**227,726**	**18,218**	18,218
EU 23b	– *of which: standardised approach*	***227,726***	*227,726*	***227,726***	***18,218***	*18,218*
24	Amounts below the thresholds for deduction (subject to 250% risk weight)[1]	**95,936**	72,798	**72,796**	**7,675**	7,674
29	**Total**	**2,297,339**	2,241,360	**2,243,665**	**183,787**	179,309

^ *'Minimum capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWEAs by article 92 of the Capital Requirements Regulation.*

1 *Amounts are presented for information only and excluded from the Total.*

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. The leverage ratio has become a binding Pillar 1 own-funds requirement since June 2021. The risk of excess leverage is managed as part of HSBC Bank Malta p.l.c.'s risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC Bank Malta p.l.c. is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

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

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

Table 9: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1 LRSum)

		At	
		30 Jun	31 Dec
		2022	2021
Ref*		**€000**	€000
1	Total assets as per published financial statements	**7,454,057**	7,174,805
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential	**(749,949)**	(863,841)
8	Adjustment for derivative financial instruments	**30,103**	15,142
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**224,686**	222,170
12	Other adjustments	**(32,969)**	(20,241)
13	**Total exposure measure**	**6,925,928**	6,528,035

* *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 10: Leverage ratio common disclosure (EU LR2 LRCom)

		At	
		30 Jun	31 Dec
		2022	2021
Ref*		**€000**	€000
	On balance sheet exposures (excluding derivatives)		
1	On balance sheet items (excluding derivatives)	**6,695,076**	6,320,582
6	(Asset amounts deducted in determining Tier 1 capital)	**(43,025)**	(34,499)
7	**Total on-balance sheet exposures (excluding derivatives)**	**6,652,051**	6,286,083
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**26,640**	7,231
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**22,551**	12,551
13	**Total derivative exposures**	**49,191**	19,782
	Other off-balance sheet exposures		
19	Off balance sheet exposures at gross notional amount	**1,105,601**	1,104,643
20	(Adjustments for conversion to credit equivalent amounts)	**(880,915)**	(882,473)
22	**Off-balance sheet exposures**	**224,686**	222,170
	Capital and total exposures		
23	**Tier 1 capital**	**375,075**	412,424
24	**Total exposure measure**	**6,925,928**	6,528,035
	Leverage ratios		
25	Leverage ratio (%) – transitional	**5.4**	6.3
26	Regulatory minimum leverage ratio requirement (%)	**3.0**	3.0

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

Table 11: Leverage ratio – Split of on balance sheet exposures (excluding derivatives and exempted exposures) (EU LR3 LRSpl)

		At	
		30 Jun	31 Dec
		2022	2021
Ref*		**€000**	€000
EU-1	**Total on-balance sheet exposures (excluding derivatives and exempted exposures)**	**6,695,076**	6,320,582
EU-3	Banking book exposures of which:	**6,695,076**	6,320,582
EU-5	exposures treated as sovereigns	**2,284,383**	2,034,590
EU-6	exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**428,798**	464,593
EU-7	institutions	**688,801**	342,958
EU-8	secured by mortgages of immovable properties	**2,172,288**	2,180,171
EU-9	retail exposures	**335,912**	286,784
EU-10	corporate	**521,426**	726,314
EU-11	exposures in default	**123,790**	145,851
EU-12	other exposures (e.g. equity and other non-credit obligation assets)	**139,678**	139,321

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

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, through the holdings of debt securities, but also from off-balance sheet products such as guarantees. Credit risk represents our largest regulatory capital requirement.

The principal objectives of our credit risk functions are:-

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

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

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

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

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

Credit risk management

Credit risk

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

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

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

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

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

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

Credit quality of exposures by exposures class and instruments

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

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

- Stage 1: 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; and
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.

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

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

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

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

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

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

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

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

Table 12: Performing and non-performing exposures and related provisions (EU CR1)

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*
	At 30 Jun 2022						
005	**Cash balances at central banks and other demand deposits**	1,955,669	*1,955,669*	–	–	–	–
010	**Loans and advances**	3,402,955	*3,167,256*	*235,699*	143,274	–	*143,274*
020	Central banks	–	–	–	–	–	–
030	General governments	148,771	*148,771*	–	–	–	–
040	Credit institutions	298,031	*298,031*	–	–	–	–
050	Other financial corporations	104,090	*30,829*	*73,261*	4,525	–	*4,525*
060	Non-financial corporations	642,186	*536,935*	*105,251*	62,363	–	*62,363*
070	– *of which: SMEs*	*383,075*	316,856	66,219	*61,450*	–	61,450
080	Households	2,209,877	*2,152,690*	*57,187*	76,386	–	*76,386*
090	**Debt securities**	1,054,174	*1,054,174*	–	–	–	–
110	General governments	947,574	*947,574*	–	–	–	–
120	Credit institutions	106,600	*106,600*	–	–	–	–
150	**Off-balance-sheet exposures**	1,104,287	*1,008,681*	*95,606*	10,467	–	*10,467*
170	General governments	97,620	*97,620*	–	–	–	–
180	Credit institutions	18,933	*18,933*	–	–	–	–
190	Other financial corporations	65,397	*44,809*	*20,588*	2,007	–	*2,007*
200	Non-financial corporations	502,083	*441,064*	*61,019*	8,078	–	*8,078*
210	Households	420,254	*406,255*	*13,999*	382	–	*382*
220	**Total**	7,517,085	*7,185,780*	*331,305*	153,741	–	*153,741*

Table 12: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		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			Accu-mulated partial write-off	On performing exposures	On non-performing exposures
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*			
		€000	€000	€000	€000	€000	€000	€000	€000	€000
	At 30 Jun 2022									
005	**Cash balances at central banks and other demand deposits**	(14)	(14)	—	—	—	—	—	—	—
010	**Loans and advances**	(29,909)	(13,680)	(16,229)	(33,237)	—	(33,237)	(4,020)	2,718,258	81,676
020	Central banks	—	—	—	—	—	—	—	—	—
030	General governments	(15)	(15)	—	—	—	—	—	148,755	—
040	Credit institutions	—	—	—	—	—	—	—	—	—
050	Other financial corporations	(3,371)	(297)	(3,074)	(680)	—	(680)	—	67,582	454
060	Non-financial corporations	(10,727)	(2,796)	(7,931)	(24,479)	—	(24,479)	(4,020)	390,929	13,404
070	– *of which: SMEs*	(7,913)	(1,867)	(6,046)	(23,558)	—	(23,558)	(4,020)	190,986	13,404
080	Households	(15,796)	(10,572)	(5,224)	(8,078)	—	(8,078)	—	2,110,992	67,818
090	**Debt securities**	(40)	(40)	—	—	—	—	—	—	—
110	General governments	(38)	(38)	—	—	—	—	—		
120	Credit institutions	(2)	(2)	—	—	—	—	—		
150	**Off-balance-sheet exposures**	(934)	(682)	(252)	(1,078)	—	(1,078)			
170	General governments	(3)	(3)	—	—	—	—			
180	Credit institutions	—	—	—	—	—	—			
190	Other financial corporations	(114)	(91)	(23)	—	—	—			
200	Non-financial corporations	(731)	(504)	(227)	(1,078)	—	(1,078)			
210	Households	(86)	(84)	(2)	—	—	—			
220	**Total**	(30,897)	(14,416)	(16,481)	(34,315)	—	(34,315)	(4,020)	2,718,258	81,676

Table 12: Performing and non-performing exposures and related provisions (EU CR1)

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*
		€000	€000	€000	€000	€000	€000
	At 31 Dec 2021						
005	Cash balances at central banks and other demand	1,482,449	1,482,449	—	—	—	—
010	Loans and advances	3,463,718	3,208,159	255,559	168,411	—	168,411
020	Central banks	41,486	41,486	—	—	—	—
030	General governments	151,226	151,226	—	—	—	—
040	Credit institutions	335,044	335,044	—	—	—	—
050	Other financial corporations	121,534	38,629	82,905	4,471	—	4,471
060	Non-financial corporations	623,866	498,037	125,829	75,086	—	75,086
070	– *of which: SMEs*	339,589	261,690	77,899	74,247	—	74,247
080	Households	2,190,562	2,143,737	46,825	88,854	—	88,854
010	Debt securities	1,073,872	1,073,872	—	—	—	—
110	General governments	952,434	952,434	—	—	—	—
120	Credit institutions	121,438	121,438	—	—	—	—
150	Off-balance-sheet exposures	1,096,893	987,901	108,992	11,205	—	11,205
170	General governments	105,528	105,528	—	—	—	—
180	Credit institutions	15,967	15,967	—	—	—	—
190	Other financial corporations	56,324	29,647	26,677	—	—	—
200	Non-financial corporations	511,378	437,242	74,136	11,096	—	11,096
210	Households	407,696	399,517	8,179	109	—	109
220	Total	7,116,932	6,752,381	364,551	179,616	—	179,616

Table 12: Performing and non-performing exposures and related provisions (EU CR1) (continued)

		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
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*			
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000
	At 31 Dec 2021									
005	Cash balances at central banks and other demand deposits	(10)	*(10)*	—	—	—	—	—	—	—
010	Loans and advances	(30,355)	*(14,740)*	*(15,615)*	(27,677)	—	*(27,677)*	(10,620)	2,711,128	101,612
020	Central banks	—	—	—	—	—	—	—	—	—
030	General governments	(29)	*(29)*	—	—	—	—	—	151,195	—
040	Credit institutions	—	—	—	—	—	—	—	—	—
050	Other financial corporations	(3,444)	*(344)*	*(3,100)*	(286)	—	*(286)*	—	67,976	382
060	Non-financial corporations	(10,655)	*(2,473)*	*(8,182)*	(19,245)	—	*(19,245)*	(10,620)	402,019	21,066
070	*– of which: SMEs*	*(8,037)*	(1,741)	(6,296)	*(18,404)*	—	(18,404)	*(10,620)*	*181,654*	*21,066*
080	Households	(16,227)	*(11,894)*	*(4,333)*	(8,146)	—	*(8,146)*	—	2,089,938	80,164
090	Debt securities	(76)	*(76)*	—	—	—	—	—	—	—
110	General governments	(75)	*(75)*	—	—	—	—	—	—	—
120	Credit institutions	(1)	*(1)*	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	(1,135)	*(642)*	*(493)*	(635)	—	*(635)*			
170	General governments	(7)	*(7)*	—	—	—	—			
180	Credit institutions	—	—	—	—	—	—			
190	Other financial corporations	(95)	*(55)*	*(40)*	—	—	—			
200	Non-financial corporations	(988)	*(535)*	*(453)*	(635)	—	*(635)*			
210	Households	(45)	*(45)*	—	—	—	—			
220	Total	(31,576)	*(15,468)*	*(16,108)*	(28,312)	—	*(28,312)*	(10,620)	2,711,128	101,612

1 As shown in the above table EU CR1 during the current financial period ended 30 June 22 the Bank refined the disclosure reported under accumulated impairment, negative changes in fair value due to credit risk and provisions for the non-performing exposures which resulted in the incorporation of allowance for expected credit losses in respect of accrued interest receivable for the period ended 30 June 2022 which amounted to €9,340,000. The reported amounts at 31 December 2021 which amounted to €9,688,000 have not been restated.

Impaired loans and advances

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

Impaired loans and advances also include renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a financial concession which the bank would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Impaired loans and advances can also arise from when a non-financial concession is granted, which may trigger an Unlikely to Pay ('UTP') assessment, the outcome of which may result in the exposure being re-classified as CRR9. The table below analyses the change in stock of specific credit risk adjustment for the interim reporting period 30 June 2022.

Table 13: Changes in the stock of non-performing loans and advances (EU CR2)

		At 30 Jun 2022	At 31 Dec 2021
		Gross carrying amount	Gross carrying amount
		€000	€000
010	Initial stock of non-performing loans and advances	**168,411**	130,996
020	Inflows to non-performing portfolios	**9,393**	67,802
030	Outflows from non-performing portfolios	**(34,530)**	(30,387)
	– of which:		
040	*due to write-offs*	***(1,561)***	*(1,900)*
050	*due to other situations*	***(32,969)***	*(28,487)*
060	Final stock of non-performing loans and advances	**143,274**	168,411

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 14: 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	*of which: secured by financial guarantees*
		€000	€000	*€000*	*€000*
1	Loans[1]	**2,701,964**	**2,799,934**	***2,556,441***	***243,493***
2	Debt securities	**1,054,174**	**—**	**—**	**—**
3	**Total at 30 Jun 2022**	**3,756,138**	**2,799,934**	***2,556,441***	***243,493***
4	*– of which: non-performing exposures*	***61,598***	***81,676***	**81,676**	**—**
5	*– of which: defaulted*	***61,598***	***81,676***	**81,676**	**—**
1	Loans[1]	2,301,838	2,812,740	*2,530,729*	*282,011*
2	Debt securities	1,073,872	—	—	—
3	Total at 31 Dec 2021	3,375,710	2,812,740	*2,530,729*	*282,011*
4	*– of which: non-performing exposures*	*66,799*	*101,612*	101,612	—
5	*– of which: defaulted*	*66,799*	*101,612*	101,612	—

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

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

Table 15: 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 classes[1]						
1	Central governments or central banks	**2,284,383**	**—**	**2,552,760**	**49,886**	**95,936**	**3.7**
3	Public sector entities	**321,832**	**97,668**	**172,995**	**30**	**—**	**—**
4	Multilateral development banks	**106,966**	**—**	**106,966**	**—**	**—**	**—**
6	Institutions	**688,801**	**17,083**	**688,801**	**12,770**	**189,787**	**27.1**
7	Corporates	**521,426**	**546,846**	**388,414**	**69,842**	**390,978**	**85.3**
8	Retail	**335,912**	**423,147**	**333,902**	**3,860**	**253,131**	**74.9**
9	Secured by mortgages on immovable property	**2,172,288**	**—**	**2,172,288**	**—**	**794,666**	**36.6**
10	Exposures in default	**123,790**	**10,252**	**123,031**	**244**	**147,331**	**119.5**
11	Exposures associated with particularly high risk	**11,281**	**9,040**	**10,946**	**4,210**	**22,735**	**150.0**
15	Equity	**83**	**—**	**83**	**—**	**83**	**100.0**
16	Other items	**128,314**	**—**	**128,314**	**—**	**139,536**	**108.7**
17	**Total at 30 Jun 2022**	**6,695,076**	**1,104,036**	**6,678,500**	**140,842**	**2,034,183**	**29.8**
	Asset classes[1]						
1	Central governments or central banks	2,034,590	—	2,318,632	47,868	81,095	3.4
3	Public sector entities	342,997	105,520	191,687	31	—	—
4	Multilateral development banks	121,596	—	121,596	—	—	—
6	Institutions	342,958	14,410	342,958	9,444	75,190	21.3
7	Corporates	726,314	585,028	579,556	74,884	500,672	76.5
8	Retail	286,784	378,492	284,703	3,254	215,928	75.0
9	Secured by mortgages on immovable property	2,180,171	—	2,180,171	—	795,092	36.5
10	Exposures in default	145,851	13,917	144,935	1,254	171,352	117.2
11	Exposures associated with particularly high risk	13,674	5,860	13,437	2,597	24,051	150.0
15	Equity	81	—	81	—	81	100.0
16	Other items	125,566	—	125,566	—	138,090	110.0
17	Total at 31 Dec 2021	6,320,582	1,103,227	6,303,322	139,332	2,001,551	31.1

^ Figures have been prepared on an IFRS9 transitional basis.
1 Derivative exposures are not included in the above table.

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 16: Credit quality of forborne exposures (EU CQ1)

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	*of which: defaulted*	*of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*of which: forborne non-performing exposures*
		€000	€000	€000	€000	€000	€000	€000	€000
010	**Loans and advances**	**74,353**	**95,888**	***95,888***	***95,888***	**(7,549)**	**(25,725)**	**84,515**	***44,332***
050	Other financial corporations	**25,416**	**4,524**	***4,524***	***4,524***	**(787)**	**(680)**	**454**	***454***
060	Non-financial corporations	**25,256**	**53,805**	***53,805***	***53,805***	**(4,039)**	**(20,078)**	**30,762**	***11,496***
070	Households	**23,681**	**37,559**	***37,559***	***37,559***	**(2,723)**	**(4,967)**	**53,299**	***32,382***
100	**Total at 30 Jun 2022**	**74,353**	**95,888**	***95,888***	***95,888***	**(7,549)**	**(25,725)**	**84,515**	***44,332***
010	Loans and advances	68,861	115,032	*115,032*	*115,032*	(6,518)	(20,541)	80,815	*60,337*
050	Other financial corporations	26,155	4,459	*4,459*	*4,459*	(1,194)	(279)	410	*378*
060	Non-financial corporations	27,094	63,526	*63,526*	*63,526*	(4,143)	(15,583)	23,902	*17,888*
070	Households	15,612	47,047	*47,047*	*47,047*	(1,181)	(4,679)	56,503	*42,071*
100	Total at 31 Dec 2021	68,861	115,032	*115,032*	*115,032*	(6,518)	(20,541)	80,815	*60,337*

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 2022 was 4.04% (31 December 2021: 4.64%) 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	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**	**1,955,669**	**1,955,669**	–	–	–	–	–	–	–	–	–	–
010	**Loans and advances**	**3,402,955**	**3,395,935**	**7,020**	**143,274**	**96,395**	**8,256**	**5,262**	**2,947**	**18,160**	**6,113**	**6,141**	***143,274***
020	Central banks	–	–	–	–	–	–	–	–	–	–	–	–
030	General governments	**148,771**	**148,771**	–	–	–	–	–	–	–	–	–	–
040	Credit institutions	**298,031**	**298,031**	–	–	–	–	–	–	–	–	–	–
050	Other financial corporations	**104,090**	**104,090**	–	**4,525**	**4,470**	–	–	–	–	–	**55**	***4,525***
060	Non-financial corporations	**642,186**	**641,962**	**224**	**62,363**	**42,600**	**1,562**	**421**	**78**	**12,661**	**3,497**	**1,544**	***62,363***
070	– *of which: SMEs*	***383,075***	***382,851***	***224***	***61,450***	***42,600***	***1,562***	***421***	***78***	***12,661***	***3,497***	***631***	**61,450**
080	Households	**2,209,877**	**2,203,081**	**6,796**	**76,386**	**49,325**	**6,694**	**4,841**	**2,869**	**5,499**	**2,616**	**4,542**	***76,386***
090	**Debt securities**	**1,054,174**	**1,054,174**	–	–	–	–	–	–	–	–	–	–
110	General governments	**947,574**	**947,574**	–	–	–	–	–	–	–	–	–	–
120	Credit institutions	**106,600**	**106,600**	–	–	–	–	–	–	–	–	–	–
150	**Off-balance-sheet exposures**	**1,104,287**			**10,467**								***10,467***
170	General governments	**97,620**			–								–
180	Credit institutions	**18,933**			–								–
190	Other financial corporations	**65,397**			**2,007**								***2,007***
200	Non-financial corporations	**502,083**			**8,078**								***8,078***
210	Households	**420,254**			**382**								***382***
220	**Total at 30 Jun 2022**	**7,517,085**	**6,405,778**	**7,020**	**153,741**	**96,395**	**8,256**	**5,262**	**2,947**	**18,160**	**6,113**	**6,141**	***153,741***

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	1,482,449	1,482,449	—	—	—	—	—	—	—	—	—	—
010	Loans and advances	3,463,718	3,454,499	9,219	168,411	89,480	15,763	26,195	5,239	17,692	6,776	7,266	*168,411*
020	Central banks	41,486	41,486	—	—	—	—	—	—	—	—	—	—
030	General governments	151,226	151,226	—	—	—	—	—	—	—	—	—	—
040	Credit institutions	335,044	335,044	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	121,534	121,534	—	4,471	719	—	3,693	—	—	—	59	*4,471*
060	Non-financial corporations	623,866	620,983	2,883	75,086	28,985	8,583	19,484	124	12,788	3,614	1,508	*75,086*
070	*– of which: SMEs*	*339,589*	*336,706*	*2,883*	*74,247*	*28,985*	*8,583*	*19,484*	*124*	*12,788*	*3,613*	*670*	74,247
080	Households	2,190,562	2,184,226	6,336	88,854	59,776	7,180	3,018	5,115	4,904	3,162	5,699	*88,854*
090	Debt securities	1,073,872	1,073,872	—	—	—	—	—	—	—	—	—	—
110	General governments	952,434	952,434	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	121,438	121,438	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	1,096,893			11,205								*11,205*
170	General governments	105,528			—								—
180	Credit institutions	15,967			—								—
190	Other financial corporations	56,324			—								—
200	Non-financial corporations	511,378			11,096								*11,096*
210	Households	407,696			109								*109*
220	Total at 31 Dec 2021	7,116,932	6,010,820	9,219	179,616	89,480	15,763	26,195	5,239	17,692	6,776	7,266	*179,616*

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

		At 30 Jun 2022		At 31 Dec 2021	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
		€000	**€000**	€000	€000
020	**Other than PP&E**	**3,441**	**(52)**	4,128	(252)
030	Residential immovable property	**1,383**	**(34)**	1,383	(34)
040	Commercial Immovable property	**2,036**	**(8)**	2,723	(208)
070	Other	**22**	**(10)**	22	(10)
080	**Total**	**3,441**	**(52)**	4,128	(252)

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

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. As at 30 June 2022 and 31 December 2021, there were no outstanding gross loans and advances subject to general payment moratoria.

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

			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		*of which: legislative moratoria*	*of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
	At 30 Jun 2022		€000	*€000*	*€000*	€000	€000	€000	€000	€000
1	Loans and advances for which moratorium was offered	**1,862**	**357,226**							
2	Loans and advances subject to moratorium (granted)	**1,595**	**344,990**	***344,990***	***344,990***	—	—	—	—	—
3	– *of which: Households*		***202,709***	**202,709**	**202,709**	—	—	—	—	—
4	– *of which: Collateralised by residential immovable property*		***200,732***	**200,732**	**200,732**	—	—	—	—	—
5	– *of which: Non-financial corporations*		***91,956***	**91,956**	**91,956**	—	—	—	—	—
6	– *of which: Small and Medium-sized Enterprises*		***44,064***	**44,064**	**44,064**	—	—	—	—	—
7	– *of which: Collateralised by commercial immovable property*		***54,969***	**54,969**	**54,969**	—	—	—	—	—
	At 31 Dec 2021									
1	Loans and advances for which moratorium was offered	1,983	387,590							
2	Loans and advances subject to moratorium (granted)	1,678	374,391	*374,391*	*374,391*	—	—	—	—	—
3	– *of which: Households*		*214,189*	214,189	214,189	—	—	—	—	—
4	– *of which: Collateralised by residential immovable property*		*211,689*	211,689	211,689	—	—	—	—	—
5	– *of which: Non-financial corporations*		*106,792*	106,792	106,792	—	—	—	—	—
6	– *of which: Small and Medium-sized Enterprises*		*52,113*	52,113	52,113	—	—	—	—	—
7	– *of which: Collateralised by commercial immovable property*		*45,415*	45,415	45,415	—	—	—	—	—

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 2022.

Table 20: 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
			of which: forborne	Public guarantees received	
	At 30 Jun 2022	€000	*€000*	€000	€000
1	Newly originated loans and advances subject to public guarantee schemes	**33,409**	***5,032***	**30,068**	**504**
4	– *of which: Non-financial corporations*	***30,182***	**5,032**	***27,164***	***504***
5	– *of which: Small and Medium-sized Enterprises*	***15,393***			
6	– *of which: Collateralised by commercial immovable property*	***13,900***			
	At 31 Dec 2021				
1	Newly originated loans and advances subject to public guarantee schemes	37,760	*5,659*	33,984	15,830
4	– *of which: Non-financial corporations*	*33,974*	5,659	*30,577*	*15,830*
5	– *of which: Small and Medium-sized Enterprises*	*17,670*			
6	– *of which: Collateralised by commercial immovable property*	*15,076*			

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 Bank Malta p.l.c. applies the mark-to-market approach. Under the mark-to-market approach, the EAD is calculated as current exposure plus regulatory add-ons.

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

- Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') subfunction, within the Risk function, either at local level or 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 a derivative transaction where we follow the standardised approach.

Credit authority for CCR

HSBC Bank Malta p.l.c.'s WCR has a delegated approval authority for Corporates. Depending on the level of the credit limit, credit approval might require concurrence from HSBC Bank plc WCMR and Group WCMR if above HSBC Bank Malta p.l.c.'s 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 Bank Malta p.l.c.'s WMR may recommend the 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 HSBC Bank Malta p.l.c.'s Head of Global Markets ('GM'), subject to annual review and ongoing monitoring routines.

Table 21: Analysis of counterparty credit risk ('CCR') exposure by approach (EU CCR1)[1]

		Replacement cost	Potential future exposure	Alpha used for computing regulatory exposure value	Exposure value post-CRM	RWEA
		€000	€000	€000	€000	€000
1	SA-CCR (for derivatives)	**19,029**	**11,580**	**1.4**	**42,852**	**24,683**
6	**Total at 30 Jun 2022**	**19,029**	**11,580**	**1.4**	**42,852**	**24,683**
1	SA-CCR (for derivatives)	5,165	8,177	1.4	18,679	12,667
11	Total at 31 Dec 2021	5,165	8,177	1.4	18,679	12,667

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

Table 22: Transactions subject to own funds requirements for CVA risk (EU CCR2)

		At 30 Jun 2022	
		Exposure value	RWEA
		€000	€000
4	Transactions subject to the Standardised method	**35,847**	**9,696**
5	**Total transactions subject to own funds requirements for CVA risk**	**35,847**	**9,696**

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 the first six months of 2022.

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 23: Market risk under standardised approach (MR1)

		At 30 Jun 2022	At 31 Dec 2021
		RWEAs	RWEAs
		€000	€000
	Outright products		
3	Foreign exchange risk	**1,051**	252

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 24: Quantitative information of LCR (EU LIQ1)

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on 30 Jun 2022	**Jun'22**	Mar'22	Dec'21	Sep'21	**Jun'22**	Mar'22	Dec'21	Sep'21
		€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					**1,953,281**	1,715,521	1,518,839	1,496,819
Cash – Outflows									
2	Retail deposits and deposits from small business customers	**4,442,451**	4,382,486	4,335,213	4,291,950	**322,913**	316,653	310,967	304,946
3	*– of which: Stable deposits*	***3,100,972***	*3,080,091*	*3,073,643*	*3,075,721*	***155,049***	*154,005*	*153,682*	*153,786*
4	*– of which: Less stable deposits*	***1,341,479***	*1,302,395*	*1,261,570*	*1,216,229*	***167,864***	*162,648*	*157,285*	*151,160*
5	Unsecured wholesale funding	**1,193,135**	1,135,768	1,100,454	1,052,867	**560,161**	532,246	515,568	489,389
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	**433,124**	409,079	392,002	373,650	**103,228**	97,333	93,139	88,696
7	Non-operational deposits (all counterparties)	**760,011**	726,689	708,452	679,217	**456,933**	434,913	422,429	400,693
10	Additional requirements	**923,263**	939,245	965,000	987,772	**110,539**	116,499	118,089	119,486
11	Outflows related to derivative exposures and other collateral requirements	**13,813**	18,884	16,107	20,956	**13,813**	18,884	16,107	20,956
12	Outflows related to loss of funding on debt products	**—**	—	—	—	**—**	—	—	—
13	Credit and liquidity facilities	**909,450**	920,361	948,893	966,816	**96,726**	97,615	101,982	98,530
14	Other contractual funding obligations	**57,483**	62,615	62,367	57,436	**48,566**	54,544	55,406	50,913
15	Other contingent funding obligations	**202,537**	211,262	219,770	227,458	**10,127**	10,563	10,985	11,370
16	Total Cash Outflows					**1,052,305**	1,030,505	1,011,015	976,104
Cash – Inflows									
18	Inflows from fully performing exposures	**684,970**	588,045	732,751	588,045	**668,485**	571,352	715,032	571,352
19	Other cash inflows	**14,822**	22,423	17,397	22,423	**14,822**	22,423	17,397	22,423
20	Total Cash Inflows	**699,792**	610,468	750,148	610,468	**683,307**	593,775	732,429	593,775
EU-20c	Inflows subject to 75% cap	**5,114,152**	5,048,532	750,148	610,467	**789,230**	772,879	732,428	593,774
Total Adjusted Value									
EU-21	Liquidity Buffer					**1,953,281**	1,715,521	1,518,839	1,496,819
22	Total Net Cash Outflows					**440,319**	397,207	351,400	414,721
23	Liquidity Coverage Ratio (%)					**476.5**	473.8	471.3	414.3

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

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

The key functions supporting liquidity management are the following:

- Asset Liability and Capital Management which manages the balance 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.'s 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 euro assets.

HSBC Bank Malta p.l.c.'s liquidity reporting includes LCR, NSFR, AMM (maturity ladder, concentration of funding by counterparty, concentration of funding by product type, prices for various maturities, rollover of funding, concentration of counterbalancing capacity), and PRA110. HSBC Bank Malta p.l.c. has also an Internal Liquidity Metric, which is a 90-day dual stress liquidity reporting metric. The Internal Liquidity Metric provides improved analysis of the liquidity of the bank. The metric also includes details of the management actions possible under the baseline scenario and the recovery scenario. HSBC Bank Malta p.l.c. ensures adequacy through HSBC Group's liquidity and funding management framework which ensures that all foreseeable funding commitments and deposit withdrawals can be met when due or in case of stress. The HSBC Group framework requires operating entities to maintain strong liquidity positions in line with regulatory and internal requirements.

These requirements ensure the maintenance of:

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

HSBC Bank Malta p.l.c. has a strong liquidity surplus, however it has also set-up a contingency funding plan with documented procedures for:

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

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

- Calculation of the LCR, which is a thirty-day stress;
- Calculation of the Internal Liquidity Metric which is both a market wide and idiosyncratic ninety-day stress; and
- Internal Liquidity Adequacy Assessment ('ILAA') which uses a series of scenarios to assesses 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 8% of total customer deposits.

Table 25: Net Stable Funding Ratio (EU LIQ2)

		Unweighted value by residual maturity at 30 Jun 2022				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding ('ASF') Items		€000	€000	€000	€000	€000
1	Capital items and instruments				**488,556**	**488,556**
2	Own funds				**488,556**	**488,556**
4	Retail deposits		**4,582,499**			**4,246,975**
5	Stable deposits		**3,166,378**			**3,008,059**
6	Less stable deposits		**1,416,121**			**1,238,916**
7	Wholesale funding:		**1,505,825**	**19,410**	**60,000**	**634,668**
8	Operational deposits		**458,406**			**229,203**
9	Other wholesale funding		**1,047,419**	**19,410**	**60,000**	**405,465**
11	Other liabilities:		**31,355**			
13	All other liabilities and capital instruments not included in the above categories		**31,355**			
14	**Total available stable funding ('ASF')**					**5,370,199**
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					**20,023**
17	Performing loans and securities:		**799,970**	**180,797**	**2,976,235**	**2,461,169**
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		**598,024**	**20,744**	**150,000**	**220,174**
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		**79,697**	**70,410**	**976,307**	**2,240,789**
21	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk-*		***14,780***	***11,133***	***226,554***	***1,180,696***
22	Performing residential mortgages		**120,194**	**89,643**	**1,849,928**	
23	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***58,487***	***57,352***	***1,480,862***	
26	Other assets:		**166,400**		**34,344**	**129,960**
29	NSFR derivative assets		**5**			**5**
30	NSFR derivative liabilities before deduction of variation margin posted		**18,493**			**925**
31	All other assets not included in the above categories		**147,907**		**34,344**	**129,036**
32	Off-balance sheet items		**174,721**		**896,473**	**53,560**
33	**Total RSF**					**2,664,712**
34	**Net Stable Funding Ratio (%)**					**201.5**

Table 25: Net Stable Funding Ratio (EU LIQ2) (continued)

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

Interest rate risk in the banking book

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 26: Interest Rate Risk in the Banking Book (EU-IRRBB1)

		30 Jun 2022 €000	31 Dec 2021 €000	30 Jun 2022 €000	31 Dec 2021 €000
	Supervisory shock scenarios	Changes of the economic value of equity		Changes of the net interest income	
1	Parallel up	(18,149)	(29,698)	23,568	20,629
2	Parallel down	8,857	7,921	(23,387)	(19,217)
3	Steepener	(5,104)	(4,538)		
4	Flattener	7,225	9,083		
5	Short rates up	33	(1,127)		
6	Short rates down	8,175	7,391		

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