HSBC Bank Malta p.l.c.

Pillar 3 Disclosures at 31 December 2023

HSBC

Contents

Introduction

Regulatory framework for disclosures

HSBC Bank Malta p.l.c. is regulated on a consolidated basis by the European Central Bank ('ECB') which sets and monitors capital adequacy requirements.

Throughout 2023 HSBC Bank Malta p.l.c. calculated capital on a consolidated basis for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Regulation and Directive, collectively known as CRR/CRD.

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

Pillar 3 disclosures

Purpose

The information contained in this document is for HSBC Bank Malta p.l.c. It should be read in conjunction with HSBC Bank Malta p.l.c.'s *Annual Report and Accounts 2023.*

Basis of preparation

The financial information contained in these disclosures have been prepared on a consolidated basis.

In its disclosures, HSBC Bank Malta p.l.c. provides comparative figures to facilitate analysis. Key ratios and figures are reflected throughout the Pillar 3 2023 disclosures. Where disclosures have been enhanced or are new, prior-year comparatives are not generally restated or provided.

Information relating to the rationale for withholding certain disclosures is provided in Appendix I.

HSBC Bank Malta p.l.c. publishes these Pillar 3 disclosures on the HSBC websites, www.hsbc.com and www.hsbc.com.mt, concurrently with the release of its Annual Report and Accounts.

These Pillar 3 disclosures include regulatory information complementing the financial and risk information presented therein.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where HSBC Bank Malta p.l.c. adopts this approach, references are provided to the relevant pages of the *Annual Report and Accounts 2023* or other locations.

Governance arrangements are detailed in the report on Corporate governance on pages 54 to 61 of HSBC Bank Malta p.l.c.'s *Annual Report and Accounts 2023.*

HSBC Bank Malta p.l.c.'s Pillar 3 disclosures are governed by HSBC Bank Malta p.l.c.'s financial reporting and governance processes and this Pillar 3 Disclosures Report at 31 December 2023 was approved by HSBC Bank Malta p.l.c.'s Board of Directors on 21 February 2024 and signed on its behalf by:

Charlotte Cilia

Chief Financial Officer

Key regulatory developments

Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') finalised its Basel III Reforms in July 2020. The reforms make significant changes to the way firms calculate risk-weighted assets ('RWAs') across all risk types and include the implementation of an RWA floor for banks that use internal models to calculate RWAs. In Europe, after several rounds of negotiations between the co-legislators, near-final rules were published in December 2023. The final text is expected to be ratified during the course of 2024 and shall apply from 1 January 2025. It includes a transitional phase-in period of five years for the implementation of the output floor and a clause allowing the legislators to delay the application of the changes to market risk RWAs for up to two years.

In September 2023, the UK Prudential Regulation Authority confirmed its intention to delay the implementation of its rules by six months to July 2025. The new PRA rules will apply to HSBC Group at a consolidated level and may therefore affect HSBC Continental Europe and its subsidiaries indirectly which includes HSBC Bank Malta p.l.c.

Interest Rate Risk in the Banking Book ('IRRBB')

In 2022, the European Banking Authority ('EBA') published the Regulatory Technical Standards ('RTS') on the IRRBB Supervisory Outlier Test, which will be used to identify institutions that might be subject to excessive losses in their banking book due to interest rate movements. The RTS include a new definition of what constitutes a large decline of Net Interest Income ('NII') defined as NII one-year losses in excess of 5% of Tier 1 Capital. Following the publication of the RTS, the EBA published new Implementing Technical Standards on IRRBB supervisory reporting including the new indicators introduced by the RTS.

In December 2023, Basel issued a consultation on proposed adjustments to its IRRBB standard in which it proposed to make adjustments to the interest rate shocks. It also proposed methodology changes to address concerns with the calculation of the shocks when interest rates are close to zero. The consultation will close in March 2024.

Environmental, Social and Governance ('ESG') risk

Globally, regulators and standard setters continue to publish multiple proposals and discussion papers on ESG topics. In recent years, this included multiple consultations on sustainability-related disclosures across jurisdictions including the EU, and through the IFRS foundation and Basel.

The EU Corporate Sustainability Reporting Directive ('CSRD') entered into force in January 2023. CSRD broadens the scope of EU entities subject to threshold criteria and impacts non-EU headquartered entities with at least one subsidiary in scope of CSRD reporting. The European Sustainability Reporting Standards under the CSRD were enacted in December 2023 with an effective date of 1 January 2024. In December 2023, France became the first EU Member State to transpose the CSRD into French law with an effective date of 1 January 2024.

The EBA published a consultation in January 2024 on the management of ESG risks and set out guidelines for the identification, measurement, management and monitoring of such risks, including detailed plans aimed at addressing the risks arising from the transition towards a climate-neutral economy in the EU. The guidelines are due to be finalised by the end of 2024 and expected to apply from January 2025.

Table 1: Key metrics (KM1)

Ref*		At 31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
	Available capital (€000)+					
1	Common Equity Tier 1 ('CET1') capital^	**455,071**	385,203	398,071	403,866	410,150
1a	Fully loaded ECL accounting model CET1	**450,399**	381,027	394,105	400,147	400,871
2	Tier 1 capital^	**455,071**	385,203	398,071	403,866	410,150
2a	Fully loaded ECL accounting model Tier 1	**450,399**	381,027	394,105	400,147	400,871
3	Total capital^	**520,071**	447,203	460,071	465,866	472,150
3a	Fully loaded ECL accounting model total capital	**515,399**	443,027	456,105	462,147	462,871
	Risk-weighted exposure amounts ('RWEAs') (€000)					
4	Total risk-weighted exposure amount	**2,213,655**	2,156,713	2,236,599	2,257,439	2,220,525
	Total RWEAs as if IFRS 9 transitional arrangements had not been applied	**2,209,993**	2,153,158	2,233,101	2,254,544	2,212,934
	Capital ratios (%)					
5	Common Equity Tier 1 ratio (%)	**20.6**	17.9	17.8	17.9	18.5
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	**20.4**	17.7	17.6	17.7	18.1
6	Tier 1 ratio (%)	**20.6**	17.9	17.8	17.9	18.5
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**20.4**	17.7	17.6	17.7	18.1
7	Total capital ratio (%)	**23.5**	20.7	20.6	20.6	21.3
7a	Fully loaded ECL accounting model total capital ratio (%)	**23.3**	20.6	20.4	20.5	20.9
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	**2.3**	2.3	2.3	2.3	2.3
EU 7b	– *of which: to be made up of CET1 capital (percentage points)*	***1.3***	*1.3*	*1.3*	*1.3*	*1.3*
EU 7c	– *of which: to be made up of Tier 1 capital (percentage points)*	***1.7***	*1.7*	*1.7*	*1.7*	*1.7*
EU 7d	Total SREP own funds requirements (%)	**10.3**	10.3	10.3	10.3	10.3
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**—**	—	—	—	—
9	Institution specific countercyclical capital buffer (%)	**—**	—	—	—	—
EU 9a	Systemic risk buffer (%)$	**0.4**	0.4	—	—	—
10	Global Systemically Important Institution buffer (%)	**—**	—	—	—	—
EU 10a	Other Systemically Important Institution buffer (%)£	**1.3**	1.3	1.3	1.3	1.5
11	Combined buffer requirement (%)	**4.2**	4.2	3.8	3.8	4.0
EU 11a	Overall capital requirements (%)	**14.4**	14.4	14.0	14.0	14.3
12	CET1 available after meeting the total SREP own funds requirements (%)	**12.9**	10.2	10.1	10.2	10.8
	Leverage ratio					
13	Total exposure measure	**7,149,295**	6,805,618	6,911,555	6,881,711	6,895,112
14	Leverage ratio (%)^	**6.4**	5.7	5.8	5.9	5.9
14a	Fully loaded ECL accounting model leverage ratio (%)	**6.3**	5.6	5.7	5.8	5.8
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	**—**	—	—	—	—
EU 14b	– *of which: to be made up of CET1 capital (percentage points)*	**—**	—	—	—	—
EU 14c	Total SREP leverage ratio requirements (%)	**3.0**	3.0	3.0	3.0	3.0
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	**—**	—	—	—	—
EU 14e	Overall leverage ratio requirement (%)	**3.0**	3.0	3.0	3.0	3.0
	Liquidity Coverage Ratio ('LCR')[1]					
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**2,624,665**	2,561,077	2,533,116	2,429,309	2,412,674
EU 16a	Cash outflows – Total weighted value	**1,111,300**	1,122,084	1,139,095	1,145,205	1,135,477
EU 16b	Cash inflows – Total weighted value	**590,891**	540,668	572,840	598,845	585,685
16	Total net cash outflows (adjusted value)	**520,409**	581,416	566,255	546,359	589,490
	LCR ratio (%)[2]	**504.4**	440.5	447.3	444.6	420.3
	Net Stable Funding Ratio[1]					
18	Total available stable funding	**5,599,552**	5,380,974	5,365,372	5,429,043	5,416,247
19	Total required stable funding	**2,517,240**	2,501,360	2,611,599	2,625,503	2,599,764
20	NSFR ratio (%)	**222.5**	215.1	205.4	206.8	208.3

* *The references in this, and subsequent tables, identify the lines prescribed in the relevant European Banking Authority ('EBA') template where applicable and where there is a value.*

\+ *Capital figures and ratios are reported using the CRR2 transitional basis for capital instruments.*

$ *The sectoral systemic risk buffer was introduced by the Central Bank of Malta with effect from end September 2023, as communicated in "Statement of Decision on the Implementation of a Sectoral Systemic Risk Buffer on RRE Domestic Mortgages in Malta" in March 2023.*

£ *The Other Systematically Important Institution buffer was reduced to 1.25% in 2023 in line with the parent company HBCE.*

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

1 *In line with CRR requirements LCR is disclosed as an average over 12 months whereas NSFR is disclosed as at reporting date.*

2 *LCR ratio figures for June 2023 and March 2023 are being restated in accordance with current period reporting.*

Total capital improved by 10.1% driven by increased profits and higher revaluation reserves on our Hold-to-Collect investment portfolio partly offset by higher capital deductions for non-performing loans as we continue to gradually implement the capital requirements. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The LCR ratio increased by 84.1% driven by an increase in High Quality Liquid Assets and a decrease in Net Cash outflows. The LCR remains in excess of both the regulatory minimum and the risk appetite thresholds set by the bank.

Table 2: Net value of exposures

	Group					
	At 31 Dec			At 31 Dec		
	2023			2022		
	Net value of exposure^	**Risk-weighted assets^**	**Capital Required^**	Net value of exposure^	Risk-weighted assets^	Capital Required^
	€000	**€000**	**€000**	€000	€000	€000
Central governments or central banks	**2,271,522**	**76,558**	**6,124**	2,143,439	87,734	7,019
Public sector entities	**522,138**	**—**	**—**	456,191	—	—
Multilateral development banks	**125,571**	**—**	**—**	166,509	—	—
International Organisations	**306,865**	**—**	**—**	72,119	—	—
Institutions	**756,089**	**181,752**	**14,540**	721,606	182,546	14,603
Corporates	**1,107,912**	**413,871**	**33,110**	1,054,165	394,225	31,538
Retail exposures	**617,019**	**254,996**	**20,400**	732,468	274,497	21,960
Secured by mortgages on immovable property	**2,066,160**	**744,101**	**59,528**	2,120,661	767,578	61,406
Exposures in default	**87,699**	**99,589**	**7,967**	112,719	125,268	10,021
Items associated with particularly high risk	**16,926**	**17,071**	**1,366**	16,252	16,515	1,321
Equity exposures	**89**	**89**	**7**	83	83	7
Other exposures	**144,996**	**147,539**	**11,803**	137,331	142,433	11,395
Credit risk	**8,022,986**	**1,935,566**	**154,845**	7,733,543	1,990,879	159,270
Operational risk		**276,399**	**22,112**		225,956	18,076
Foreign exchange risk		**194**	**16**		765	61
Credit Valuation Adjustment Risk		**1,496**	**120**		2,925	234
Total		**2,213,655**	**177,093**		2,220,525	177,641
Own funds						
Common Equity Tier 1			**455,071**			410,150
Tier 2			**65,000**			62,000
Total own funds			**520,071**			472,150
Total capital ratio %			**23.5**			21.3

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

The following material movements are observed when comparing current reporting with December 2022:

- Exposures in default decreased by 22.2% as a result of the bank's continued efforts to recover its portfolio of NPEs, to improve asset quality by pro-actively being closer to its customers to detect and mitigate deteriorating trends in its customers' trading performance at an early stage, and due to a stable local economic environment which improved the performance of its customers. The decreases in retail non-performing loans were mainly driven by mortgage upgrades.
- Exposures with International Organisations increased by 325.5%, mainly driven by investments in International Organisations debt instruments.

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.

Table OV1 which is presented in accordance with Article 438 (c) to (f) of the CRR provides an overview of the total RWA as well as the capital requirements for credit risk, including capital for operational risk, foreign exchange risk, and credit valuation adjustment risk, which are segregated into the various exposure classes and are derived from the RWA using a capital ratio of 8%.

Table 3: Overview of RWAs (OV1)[1]

		At				
		31 Dec 2023	30 Sep 2023	31 Dec 2022	**31 Dec 2023**	30 Sep 2023
		Risk-weighted assets^	Risk-weighted assets	Risk-weighted assets	**Minimum capital requirements^**	Minimum capital requirements
		€000	€000	€000	**€000**	€000
1	Credit risk (excluding CCR)	**1,920,688**	1,904,437	1,970,625	**153,655**	152,355
2	– *of which: the standardised approach*	***1,920,688***	*1,904,437*	*1,970,625*	***153,655***	*152,355*
3	– *of which: the Foundation IRB (F-IRB) approach*	—	—	—	—	—
4	– *of which: slotting approach*	—	—	—	—	—
EU 4a	– *of which: equities under the simple risk weighted approach*	—	—	—	—	—
5	– *of which: the Advanced IRB (A-IRB) approach*	—	—	—	—	—
6	Counterparty credit risk – CCR	**16,374**	26,127	23,179	**1,310**	2,090
7	– *of which: the standardised approach*	***14,878***	*22,725*	*20,254*	***1,190***	*1,818*
8	– *of which: internal model method (IMM)*	—	—	—		
EU 8a	– *of which: exposures to a CCP*	—	—	—		
EU 8b	– *of which: credit valuation adjustment – CVA*	***1,496***	*3,402*	*2,925*	***120***	*272*
9	– *of which: other CCR*	—	—	—	—	—
10	Not applicable					
11	Not applicable					
12	Not applicable					
13	Not applicable					
14	Not applicable					
15	Settlement risk	—	—	—	—	—
16	Securitisation exposures in the non-trading book (after the cap)	—	—	—	—	—
17	– *of which: SEC-IRBA approach*	—	—	—	—	—
18	– *of which: SEC-ERBA (including IAA)*	—	—	—	—	—
19	– *of which: SEC-SA approach*	—	—	—	—	—
EU 19a	– *of which: 1250%/deduction*	—	—	—	—	—
20	Position, foreign exchange and commodities risks (Market risk)	**194**	193	765	**16**	15
21	– *of which: the standardised approach*	***194***	*193*	*765*	***16***	*15*
22	– *of which: IMA*	—	—	—	—	—
EU 22a	Large exposures	—	—	—	—	—
23	Operational risk	**276,399**	225,956	225,956	**22,112**	18,076
EU 23a	– *of which: basic indicator approach*	—	—	—	—	—
EU 23b	– *of which: standardised approach*	***276,399***	*225,956*	*225,956*	***22,112***	*18,076*
EU 23c	– *of which: advanced measurement approach*	—	—	—	—	—
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)[2]**	**76,558**	78,640	88,073	**6,125**	6,291
25	Not applicable	—	—		—	—
26	Not applicable	—	—		—	—
27	Not applicable	—	—		—	—
28	Not applicable	—	—		—	—
29	**Total**	**2,213,655**	2,156,713	2,220,525	**177,093**	172,536

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *'Capital requirements' here and in all tables where the term is used, represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
2 *Amounts are presented for information only and excluded from the Total.*

Linkage to the Annual Report and Accounts 2023

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs described in Note 2 on the Annual Report and Accounts differs from that used for regulatory purposes.

The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities, and post-acquisition reserves, leaving the investment of the insurance subsidiaries to be recorded at cost and deducted from CET1 capital (subject to thresholds).

Table 4: – 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	1,676,639	—	1,676,639
Items in course of collection from other banks	8,427	—	8,427
Financial assets mandatorily measured at fair value through profit or loss	693,024	(693,024)	—
Derivatives	13,577	—	13,577
Loans and advances to banks	720,583	(4,443)	716,140
Loans and advances to customers	3,083,843	—	3,083,843
Financial investments	1,315,859	—	1,315,859
Prepayments, accrued income and other assets	33,699	(3,287)	30,412
Current tax assets	1,153	(832)	321
Reinsurance contract assets	2,557	(2,557)	—
Non-current assets held for sale	5,816	—	5,816
Investment in subsidiaries	—	28,578	28,578
Right-of-use assets	2,284	—	2,284
Property, plant and equipment	51,694	(3)	51,691
Intangible assets	20,762	(406)	20,356
Deferred tax assets	31,002	(379)	30,623
Total assets at 31 Dec 2023	7,660,919	(676,353)	6,984,566
Liabilities and equity			
Deposits by banks	5,117	—	5,117
Customer accounts	6,141,520	32,968	6,174,488
Items in the course of transmission to other banks	18,359	—	18,359
Liabilities under investment contracts	156,958	(156,958)	—
Derivatives	5,748	—	5,748
Accruals, deferred income and other liabilities	55,055	(14,428)	40,627
Current tax liabilities	35,190	—	35,190
Insurance contract liabilities	519,363	(519,363)	—
Provisions	21,849	(1,130)	20,719
Deferred tax liabilities	3,727	—	3,727
Borrowings from a group undertaking	90,000	—	90,000
Subordinated liabilities	65,000	—	65,000
Total liabilities at 31 Dec 2023	7,117,886	(658,911)	6,458,975
Equity			
Called up share capital	108,092	—	108,092
Revaluation reserve	10,408	—	10,408
Retained earnings	424,533	(17,442)	407,091
Total equity at 31 Dec 2023	543,033	(17,442)	525,591
Total liabilities and equity at 31 Dec 2023	7,660,919	(676,353)	6,984,566

Table 4: – EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements (continued)

	Balance sheet as in published financial statements[1]	De-consolidation of insurance entity[1]	Regulatory balance sheet
	€000	€000	€000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash[#]	1,583,348	—	1,583,348
Items in course of collection from other banks	6,921	—	6,921
Financial assets mandatorily measured at fair value through profit or loss	660,446	(660,446)	—
Derivatives	25,745	—	25,745
Loans and advances to banks	732,507	(6,290)	726,217
Loans and advances to customers	3,175,167	—	3,175,167
Financial investments	1,004,770	—	1,004,770
Prepayments, accrued income and other assets[#]	34,092	(4,727)	29,365
Current tax assets	3,496	(2,028)	1,468
Reinsurance contract assets	2,959	(2,959)	—
Non-current assets held for sale	5,173	—	5,173
Investment in subsidiaries	—	28,578	28,578
Right-of-use assets	2,459	—	2,459
Property, plant and equipment	44,627	(4)	44,623
Intangible assets	19,169	(565)	18,604
Deferred tax assets	35,767	(147)	35,620
Total assets at 31 Dec 2022	7,336,646	(648,588)	6,688,058
Liabilities and equity			
Deposits by banks	2,861	—	2,861
Customer accounts	5,970,958	38,619	6,009,577
Items in the course of transmission to other banks	27,397	—	27,397
Liabilities under investment contracts	162,123	(162,123)	—
Derivatives	10,252	—	10,252
Accruals, deferred income and other liabilities[#]	42,550	(10,217)	32,333
Current tax liabilities	2,104	—	2,104
Insurance contract liabilities	499,507	(499,507)	—
Provisions	20,080	(1,250)	18,830
Deferred tax liabilities	3,569	—	3,569
Borrowings from a group undertaking	60,000	—	60,000
Subordinated liabilities	62,000	—	62,000
Total liabilities at 31 Dec 2022	6,863,401	(634,478)	6,228,923
Equity			
Called up share capital	108,092	—	108,092
Revaluation reserve	64	—	64
Retained earnings[2]	365,089	(14,110)	350,979
Total equity at 31 Dec 2022	473,245	(14,110)	459,135
Total liabilities and equity at 31 Dec 2022	7,336,646	(648,588)	6,688,058

1 *From 1 January 2023, the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*
\# *Comparatives in column 'Regulatory balance sheet' for December 2022 are being restated in accordance with current period reporting.*
2 *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 7 (Own funds disclosure EU CC1). This table shows items at their accounting values which might be subject to adjustments in the calculation of regulatory capital.*

Table 5: Principal entities with a different regulatory and accounting scope of consolidation (LI3)

			At 31 Dec 2023			
			Method of regulatory consolidation			
	Principal activities	Method of accounting consolidation	**Fully consolidated**	**Proportional consolidation**	**Neither consolidated nor deducted**	**Deducted from capital subject to thresholds[1]**
HSBC Bank Malta p.l.c.	Credit Institution	Fully consolidated	●			
HSBC Global Asset Management (Malta) Ltd.	Fund Management	Fully consolidated	●			
HSBC Life Assurance (Malta) Ltd	Life Assurance	Fully consolidated				●

1 *As at 31 December 2023 the investment in HSBC Life Assurance (Malta) Ltd. did not exceed the thresholds and was therefore risk weighted at 250%.*

Risk management

Our risk management framework

We use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. Whilst the framework fosters continuous monitoring of the risk environment, it also promotes risk awareness, and a sound operational and strategic decision making and escalation process. It supports a consistent approach to identifying and assessing, defining and enabling, managing and reporting and governing the risks we accept and incur in our activities with clear accountabilities. We actively review and develop our risk management framework and enhance our approach to managing risk.

Culture

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

Our culture is also reinforced by our approach to remuneration. Individual awards including those for senior executives are based on compliance with our values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and global strategy. We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. In addition to other risks, we are committed to managing and mitigating climate-related risks, both physical and transition risks and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

Risk governance

The Board has overall accountability for the effective risk management and control environment and approves our risk appetite. It is advised on risk-related matters by the Risk Committee. Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the Chief Risk Officer who is supported by the Risk Management Meeting ('RMM') of the Executive Committee.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. These senior managers are supported by global functions and all our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures. We use a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates the reporting and escalation to the RMM.

Risk appetite

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

Risk management and internal control systems

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

Risk measurement and reporting systems

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

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

Capital and Leverage

Capital management

Approach and policy

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

HSBC Bank Malta p.l.c. manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2023 HSBC Bank Malta p.l.c. complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan which is approved by the Board of Directors of HSBC Bank Malta p.l.c. ('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') aims at assessing the adequacy of the bank's capital resources with regards to its risk and requirements, incorporates different assessment methods of the capital needs. These capital measures include economic capital and regulatory capital defined as follows:

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

The following risks are managed through the capital management framework:

- Credit risk;
- Operational risk;
- Market risk
- Interest rate risk in the banking book;
- Climate Risk;
- Liquidity Risk; and
- Insurance risk.

The Basel III framework introduces other capital buffers, such as the Capital Conservation Buffer ('CCB'), the Countercyclical Buffer ('CCyB'), the Sectoral Systemic Risk Buffer ('sSyRB'), the Pillar 2 Guidance ('P2G') and other systemic buffers such as the Globally/ Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD legislations implemented Basel III in the EU.

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the resilience of HSBC Bank Malta p.l.c. to a given scenario based on a set of risk factors. The scenarios are extreme but plausible events. Stress testing allows senior management to assess the bank's vulnerabilities and to formulate its response including risk mitigating actions based on the conditions reflected in the identified stress scenarios.

The actual market stresses experienced by the financial system in recent years 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.), reverse stress tests and sensitivity analysis are performed. HSBC Bank Malta p.l.c. takes into account the results of all regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

A list of risks with associated potential impact on HSBC Bank Malta p.l.c.'s capital ratios are reviewed regularly. These risks could potentially affect either the Risk-Weighted Assets ('RWAs') and/or the capital position. These risks are monitored regularly within the Asset and Liability Management Committee ('ALCO') and the Risk Management Meetings ('RMM'). Scenario analysis are performed for the relevant categories of risk. The downside scenario is assessed against our capital management objectives and embedded in the capital risk appetite.

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

Regulatory capital framework

For regulatory purposes, the capital base can be divided into three tiers; the Common Equity Tier 1, Additional Tier 1, and Tier 2 capital. These are classified based on the degree of permanence and loss absorbency exhibited. HSBC Bank Malta p.l.c.'s capital base is made up of the Common Equity Tier 1 and Tier 2 capital, as it holds no instruments under Additional Tier 1. The main features of capital issued by HSBC Bank Malta p.l.c. are described in Table 6 within this Pillar 3 disclosures report.

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

Tier 2 ('T2') capital comprises of eligible subordinated debt and any related share premiums.

T2 capital instruments are either perpetual subordinated instruments or dated instruments on which there is an obligation to pay coupons. These instruments or subordinated loans comprise dated loan capital repayable at par on maturity and must have an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer subject to prior consent from the ECB. It is a regulatory 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 consists of subordinated debt with HSBC Continental Europe which is repayable at par on maturity. However, the borrower has the option for early repayment, subject to prior consent from the ECB.

As at 31 December 2022, the bank's Tier 2 capital consisted of €62,000,000 subordinated unsecured loan stock issued to HSBC Bank plc in December 2018 and maturing on 14 December 2028, having a floating rate linked to three-month Euribor. As at 31 December 2022, the interest rate was 4.11%.

The €62,000,000 subordinated unsecured loan stock was repaid in full on 14 December 2023 invoking the early redemption option included in the contractual agreement. On the same date HSBC Bank Malta p.l.c. entered into a new subordinated loan amounting to €65,000,000 with HSBC Continental Europe. The term of the subordinated loan is 10 years with a maturity date of 14 December 2033 and an option of early redemption after five years. It bears interest at a rate equal to three-month Euribor plus a margin of 237 basis points. As at 31 December 2023, the interest rate was 6.33%.

The subordinated liabilities will, in the event of the winding up of the bank, be subordinated to the claims of depositors and other creditors.

The bank did not have any defaults of interest or other breaches with respect to its subordinated liabilities during the current and comparative periods.

Table 6 is the list of the main features of HSBC Bank Malta p.l.c. regulatory capital instruments prepared in accordance with Part Eight Article 437 of the CRR.

Table 6: Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA)

	Capital Instruments Main Features	HSBC Ordinary shares	Subordinated Tier 2 Regulatory Capital 2033
1	Issuer	**HSBC Bank Malta p.l.c.**	**HSBC Bank Malta p.l.c.**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**MT0000030107**	**N/A**
2a	Public or private placement	**Public**	**Private**
3	Governing law(s) of the instrument	**Maltese Law**	**Maltese Law**
	Regulatory Treatment	**—**	**—**
4	Current treatment taking into account, where applicable, transitional CRR rules	**Common Equity Tier 1**	**Tier 2**
5	Post-transitional CRR rules	**Common Equity Tier 1**	**Tier 2**
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	**Solo and (Sub) consolidated**	**Solo and (Sub) consolidated**
7	Instrument type (types to be specified by each jurisdiction)	**Common Equity Tier 1 instrument**	**Tier 2 instrument**
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	**108.09**	**65**
9	Nominal amount of instrument	**108,091,800**	**65,000,000**
EU-9a	Issue price	**N/A**	**At par (€100 per bond)**
EU-9b	Redemption price	**N/A**	**At €100**
10	Accounting classification	**Share Equity**	**Liability – amortised cost**
11	Original date of issuance	**January 27, 1993***	**December 14, 2023**
12	Perpetual or dated	**N/A**	**Dated**
13	Original maturity date	**No**	**December 14, 2033**
14	Issuer call subject to prior supervisory approval	**No**	**Yes**
15	Optional call date, contingent call dates and redemption amount	**N/A**	**December 14, 2028**
16	Subsequent call dates, if applicable	**N/A**	**N/A**
	Coupons/dividends		**N/A**
17	Fixed or floating dividend coupon	**Floating**	**Floating**
18	Coupon rate and any related index	**N/A**	**3 month EURIBOR +237 bps**
19	Existence of dividend stopper	**No**	**No**
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	**Fully discretionary**	**Mandatory**
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	**Partially discretionary**	**Mandatory**
21	Existence of step up or other incentive to redeem	**N/A**	**No**
22	Non-cumulative or cumulative	**Non-cumulative**	**Non-cumulative**
23	Convertible or non-convertible	**Non-convertible**	**Convertible**
30	Write-down features	**No**	**No**
35	Position in subordination hierarchy in liquidation	**Subordinated to HSBC Subordinated Tier 2 Capital**	**Subordinated to senior creditors and depositors**
36	Non-compliant transitional features	**No**	**No**

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

The full Terms and Conditions ('T&Cs') of the HSBC Ordinary Shares are available in the Memorandum and Articles of Association; an electronic copy is available on our website (https://www.about.hsbc.com.mt/investor-relations) under section Company Notifications – Announcements. The full T&Cs of the T2 Regulatory Capital 2033 is available by contacting the Company Secretary of HSBC Bank Malta p.l.c. (companysecretarymalta@hsbc.com). Information with respect to any capital instrument in these documents should not be used for investment advice and does not constitute an offer to sell or solicitation of an offer to buy any such capital instrument or any advice or recommendation with respect to any such capital instrument. When making a decision about investments, investors as well as prospective investors should seek the advice of a professional financial adviser.

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

Retained earnings

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

Accumulated other comprehensive income

Property revaluation reserve

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

Financial investments reserve

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

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

Table 7: Composition of regulatory own funds (EU CC1)

		At	
		31 Dec 2023	31 Dec 2022
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]	**337,718**	310,331
3	Accumulated other comprehensive income (and other reserves)	**10,408**	64
3a	Funds for general banking risk (related to BR09)[2]	**—**	6,209
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	**—**	—
5	Minority interests (amount allowed in consolidated CET1)	**—**	—
EU-5a	Independently reviewed profits net of any foreseeable charge or dividend	**48,295**	21,300
6	**Common equity tier 1 capital before regulatory adjustments**	**504,513**	445,996
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments[3]	**(863)**	(918)
8	Intangible assets (net of related tax liability) (negative amount)	**(10,942)**	(8,283)
9	Not applicable	**—**	—
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	**—**	—
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**—**	—
12	Negative amounts resulting from the calculation of expected loss amounts	**—**	—
13	Any increase in equity that results from securitised assets (negative amount)	**—**	—
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**—**	—
15	Defined-benefit pension fund assets (negative amount)	**—**	—
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	**—**	—
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**—**	—
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
19	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 (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
20	Not applicable	**—**	—
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	**—**	—
EU-20b	– *of which: qualifying holdings outside the financial sector (negative amount)*	**—**	—
EU-20c	– *of which: securitisation positions (negative amount)*	**—**	—
EU-20d	– *of which: free deliveries (negative amount)*	**—**	—
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	**—**	—
22	Amount exceeding the 17,65% threshold (negative amount)[4]	**—**	(704)
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*	**—**	*(313)*
24	Not applicable	**—**	—
25	– *of which: deferred tax assets arising from temporary differences*	**—**	*(391)*
EU-25a	Losses for the current financial year (negative amount)		—
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	**—**	—
26	Not applicable	**—**	—
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	**—**	—
27a	Other regulatory adjustments	**(37,637)**	(25,941)
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**(49,442)**	(35,846)
29	**Common equity tier 1 (CET1) capital**	**455,071**	410,150
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	**—**	—
31	– *of which: classified as equity under applicable accounting standards*	**—**	—
32	– *of which: classified as liabilities under applicable accounting standards*	**—**	—
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	**—**	—
EU-33a	Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1	**—**	—
EU-33b	Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1	**—**	—
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	**—**	—
35	– *of which: instruments issued by subsidiaries subject to phase out*	**—**	—

Table 7: Composition of regulatory own funds (EU CC1) (continued)

		At	
		31 Dec	31 Dec
		2023	2022
Ref		**€000**	€000
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**—**	—
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	**—**	—
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**—**	—
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	**—**	—
41	Not applicable	**—**	—
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	**—**	—
42a	Other regulatory adjustments to AT1 capital	**—**	—
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**—**	—
44	**Additional Tier 1 (AT1) capital**	**—**	—
45	**Tier 1 capital (T1 = CET1 + AT1)**	**455,071**	410,150
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	**65,000**	62,000
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR		—
EU-47a	Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2	**—**	—
EU-47b	Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2	**—**	—
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	**—**	—
49	– *of which: instruments issued by subsidiaries subject to phase out*	**—**	—
50	Credit risk adjustments	**—**	—
51	**Tier 2 (T2) capital before regulatory adjustments**	**65,000**	62,000
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	**—**	—
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	**—**	—
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	**—**	—
54a	Not applicable	**—**	—
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	**—**	—
56	Not applicable	**—**	—
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	**—**	—
56b	Other regulatory adjustments to T2 capital	**—**	—
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**—**	—
58	**Tier 2 (T2) capital**	**65,000**	62,000
59	**Total capital (TC = T1 + T2)**	**520,071**	472,150
60	Total Risk exposure amount	**2,213,655**	2,220,525
	Capital ratios and buffers		
61	Common equity tier 1 %	**20.6**	18.5
62	Tier 1 %	**20.6**	18.5
63	Total capital %	**23.5**	21.3
64	Institution specific buffer requirement %	**9.9**	9.8
65	– *of which: capital conservation buffer requirement %*	***2.5***	*2.5*
66	– *of which: counter cyclical buffer requirement %*	**—**	—
67	– *of which: systemic risk buffer requirement %*	***0.4***	—

Table 7: Composition of regulatory own funds (EU CC1) (continued)

		At	
		31 Dec 2023	31 Dec 2022
Ref		**€000**	€000
EU-67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer %*	***1.3***	*1.5*
EU-67b	– *of which: additional own funds requirements to address the risks other than the risk of excessive leverage %*	***1.3***	*1.3*
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements %	**12.9**	10.8
69	Not applicable	**—**	—
70	Not applicable	**—**	—
71	Not applicable	**—**	—
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**—**	—
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**	28,265
74	Not applicable	**—**	—
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**30,623**	35,229
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**—**	—
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**—**	—
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**—**	—
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**—**	—
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	**—**	—
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	**—**	—
82	Current cap on AT1 instruments subject to phase out arrangements	**—**	—
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**—**	—
84	Current cap on T2 instruments subject to phase out arrangements	**—**	—
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**—**	—

1 *The retained earnings in the disclosure template above does not agree with the retained earnings in the consolidated results reported by the local group under IFRS due to the exclusion of the subsidiary engaged in insurance activities from the regulatory consolidation. Furthermore, the amount represents the closing Retained Earnings excluding Profit for the Year after proposed dividends.*
2 *The allocation of funds to this reserve was repealed by the revised Banking Rule BR/09: 'Measures Addressing Non-Performing Exposures and Forborne Exposures', published in January 2023.*
3 *Additional value adjustments are deducted from CET1. These are calculated on all assets and liabilities measured at fair value.*
4 *At 31 December 2023 the investment in HSBC Life Assurance (Malta) Ltd. did not exceed the thresholds and was therefore risk weighted at 250%.*

Table 8: Reconciliation between accounting and regulatory scope of consolidation

	At	
	31 Dec 2023	31 Dec 2022
	€000	€000[1]
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**424,533**	365,089
Revaluation reserve	**10,408**	64
Adjustments		
– depositor compensation scheme	**(12,735)**	(11,111)
– intangible assets	**(10,942)**	(8,283)
– expected final dividend	**(21,078)**	(13,139)
– retained earnings-HSBC Life Assurance (Malta) Ltd	**(17,442)**	(14,110)
– prudential valuation adjustment	**(863)**	(918)
– IFRS 9 transitional adjustments	**4,672**	9,279
– single resolution fund	**(1,760)**	(1,513)
– non performing loans	**(27,814)**	(22,596)
(-) Amount exceeding the 17.65% threshold	**—**	(704)
	455,071	410,150
Tier 2 capital		
Subordinated liabilities	**65,000**	62,000
	65,000	62,000
Total own funds	**520,071**	472,150

1 *From 1 January 2023 the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data has been restated accordingly.*

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, with further netting possibilities on market instruments.

The risk of excess leverage is managed as part of HSBC Bank Malta p.l.c.'s risk management 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 is presented monthly to the RMM.

The leverage exposure measure is also presented to the Asset and Liability Management Committee ('ALCO') every month.

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

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

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

		At	
		31 Dec 2023 €000	31 Dec 2022 €000[1]
1	Total assets as per published financial statements	**7,660,919**	7,336,646
	Adjustments for:		
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(676,353)**	(648,588)
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	**—**	—
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	**—**	—
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with point (i) of Article 429a(1) CRR)	**—**	—
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**—**	—
7	Adjustment for eligible cash pooling transactions	**—**	—
8	Adjustment for derivative financial instruments	**25,682**	34,689
9	Adjustment for securities financing transactions ('SFTs')	**—**	—
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**192,566**	194,318
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	**—**	—
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	**—**	—
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	**—**	—
12	Other adjustments	**(53,519)**	(21,953)
13	**Total exposure measure**	**7,149,295**	6,895,112

1 *From 1 January 2023 the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data has been restated accordingly.*

Table 10: Leverage ratio common disclosure (EU LR2)

		At	
		31 Dec 2023 €000	31 Dec 2022 €000[1]
	On-balance sheet exposures (excluding derivatives)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**6,966,912**	6,676,205
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**—**	—
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**—**	—
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**—**	—
5	(General credit risk adjustments to on-balance sheet items)	**—**	—
6	(Asset amounts deducted in determining Tier 1 capital)	**(49,442)**	(35,846)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,917,470**	6,640,359
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**19,008**	37,039
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**—**	—
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**20,251**	23,396
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	**—**	—
EU-9b	Exposure determined under Original Exposure Method	**—**	—
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**—**	—
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**—**	—
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original Exposure Method)	**—**	—
11	Adjusted effective notional amount of written credit derivatives	**—**	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**—**	—
13	**Total derivative exposures**	**39,259**	60,435

Table 10: Leverage ratio common disclosure (EU LR2) (continued)

		At	
		31 Dec 2023 €000	31 Dec 2022 €000[1]
	Securities financing transaction ('SFT') exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**—**	—
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**—**	—
16	Counterparty credit risk exposure for SFT assets	**—**	—
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	**—**	—
17	Agent transaction exposures	**—**	—
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	**—**	—
18	Total securities financing transaction exposures	**—**	—
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**1,021,913**	1,002,415
20	(Adjustments for conversion to credit equivalent amounts)	**(829,347)**	(808,097)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	**—**	—
22	**Off-balance sheet exposures**	**192,566**	194,318
	Excluded exposures		
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	**—**	—
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet))	**—**	—
EU-22c	(Excluded exposures of public development banks (or units) – Public sector investments)	**—**	—
EU-22d	(Excluded exposures of public development banks (or units) – Promotional loans): – Promotional loans granted by a public development credit institution – Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State – Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	**—**	—
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units)): – Promotional loans granted by a public development credit institution – Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State – Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	**—**	—
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	**—**	—
EU-22g	(Excluded excess collateral deposited at triparty agents)	**—**	—
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	**—**	—
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	**—**	—
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	**—**	—
EU-22k	(Total exempted exposures)	**—**	—
	Capital and total exposure measure		
23	**Tier 1 capital**	**455,071**	410,150
24	**Total exposure measure**	**7,149,295**	6,895,112
	Leverage ratios		
25	Leverage ratio (%) – transitional	**6.4**	5.9
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	**6.4**	5.9
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**6.4**	5.9
26	Regulatory minimum leverage ratio requirement (%)	**3.0**	3.0
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	**—**	—
EU-26b	– *of which: to be made up of CET1 capital (percentage points)*	**—**	—
27	Leverage ratio buffer requirement (%)	**—**	—
EU-27a	Overall leverage ratio requirement (%)	**3.0**	3.0
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	**Transitional**	Transitional
	Disclosure of mean values		
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**—**	—
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**—**	—
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**7,149,295**	6,895,112
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**7,149,295**	6,895,112
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**6.4**	5.9
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	**6.4**	5.9

1 *From 1 January 2023 the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data has been restated accordingly.*

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

		At	
		31 Dec 2023	31 Dec 2022
		€000	€000[1]
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**6,966,912**	6,676,205
EU-2	*Trading book exposures*	**—**	—
EU-3	*Banking book exposures, – of which:*	***6,966,912***	*6,676,205*
EU-4	Covered bonds	**—**	—
EU-5	Exposures treated as sovereigns	**2,271,521**	2,143,293
EU-6	Exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**891,106**	610,756
EU-7	Institutions	**716,677**	675,864
EU-8	Secured by mortgages of immovable properties	**2,051,333**	2,120,661
EU-9	Retail exposures	**341,815**	367,726
EU-10	Corporates	**459,239**	510,835
EU-11	Exposures in default	**83,664**	103,071
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**151,557**	143,999

1 From 1 January 2023 the local group adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data has been restated accordingly.

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, which requires additional buffers, namely the 'capital conservation buffer ('CCb')', the 'countercyclical buffer ('CCyB')', '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 – Maximum Distributable Amount ('MDA') threshold.

In addition to the CET1 capital, the local group is required to keep a capital conservation buffer equal to 2.5% in accordance with Article 129 of Directive 2013/36/EU, an O-SII buffer of 1.5% which is capped at 1.25% as determined by the competent authority under Article 131 of Directive 2013/36/EU, and the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU. These three 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 and is designed to counter pro-cyclicality in the financial system. When cyclical systemic risk is judged to be increasing, the national authorities would increase the CCyB rate so institutions would accumulate capital to create buffers that strengthen the resilience of the banking sector during period of stress when losses materialise.

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

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

Table 12: 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[^,1]	Total exposure value	Relevant credit risk exposures – Credit risk	Total	Risk-weighted exposure amounts	Own funds requirements weights	Counter-cyclical capital buffer rate
10	**Breakdown per country**	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**
	Malta	**3,101,263**	**3,101,263**	**129,195**	**129,195**	**1,614,937**	**96.3**	**—**
	France	**55,829**	**55,829**	**4,466**	**4,466**	**55,825**	**3.3**	**0.5**
	United Kingdom	**12,922**	**12,922**	**492**	**492**	**6,150**	**0.4**	**2.0**
	Germany	**50**	**50**	**2**	**2**	**25**	**—**	**0.8**
	Ireland	**33**	**33**	**2**	**2**	**25**	**—**	**1.0**
	Luxembourg	**8**	**8**	**—**	**—**	**—**	**—**	**0.5**
	Lithuania	**6**	**6**	**—**	**—**	**—**	**—**	**1.0**
	Norway	**1**	**1**	**—**	**—**	**—**	**—**	**2.5**
	Sweden	**1**	**1**	**—**	**—**	**—**	**—**	**2.0**
	Australia[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Bulgaria[2]	**—**	**—**	**—**	**—**	**—**	**—**	**2.0**
	Cyprus[2]	**—**	**—**	**—**	**—**	**—**	**—**	**0.5**
	Hong Kong[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Netherlands[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Romania[2]	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Others	**850**	**850**	**23**	**23**	**288**	**—**	**—**
20	**Total at 31 Dec 2023**	**3,170,963**	**3,170,963**	**134,180**	**134,180**	**1,677,250**	**100.0**	

Table 12: 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^,1	Total exposure value	Relevant credit risk exposures – Credit risk	Total[1]	Risk-weighted exposure amounts	Own funds requirements weights	Counter-cyclical capital buffer rate
10	Breakdown per country	€000	€000	€000	€000	€000	%	%
	Malta	3,258,284	3,258,284	134,916	134,916	1,686,450	98.0	—
	United Kingdom	64,893	64,893	2,568	2,568	32,100	1.9	1.0
	Czech Republic	21	21	1	1	13	—	1.5
	Bulgaria	7	7	1	1	13	—	1.0
	Norway	3	3	—	—	—	—	2.0
	Romania	1	1	—	—	—	—	0.5
	Luxembourg[2]	—	—	—	—	—	—	0.5
	Sweden[2]	—	—	—	—	—	—	1.0
	Others	2,748	2,748	162	162	2,025	0.1	—
20	Total at 31 Dec 2022	3,325,957	3,325,957	137,648	137,648	1,720,601	100.0	

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Column 'Exposure value for SA' represents the exposure at default ('EAD') amounts and is disclosed as per the EBA guidelines; EAD is the value of exposures after deducting provisions and credit risk mitigants.*
2 *Exposure to this country is less than €500.*

Table 13: Amount of institution-specific countercyclical capital buffer (EU CCyB2)

		Group^	
		2023	2022
		€000	€000
1	Total risk exposure amount	**2,213,655**	2,220,525
2	Institution specific countercyclical capital buffer rate (%)	**0.02**	0.02
3	Institution specific countercyclical capital buffer requirement	**532**	416

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

Pillar 1

The capital requirements for credit risk, market risk, and operational risk are covered in Pillar 1. Both counterparty and non-counterparty credit risk requirements are included in credit risk. RWAs are used to describe these requirements. The table gives data on the extent of reasonable methodologies and our adopted approach by risk type.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Bank Malta p.l.c.
Non-counterparty Credit risk	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters. Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. On the IRB approach expected losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula which combines PD, LGD, EAD and other variables such as maturity and correlation.	We have adopted the standardised approach for our business, whereby risk weights are determined by exposure class, credit risk mitigation and credit ratings as outlined in CRR.
Counterparty credit risk	Two approaches to calculating CCR and determining exposures are defined by the CRR: the Standardised Approach ('SA-CCR') and the Internal Model Method ('IMM'). These exposures are used to determine capital requirements using the applicable credit risk approach: standardised, IRB foundation or IRB advanced. CRR also sets two approaches for calculating Credit Valuation Adjustment ('CVA') risk capital charges: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.	In order to determine exposures at default, we use the Standardised Approach to calculate the CCR exposure value and CVA.
Equity	Non-trading book equity exposures can be assessed under the standardised or IRB approaches.	We report all non trading book equity exposures under the Standardised Approach.
Securitisation	The securitisation framework under CRR prescribes the following approaches: – internal ratings-based approach ('SEC-IRBA'); – external ratings-based approach ('SEC-ERBA'); – internal assessment approach ('IAA'); and – standardised approach ('SEC-SA').	We do not engage in securitisation activities.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models are used, which include Stressed VaR and Incremental Risk Charge ('IRC').	We calculate the market risk capital requirement using the standardised rules.
Operational risk	The CRR includes a capital requirement for operational risk, based on three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach, banks apply different percentages to the total operating income to each of eight defined business lines. The advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	We use the standardised approach in determining our operational risk capital requirements.

Pillar 2 and ICAAP

Pillar 2

Article 73 of Directive 2013/36/EU requests institutions to have in place sound, effective, comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital to cover the nature and level of risks that the institution might be exposed to.

The scope of Pillar 2 is to reinforce the minimum capital requirements of Pillar 1 which includes efforts by banks to assess their capital adequacy and by supervisors to review such assessment.

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

The ECB as set out in the SSM regulation (Council regulation (EU) No 1024/2013) and the SSM Framework Regulation (Regulation (EU) No 468/2014 of the ECB), is assisted through the EBA/GL/2018/03 to determine the Pillar 2 requirement ('P2R') and Pillar 2 guidelines ('P2G'). The aforesaid report is a guideline on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing. The SREP is transposed into P2R which are added to the Pillar 1 requirements ('P1R'). The total SREP capital requirements which is composed only of the P1R and the P2R requirements add-on applicable on the total capital ratio, is the ratio that banks should respect under stressed scenarios. As a result of the annual SREP the ECB has maintained the P2R for HSBC Bank Malta p.l.c. for the year 2023 at 2.25%. The P2R is to be held in the form of 56.25% of CET 1 and 75% of Tier 1, as a minimum.

The overall capital requirement ('OCR') applicable on total capital is composed of the P1R and the P2R add-on and the cumulated regulatory buffers. This stands as the applicable regulatory minimum on total capital for a bank falling under ECB supervision. HSBC Bank Malta p.l.c. is required to meet on a consolidated basis a minimum capital ratio of at least 14.42%. The OCR is composed of the 8% P1R, the 2.25% P2R and 4.17% Combined Buffer Requirement ('CBR'). The requirement of CET1 is 9.93% excluding P2G.

Internal capital adequacy assessment process.

ALCO, the Risk Committee and ultimately the Board examine HSBC Bank Malta p.l.c. regulatory and economic capital profiles in order to ensure that capital resources:

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

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

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

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

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

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

The Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') is set by the Single Resolution Board ('SRB') to ensure that banks maintain at all times sufficient eligible instruments to facilitate the implementation of the preferred resolution strategy. HSBC Bank Malta p.l.c. is subject to the MREL requirements as revised in 2019 through amendments to the EU Bank Recovery and Resolution Directive 2014/59/EU ('BRRD'); Regulation 806/2014/EU establishing a Single Resolution Mechanism ('SRM'), the Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD'), collectively known as the Banking Package.

This MREL requirements can be met with own funds and eligible liabilities in line with the SRB Policy under the Banking Package. HSBC Bank Malta p.l.c. informative targets for the MREL Total Risk Exposure Amount ('TREA') commencing 1 January 2023 have been communicated at 18.31% of RWAs in addition to a combined buffer requirement ('CBR') of 4% totalling 22.31%. The MREL Leverage Risk Exposure ('LRE') is set at 5.91% of leverage exposures. As at 31 December 2023 HSBC Bank Malta p.l.c. has been able to meet the MREL requirements through own funds and other internal eligible liabilities.

As at 31 December 2023 HSBC Bank Malta p.l.c. has been able to meet the MREL requirements through own funds and other internal eligible liabilities.

In January 2023, the bank entered into a €30,000,000 loan agreement with HSBC Continental Europe. This loan is unsecured and has been granted on normal commercial terms for a period of four years with maturity date of 30 January 2027 and an option of early repayment, subject to the terms and conditions of the Loan Agreement and applicable laws and regulations. It bears interest at a rate equal to three-month Euribor plus a margin of 127 basis points. As at 31 December 2023, the interest rate was 5.22%.

In December 2023, the bank has agreed to a transfer arrangement on the €60,000,000 loan agreement signed with HSBC Bank plc in December 2021. The loan was novated with HSBC Continental Europe as the new parent company of HSBC Bank Malta p.l.c., following the change of control in November 2022. The maturity date of the loan is 16 December 2031 with an option of early repayment, it is subject to the same terms and conditions of the original Loan Agreement, applicable laws, and regulations. It bears interest at a rate equal to three-month Euribor plus a margin of 117 basis points. As at 31 December 2023, the interest rate was 5.10% (2022: 3.25%).

Credit risk

Overview

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

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 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 Risk ('WCR') and Wealth and Personal Banking ('WPB') Risk 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. These functions 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 the Country Head of Enterprise Risk Management on the risk appetite process. In addition, they work jointly with Finance on stress testing and impairment calculation under IFRS9.

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

Our credit risk procedures operate through a hierarchy of credit limit approval authorities. Credit approval authorities are assigned to the CEO, CRO and relevant staff. HSBC Bank Malta p.l.c. is responsible for the quality and performance of its credit portfolios in accordance with the HSBC Group standards. Where lending facilities are proposed in excess of local credit approval authorities, concurrence must be sought from the regional credit risk and/or the global credit risk function as appropriate.

Credit risk management

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 (with sectoral distribution), updates on specific portfolios that are considered to have heightened credit risk, as well as key risk indicators through a number of metrics monitored in the Risk Appetite Statement.

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, on a 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. Reviews 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.

Further explanation of HSBC Bank Malta p.l.c.'s approach to credit risk, including detail of the past due and impaired exposures, and its approach to credit risk impairment, can be found in the Annual Report and Accounts of HSBC Bank Malta p.l.c.

Table EU CR1 provides information on the gross carrying amount of exposures and related impairment with further details on the IFRS 9 stage, accumulated partial write off and collateral. The IFRS 9 stages have the following characteristics:

- Stage 1: These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for expected credit loss ('ECL') is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.
- Purchased or originated credit-impaired ('POCI'): Financial assets purchased or originated at a deep discount are seen to reflect incurred credit losses. A lifetime ECL is recognised. These exposures are included in Stage 3 in this table.

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

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
005	**Cash balances at central banks and other demand deposits**	1,776,430	1,776,430	—	—	—	—	(21)	(21)	—	—	—	—
010	**Loans and advances**	3,246,595	3,090,994	155,601	108,360	—	108,360	(28,126)	(14,662)	(13,464)	(22,025)	—	(22,025)
020	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	165,701	165,701	—	—	—	—	(16)	(16)	—	—	—	—
040	Credit institutions	207,460	207,460	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	7,678	7,668	10	—	—	—	(8)	(2)	(6)	—	—	—
060	Non-financial corporations	698,257	644,149	54,108	54,212	—	54,212	(11,990)	(6,919)	(5,071)	(11,566)	—	(11,566)
070	– *of which: SMEs*	303,174	260,136	43,038	54,212	—	54,212	(8,043)	(3,454)	(4,589)	(11,566)	—	(11,566)
080	Households	2,167,499	2,066,016	101,483	54,148	—	54,148	(16,112)	(7,725)	(8,387)	(10,459)	—	(10,459)
090	**Debt securities**	1,706,044	1,706,044	—	—	—	—	(78)	(78)	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	1,391,828	1,391,828	—	—	—	—	(67)	(67)	—	—	—	—
120	Credit institutions	314,216	314,216	—	—	—	—	(11)	(11)	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—

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

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			of which: stage 1	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*	€000	*€000*	*€000*
150	**Off-balance-sheet exposures[1]**	1,018,151	*809,817*	*35,053*	5,077	—	*4,068*	(1,140)	*(817)*	*(80)*	(703)	—	*(421)*
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
170	General governments	63,376	*63,293*	—	—	—	—	(3)	*(3)*	—	—	—	—
180	Credit institutions	22,564	*12,091*	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	4,450	*3,190*	*43*	—	—	—	(12)	*(8)*	*(3)*	—	—	—
200	Non-financial corporations	628,963	*444,178*	*32,856*	4,897	—	*3,888*	(1,067)	*(779)*	*(77)*	(703)	—	*(421)*
210	Households	298,798	*287,065*	*2,154*	180	—	*180*	(58)	*(27)*	—	—	—	—
220	**Total at 31 Dec 2023**	7,747,220	*7,383,285*	*190,654*	113,437	—	*112,428*	(29,365)	*(15,578)*	*(13,544)*	(22,728)	—	*(22,446)*

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

			Collateral and financial guarantees received[2]	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
005	**Cash balances at central banks and other demand deposits**	—	—	—
010	**Loans and advances**	(10,979)	2,623,651	78,396
020	Central banks	—	—	—
030	General governments	—	164,892	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	28	—
060	Non-financial corporations	(10,979)	384,765	35,037
070	*– of which: SMEs*	*(10,979)*	*185,610*	*35,037*
080	Households	—	2,073,966	43,359
090	**Debt securities**	—	292,272	—
100	Central banks	—	—	—
110	General governments	—	246,272	—
120	Credit institutions	—	46,000	—
130	Other financial corporations	—	—	—
140	Non-financial corporations	—	—	—
150	**Off-balance-sheet exposures**	—	—	—
160	Central banks	—	—	—
170	General governments	—	—	—
180	Credit institutions	—	—	—
190	Other financial corporations	—	—	—
200	Non-financial corporations	—	—	—
210	Households	—	—	—
220	**Total at 31 Dec 2023**	(10,979)	2,915,923	78,396

1 As shown in the above table EU CR1, during the current financial period ended 31 Dec 2023, the Bank revised the disclosure reported under 'Off-balance sheet exposures' to exclude from the respective heading of which stage 1, stage 2 and stage 3, those exposures which are out-of-scope for IFRS 9, which are mainly non-financial guarantees. As at 31 Dec 2023 this amounted to €174,290,000 (2022: €155,529,000). Comparative information for 2022 in the Pillar 3 disclosures has not been restated.

2 As shown in the above table EU CR1 during the current financial period ended 31 Dec 2023 the Bank refined the disclosure reported under the 'Collateral and financial guarantees received' to include the explicit financial guarantees received on the debt securities holding for specific counterparties. As at 31 Dec 2023 this amounted to €292,272,000 (2022: €219,213,000). Comparative information for 2022 in the Pillar 3 disclosures has not been restated.

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

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	€000	€000
005	Cash balances at central banks and other demand deposits	1,620,647	*1,620,647*	—	—	—	—	(14)	*(14)*	—	—	—	—
010	Loans and advances	3,499,035	*3,205,933*	*293,102*	127,766	—	*127,766*	(28,926)	*(10,182)*	*(18,744)*	(24,372)	—	*(24,372)*
020	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	152,565	*152,565*	—	—	—	—	(19)	*(19)*	—	—	—	—
040	Credit institutions	384,972	*384,972*	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	59,211	*17,144*	*42,067*	5,283	—	*5,283*	(2,097)	*(235)*	*(1,862)*	(490)	—	*(490)*
060	Non-financial corporations	674,866	*534,416*	*140,450*	55,327	—	*55,327*	(11,460)	*(3,255)*	*(8,205)*	(11,421)	—	*(11,421)*
070	– *of which: SMEs*	*356,932*	279,314	77,618	*54,434*	—	54,434	*(7,330)*	(1,987)	(5,343)	*(10,527)*	—	(10,527)
080	Households	2,227,421	*2,116,836*	*110,585*	67,156	—	*67,156*	(15,350)	*(6,673)*	*(8,677)*	(12,461)	—	*(12,461)*
090	Debt securities	1,291,416	*1,291,416*	—	—	—	—	(83)	*(83)*	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	1,044,147	*1,044,147*	—	—	—	—	(70)	*(70)*	—	—	—	—
120	Credit institutions	247,269	*247,269*	—	—	—	—	(13)	*(13)*	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	999,904	*898,666*	*101,238*	9,732	—	*9,732*	(860)	*(618)*	*(242)*	(884)	—	*(884)*
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
170	General governments	84,070	*84,070*	—	—	—	—	(5)	*(5)*	—	—	—	—
180	Credit institutions	13,462	*12,302*	*1,160*	—	—	—	—	—	—	—	—	—
190	Other financial corporations	26,662	*18,501*	*8,161*	1,437	—	*1,437*	(26)	*(20)*	*(6)*	(1)	—	*(1)*
200	Non-financial corporations	512,216	*428,830*	*83,386*	7,915	—	*7,915*	(773)	*(537)*	*(236)*	(883)	—	*(883)*
210	Households	363,494	*354,963*	*8,531*	380	—	*380*	(56)	*(56)*	—	—	—	—
220	Total at 31 Dec 2022	7,411,002	*7,016,662*	*394,340*	137,498	—	*137,498*	(29,883)	*(10,897)*	*(18,986)*	(25,256)	—	*(25,256)*

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

			Collaterals and financial guarantees received	
		Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000
005	Cash balances at central banks and other demand deposits	—	—	—
010	Loans and advances	(10,979)	2,745,813	74,510
020	Central banks	—	—	—
030	General governments	—	152,485	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	45,355	1,072
060	Non-financial corporations	(10,979)	418,280	19,126
070	*– of which: SMEs*	*(10,979)*	*189,139*	*19,126*
080	Households	—	2,129,693	54,312
090	Debt securities	—	—	—
100	Central banks	—	—	—
110	General governments	—	—	—
120	Credit institutions	—	—	—
130	Other financial corporations	—	—	—
140	Non-financial corporations	—	—	—
150	Off-balance-sheet exposures	—	—	—
160	Central banks	—	—	—
170	General governments	—	—	—
180	Credit institutions	—	—	—
190	Other financial corporations	—	—	—
200	Non-financial corporations	—	—	—
210	Households	—	—	—
220	Total at 31 Dec 2022	(10,979)	2,745,813	74,510

The net credit exposure based on maturity and financial instrument is shown in table EU CR1-A. The term 'exposures' refers to items on the balance sheet whose 'net value of exposure' is determined by subtracting the gross amount from the credit risk adjustments. On the basis of the residual contractual maturity, the net exposure is divided into five categories featuring in the table.

Table 15: EU CR1-A: Maturity of exposures

		Net exposure value[1]					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
		€000	**€000**	**€000**	**€000**	**€000**	**€000**
1	Loans and advances	**103,471**	**328,391**	**429,649**	**2,442,987**	**—**	**3,304,498**
2	Debt securities	**—**	**517,158**	**1,188,994**	**51**	**—**	**1,706,203**
3	**Total at 31 Dec 2023**	**103,471**	**845,549**	**1,618,643**	**2,443,038**	**—**	**5,010,701**
1	Loans and advances	112,033	465,941	467,057	2,536,031	—	3,581,062
2	Debt securities	—	502,626	762,808	25,975	—	1,291,409
3	Total at 31 Dec 2022	112,033	968,567	1,229,865	2,562,006	—	4,872,471

1 Cash balances at central banks and other demand deposits are not included in the above table.

Credit concentration risk

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

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 16.2% of the total loan portfolio as at end of 2023. These exposures are strictly monitored by management and every reasonable step is taken to reduce this concentration and spread risk over a wider customer base with further growth in the loan portfolio.

The maximum on-balance sheet credit exposure to any client, group of connected clients or counterparty as at 31 December 2023 amounted to €158,092,394 before taking account of collateral or other credit enhancements.

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

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

Expected Credit Losses ('ECLs')

HSBC Bank Malta p.l.c. analyses credit loss experience in order to assess the performance of our risk measurement and control processes, and to inform our understanding of the implications for risk and capital management of dynamic changes occurring in the risk profile of our exposures.

HSBC Bank Malta p.l.c. has adopted the IFRS9 framework which uses the following three stage model for the calculation of Expected Credit Losses ('ECL'), as impairments that looks at the changes in credit quality:

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

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.

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.

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

The table below analyses the change in stock of specific credit risk adjustment for the financial period/year ended 31 December 2023 and 31 December 2022 respectively.

Table 16: Changes in the stock of non-performing loans and advances (EU CR2)

		At 31 Dec 2023	At 31 Dec 2022
		Gross carrying amount	Gross carrying amount
		€000	€000
010	Initial stock of non-performing loans and advances	**127,766**	183,242
020	Inflows to non-performing portfolios	**8,215**	15,641
030	Outflows from non-performing portfolios	**(27,621)**	(71,117)
040	– *of which: Outflows due to write-offs*	***(567)***	*(15,204)*
050	– *of which: Outflow due to other situations*	***(27,054)***	*(55,913)*
060	**Final stock of non-performing loans and advances**	**108,360**	127,766

Impaired loans and advances

Impaired loans and advances are those that are classified as CRR9 or CRR10. 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.

Risk mitigation

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

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

Policy and procedures

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

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to secure claims. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to Wealth and Personal Banking and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. Facilities to small and medium-sized enterprises ('SME's') are commonly granted against guarantees given by their owners and/or directors.

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

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. Collateral values are determined through a combination of professional appraisals and house price indices. Specifically, HSBC Bank Malta p.l.c. utilises the price index to update its mortgage portfolio value at six-monthly intervals, or more frequently as the need arises, for example, where market conditions are subject to significant change.

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

Other forms of Credit Risk Mitigation

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

Recognition of risk mitigation under the standardised approach

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

Table 17: Credit risk mitigation ('CRM') techniques – overview (CR3)

		Exposures unsecured: carrying amount^	Exposures secured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
		€000	€000	€000	€000
1	Loans and advances	**2,379,166**	**2,702,047**	**2,441,417**	**260,630**
2	Debt securities	**1,413,694**	**292,272**	**—**	**292,272**
3	**Total at 31 Dec 2023**	**3,792,860**	**2,994,319**	**2,441,417**	**552,902**
4	*– of which: non-performing exposure*	***7,939***	***78,396***	***78,396***	**—**
EU-5	*– of which: defaulted*	***7,939***	***78,396***	***78,396***	**—**
1	Loans and advances	2,373,813	2,820,323	2,537,763	282,560
2	Debt securities	1,291,333	—	—	—
3	Total at 31 Dec 2022	3,665,146	2,820,323	2,537,763	282,560
4	*– of which: non-performing exposure*	*28,884*	*74,510*	*74,510*	—
EU-5	*– of which: defaulted*	*28,884*	*74,510*	*74,510*	—

^ *Comparative information for 2022 has been restated.*

Credit risk exposures and credit risk mitigant techniques

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

Table 18: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
		€000	€000	€000	€000	€000	%
	Asset classes[1]						
1	Central governments or central banks	**2,271,521**	**1**	**2,533,229**	**35,597**	**76,558**	**3.0**
2	Regional government or local authorities	—	—	—	—	—	—
3	Public sector entities	**458,670**	**63,367**	**292,892**	**1,546**	—	—
4	Multilateral development banks	**125,571**	—	**125,571**	—	—	—
5	International organisations	**306,865**	—	**306,865**	—	—	—
6	Institutions	**716,677**	**18,022**	**716,677**	**13,265**	**177,474**	**24.3**
7	Corporates	**459,239**	**633,505**	**353,000**	**65,027**	**403,271**	**96.5**
8	Retail	**341,815**	**275,204**	**340,122**	**158**	**254,996**	**74.9**
9	Secured by mortgages on immovable property	**2,051,333**	**14,826**	**2,051,333**	—	**744,101**	**36.3**
10	Exposures in default	**83,664**	**4,035**	**83,200**	**129**	**99,589**	**119.5**
11	Exposures associated with particularly high risk	**6,472**	**10,454**	**6,390**	**4,991**	**17,071**	**150.0**
12	Covered bonds	—	—	—	—	—	—
13	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
14	Collective investment undertakings	—	—	—	—	—	—
15	Equity	**89**	—	**89**	—	**89**	**100.0**
16	Other items	**144,996**	—	**144,996**	—	**147,539**	**101.8**
17	**Total at 31 Dec 2023**	**6,966,912**	**1,019,414**	**6,954,364**	**120,713**	**1,920,688**	**27.1**
	Asset classes[1]						
1	Central governments or central banks	2,143,293	—	2,423,814	43,976	87,734	3.6
2	Regional government or local authorities	—	—	—	—	—	—
3	Public sector entities	372,128	84,063	219,563	—	—	—
4	Multilateral development banks	166,509	—	166,509	—	—	—
5	International organisations	72,119	—	72,119	—	—	—
6	Institutions	675,864	7,567	675,864	3,412	174,911	25.7
7	Corporates	510,835	525,388	370,113	65,506	381,606	87.6
8	Retail	367,726	364,742	365,854	168	274,497	75.0
9	Secured by mortgages on immovable property	2,120,661	—	2,120,661	—	767,578	36.2
10	Exposures in default	103,071	9,648	102,607	151	125,268	121.9
11	Exposures associated with particularly high risk	6,585	9,667	6,410	4,600	16,515	150.0
12	Covered bonds	—	—	—	—	—	—
13	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
14	Collective investment undertakings	—	—	—	—	—	—
15	Equity	83	—	83	—	83	100.0
16	Other items	137,331	—	137,331	—	142,433	103.7
17	Total at 31 Dec 2022	6,676,205	1,001,075	6,660,928	117,813	1,970,625	29.1

1 *Derivative instruments exposures are not included in the above table, on which RWA's amounted to €14,878,000 in 2023 (2022: €20,254,000).*

Defaulted exposures

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

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

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	*of which: defaulted*	*of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*of which: forborne non-performing exposures*
		€000	€000	*€000*	*€000*	€000	€000	€000	*€000*
005	**Cash balances at central banks and other demand deposits**	—	—	—	—	—	—	—	—
010	**Loans and advances**	**34,212**	**71,460**	***71,460***	***71,460***	**(1,947)**	**(11,951)**	**83,059**	**52,670**
020	Central banks	—	—	—	—	—	—	—	—
030	General governments	—	—	—	—	—	—	—	—
040	Credit institutions	—	—	—	—	—	—	—	—
050	Other financial corporations	—	—	—	—	—	—	—	—
060	Non-financial corporations	**3,030**	**49,980**	***49,980***	***49,980***	**(267)**	**(9,637)**	**34,617**	**33,661**
070	Households	**31,182**	**21,480**	***21,480***	***21,480***	**(1,680)**	**(2,314)**	**48,442**	**19,009**
080	**Debt securities**	—	—	—	—	—	—	—	—
090	**Loan commitments given**	—	—	—	—	—	—	—	—
100	**Total at 31 Dec 2023**	**34,212**	**71,460**	***71,460***	***71,460***	**(1,947)**	**(11,951)**	**83,059**	**52,670**
005	Cash balances at central banks and other demand deposits	—	—	—	—	—	—	—	—
010	Loans and advances	58,849	82,016	*82,016*	*82,016*	(5,125)	(12,790)	86,605	*42,066*
020	Central banks	—	—	—	—	—	—	—	—
030	General governments	—	—	—	—	—	—	—	—
040	Credit institutions	—	—	—	—	—	—	—	—
050	Other financial corporations	7,477	5,280	*5,280*	*5,280*	(584)	(488)	1,072	*1,072*
060	Non-financial corporations	20,383	48,793	*48,793*	*48,793*	(2,465)	(8,381)	32,881	*17,166*
070	Households	30,989	27,943	*27,943*	*27,943*	(2,076)	(3,921)	52,652	*23,828*
080	Debt securities	—	—	—	—	—	—	—	—
090	Loan commitments given	—	—	—	—	—	—	—	—
100	Total at 31 Dec 2022	58,849	82,016	*82,016*	*82,016*	(5,125)	(12,790)	86,605	*42,066*

Table 20 presents an analysis of performing and non-performing exposures by days past due. The gross NPL ratio at 31 December 2023 was 3.23% (3.52% in 2022) calculated in line with the EBA guidelines.

Table 20: 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***
5	**Cash balances at central banks and other demand deposits**	**1,776,430**	**1,776,430**	—	—	—	—	—	—	—	—	—	—
10	**Loans and advances**	**3,246,595**	**3,242,351**	**4,244**	**108,360**	**73,217**	**3,874**	**3,315**	**8,494**	**6,853**	**4,100**	**8,507**	***108,360***
20	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
30	General governments	**165,701**	**165,701**	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	**207,460**	**207,460**	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	**7,678**	**7,678**	—	—	—	—	—	—	—	—	—	—
60	Non-financial corporations	**698,257**	**697,873**	**384**	**54,212**	**40,458**	**67**	**111**	**6,154**	**3,711**	**2,595**	**1,116**	***54,212***
70	– *of which: SMEs*	***303,174***	***302,790***	***384***	***54,212***	***40,458***	***67***	***111***	***6,154***	***3,711***	***2,595***	***1,116***	**54,212**
80	Households	**2,167,499**	**2,163,639**	**3,860**	**54,148**	**32,759**	**3,807**	**3,204**	**2,340**	**3,142**	**1,505**	**7,391**	***54,148***
90	**Debt securities**	**1,706,044**	**1,706,044**	—	—	—	—	—	—	—	—	—	—
100	Central banks	—	—	—	—	—	—	—					—
110	General governments	**1,391,828**	**1,391,828**	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	**314,216**	**314,216**	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**	**1,018,151**			**5,077**								***5,077***
160	Central banks	—			—								—
170	General governments	**63,376**			—								—
180	Credit institutions	**22,564**			—								—
190	Other financial corporations	**4,450**			—								—
200	Non-financial corporations	**628,963**			**4,897**								***4,897***
210	Households	**298,798**			**180**								***180***
220	**Total at 31 Dec 2023**	**7,747,220**	**6,724,825**	**4,244**	**113,437**	**73,217**	**3,874**	**3,315**	**8,494**	**6,853**	**4,100**	**8,507**	***113,437***

Table 20: 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*
5	Cash balances at central banks and other demand deposits	1,620,647	1,620,647	—	—	—	—	—	—	—	—	—	—
10	Loans and advances	3,499,035	3,495,975	3,060	127,766	89,003	5,662	6,086	4,132	11,437	3,275	8,171	*127,766*
20	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
30	General governments	152,565	152,565	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	384,972	384,972	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	59,211	59,211	—	5,283	5,280	3	—	—	—	—	—	*5,283*
60	Non-financial corporations	674,866	674,733	133	55,327	43,760	834	2,396	188	6,069	514	1,566	*55,327*
70	*– of which: SMEs*	*356,932*	*356,799*	*133*	*54,434*	*43,760*	*834*	*2,396*	*188*	*6,069*	*514*	*673*	54,434
80	Households	2,227,421	2,224,494	2,927	67,156	39,963	4,825	3,690	3,944	5,368	2,761	6,605	*67,156*
90	Debt securities	1,291,416	1,291,416	—	—	—	—	—	—	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	1,044,147	1,044,147	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	247,269	247,269	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	999,904			9,732								*9,732*
160	Central banks	—			—								—
170	General governments	84,070			—								—
180	Credit institutions	13,462			—								—
190	Other financial corporations	26,662			1,437								*1,437*
200	Non-financial corporations	512,216			7,915								*7,915*
210	Households	363,494			380								*380*
220	Total at 31 Dec 2022	7,411,002	6,408,038	3,060	137,498	89,003	5,662	6,086	4,132	11,437	3,275	8,171	*137,498*

Table 21: Quality of non-performing exposures by geography (EU CQ4)

		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which: non-performing	*of which: defaulted*	*of which: subject to impairment*			
		€000	€000	€000	€000	€000	€000	€000
010	**On-balance-sheet exposures[1,2]**	**5,060,999**	***108,360***	***108,360***	***5,060,999***	**(50,229)**		**—**
020	Malta	**3,622,246**	***103,190***	***103,190***	***3,622,246***	**(48,814)**		**—**
030	France	**657,892**	**—**	**—**	***657,892***	**(21)**		**—**
040	Germany	**272,464**	**—**	**—**	***272,464***	**(59)**		**—**
050	United Kingdom	**40,305**	***102***	***102***	***40,305***	**(10)**		**—**
060	United Arab Emirates	**15,260**	***1,900***	***1,900***	***15,260***	**(444)**		**—**
070	Other countries	**452,832**	***3,168***	***3,168***	***452,832***	**(881)**		**—**
080	**Off-balance-sheet exposures[2]**	**1,023,228**	***5,077***	***5,077***			**1,843**	
090	Malta	**983,666**	***5,075***	***5,075***			**1,843**	
100	France	**17,312**	**—**	**—**			**—**	
110	United Kingdom	**10,060**	***2***	***2***			**—**	
120	United States	**4,686**	**—**	**—**			**—**	
130	Belgium	**2,646**	**—**	**—**			**—**	
140	Other countries	**4,858**	**—**	**—**			**—**	
150	**Total at 31 Dec 2023**	**6,084,227**	***113,437***	***113,437***	***5,060,999***	**(50,229)**	**1,843**	**—**
010	On-balance-sheet exposures	4,918,217	*127,766*	*127,766*	*4,918,217*	(53,381)		—
020	Malta	3,975,701	*121,064*	*121,064*	*3,975,701*	(51,375)		—
030	France	446,620	—	—	*446,620*	(14)		—
040	Germany	164,540	—	—	*164,540*	(51)		—
050	United Kingdom	68,374	*2,923*	*2,923*	*68,374*	(746)		—
060	United Arab Emirates	5,872	*1,783*	*1,783*	*5,872*	(171)		—
070	Other countries	257,110	*1,996*	*1,996*	*257,110*	(1,024)		—
080	Off-balance-sheet exposures	1,009,636	*9,732*	*9,732*			1,744	
090	Malta	987,498	*9,718*	*9,718*			1,744	
100	United Kingdom	8,378	*8*	*8*			—	
110	United States	4,029	—	—			—	
120	France	2,483	—	—			—	
130	Belgium	1,700	—	—			—	
140	Other countries	5,548	*6*	*6*			—	
150	Total at 31 Dec 2022	5,927,853	*137,498*	*137,498*	*4,918,217*	(53,381)	1,744	—

1 Cash balances at central banks and other demand deposits are not included in the above table.
2 Amounts shown by geographical region and country/territory in this table are based on the country/territory of residence of the counterparty except for financial investments with international organisations and multilateral developments which are assigned to the geographical area 'Other countries'.

Table 22: Credit quality of loans and advances to non-financial corporations by industry (EU CQ5)

		Gross carrying amount					
			of which: non-performing	*of which: defaulted*	*of which: loans and advances subject to impairment*	**Accumulated impairment**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
		€000	**€000**	**€000**	**€000**	**€000**	**€000**
010	Agriculture, forestry and fishing	**200**	***25***	***25***	***200***	**(28)**	—
020	Mining and quarrying	—	—	—	—	—	—
030	Manufacturing	**107,853**	***3,213***	***3,213***	***107,853***	**(1,902)**	—
040	Electricity, gas, steam and air conditioning supply	**66,366**	—	—	***66,366***	**(344)**	—
050	Water supply	**16,871**	—	—	***16,871***	**(6)**	—
060	Construction	**22,808**	***6,303***	***6,303***	***22,808***	**(2,171)**	—
070	Wholesale and retail trade	**143,419**	***5,022***	***5,022***	***143,419***	**(3,879)**	—
080	Transport and storage	**5,697**	***2***	***2***	***5,697***	**(255)**	—
090	Accommodation and food service activities	**51,606**	***17,647***	***17,647***	***51,606***	**(4,097)**	—
100	Information and communication	**23,950**	***59***	***59***	***23,950***	**(1,337)**	—
110	Real estate activities	**82,106**	***8,816***	***8,816***	***82,106***	**(3,218)**	—
120	Financial and insurance activities[1]	**52,495**	***8,291***	***8,291***	***52,495***	**(1,812)**	—
130	Professional, scientific and technical activities	**136,563**	***158***	***158***	***136,563***	**(1,489)**	—
140	Administrative and support service activities	**21,224**	***782***	***782***	***21,224***	**(654)**	—
150	Public administration and defense, compulsory social security	—	—	—	—	—	—
160	Education	**1,353**	***1,154***	***1,154***	***1,353***	**(175)**	—
170	Human health services and social work activities	**17,615**	***2,449***	***2,449***	***17,615***	**(2,093)**	—
180	Arts, entertainment and recreation	**295**	***87***	***87***	***295***	**(18)**	—
190	Other services	**2,048**	***204***	***204***	***2,048***	**(78)**	—
200	**Total at 31 Dec 2023**	**752,469**	***54,212***	***54,212***	***752,469***	**(23,556)**	—
010	Agriculture, forestry and fishing	319	*137*	*137*	*319*	(9)	—
020	Mining and quarrying	—	—	—	—	—	—
030	Manufacturing	62,378	*3,628*	*3,628*	*62,378*	(1,180)	—
040	Electricity, gas, steam and air conditioning supply	87,526	—	—	*87,526*	(336)	—
050	Water supply	24,069	—	—	*24,069*	(6)	—
060	Construction	22,434	*2,279*	*2,279*	*22,434*	(1,909)	—
070	Wholesale and retail trade	183,360	*8,684*	*8,684*	*183,360*	(4,699)	—
080	Transport and storage	5,827	*8*	*8*	*5,827*	(51)	—
090	Accommodation and food service activities	80,437	*21,845*	*21,845*	*80,437*	(6,652)	—
100	Information and communication	27,867	*1*	*1*	*27,867*	(1,239)	—
110	Real estate activities	88,492	*11,681*	*11,681*	*88,492*	(2,017)	—
120	Financial and insurance activities	—	—	—	—	—	—
130	Professional, scientific and technical activities	108,964	*13*	*13*	*108,964*	(1,512)	—
140	Administrative and support service activities	14,070	*751*	*751*	*14,070*	(762)	—
150	Public administration and defense, compulsory social security	—	—	—	—	—	—
160	Education	3,819	*3,252*	*3,252*	*3,819*	(792)	—
170	Human health services and social work activities	18,140	*2,435*	*2,435*	*18,140*	(1,520)	—
180	Arts, entertainment and recreation	292	*69*	*69*	*292*	(1)	—
190	Other services	2,199	*544*	*544*	*2,199*	(196)	—
200	Total at 31 Dec 2022	730,193	*55,327*	*55,327*	*730,193*	(22,881)	—

1 *As shown in the above table EU CQ5 during the period ended 31 Dec 2023 the Bank has revised the disclosures in accordance with the EBA Q&A 2022_6673 dated 28 April 2023 whereby holding companies whose subsidiary corporations are non-financial corporations would be considered as non-financial corporations and classified in row 120 'Financial and insurance activities'. Comparative information has not been restated.*

The table below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained. 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 change is the accumulated impairment or negative change in the initial recognition value of the collateral obtained, including amortisation in the case of property plant and equipment ('PP&E') and investment properties.

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

		At 31 Dec 2023		At 31 Dec 2022	
		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
010	Property Plant and Equipment (PP&E)				
020	Other than PP&E	**3,221**	**(472)**	3,372	(103)
030	Residential immovable property	**1,272**	**(400)**	1,314	(42)
040	Commercial Immovable property	**1,949**	**(72)**	2,036	(39)
050	Movable property (auto, shipping, etc.)	**—**	**—**	—	—
060	Equity and debt instruments	**—**	**—**	—	—
070	Other collateral	**—**	**—**	22	(22)
080	**Total**	**3,221**	**(472)**	3,372	(103)

Counterparty credit risk

Overview

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

The table on the following page sets out details of the local group's counterparty credit risk exposures through its over the counter ('OTC') derivative exposures.

Four approaches may be used under CRD to calculate exposure values for CCR: mark-to-market, original exposure, standardised approach ('SA-CCR') and IMM. Exposure values calculated under these approaches are used to determine RWAs. HSBC Bank Malta p.l.c. applies the SA-CCR approach. Under SA-CCR the exposure at default ('EAD') is calculated by multiplying the alpha factor (set at 1.4 by the Basel Committee) by the sum of the replacement cost ('RC') and potential future exposures ('PFE')

Credit exposure monitoring is performed by the Risk function.

Credit authority for CCR

HSBC Bank Malta p.l.c. Wholesale Credit Risk has a delegated approval authority for corporates. Depending on the level of the credit limit and customer risk rating ('CRR'), credit approval might require concurrence from the Group or Regional WCR when HSBC Bank Malta p.l.c.'s delegated approval authority threshold is exceeded. Sovereigns, intra-group and banks limits require the region's or group WCR's concurrence irrespective of the amount of the facility.

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

Credit limit set up for CCR management

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

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

Counterparty-level limits

Category A ('Cat A') limits

Cat A limits are those for which a credit limit is typically recorded at the full notional amount of the facility, the bank being actually or potentially at risk for 100% of the facility. Cat A facilities include on balance sheet assets such as loans or lines of credit. They may be either funded or unfunded. Cat A limits are set according to maturity bands.

Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off balance sheet products and are used for the monitoring of the Potential Future Exposure ('PFE'). Usage under Cat B represents the potential cost of replacement of the OTC contracts.

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

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

Table 24: Analysis of counterparty credit risk (‘CCR’) exposure by approach (EU CCR1)

		Replacement cost €000	Potential future exposure €000	EEPE €000	Alpha used for computing regulatory exposure value €000	Exposure value pre-CRM €000	EAD post-CRM €000	Exposure value €000	RWAs €000
EU1	EU-Original Exposure Method (for derivatives)	—	—		1.4	—	—	—	—
EU2	EU-Simplified SA-CCR (for derivatives)	—	—		1.4	—	—	—	—
1	SA-CCR (for derivatives)	13,577	12,609		1.4	36,660	36,660	36,660	14,878
2	IMM (for derivatives and SFTs)			—	—	—	—	—	—
2a	– *of which: securities financing transactions netting sets*			—		—	—	—	—
2b	– *of which: derivatives and long settlement transactions netting sets*			—		—	—	—	—
2c	– *of which: from contractual cross-product netting sets*			—		—	—	—	—
3	Financial collateral simple method (for SFTs)					—	—	—	—
4	Financial collateral comprehensive method (for SFTs)					—	—	—	—
5	VaR for SFTs					—	—	—	—
6	**Total at 31 Dec 2023**					**36,660**	**36,660**	**36,660**	**14,878**
EU1	EU-Original Exposure Method (for derivatives)	—	—		1.4	—	—	—	—
EU2	EU-Simplified SA-CCR (for derivatives)	—	—		1.4	—	—	—	—
1	SA-CCR (for derivatives)	26,456	13,732		1.4	56,263	56,263	56,263	20,254
2	IMM (for derivatives and SFTs)			—	—	—	—	—	—
2a	– *of which: securities financing transactions netting sets*			—		—	—	—	—
2b	– *of which: derivatives and long settlement transactions netting sets*			—		—	—	—	—
2c	– *of which: from contractual cross-product netting sets*			—		—	—	—	—
3	Financial collateral simple method (for SFTs)					—	—	—	
4	Financial collateral comprehensive method (for SFTs)					—	—	—	—
5	VaR for SFTs					—	—	—	—
6	Total at 31 Dec 2022					56,263	56,263	56,263	20,254

Table 25: Transactions subject to own funds requirements for CVA risk – EU CCR2

		At 31 Dec 2023		At 31 Dec 2022	
		Exposure value	**RWEA**	Exposure value	RWEA
1	Total transactions subject to the Advanced method	—	—	—	—
2	(i) VaR component (including the 3× multiplier)		—		—
3	(ii) stressed VaR component (including the 3× multiplier)		—		—
4	Transactions subject to the Standardised method	**9,215**	**1,496**	10,784	2,925
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	—	—	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**9,215**	**1,496**	10,784	2,925

Market risk

Overview

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 2023. A summary of our current policies and practices for the management of market risk is set out in Note 4(e) of the Annual Report and Accounts.

Exposure to Market risk

Exposure to market risk is split into two portfolios:

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

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

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

Table 26: Market risk under standardised approach (MR1)

		At	
		31 Dec 2023 RWAs €000	31 Dec 2022 RWAs €000
	Outright products		
1	Interest rate risk (general and specific)	—	—
2	Equity risk (general and specific)	—	—
3	Foreign exchange risk	**194**	765
4	Commodity risk	—	—
	Options		
5	Simplified approach	—	—
6	Delta-plus approach	—	—
7	Scenario approach	—	—
8	Securitisation (specific risk)	—	—
9	**Total**	**194**	765

Non-Financial Risk ('NFR')

Overview

HSBC Bank Malta p.l.c. defines NFR as a risk event which materialises due to:

- inadequate or failed internal processes, people and systems;
- external events, including Legal risk.

This risk includes external or internal fraud risk, non-authorised activities, errors and omissions - including low probability events that would result in a high value loss should they arise - and risks related to models.

HSBC Bank Malta p.l.c. classifies losses using the following taxonomy, comprising seven level 1 risk categories: Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk.

Further information can be found in The Report of the Directors under section Risk governance of the Annual Report and Accounts. The regulatory Pillar 1 Risks ('P1R') for operational risk capital requirements for 2023, stood at EUR 276,398,920 on RWAs.

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

Table 27: Non Financial Risk RWEAs and capital required (EU-OR1)

	At 31 Dec 2023	Relevant indicator			Own funds	Risk exposure
		Year 3	**Year 2**	**Year 1**	**requirement**	**amount**
		€000	**€000**	**€000**	**€000**	**€000**
	Standardised Approach					
1	Banking activities subject to basic indicator approach ('BIA')	—	—	—	—	—
2	Banking activities subject to standardised (TSA)/alternative standardised ('ASA') approaches	**127,940**	**137,843**	**224,341**	**22,112**	**276,399**
3	Subject to TSA:	**127,940**	**137,843**	**224,341**		
4	Subject to ASA:	—	—	—		
5	Banking activities subject to advanced measurement approaches AMA	—	—	—	—	—
	At 31 Dec 2022	Year 3	Year 2	Year 1		
		€000	€000	€000	€000	€000
	Standardised Approach					
1	Banking activities subject to basic indicator approach ('BIA')	—	—	—	—	—
2	Banking activities subject to standardised (TSA)/alternative standardised ('ASA') approaches	132,150	127,940	137,843	18,076	225,956
3	Subject to TSA:	132,150	127,940	137,843	—	—
4	Subject to ASA:	—	—	—	—	—
5	Banking activities subject to advanced measurement approaches AMA	—	—	—	—	—

Organisation and responsibilities

Responsibility for managing non-financial risk lies with our people. During 2023 we continued to strengthen our approach to managing non-financial risk as set out in the Risk Management Framework ('RMF'). The framework sets out our approach to governance and risk appetite and provides a single view of non-financial risks that matter the most and associated controls. The enhancement and embedding of the risk appetite framework for non-financial risk, and the improvement of the consistency of the adoption of the end-to-end risk and control assessment processes remained a focus in 2023. While there remains more to do, we made progress in strengthening the control environment and the management of non-financial risk.

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

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

We manage risk using a three lines of defence ('LOD') model:

The First LOD has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes.

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

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

Measurement and monitoring

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

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

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

Risk and control assessment approach

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

Recording

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

Other risks

Liquidity and funding

Overview

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.

Liquidity management across the group

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

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

Strategies and processes in the management of liquidity risk

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

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

Structure and Organisation of the liquidity risk management function

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

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

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

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric was designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets ('HQLA') that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar days liquidity stress scenario.

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

HSBC Bank Malta p.l.c.'s LCR was 504.4% as at 31 December 2023. The table below presents the average of the previous twelve month-end balances for each reporting date. As such, the LCR values reported below do not represent the point-in-time ratios at the end of each period.

Table 28: Quantitative information of LCR (EU LIQ1)

		Total unweighted value (average)				Total weighted value (average)			
		Dec'23	Sep'23	Jun'23	Mar'23	**Dec'23**	Sep'23	Jun'23	Mar'23
		€000	€000	€000	€000	**€000**	€000	€000	€000
EU 1a	Quarter ending on 31 Dec 2023								
EU 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
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					**2,624,665**	2,561,077	2,533,116	2,429,309
Cash – Outflows									
2	Retail deposits and deposits from small business customers	**4,604,797**	4,612,415	4,616,213	4,599,542	**339,091**	339,921	340,161	338,425
3	*– of which: Stable deposits*	***3,159,074***	*3,163,708*	*3,167,448*	*3,161,826*	***157,954***	*158,185*	*158,372*	*158,091*
4	*– of which: Less stable deposits*	***1,445,723***	*1,448,707*	*1,448,765*	*1,437,716*	***181,137***	*181,736*	*181,789*	*180,334*
5	Unsecured wholesale funding	**1,246,073**	1,271,751	1,298,224	1,318,175	**596,479**	606,938	620,671	625,342
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	***443,406***	*441,213*	*443,292*	*447,865*	***105,727***	*105,200*	*105,674*	*106,778*
7	*Non-operational deposits (all counterparties)*	***802,667***	*830,538*	*854,932*	*870,310*	***490,752***	*501,738*	*514,997*	*518,564*
8	Unsecured debt	**—**	—	—	—	**—**	—	—	—
9	Secured wholesale funding					**—**	—	—	—
10	Additional requirements	**874,447**	874,969	886,359	906,792	**123,316**	121,788	124,278	129,993
11	*Outflows related to derivative exposures and other collateral requirements*	***26,822***	*26,680*	*29,925*	*35,517*	***26,822***	*26,680*	*29,925*	*35,517*
12	*Outflows related to loss of funding on debt products*	**—**	—	—	—	**—**	—	—	—
13	*Credit and liquidity facilities*	***847,625***	*848,289*	*856,434*	*871,275*	***96,494***	*95,108*	*94,353*	*94,476*
14	Other contractual funding obligations	**54,911**	56,047	57,178	55,387	**42,269**	43,749	44,444	42,439
15	Other contingent funding obligations	**202,905**	193,765	190,828	180,129	**10,145**	9,688	9,541	9,006
16	Total Cash Outflows					**1,111,300**	1,122,084	1,139,095	1,145,205
Cash – Inflows									
17	Secured lending (e.g. reverse repos)	**—**	—	—	—	**—**	—	—	—
18	Inflows from fully performing exposures	**585,476**	538,504	568,237	587,653	**562,134**	514,570	542,524	565,491
19	Other cash inflows	**28,757**	26,098	30,316	33,354	**28,757**	26,098	30,316	33,354
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**—**	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					**833,475**	841,563	854,321	858,904
20	Total Cash Inflows	**614,232**	564,602	598,553	621,007	**590,891**	540,668	572,840	598,845
EU-20a	Fully exempt inflows	**—**	—	—	—	**—**	—	—	—
EU-20b	Inflows subject to 90% cap	**—**	—	—	—	**—**	—	—	—
EU-20c	*Inflows subject to 75% cap*[1]	***614,232***	*564,602*	*598,553*	*621,007*	**590,891**	*540,668*	*572,840*	*598,845*
Total Adjusted Value									
EU-21	Liquidity Buffer					**2,624,665**	2,561,077	2,533,116	2,429,309
22	Total Net Cash Outflows					**520,409**	581,416	566,255	546,359
23	Liquidity Coverage Ratio %					**504.4**	440.5	447.3	444.6

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

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

The key functions supporting liquidity management are the following:

- Asset Liability and Capital Management which manages the balance sheet to achieve efficient allocation and utilisation of all resources. Asset Liability and Capital Management function reviews the risk arising from the Liquidity and Funding, as well as Interest Rates, Foreign Exchange and Capital. It serves as the First Line of Defence and ensures prudent management of the above mentioned risk.
- Markets Treasury manages the liquidity of the bank in line with ALCM, Group and regulatory norms. It is also 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 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 is the primary senior management committee for considering liquidity adequacy within the bank.
- The Board represents the bank's administrative, management and supervisory body.

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

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

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

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

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

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

- Calculation of the LCR, which is a 30-day combined stress;
- Calculation of the Internal Liquidity Metric which is both a market wide and idiosyncratic ninety-day stress; and
- Internal Liquidity Adequacy Assessment ('ILAA') which uses a series of scenarios to assess the suitability of the HSBC Bank Malta p.l.c.'s liquidity position under stress.

On an annual basis the management provides 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 bank'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". At the end of December 2023 only three counterparties had a deposit greater than 1% of the total liabilities and equated to 5.9% of the total customer deposits.

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding. It is designed to give a picture of the bank's long-term funding profile (that is, funding with a term of over one year) and is therefore used as a complement to the LCR.

HSBC Bank Malta p.l.c.'s NSFR was 222.5% as at 31 December 2023. The below table shows NSFR ratio for 31 December 2023 and 31 December 2022 respectively.

Table 29: Net Stable Funding Ratio (EU LIQ2)

		31 Dec 2023					31 Dec 2022				
		Unweighted value by residual maturity					Unweighted value by residual maturity				
		No maturity	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding ('ASF') Items		**€000**	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000
1	Capital items and instruments				**599,467**	**599,467**				521,135	521,135
2	Own funds	**—**	**—**	**—**	**520,071**	**520,071**				472,150	472,150
3	Other capital instruments		**—**	**—**	**79,396**	**79,396**				48,985	48,985
4	Retail deposits		**4,613,862**	**—**	**—**	**4,274,553**		4,619,290			4,277,702
5	Stable deposits		**3,163,873**	**—**	**—**	**3,005,680**		3,162,235			3,004,123
6	Less stable deposits		**1,449,989**	**—**	**—**	**1,268,873**		1,457,055			1,273,579
7	Wholesale funding:		**1,547,529**	**6,880**	**90,500**	**725,533**		1,442,661	5,712	60,016	617,410
8	Operational deposits		**498,840**	**—**	**—**	**249,420**		447,374			223,687
9	Other wholesale funding		**1,048,689**	**6,880**	**90,500**	**476,113**		995,287	5,712	60,016	393,723
10	Interdependent liabilities		**—**	**—**	**—**	**—**					
11	Other liabilities:	**—**	**122,376**	**—**	**—**	**—**		30,879			
12	NSFR derivative liabilities	**—**	**—**	**—**	**—**	**—**					

Table 29: Net Stable Funding Ratio (EU LIQ2) (continued)

		31 Dec 2023					31 Dec 2022				
		Unweighted value by residual maturity					Unweighted value by residual maturity				
		No maturity	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
13	All other liabilities and capital instruments not included in the above categories		**122,376**	**—**	**—**	**—**		30,879			
14	Total available stable funding ('ASF')					**5,599,553**					5,416,247
Required stable funding ('RSF') Items		**€000**	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000
15	Total high-quality liquid assets ('HQLA')		**—**	**—**	**—**	**6,392**					5,555
EU-15a	Assets encumbered for more than 12m in cover pool		**—**	**—**	**—**	**—**					
16	Deposits held at other financial institutions for operational purposes		**—**	**—**	**—**	**—**					
17	Performing loans and securities:		**806,919**	**164,967**	**2,835,779**	**2,291,548**		754,431	215,081	2,936,919	2,411,638
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		**—**	**—**	**—**	**—**					
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		**614,421**	**1,500**	**100,000**	**162,192**		577,140	67,129	100,206	191,484
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		**67,995**	**89,788**	**844,067**	**2,113,554**		105,645	77,578	907,018	2,219,961
21	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***13,000***	***34,537***	***219,316***	***1,228,326***		*10,084*	*10,348*	*1,705,480*	*1,216,192*
22	Performing residential mortgages		**69,317**	**70,104**	**1,881,717**	**—**		69,719	70,374	1,929,695	
23	– *of which: With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***60,281***	***61,071***	***1,540,501***	**—**		*59,039*	*58,795*	*1,521,882*	
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		**55,186**	**3,575**	**9,995**	**—**		1,927			
25	Interdependent assets		**—**	**—**	**—**	**—**		—	—	—	—
26	Other assets:	**—**	**43,549**	**—**	**136,448**	**168,960**		158,666		33,330	124,181
27	Physical traded commodities		**—**	**—**	**—**	**—**		—	—	—	—
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		**—**	**—**	**—**	**—**		—	—	—	—
29	NSFR derivative assets										
30	NSFR derivative liabilities before deduction of variation margin posted		**5,748**	**—**	**—**	**287**		10,252			513
31	All other assets not included in the above categories		**37,801**	**—**	**136,448**	**168,673**		148,414		33,330	123,668
32	Off-balance sheet items		**—**	**—**	**1,010,495**	**50,340**				1,004,913	58,389
33	**Total RSF**		**—**	**—**	**—**	**2,517,240**					2,599,764
34	**Net Stable Funding Ratio (%)**					**222.5**					208.3

Liquid Assets

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

Liquidity stress testing

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

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

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

Overall adequacy of liquidity risk management

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

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

The two key objectives of the ILAAP process are to:

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

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

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

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') is the risk of an adverse impact to earnings or capital due to changes in market interest rates that affect the bank's banking book positions. It is generated by our non-traded assets and liabilities, specifically loans, deposits, and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury team to be managed within Market Risk limits and in accordance with internal transfer pricing rules. All interest rate risks 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.

ALCM monitors and controls 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 is also responsible for maintaining and updating the transfer pricing framework, informing the 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 performs 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 one year and five years and is calculated on a quarterly basis.

An ΔEVE 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 ('HTC&S') 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. 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&S Stress VaR is measured weekly.

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

The ΔNII is 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) is performed 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 is based on EBA Standard Outlier Test (SOT) +/-200bps and the six 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. 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; liability products are floored at 0%.
– For ΔNII a constant balance sheet is assumed; a commercial margin is used; all forecasted market rates are based on implied forward rates from the loaded spot curves at each quarter-end; assumptions applied for managed rate products are used; 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
– hold 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.

HSBC Bank Malta p.l.c. is exposed to a change of Eurozone interest rates on banking operations and structural elements of the balance sheet. Out of the set of interest rates scenarios that are run, the two most adverse ones are a decrease of 100 basis points with respect to NII and an increase of 200 basis points with respect to EVE. HSBC Bank Malta p.l.c. would see its Net Interest Income on a 1Y horizon decrease by EUR 24 million for an immediate decrease of 100 basis points. As at 31 December 2023 the bank would see a fall of EUR 42.4 million in the EVE in a ‘200 basis point up’ scenario.

Table 30: Interest Rate Risk in the Banking Book (EU-IRRBB1)

		ΔEVE		ΔNII	
		Dec-23	Dec-22	**Dec-23**	Dec-22[1]
	Supervisory shock scenarios	**€000**	€000	**€000**	€000
1	Parallel up	**(8,074)**	(9,432)	**26,077**	32,596
2	Parallel down	**8,074**	17,231	**(24,499)**	(35,621)
3	Steepener	**(2,387)**	(725)		
4	Flattener	**1,139**	(401)		
5	Short rates up	**(1,234)**	(4,154)		
6	**Short rates down**	**1,234**	3,818		

In accordance with Article 448 CRR, the average and longest repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties is three years.

Risk management of insurance operations

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

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

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

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

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

ESG risks

Qualitative information on environmental risk

Strategy & Business processes

The HSBC Group's ('the Group') or ('HSBC') strategy centres around four key areas: i) focus on areas of strengths; ii) digitise; iii) energise; and iv) transition. As part of the net zero ambition, the HSBC Group is on a journey to integrate environmental, social and governance ('ESG') principles throughout its organisation, and important steps have been taken to embed sustainability into corporate strategy, financial planning and the business model.

To support the transition to a net zero global economy. HSBC has set an ambition to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. The transition to net zero is one of the biggest challenges for this generation. Success will require governments, customers and finance providers to work together. The Group's global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that the Group's transition will be challenging, but is an opportunity to make an impact. The Group recognises that, to achieve its climate ambition, it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on this ambition, it requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources and skills, and to develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are enhanced, certain aspects of the Group's reporting will rely on manual sourcing and categorisation of data. In 2023, the Group continues to review its approach to disclosures. Reporting will need to evolve to keep pace with market developments.

HSBC Bank Malta p.l.c. shares this ambition to help individuals, governments and businesses achieve their aims of developing a sustainable future for all. Its approach to sustainability is aligned to the Group strategy taking into account local regulatory requirements.

Become a net zero bank

At the core of the local group's climate ambition is the drive to align financed emissions to the Paris Agreement goal of net zero by 2050 and to become net zero in its own operations by 2030.

In 2020, HSBC set an ambition to become a net zero bank by 2050. Since then, HSBC including HSBC Bank Malta p.l.c. have made progress in support of this ambition - including providing and facilitating sustainable finance and investment for its customers, updating several of its sustainability and investment risk policies, and setting 2030 target for financial emissions in a range of high-emitting sectors.

The local group applies the Group science-based sustainability risk policies that define its appetite for business in specific sectors and encourage customers to meet international standards. In 2021 and 2022, the Group committed to phase out the financing of coal-fired power and thermal coal mining by 2030 in the EU and in the Organisation for Economic Cooperation and Development ('OECD') markets, and by 2040 in all other markets (Coal Policy), and to stop providing new finance or advisory services for new oil and gas fields (the Energy Policy). In October 2022, the Group published a Statement on Nature to re-confirm its intent to integrate nature related actions into its transition plan.

Policies are important mechanisms to help phase out financed emissions while supporting customers in their own transition plans. They were shared with colleagues, through staff communications, briefing sessions to members of the Executive Committee, online briefing webinars to all impacted Relationship Managers in Commerical Banking ('CMB') and Markets and Securities Services (MSS) Sales, and credit approvers, drop-in clinics, and a micro-site for consultation.

Support customers on their transition to net zero

To support customers on their transition to net zero, HSBC Bank Malta p.l.c. is driving initiatives across wholesale banking businesses and retail banking that ensure a sound and well substantiated integration of climate and environmental risks, and their impact on customer selection and production proposition.

Wholesale strategy

- Understand the impact of climate change on customers: HSBC Bank Malta p.l.c. is working with customers to capture holistic information on their exposure to the transition to net zero emissions, and the risks and opportunities in five key areas (emissions, reduction targets, plans, transition risks, physical risks). Higher risk customers are assessed through a Transition Engagement Questionnaire.
- Build ESG capabilities - Support clients with a wide suite of products including Green and Sustainability Linked Loans, all of which meet the required standards and practices.
- Key Metric Indicators (KMIs) and KPIs are in place to monitor climate risk and the performance of the strategy.

Retail strategy

The overall ambition in retail banking is to be the partner for our customers' transition to a sustainable lifestyle and helping clients manage investments for positive long-term environmental and social impact.

The strategy for our retail business has evolved to take account of climate and environmental risks. The retail business has improved the understanding and management of these risks and developed solutions to respond to climate-related client needs, with a focus on wealth management products and the progressive adaptation of the retail credit offer.

During 2023 a revamped Energy Efficiency loan was launched to finance a wider range of energy savings products and services up to €50,000 for personal use.

The reduction of emissions with a focus on sustainable banking remained high on the agenda through a number of initiatives implemented in retail banking;

- A reduction of 183,000 sheets of paper resulting from the migration of customers to electronic statements/advices
- Migration of brochures to digital
- Enhancement of our Mobile and Internet banking solutions
- All HSBC Credit Cards are now issued in 100% recycled PVC

Objectives, targets and limits to assess and address environmental risk in short-, medium-, and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes.

Climate risk is managed in HSBC Bank Malta p.l.c. banking portfolios through its risk appetite and policies for financial and nonfinancial risks. HSBC Bank Malta p.l.c. has considered climate-related and environmental risks impacting its portfolio.

To mitigate the environmental risks on the outstanding wholesale portfolio, HSBC Bank Malta p.l.c. has systems in place that allow to have a view of the number of TEQs completed, an overview of approved limits and utilisation by sector and client, and the climate score. This allows to better identify pockets of risks in the outstanding portfolio and contributes to enhance the forward-looking portfolio management capabilities with client-specific mitigation measures and/or active client engagement.

HSBC Bank Malta p.l.c.'s climate change stress testing and scenario analysis are also used to provide insights on the long-term effects of transition and physical risks across retail and wholesale banking portfolios.

In 2023 HSBC Bank Malta p.l.c. in conjunction with HSBC Continental Europe developed an approach to allocate economic capital to climate risk in the ICAAP. This considers stress testing results.

To support the roll-out of these innovations, HSBC Bank Malta p.l.c. as part of HSBC Continental Europe has a training plan in place to build the culture and capabilities of its relationship managers and credit managers to successfully embed climate considerations into daily decision making. Moreover, the Sustainability Academy, which gathers all learning resources to develop the right skill set, was launched in 2022 and is available to all employees. HSBC Bank Malta p.l.c. has set granular climate Key Risk Indicators based on risk sensitive data in the Risk Appetite Framework with appropriate limits in place.

Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks.

The HSBC Group recognises that businesses can have an impact on the environment and has developed, implemented and refined its approach to working with its business customers to understand and manage these issues.

In January 2024, the Group announced its revised energy policy which is used to engage with customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.

The HSBC Group sustainability risk policies restrict financing activities which have a negative impact on nature. Whilst a number of Group sectoral policies have such restrictions, HSBC Forestry and Agricultural Commodities policies focus specifically on a key impact: deforestation. As already mentioned, the Group plans to strengthen its current policy protections in this area, informed by scientific and international guidance.

Relationship managers are the primary point of contact for HSBC Bank Malta p.l.c. customers and are responsible for checking annually whether customers meet applicable policies.

Governance

Responsibilities of the management body

The Board of Directors of HSBC Bank Malta p.l.c. determines the orientations of HSBC Bank Malta p.l.c.'s business and oversees the implementation thereof, including with respect to environmental and climate-related matters. The Board of Directors oversees and monitors that HSBC Bank Malta p.l.c.'s risk strategy, with its risk appetite and risk management framework, is implemented consistently, including for climate-related and environmental risks.

The Risk Committee, set up by the HSBC Bank Malta p.l.c. Board, is accountable to the Board and oversees and advises the Board on risk-related matters impacting HSBC Bank Malta p.l.c. including climate-related and environmental risks. The Audit Committee, also set up by the HSBC Bank Malta p.l.c., is accountable to the Board, and its responsibilities include internal controls over, inter alia, reports as required by applicable laws and regulations. This includes all ESG-related regulatory reports.

Board members receive ESG-related training as part of their ongoing development and new Board members receive ESG-related training as part of their induction programme.

The Board of HSBC Bank Malta p.l.c., its Risk Committee and its Audit Committee regularly receive updates on ESG-related matters. In 2023, the Board reviewed the HSBC Bank Malta p.l.c. sustainability strategy and was regularly updated on climate-related and environmental risks. The Risk Committee reviewed climate-related and environmental risks at every quarterly meeting. The Audit Committee regularly reviewed internal controls pertaining to ESG related regulatory disclosures.

The Chief Executive Officer, supported by the Executive Committee, worked on HSBC Bank Malta p.l.c.'s ESG strategy and its operational plan for sustainable finance, while receiving regular updates from the members of the Executive Committee on ESG-related matters.

Integration of environmental factors, organisational structure both within business lines and internal control functions

The local group approach to climate and environmental risk management is aligned to the group-wide risk management framework and three lines of defence model, which sets out how HSBC Bank Malta p.l.c. defines, identifies, assesses, manages, and reports its risks. Climate risk in HSBC is considered as a cross cutting risk as per the Group Risk Management Framework, which defines the way HSBC manages its risks.

This approach ensures the Board and senior management have visibility and oversight of the key environmental and climate risks.

The Risk Appetite Statement has been enhanced in 2023 with the addition of new Climate Risk key risk indicators.

The initial measures were focused on the oversight and management of the key climate-related risks for the bank relative to transition risks and physical risks.

Integration of measures to manage environmental risk

Significant improvements have been made throughout 2023 to further embed climate-related and environmental risks within governance. The governance framework has been strengthened to ensure that all upcoming sustainable finance regulations and obligations are understood and implemented whilst supporting the implementation of the net zero and business strategy. The ESG and Climate Governance Framework builds on existing governance structures with the addition of dedicated committees at executive level and working groups.

The HSBC Bank Malta p.l.c. governance replicates that in place at the Group's and HSBC Bank plc's level as appropriate, noting the Group's ambition to include ESG into the existing business framework where possible:

- The Head of Climate Change Europe was appointed to cover commercial and external engagements, reporting to the HBEU CEO and Group Chief Sustainability Officer ('CSO').
- The Head of Sustainability Europe leads internal execution and transformation, reporting to the HBEU Chief of Staff ('CoS') and the Group Sustainability CoS.
- HSBC Bank Malta's Head of Enterprise Risk Management is designated with responsibility for climate and environmental related risks, reporting to the local Chief Risk Officer.

Role of committees and lines of reporting

The Board and its committees receive regular updates on the climate-related and environmental risks in the overall business strategy and risk management framework.

At the management level, the climate and ESG governance has been enhanced and streamlined. The Climate Business Council (previously set up in 2021) was amalgamated with Climate and Environmental Social and Governance Risk Oversight Forum (CESGROF) to enable stronger oversight of climate and environmental risks. This governance has been designed to ensure the HSBC Bank Malta p.l.c. Executive Committee and Board are fully aware of ESG topics and to strengthen the governance and management information ('MI') on climate-related risks. The local CEO is a member of HSBC Continental Europe ESG Steering Committee ("Steerco"), chaired by the HSBC Continental Europe CEO, which sets the strategic direction at entity level in respect of ESG and to oversee the remediation and implementation of the regulatory expectations.

Climate & ESG Risk Oversight Forum ('CESGROF')

The CESGROF which has been established in 2022, is chaired by the Chief Risk Officer, to shape and oversee HSBC Bank Malta p.l.c.'s approach to managing climate-related and environmental risks. The forum ensures a regular review of climate-related and environmental risks. The forum ensures a regular review of climate-related and environment risks across HSBC Bank Malta p.l.c. through the three lines of defence enabling an assessment of the risks involved in the HSBC Bank Malta p.l.c. perimeter and how they are controlled and monitored, giving clear, explicit and dedicated focus to current and forward-looking aspects of risks. This forum has an escalation path to the HSBC Bank Malta p.l.c. Risk Management Meeting.

The roles and responsibilities of the forum are defined in the terms of reference of the CESGROF forum.

Climate Action Network ('CAN')

The bank also supports the Climate Action Network ('CAN'). This is a network of bank employees from across different business lines and functions that are committed to drive sustainable projects inside and outside the bank. These projects range from environmental to future skills topics. In 2023, the CAN teams led various internal learning initiatives to increase the capabilities of our own employees and also within the community. All these initiatives were led ably by our people who use a central platform where they share their achievements and successes of their projects.

Risk Committee Terms of Reference

On the non-executive side, the Risk Committee's Terms of Reference was updated in 2022 to specifically mention the climate and environmental risks among risks related matters that are overseen by this committee. This was reaffirmed through the Committee's Terms of Reference annual approval, last approved in July 2023. ESG governance approach will continue to develop in line with the evolving approach to ESG matters and stakeholders' expectations.

Alignment of remuneration policy

A number of climate-related metrics are used in HSBC Bank Malta p.l.c. within annual incentive scorecards, including those of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, and other senior managers in business and global functions. The completion of these weighted climate-related goals forms part of the annual performance assessment and the associated performance rating basis of the variable remuneration. The goals are linked to the climate ambition of HSBC group to achieve net zero in its operations and supply chain by 2030, developing sustainable finance and supporting clients in their transition to net zero and a sustainable future.

This approach is currently expanded more widely across the organisation in all businesses and functions with specific climate/ environmental/social objectives assigned to all or part of the employees.

Risk management

Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework including definitions, methodologies, and international standards

The initial approach to managing climate risk was focused on understanding physical and transition impacts across five priority risk types: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk.

Climate risk is managed across all HSBC businesses and climate considerations have been integrated into the full bank risk taxonomy in line with HSBC Group-wide risk management framework (via the policies and controls for the existing risks, where appropriate) and the three lines of defence model.

Greenwashing is considered to be an important emerging risk that is likely to increase over time, as HSBC looks to develop capabilities and products to achieve its net zero commitments, and work with its clients to help them transition to a low-carbon economy.

Stress testing and scenario analysis support the local group strategy by assessing its position under a range of climate scenarios. It helps to build the bank's awareness of the potential impact of climate change, plan for the future and meet growing regulatory requirements.

Stress testing provides management with key insights into the impact of severely adverse events on HSBC.

Internal Climate Scenario analyses are also used to provide insights on the long-term effects of transition risks across wholesale corporate portfolios and physical risks across Real Estate portfolios to enrich understanding of the risks and opportunities, drivers, dependencies, and challenges in future climate pathways. HSBC Group (including HSBC Bank Malta p.l.c) continues to enhance its climate scenario, capabilities.

Since 2022, climate considerations were incorporated into HSBC mortgage origination processes for the retail business and new money request processes for the wholesale business. A corporate climate questionnaire is used for wholesale customers with highest climate risk characteristics. This questionnaire helps to understand the customer's climate strategies and related risk. For retail customers, an assessment of the mortgage portfolio for coastal and flash flooding risk is routinely conducted.

HSBC Bank Malta p.l.c. climate risk appetite supports the oversight and management of the financial and non-financial risks from climate change and supports the business to deliver its climate ambition in a safe and sustainable way.

This approach gives the Board and senior management visibility and oversight of the climate risks impacting HSBC Bank Malta p.l.c. and helps in the identification of opportunities to deliver sustainable growth in support of the bank's climate ambition.

Climate scenario analysis and stress tests

Climate scenario analysis are used as a forward-looking tool to assess the potential impacts of climate risk on HSBC operations, credit portfolio, and capital. This includes Group-wide regulatory stress tests, as well as HSBC Bank Malta p.l.c. climate scenario analyses required for the European Central Bank (ECB) in Europe.

HSBC scenario analysis draws on a wide range of external science based scenarios, including from the International Energy Agency (IEA) and the Network for Greening the Financial System (NGFS). The analysis simulates potential impacts on customers' financials and collateral and provides insight on the range of long-term effects climate risks can have on HSBC Bank Malta p.l.c. wholesale portfolio. A sector-specific scenario analysis was run to assess the impact of climate risks under a range of future scenarios:

- Net zero scenario, which seeks to limit global warming to 1.5ºC above pre-industrial levels by 2100 in line with the Paris Agreement. This scenario is equivalent to a net zero by 2050 ambition.
- Current commitments scenario, which assumes that climate actions are limited to the existing governmental commitments leading to an increase of 2.4ºC in global warming by 2100.
- Downside transition risk scenario, which assumes that climate action is delayed until 2030 but still limits global warming to 1.5ºC by 2100.

The potential impacts were measured by reviewing the modelled effect on HSBC's Expected Credit Losses (ECL) for HSBC Bank Malta p.l.c. corporate customers and comparing these to a counterfactual scenario without climate change.

This climate scenario analysis exercise helps to identify and understand the materiality of a range of climate risks to different segments of HSBC Bank Malta p.l.c. loan portfolio. However, the use of these models in the industry is still in its infancy and risk capture is partial and complex due to inherent modelling and data challenges.

The intention is to continue enhancing HSBC climate scenario analysis capabilities and:

- Improve RAS metrics.
- Inform HSBC Bank Malta p.l.c. strategy by using a range of scenario analysis outcomes.
- Support HSBC Bank Malta p.l.c. customers by identifying the climate opportunities and risk.

Description of the link between environmental risks and traditional banking risks

In 2023, HSBC Bank Malta p.l.c. ran a qualitative entity level assessment of how climate and environmental risks may impact risk types within the HSBC taxonomy over short (12 months) , medium (5 years) and long terms (10 years). The most material risks identified are driven by regulatory and/or reputational impacts in the following risk areas: Wholesale Credit Risk, Retail Credit Risk, Strategic Risk/ Reputational Risk; Regulatory compliance/Breach of Regulatory Duty to Clients and Other Counterparties; Resilience risk/Third Party Risk and Financial Reporting Risk.

The next steps are for HSBC Bank Malta p.l.c. to enhance the definition of environmental-related risks within this framework and consider further within day-to-day risk management practices.

HSBC Bank Malta p.l.c. is one of the 13 founding members of the Malta ESG Alliance. The Alliance has the aim of acting as a platform for Maltese businesses to collaborate and work together in order to lead and drive national ESG goals and ultimately act as catalysts while leading by example.

All these activities will ensure nature related issues are embedded into the HSBC Bank Malta transition plan and the definition of the risk management framework.

The management of environmental risk will be aligned to HSBC Continental Europe Environmental Risk Framework, developed in line with Group Risk Management Framework.

Activities, commitments and exposures contributing to mitigate environmental risks

The HSBC Group is accelerating in the deployment of new solutions to the climate crisis and supporting the transition of industries and markets to a net zero future, moving to net zero at its own level as HSBC helps its customers do so too.

Achieving net zero goes hand in hand with halting and reversing nature loss. Nature loss, which refers to the decline of natural capital, ecosystem services and biodiversity, is one of the greatest systemic risks to the global economy and the health of people and the planet.

In taking steps to halt nature loss, the HSBC Group will continue to make progress with the investment and financing of biodiversity and nature-based solutions through client products and services and partnerships.

The HSBC Group published in October 2022 a Statement on Nature. This reconfirms the intent to integrate Nature-related actions into the HSBC transition plan and to publish a new deforestation policy informed by scientific and international guidance in 2023.

https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/221019-hsbc-statement-on-nature.pdf?download=1

HSBC motivations to act are threefold:

- to size the significant economic opportunity that exists in financing the investment needs of its customers in the transition, while helping them to prosper.
- to help mitigate the rising financial and wider societal risks associated with failing to achieve the required transition across industries and geographies.
- to help shape (not just follow) the understanding, policies, market structures and standards necessary to achieve a fair transition while maintaining sound economies.

HSBC aim is to help its people, customers, investors and other stakeholders to understand the Group long-term vision, the challenges and dependencies that exist, and the progress made in HSBC own transition.

HSBC wants to demonstrate its intention to harness its strengths and capabilities in the areas where HSBC believes the Bank can best support large-scale emissions reductions: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains.

HSBC Bank Malta p.l.c. action plan to achieve its objectives consists in embedding net zero into:

- Supporting its customers by providing transition solutions.
- Embedding net zero into the way HSBC Bank Malta p.l.c. operates by managing its own portfolio.

Partnering for systemic change

Implementation of tools and processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels

The HSBC Group recognises that businesses can have an impact on the environment and has developed, implemented and refined its approach to working with its business customers to understand and manage these issues. Indeed, HSBC seeks to ensure that the financial services we provide to our customers to support economic development do not result in an unacceptable impact on people or the environment.

At an HSBC Group level, the sectors identified as priorities, and for which an internal sustainability risk policy has been developed, are Agricultural Commodities, Chemicals, Energy, Forestry, Mining and Metals industries, Thermal Coal Phase Out, UNESCO World Heritage sites and Ramsar Wetlands.

In 2003, HSBC Holdings became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects.

Relationship managers are the primary point of contact for the local group customers, with the responsibilities to monitor the customers' compliance with applicable policies. A network of Sustainability Risk Managers (based in the HSBC Group) provides expertise, support, and guidance to the Businesses and to Risk (credit approvers).

Climate risk is managed in HSBC Bank Malta p.l.c. banking portfolios through its risk appetite and policies for financial and non-financial risks. For wholesale customers, a corporate questionnaire is used with selected clients as part of HSBC transition risk framework to understand the customer's climate strategies and risk. For the retail portfolio, mortgage exposures prone to climate risk are being monitored. The local group's climate change stress testing and scenario analysis are also used to provide insights on the long-term effects of transition and physical risks across retail and wholesale banking portfolios.

Climate scenario analysis is used to enrich HSBC Bank Malta p.l.c.'s understanding of the risks and opportunities, drivers, dependencies, and challenges the local group faces in future climate pathways.

Data availability, quality and accuracy, and efforts to improve these aspects

The local group has a holistic approach to data governance which includes all of risk as well as, other business lines and functions. This is set out within the Group Data Management Policy and Controls which covers Environmental Risk data. The HSBC Group's data management commitments are captured within its Data Management Procedures and also align to Basel Committee on Banking Supervision "Principles for Effective Risk Data Aggregation and Risk Reporting ('BCBS 239')" requirements.

The Group Data Management Procedure seeks to embed effective data management in business activities and processes by articulating the activities that must be incorporated across the Group (including HSBC Bank Malta p.l.c.). The Procedure applies to all users and providers of data in the HSBC Group and assigns responsibility to all staff for managing the quality of data in the processes and systems that they own. Complementing the Data Management Procedure is the BCBS 239 Compliance Framework. This defines the minimum standards to be met when aggregating and reporting environmental risk data. The documents have been designed to reflect and implement the BCBS 239 principles, and adherence to the standards within the Framework is mandatory for all applicable local group areas.

Guidance is progressively provided in terms of reporting environmental risk which can be built with current data. Current internal data does not allow proper identification of green products under the EU taxonomy until the data is aligned (2023). Lists of green bonds and loans are gathered from specific teams, including prospectus documents for green bonds, allowing to identify the use of proceeds. Energy Performance Certificate ('EPC') ratings are mostly not available in internal local group systems; therefore, a calculation model is used to estimate the energy efficiency information. From Q4 2022, we have started collating EPC certificates for new mortgage lending. Such information is being kept manually but we aim to start capturing the information in internal systems.

Qualitative information on social risk

HSBC Bank Malta p.l.c., as a major banking and financial services organisation, faces social risks. Social risks, as defined by the Official Journal of the European Union (Article 1, Amendments to Implementing Regulation (EU) 2021/637, p. 16), are understood as the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of social factors on the institution's counterparties or invested assets. As defined by the European Banking Authority ('EBA'), social aspects include human rights violation, labour rights, income inequality, lack of human rights, customer safety and protection, privacy, poverty and non-discrimination. Furthermore, climate change and transition to a low carbon economy have social impacts that include changes to the job market. These include the decrease in the demand for certain jobs and skills, the emergence of new jobs and skills, consumers' changing preferences, shareholders' willingness to swiftly integrate climate, environmental and social changes in their companies.

HSBC Bank Malta p.l.c.'s Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. Progress against ESG ambitions is reviewed through Board discussion and review of key topics such as update on net zero, customer experiences and employee sentiment.

Human rights

Strategy and business processes

The local group, as part of the HSBC Group, takes into account in its strategy, local contexts, laws and regulations of the countries in which it operates. Relevant international standards are used to determine appropriate framework to comply with human rights. HSBC Bank Malta p.l.c. seeks to raise awareness of human rights by promoting good practice through its business conduct.

As a financial services organisation, the local group can have an impact on the human rights of a range of stakeholders, including as an employer, a provider of financial services, a buyer of goods and services and an investor.

From an employee perspective, the local group requires its employees to treat colleagues with dignity and respect, creating an inclusive environment. Employees are made aware of their employment rights and duties through a variety of channels, including employment contracts and policies, procedures in employee handbooks, employee websites and a global Code of Conduct. Employees are trained on a range of human rights related topics including but not limited to diversity and inclusion, bullying and harassment, racism and, data privacy. In addition, employees receive regular training as part of HSBC's broader financial crime control framework, covering anti-money laundering, anti-bribery and corruption and financial sanctions. Each of these areas intersects with human rights risk.

From a customer standpoint, the HSBC Group has developed sustainability risk policies which are also used at HSBC Bank Malta p.l.c. level. The policies also apply to main financing products offered to customers. Customers are engaged, where appropriate, and supported in adopting more sustainable practices. The sustainability risk policies on forestry, agricultural commodities, metals and mining, and energy specifically refer to human right considerations. They include issues such as land rights, harmful or exploitative child labour or forced labour, rights of local communities, workers' rights and the health and safety of communities. An annual review is carried out on Commercial Banking clients operating in sectors covered by the Group's sector policies, and all transactions in these sectors are also reviewed.

Finally, regarding suppliers, the code of conduct, revised in 2023, sets out HSBC's commitments to the environment, diversity and human rights, and outlines the minimum commitments expected by suppliers on these issues. Commitment to the code is formalised with clauses in supplier contracts, which support the right to audit and act if a breach is discovered.

HSBC's Duty of Care Plan is supported by the framework defined by HSBC related to human rights. Commitments have been made and rules and procedures adopted at HSBC Group level to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment.

Policies and risk management

In 2023, the process of adapting internal risk management procedures has begun to reflect key learnings from the work on salient human rights issues described above. This included the development of global guidance on human rights, which incorporates the salient human rights issues assessment and provides colleagues with clear principles and practical advice, including case studies, on how to identify, prevent, mitigate and account for how impacts on human rights are addressed. Additional human rights elements have been incorporated into existing procurement processes and supplier code of conduct, and existing human rights due diligence processes have been extended for suppliers and business customers.

HSBC Bank Malta p.l.c. has defined employment practices and relations policies set in the Human Resources ('HR') procedure guideline within a Functional Instruction Manual ('FIM'). This manual aims to ensure that HSBC Bank Malta p.l.c. as an employer takes all appropriate steps to meet employment laws, regulatory commitments and obligations to the workforce. These include and are not limited to human rights violation, labour rights, income inequality, lack of human rights, privacy, poverty and non-discrimination matters.

Failure to comply with the policy could result in financial loss, legal or regulatory action, reputational damage or impacts on employees. In addition to employee impacts, failure to comply with the requirements in this policy could indirectly lead to negative impacts on the outcomes for customers. A set of controls has been defined under the Non-Financial Risk Framework and in line with non-financial risk management principles. These allow the local group to identify and manage Risks and controls arising from social risks/aspects. The policy contains the minimum expectations and controls to manage non-financial risks within risk appetite.

Employee matters

Strategy and business processes

The HSBC Group promotes an inclusive organisation that values differences, takes responsibility and seeks different perspectives for the overall benefit of HSBC's customers.

A dynamic culture is encouraged where employees can expect to be treated with dignity and respect. Understanding the experience of employees is critical. To do so, an annual employee survey Snapshot is conducted. This survey allows measurement of employee engagement score and captures views their perception, from strategy to wellbeing.

HSBC Bank Malta p.l.c. encourages people to speak up in particular when observing unlawful or unethical behaviour. A range of speak-up channels is offered through which employees may voice any concerns. Nevertheless, it is acknowledged that at times people may not feel comfortable speaking up through the usual channels. As a result, a global whistleblowing platform, HSBC Confidential has been established. This platform allows employees to raise any concerns in confidence and, where preferred, anonymously. HSBC Confidential can be accessed in various ways, including telephone outlines, online portals and email. In this context, a yearly check is conducted on the way employees use the local group channel from a performance and remuneration standpoint. Concerns are investigated proportionately and independently, and can result in the invoking of disciplinary actions.

Under the Exchange Meeting programme, agenda-free consultation meetings are held which managers attend without any seniority-based privileges. Employees are free to discuss any issues they wish.

Where appropriate feedback from the meetings is shared with the HSBC Group. Since the programme was launched in 2012, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.

Difference among colleagues is valued to build an inclusive workforce. In 2023, 53% of our senior leadership roles were held by women and 83.5% of internal appointments were from our female population.

The bank raises awareness on unconscious bias through Inclusion workshops for all and continues to deliver the 'Inclusive Leadership' training programme for managers. In addition, part of the mandatory 'The Code of Conduct & me' training session deals with workplace bias and discrimination.

Our Diversity and Inclusion Committee continues to ensure that we drive our Diversity and Inclusion policies and principles through all activities including recruitment processes, learning programmes and various initiatives across the bank and Malta. In addition, employees are offered internal and external tutoring and mentoring roles under voluntary programmes, giving them experience outside the confines of their day-to-day work and enabling them to develop new skills.

Attracting, integrating and retaining talented people is extremely important. In 2022 we had introduced a 'Refer a Friend' initiative to create a stronger resourcing pool in view of an increase in demand for resources across the financial services market. We continued collaborating with the University of Malta and other educational institutions. This includes the participation in careers fairs and the sponsorship of student awards. Several students who had spent time gaining experience through work placements, returned to HSBC as full-time employees upon completion of their studies, proof over the positive value of such student placements. We strongly believe in the importance of engaging with our future Talent, thereby providing future pipeline for the business. Flexible (including remote) working have been engrained in our work practice thereby facilitating a healthy work/life balance for our people.

Employees are recruited from a variety of backgrounds to contribute to the bank's various business lines and functions. In addition, every year, succession plans for key positions are reviewed. There are clear guidelines to ensure that robust succession plans are in place and to promote gender balance and diversity.

Developing the skills of employees is critical to energising the organisation in a context where technology is developing at a rapid pace, where employability is key and a range of new and different skills (resilience, financial capability, climate knowledge, etc.) are now needed to succeed in the workplace. A culture of learning is encouraged through a range of resources, providing employees with a breadth of educational materials and opportunities. Digital, data, sustainability and personal skills are explored as part of future skills campaign. Employees identify specific skills they want to develop and may assess them through a skills platform (HSBC University, Degreed learning platform, LinkedIn learning) to shape their development plan. A community of referents has been set up to share best practices and support the adoption of the platform within each business line in HSBC.

The learning function offers a wide range of awareness-raising and training activities for employees in order to contribute to the ambition of a net-zero transition by 2050. The new Sustainability Academy was launched with a dedicated online portal on HSBC University that brings together all sustainability learning, communications and policies in one central resource. This new Academy has been created to enable transformation and growth by creating a shared mindset, developing the right skills-set and building confidence by providing current HSBC actions.

Other actions will be proposed throughout the year in order to encourage employees to learn more about these sustainable development topics and to share several best practices within the organisation and with customers. For instance, Commercial Banking has created a region-wide Sustainable Finance Country Representative Network. These representatives and ambassadors obtain privileged access to information, training, and specific events. In turn, they are expected to drive the strategy on the ground and act as local experts within their countries and teams.

Employee' wellbeing remains a top priority. As an example, new ways of working have been implemented, enabling more employees to work flexibly and remotely. In addition, new tools and training have been launched to support mental, physical and financial health, remote management, appropriate use of digital tools, to encourage work life balance. Helping employees to be healthy and happy is a key enabler of HSBC Bank Malta p.l.c. strategy. Wellbeing questions have in fact been added in the annual Snapshot survey to get feedback from employees and continue to improve the approach on this topic.

In a highly connected environment, and given the massive uptake of remote working, appropriate use of professional communication tools is a key challenge for maintaining quality of life at work.

Governance

HSBC encourages a speak up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels without fear of reprisal or retaliation. HSBC provides a number of channels to speak up, however it is recognised that in certain circumstances it may be necessary for individuals to raise concerns through more targeted and confidential channels. For this purpose, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing. Our whistleblowing channel, HSBC Confidential is open to all colleagues to raise concerns in line with local laws. All whistleblowing reports received are investigated in a detailed and independent manner and remedial action is taken where appropriate. The prevalent themes raised are in relation to allegations on staff behaviour. The oversight of the policy falls within the responsibilities of one of the Non-Executive Directors and within the remit of the bank's Audit Committee.

Remuneration policy, being neutral and inclusive, is designed to motivate and retain the best employees and to make sure each and every employee is treated fairly. The bank's Remuneration and Nomination Committee (the 'Committee' or 'RemNom') within its remuneration oversight remit, is responsible for overseeing the implementation and operation of the bank's remuneration framework, satisfying itself that the remuneration framework is aligned with local law, rules or regulations, as well as with the risk appetite, business strategy culture and values, and long-term interests of the bank. The Committee also seeks to satisfy itself that the remuneration framework is appropriate to attract, retain and motivate individuals of the quality required to support the success of the bank. It ensures that the remuneration policy is consistent with and promotes sound and effective risk management.

The local group is committed to managing change while maintaining a regular dialogue with bodies representing employees, supporting managers, redeploying impacted colleagues when possible, proposing, where appropriate, adapted financial and supporting measures.

Policies and Risk Management

Global principles overlay all Group policies and procedures, connecting the organisation's purpose, values, strategy and approach to risk management. They guide the local group in the decisions it takes and how it operates. The Risk management framework is underpinned by the group's values and governs the HSBC Group's overall approach to managing risk. In addition, a number of internal entity led controls are in place to ensure that risk management and corporate governance activities are carried out effectively across the bank. HSBC Bank Malta p.l.c. uses defined framework: the '4Cs' (Capacity, Capability, Conduct and Culture), and associated Employment practices and relations to manage employee matters. Two of the risks defined in HSBC Risk Taxonomy have been identified and considered as supporting the remediation of some of the social risks given their overarching coverage of people management guiding principles:

- Failure to comply with employment law and regulations. The risk of failing to comply with employment legislation, regulation or requirements throughout the employee journey, from hiring to leaving, which could result in local group being in breach of

employment law by not treating employees in line with legislation and regulations. Following the policy will manage the risk of legal action, regulatory censure, reputational damage and financial loss.
- Failure to manage poor employee behaviours and employee concerns. The risk that concerns raised by employees or employees who demonstrate poor behaviours are not effectively managed. Where employee to employee behaviours are not in accordance with HSBC's values, code of conduct etc. or whereby employee concerns are not appropriately addressed.

In the context of the 2023 analysis of the most material ESG-related risks impacting the local group, two risks involving human capital have been identified:

- Risk of failure to recruit and retain talent – In a rapidly changing banking industry (digitalisation, regulatory developments, changes in the macroeconomic environment etc.), HSBC aims to accompany the shift in occupations by attracting, recruiting and integrating the best talent. Against a backdrop of global competition, organisations are predominantly focused on talent risks relating to capability and capacity. Capability and capacity-related talent risks include: a lack of depth of internal candidates for critical roles, an insufficient pipeline of future leaders, difficulties in retaining key people and in recruiting top talent, a failure to develop the skills and capabilities required by the business in the near future, a lack of compelling development opportunities for top talent.
- Risk of deterioration in the quality of life at work and psychosocial risks. Psycho-social risks are created by a poor working environment inadequate working conditions, insufficient human resources or inadequate managerial practices, leading to absenteeism. Work-related stress has the potential to negatively affect an individual's psychological and physical health, as well as an organisation's effectiveness. Mental health problems and other stress-related disorders are recognised to be among the leading causes of early retirement from work, high absence rates, overall health impairment and low organizational productivity.

The Functional Instruction Manual, which describes the employment practices and employee relations policy set in Human Resources procedure guideline, ensures that the local group effectively manages cases where employees demonstrate poor behaviours towards each other (Personal Conduct cases). Personal Conduct Cases are taken into account in the performance review for HSBC Bank Malta p.l.c.'s employees.

Compliance is required with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which the local group operates. A global anti-bribery and corruption policy exists, which requires compliance with the spirit of laws and regulations to demonstrate commitment to ethical behaviours and conduct as part of environmental, social and corporate governance.

The controls below are operated to ensure compliance with labour laws and regulations and anti-discrimination rules. The Policy applies to all Businesses, Functions, Digital Business Services ('DBS'). The minimum control requirements set out in the policy and detailed in the Operational Risk Control Library specifically relate to the HR Function. However, all HSBC employees and other worker groups have responsibility to adhere to and enforce this policy.

The following Human Resources owned entity level controls ('ELCs') are used to support the local group's internal control environment as per the Risk Management Framework and may reflect control activities, which if not managed could impact the conduct outcomes linked to customers and markets. See below for some of the controls in place:

- Employment practices and relations: complying with employment laws, regulations and commitments to workforce;
- Conduct: managing poor behaviours and employee concerns;
- Permissions to work: completeness of work permission records;
- Employment law and regulatory developments: implementation of legislative or regulatory changes;
- External reporting submissions: quality checks on external reporting submissions;
- Employee representative bodies: inventory of agreements and authority to create binding agreements;
- Material risk taker ('MRT') remuneration: completeness of MRT population and accuracy of remuneration delivered;
- Working hours and overtime: completeness and accuracy of working hours and overtime records;
- Employee concerns and complaints handling procedure: annual review to confirm it remains valid and authorisation of changes;
- Employee investigations: closure accuracy and completeness checks; and
- Performance and reward sanctions: accurate capture of performance and reward adjustments aligned to the conduct and consequence management guidelines.

Customer matters

Strategy and business processes

The conduct approach helps to focus on the impact HSBC Bank Malta p.l.c. has on its customers and financial markets. It focuses on five clear outcomes:

- understanding customers' needs;
- providing products and services that offer a fair exchange of value;
- serving customers' ongoing needs, and putting things right in case of mistake;
- acting with integrity in the local financial markets HSBC Bank Malta p.l.c. operates in; and
- operating with resilience and security to avoid harm to customers and markets.

Inputs are also identified and contribute to creating the right environment to enable the Customer and Market Outcomes to be achieved:

- Culture and behaviour;
- Strategy and Decision-making; and
- Governance and Reporting.

The conduct approach is embedded into the way the local group develops, distributes, structures and delivers products and services. The approach to product design and development – including how products are advertised – is set out in HSBC Bank Malta p.l.c. policies and provides a clear basis from which strategic product and service decisions can be made. Global businesses each take the following approach:

- carrying out robust testing during the design and development of a product to help ensure there is an identifiable need in the market;
- considering the complexity of products and the possible financial risks to customers when determining the target market;
- offering a carefully selected range of products that are managed through product inventories, helping to ensure they continue to meet customers' needs and continue to deliver a fair exchange of value;
- disconnecting variable pay of Relationship Managers from the volume of customers' sales;
- regularly reviewing products to help ensure they remain relevant and perform in line with expectations set;
- where products do not meet customers' needs or no longer meet high standards, improvements are made or they are withdrawn from sale;
- wherever possible, acting on feedback from customers to provide better and more accessible products and services; and
- considering impact on the integrity of markets when introducing new products.

The strategy to support customers with enhanced care needs continues to be a core focus. Guidelines and procedures have been developed to ensure that the right outcomes are provided for customers who may require enhanced care. A number of improvements have been made to products, services, governance and oversight, as well as development of employees' skills and capabilities. To support this approach, post-sale controls and calls are performed with a sample of customers to ensure that needs have been fairly identified and supported.

Governance

Oversight of product design and sales is provided by governance committees chaired and attended by senior executives who are accountable for ensuring that risks are managed appropriately, and within appetite, to ensure fair customer outcomes. HSBC Malta businesses continue to focus on the development of HSBC's ESG product suite across all asset classes, ensuring that the position as an innovator of ESG products is maintained, and remain committed to helping mitigate against greenwashing risks.

Policies and risk management

Customers' interests are at the heart of the local group's business, and policies and procedures are in place that set the standards required to protect them. These include:

- providing information on products and services that is clear, fair and not misleading;
- enabling customers to understand the key features, the risks, exclusions and limitations for all products and services including ESG-related products;
- enabling customers to make informed decisions before purchasing a product or service; and
- checking that customers are offered appropriate products and, where relevant, receive the right advice.

For example, in WPB, customers' financial needs and personal circumstances are considered to offer suitable product recommendations. This is achieved through measures such as:

- a globally consistent risk rating methodology for investment products, which is customised for local regulatory requirements; and
- a thorough customer risk profiling methodology to assess customers' financial objectives, attitudes towards risk, financial ability to bear investment risk, and knowledge and experience.

In addition, sales quality and mystery shopping reviews assess whether customers receive a fair outcome.

In CMB, focused sales outcome testing is operated to ensure that product features and pricing are correctly explained.

In Global Markets' ('GM') markets business, sample based testing on sales of products are undertaken to ensure that product features and pricing have been correctly explained and sales processes have been adhered to. Feedback is collated centrally and acted upon in a timely manner.

The net promoter score ('NPS') system is used to provide a consistent measure of the performance. NPS is measured by subtracting the percentage of Detractors from the percentage of Promoters. Customer feedback is managed when things go wrong and actions against key customer complaints are reported.

Tracking, recording and complaints management aim to be open and consistent. A consistent set of principles enables HSBC Bank Malta p.l.c. to remain customer focused throughout the complaints process. As an example, HSBC Bank Malta p.l.c. has adapted quickly to support customers facing new challenges and new ways of working. In addition, studies are run that allow HSBC Bank Malta p.l.c. to benchmark the performance on customer satisfaction against other banks.

Community and society

The Group has a long-standing commitment to support the communities in which it operates through charitable partnerships and volunteering opportunities. The HSBC Group aims to provide people with the skills and knowledge needed to thrive in the post pandemic environment, and through the transition to a sustainable future.

Through the HSBC Malta Foundation, the bank seeks to work with numerous stakeholders in the community with the aim of creating a sustainable future. Every year, the HSBC Malta Foundation earmarks part of its funding for causes that are important to our community. In 2023, the HSBC Malta Foundation continued to support a number of projects including the Prince's Trust International Achieve Programme, the JAYE (Young Enterprise) Malta Foundation, The Malta Chamber of Commerce, the Malta Community Chest Fund Foundation and Fondazzjoni Patrimonju Malti amongst others.

The HSBC Malta Foundation continued to work with ĠEMMA within the Ministry for Social Justice and Solidarity, The Family and Children's Rights to deliver financial literacy sessions to various audiences including SME's and people living in the community with mental health issues. The sessions focus on helping the various audiences to learn how to make good financial and lifestyle choices. The HSBC Malta Foundation has a long track record of supporting ĠEMMA and its financial literacy initiatives. This is part of our commitment to helping young people acquire the skills they need to live a fulfilling and successful life.

Currently the HSBC Malta Foundation is sponsoring two major transformative projects in line with its strategic priorities. The first project is linked to Future Skills which is aimed at looking into the skills required in the future of work. This three-year research project aims to identify the skills needed for the future of work in Malta and to embed these skills in the national curriculum. The second project is linked with our climate ambition and net zero strategy. The objective of the project entitled 'Maximising energy efficiency through building renovation: HSBC Case Study'. Through this foundational study, HSBC is paving the way for more advanced research and policymaking and is leading the transition towards more sustainable Maltese buildings. This project sets a precedent locally, where data on utility usage and building efficiency has been scarce compared to other European countries. Featuring its offices in Qormi as a pivotal case study, HSBC is taking a leadership role in the transition to high energy efficiency and low-carbon office buildings in Malta, a ground-breaking project.

Qualitative information on Governance risk

The information in this section describes the governance in place relating to HSBC Bank Malta p.l.c.'s counterparties, as opposed to its own internal governance. To this end, the local group includes disclosure relating to two things, covering governance and risk management. Firstly, the way that local group manages reputational risk and secondly financial crime risk.

Acting responsibly

HSBC Bank Malta p.l.c. is aligned with HSBC Group to ensure commitment to high standards of governance. The Board of HSBC Bank Malta p.l.c. sets the strategic direction, including ESG, upon management's recommendation, and oversees its execution.

ESG-related risk is considered within the existing first and second line of defense governance structure to ensure that senior management have adequate oversight of key ESG-related issues. The below shows how ESG-related risk Governance is considered into HSBC Bank Malta p.l.c.'s existing framework.

Customer experience is at the heart of how the HSBC Malta p.l.c. operates. It is imperative that its customers are treated in a fair manner, and that the bank acts quickly & fairly to resolve complaints.

Customer satisfaction is measured through net promoter scores across each of business lines, customer feedback, to better know where HSBC Bank Malta p.l.c.needs to improve, and take steps to do this.

HSBC is committed to work with its regulators to manage the stability of the financial system, adhering to the spirit and the letter of the rules and regulations governing the financial services industry.

The Bank continues to seek to ensure that focus is placed on treating both customers and employees fairly and within the principles of human rights. The key topics to consider are the following:

Board	The Board sets the strategic direction, including on ESG (including climate and nature), upon management's recommendation, and oversees its execution.			
			Risk Committee advises and supports the Board for the oversight of risk related matters and enterprise risks, including Nature-related risk	Audit Committee advises and supports the Board regarding matters relating to financial reporting and the effectiveness of internal financial control systems
CEO	The Chief Executive Officer is responsible for the management of the business, as well as the setting and implementation of the HBMT Strategy as part of HBCE, including on ESG			
Executive	Executive Committee supports the CEO in the development and implementation of our ESG Strategy	Risk Management Meeting supports the CRO on enterprise-wide management of all risks, including key policies and frameworks for Nature-related risk		
Sustainability/ Climate Specific Forum		Climate and ESG Risk Oversight Forum oversees all risk activities relating to Nature related risk management, including physical and transition risks. Equivalent forums are established at a principal		

Reputational risk

The Group Reputational Risk Committee oversees global executive support for identification, management and ongoing monitoring of reputational risks, including those related to ESG matters. The responsibility is held by the Group Chief Risk and Compliance Officer.

At HSBC Bank Malta level, Reputational Risk & Client Selection Committees ('RRCSC') are regular committees, established to provide recommendations and advice on clients and non-clients (e.g. third parties) with a focus on wider reputational risks for both Commercial Banking ('CMB') and Retail and Wealth. Cases with significant impact are escalated to the regional/Global equivalent of this committees as required.

Within the Global Risk and Compliance function, reputational and sustainability risk specialists are responsible for reviewing, implementing and managing sustainability risk policies. Local risk managers continued to be supported by regional reputational risk managers across the Group who have taken on additional oversight responsibilities for sustainability risk.

Fair treatment to stakeholders

HSBC's strategy, business models, plans, and decisions always aim to deliver fair treatment for customers and not disrupt market integrity. The Group's culture aims to supports its people, empowers them and rewards them for consistently doing the right thing for our customers and markets and always learning from any mistakes. Ethical and professional standards are embedded in HSBC internal rules framework and all employees must comply with these. In particular, this framework covers confidentiality obligation, anti-money laundering and financial crimes prevention, conflict of interests, reputation and image protection, market integrity, bullying, harassment and discrimination prohibition, appropriate use of IT systems and tools.

Different disciplinary sanctions may apply to any employee who does not comply with this set of rules. In addition, the Group has implemented an employee recognition and conduct framework which aims to recognise exceptional conduct demonstrated by its employees and, on the contrary, to discourage misconduct and inappropriate behaviour.

The misconduct cases are reviewed to determine the level of misconduct and the disciplinary sanctions and consequences to apply. A summary of the identified breaches is presented on an annual basis to the HSBC Continental Europe People Committee and to the HSBC Continental Europe Remuneration Committee where appropriate.

Conflict of interest policy

HSBC Bank Malta p.l.c. lines of business and functions have in place procedures, adapted from the Conflicts of Interest's Policy (including Personal Account Dealing, Personal Connection Conflicts and Outside Activities) and controls to identify, and prevent or manage Conflicts of Interests. HSBC Bank Malta p.l.c. management body is subjected to similar rules enclosed in the Board of Directors' Internal rules.

The Conflicts covered by these procedures can be potential or actual, and may arise between:

- One Client and another (Client versus Client).
- HSBC Bank Malta p.l.c. and a Client (HSBC Bank Malta p.l.c. versus Client).
- A Worker and a Client (Worker versus Client).
- A Worker and HSBC Bank Malta p.l.c. (Worker versus HSBC Bank Malta p.l.c.). and/or
- One part of HSBC and another (HSBC versus HSBC Bank Malta p.l.c.).

According to the internal Conflicts of Interests policy, Businesses and Functions in HSBC Bank Malta p.l.c. (including its subsidiaries), must:

- Identify all types of potential Conflicts that could reasonably arise in the context of their activities.
- Maintain a Register of all identified potential conflicts: these conflicts include both individual business conflicts as well as those arising across businesses or legal entities. A Group tool is implemented to facilitate the inventory of all types of conflicts.
- Prevent or manage conflicts on an ongoing basis.
- Disclose conflicts where appropriate.
- Evidence all occurrences of conflicts that cannot be managed.

Conflicts of Interest has been highlighted as a prioritised Regulatory Compliance Risk when considering Climate, as such Climate and ESG considerations should be undertaken throughout and documented where relevant and appropriate.

Any material risk and issues related to conflicts of interests are escalated and managed by the risk management forums by business line and functions within their terms of reference.

Similarly, to other RC risks, verification of adherence to the conflict of interest policy is notably performed based on the risk assessment process within the three lines of defence model.

The conflicts of Interest Policy is reviewed and approved annually by both HSBC Bank Malta p.l.c's Risk Management Meeting and the Board of Directors.

Risk for significant adverse incident

For significant events (including the ones related to ESG) that may have an adverse impact on HSBC Bank Malta p.l.c., HSBC has an established Major Incident Group, responsible for managing the response. A subsidiary network of Major Incident Groups is also in place to allow an effective and consistent response, to regional, national and global events. Clearly defined roles and responsibilities, combined with a programme of ongoing training and exercising, ensure the capability to provide an immediate and effective response to any major incident. As such, the Bank would implement appropriate measures designed to continue service and support to our customers with minimal disruption. The Bank has plans to ensure HSBC's ability to coordinate a wide response to the challenges posed by any type of event affecting our premises. These plans include communications, high levels of working from home and split-site capability in key locations by making use of our contingency sites for critical processes where appropriate. All work that is migrated offshore to the HSBC Global Service Centres ('GSC') is subject to a robust continuity framework whereby all critical work needs to be shared between two locations, can be undertaken from home or has effective in-country local recovery, thereby mitigating concentration risk. HSBC Onshore management have oversight on all aspects of incidents that impact the GSC locations.

Third party risk

HSBC Bank Malta p.l.c. is committed to the fair treatment of businesses that supply it with goods and services and expects them to operate responsibly in line with HSBC's values.

During the selection and tender process, third party suppliers are asked to complete a questionnaire which asks questions about their Carbon Emissions Reduction policy, whether climate goals are integrated into their strategy, and whether there is a dedicated diversity, equality and inclusion team in their workplace.

HSBC Bank Malta p.l.c.'s contracts with third-parties include clauses covering conflicts of interest, duty of care, sustainable development and responsibility. They also include clauses requiring the third party to notify the bank of any event that may affect the schedule, the level of quality expected for the services, the commitments of the parties, their financial situation and ability to perform the services efficiently to the agreed service levels and in accordance with applicable law and regulation. Once an event has been identified, notified, investigated, a rectification plan and all necessary measures to minimise the impact are put in place.

HSBC Bank Malta p.l.c.'s internal policy on event management require the escalation of all incidents of critical concern (including those related to ESG and third-party suppliers) to appropriate senior management stakeholders without delay. Operational incidents and near-misses, irrespective of their financial impact, are recorded in the Bank's risk management tool and are subject to relevant risk governance.

HSBC on all levels is encouraging participation of diverse suppliers in procurement activities. HSBC Group's supplier code of conduct sets out the Group's commitments to the environment diversity and human rights, and outlines the minimum commitments expected of supplier on these issues. Commitment to this code of conduct is formalised with clauses in supplier contracts, which support the right to audit and act if a breach is discovered.

Respect of Human Rights

HSBC approach is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

In 2022, building on an earlier human rights review which had identified Modern Slavery and Discrimination as priority issues, HSBC conducted its first comprehensive review of its salient human rights issues. These are the human rights at risk of the most severe negative impact through HSBC' business activities and relationships. HSBC Bank Malta p.l.c. is relaying on the Group approach in consideration of on the nature of its business.

HSBC Bank Malta p.l.c. aims to engage with its customers and support them in adopting more sustainable practices.

HSBC established Sustainable Procurement Mandatory Procedures to help in identifying and escalating, where appropriate, human rights issues in its supply chain, and to ensure that its suppliers observe the human rights elements of HSBC code of conduct. This includes enhanced procedures for human rights risk identification through the introduction of a human rights residual risk questionnaire for suppliers.

The supplier code of conduct adopted by HSBC Bank Malta p.l.c. sets out HSBC commitments to the environment, diversity and human rights, and outlines the minimum commitments HSBC expects of its suppliers on these topics.

Financial crime risk

Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. HSBC Bank Malta p.l.c. aligns to the Group and have a financial crime risk management framework that is applicable across all global businesses. The financial crime risk framework, which is overseen by the Group Board, is supported by financial crime policies that are designed to enable adherence to applicable laws and regulations.

Annual mandatory training is provided to all employees, with additional targeted training tailored to certain individuals. Regular risk assessments are carried out, to identify where a response is needed to evolving financial crime threats, as well as monitoring and testing the financial crime risk management programme.

The HSBC Group global anti-bribery and corruption policy requires that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority. The global anti-bribery and corruption policy requires that the risk of customers and third parties committing bribery or corruption is identified and mitigated. Among other controls, the customer due diligence and transaction monitoring is used to identify and help mitigate the risk that the customers are involved in bribery or corruption. Anti-bribery and corruption risk assessments are performed on third parties that expose HSBC to this risk.

Scope of ESG reporting

The information reported in below tables relates to the principal operating entities within HSBC Bank Malta p.l.c.'s prudential scope of consolidation at 31 December 2023. The subsidiary engaged in insurance activities is excluded from the prudential consolidation. Within this scope, due to operational limitations, the bank entity has been selected on the basis of it's relative exposure to achieve overall material disclosure coverage at local group level. Consequently, the exposures of HSBC Bank Malta p.l.c.'s asset management subsidiary is not included in the tables below. These tables provide information on non-trading book exposures; assets held for trading are excluded.

Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity

In accordance with Article 449a of CRR, HSBC Bank Malta p.l.c. has disclosed those exposures which are more exposed to risks from the transition to a low-carbon and climate resilient economy as specified in Recital 6 of the Commission Delegated Regulation (EU) 2020/1818; and a subtotal for exposures to "other sectors" not mentioned therein.

The table sets out information on the bank's exposures to non-financial corporates operating in carbon-related sectors, and the quality of those exposures, including non-performing status, stage 2 classification, and related provisions, as well as maturity buckets. Counterparty NACE sector allocation is based on the nature of the immediate counterparty.

There is a sector classification refinement project in 2023 to review the way we category our customers by business sector. The underlying data has been updated to align the customers sector classification based on the NACE code (i.e. statistical classification of economic activities in the European Community) where possible. This impacted the sector classification reporting in this template.

Identification of companies excluded from Paris aligned benchmark

HSBC Bank Malta p.l.c. is required to report the gross carrying amount of exposures to counterparties that are excluded from the EU Paris-aligned Benchmarks as specified in Article 12.1, points (d) to (g), and Article 12.2 of Commission Delegated Regulation (EU) 2020/1818.

Counterparties are excluded based upon the criteria listed in Articles 12.1 and 12.2 of the Climate Benchmark Standards Regulation. The relevant articles and approach are set out below:

Approach to article 12.1

#12.1 Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:

(a)-(c) companies involved in any activities related to controversial weapons; companies involved in the cultivation and production of tobacco; companies that benchmark administrators find in violation of the United Nations Global Compact ('UNGC') principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;

(d) companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;

(e) companies that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;

(f) companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and

(g) companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.

Criteria (a) – (c) are out of scope and companies in these sectors are excluded in our disclosure.

To identify companies under criteria (d) to (f), an external data source, Urgewald, has been used. Urgewald is a non-profit environmental and human rights organisation, which tracks and reports on corporates engaging in Coal and Oil & Gas. Counterparties have been reported against the two following lists: Global Coal Exit List ('GCEL'); Global Oil & Gas Exit List ('GOGEL').

A two-step approach has been used to identify companies under criterion (g): i) a sector analysis to identify companies allocated to the electricity generation sector based on NACE code, and; ii) companies which declare their activities as fully renewable were removed from the list (based on publicly available third-party data). The remaining population is reported in the relevant column of the table.

Approach to article 12.2

#12.2 Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council (8), in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.

HSBC Bank Malta p.l.c. has not applied this in its interim 2023 reporting as counterparty alignment data under EU Taxonomy Regulation 2020/852.

Determination of clients excluded from with the EU Paris-Benchmark is done on a best-efforts basis either based on available third-party data or relevant sector classification. The coverage of available information on counterparty exposures is expected to improve over time and could result in further counterparties being identified as excluded.

Identification of environmentally sustainable exposures (CCM)

HSBC Bank Malta p.l.c. is required to report the taxonomy-aligned exposures that are in accordance with EU Taxonomy Regulation 2020/852 and aligned with Table 36 Mitigating actions: Assets for the calculation of GAR (Template 7) for non-financial corporations.

GHG financed emissions

The disclosure requirement for information on GHG financed emissions is voluntary in the first two years of reporting. HSBC Bank Malta p.l.c. does not currently disclose GHG financed emissions split by sector. HSBC Bank Malta p.l.c.'s plans to implement methodologies to disclose financed emissions will evolve, with regular reassessment of methodology and necessary data to take account of new and upcoming regulatory requirements and climate science.

The HSBC Group announced in October 2020 its ambition to become a net zero bank, including an aim to align its financed emissions to net zero by 2050 or sooner. In May 2021, shareholders approved a climate change resolution at the Annual General Meeting ('AGM') that commits to set, disclose and implement a strategy with short- and medium-term targets to align provision of finance with the goals and timelines of the Paris Agreement.

The analysis of financed emissions considers on-balance sheet financing, including project finance and direct lending.

Financed emissions link the financing provided to customers with their activities in the real economy to help provide an indication of the greenhouse gas emissions associated with those activities. They form part of the HSBC Group's scope 3 emissions, which include emissions associated with the use of a company's products and services.

The HSBC Group is using the Net Zero Emissions ('NZE') by 2050 scenario provided by the International Energy Agency ('IEA') as a single-scenario (IEA NZE 2021) reference benchmark to assess its financed emissions. It provides industry specific emissions projections from which HSBC constructs benchmark pathways. These benchmarks help the HSBC Group set targets that align the provision and facilitation of finance with the goals and timelines of the Paris Agreement at a portfolio level globally.

The HSBC Group have set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors. In addition, the Group have set out the defined targets for the on-balance sheet finance emissions of the following sectors: cement; iron, steel and aluminium; aviation; and thermal coal mining. The Group focused its analysis on the sectors that are most material in terms of emissions, and those where HSBC believes engagement and climate action have the greatest potential to effect change.

HSBC Bank Malta p.l.c.'s total exposure to non-financial corporates stands at €752 million at 31st December 2023 compared to €730 million at 31 December 2022.

For the purpose of disclosures in accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Bank Malta p.l.c. as part of HSBC Group will continue to engage with industry initiatives to formulate a methodology for assessing and measuring financed emissions and to align with Article 449a of CRR.

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**							
	31 Dec 2023		***of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation***	***of which: environmentally sustainable (CCM)***	***of which: stage 2 exposures***	***of which: non-performing exposures***		***of which: Stage 2 exposures***	***of which: non-performing exposures***	**<= 5 years**	**> 5 year <= 10 years**	**> 10 year <= 20 years**	**> 20 years**	**Average weighted maturity**
	Sector/ Subsector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
1	**Exposures towards sectors that highly contribute to climate change**[1]	**496,926**	***120,281***	**—**	***45,598***	***41,028***	**(15,900)**	***(3,565)***	***(8,426)***	**376,093**	**61,375**	**59,458**	**—**	**2.9**
2	**A – Agriculture, forestry and fishing**	**200**	**—**	**—**	***9***	***25***	**(28)**	**—**	***(25)***	**200**	**—**	**—**	**—**	**0.4**
3	**B – Mining and quarrying**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
4	B.05 – Mining of coal and lignite	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
5	B.06 – Extraction of crude petroleum and natural gas	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
6	B.07 – Mining of metal ores	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
7	B.08 – Other mining and quarrying	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
8	B.09 – Mining support service activities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
9	**C – Manufacturing**	**107,853**	***55,823***	**—**	***8,225***	***3,213***	**(1,902)**	***(880)***	***(648)***	**100,200**	**465**	**7,188**	**—**	**1.7**
10	C.10 – Manufacture of food products	**11,311**	**—**	**—**	***208***	***2***	**(137)**	***(7)***	**—**	**8,580**	**288**	**2,443**	**—**	**3.8**
11	C.11 – Manufacture of beverages	**3,791**	**—**	**—**	***1***	**—**	**(36)**	**—**	**—**	**3,791**	**—**	**—**	**—**	**1.5**
12	C.12 – Manufacture of tobacco products	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
13	C.13 – Manufacture of textiles	**7,012**	**—**	**—**	**—**	**—**	**(58)**	**—**	**—**	**7,012**	**—**	**—**	**—**	**3.5**
14	C.14 – Manufacture of wearing apparel	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2023		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
15	C.15 – Manufacture of leather and related products	—	—	—	—	—	—	—	—	—	—	—	—	—
16	C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	18	—	—	—	—	—	—	—	18	—	—	—	—
17	C.17 – Manufacture of pulp, paper and paperboard	40	—	—	—	*40*	(8)	—	*(8)*	40	—	—	—	—
18	C.18 – Printing and service activities related to printing	2,135	—	—	*1,479*	—	(76)	*(71)*	—	2,135	—	—	—	0.9
19	C.19 – Manufacture of coke oven products	55,823	*55,823*	—	—	—	(1)	—	—	55,823	—	—	—	0.3
20	C.20 – Production of chemicals	663	—	—	—	—	(7)	—	—	663	—	—	—	1.6
21	C.21 – Manufacture of pharmaceutical preparations	—	—	—	—	—	—	—	—	—	—	—	—	—
22	C.22 – Manufacture of rubber products	860	—	—	—	—	(3)	—	—	860	—	—	—	0.2
23	C.23 – Manufacture of other non-metallic mineral products	8,124	—	—	*119*	*31*	(67)	*(2)*	—	7,302	177	645	—	2.2
24	C.24 – Manufacture of basic metals	137	—	—	—	—	(2)	—	—	137	—	—	—	—

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2023		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environment ally sustain able (CCM)*	*of which: stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*		*of which: Stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	years
25	C.25 – Manufacture of fabricated metal products, except machinery and equipment	3,694	—	—	*244*	*3,068*	(657)	*(12)*	*(639)*	3,694	—	—	—	0.5
26	C.26 – Manufacture of computer, electronic and optical products	1	—	—	—	—	—	—	—	1	—	—	—	—
27	C.27 – Manufacture of electrical equipment	—	—	—	—	—	—	—	—	—	—	—	—	—
28	C.28 – Manufacture of machinery and equipment n.e.c.	9,922	—	—	*6,111*	—	(819)	*(786)*	—	7,416	—	2,506	—	5.4
29	C.29 – Manufacture of motor vehicles, trailers and semi-trailers	10	—	—	—	—	—	—	—	10	—	—	—	—
30	C.30 – Manufacture of other transport equipment	—		—	—	—	—	—	—	—	—	—	—	—
31	C.31 – Manufacture of furniture	2,703	—	—	*36*	*70*	(21)	*(1)*	—	1,109	—	1,594	—	6.9
32	C.32 – Other manufacturing	62	—	—	*27*	—	(2)	*(1)*	—	62	—	—	—	0.5
33	C.33 – Repair and installation of machinery and equipment	1,547	—	—	—	*2*	(8)	—	*(1)*	1,547	—	—	—	1.2
34	**D – Electricity, gas, steam and air conditioning supply**	66,366	*64,458*	—	*1,883*	—	(344)	*(81)*	—	25,874	—	40,492	—	6.5

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2023		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
35	D35.1 – Electric power generation, transmission and distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
36	D35.11 – Production of electricity	66,366	*64,458*	—	*1,883*	—	(344)	*(81)*	—	25,874	—	40,492	—	6.5
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	—	—	—	—	—	—	—	—	—	—	—	—	—
38	D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	—	—
39	**E – Water supply; sewerage, waste management and remediation activities**	16,871	—	—	—	—	(6)	—	—	16,871	—	—	—	2.6
40	**F – Construction**	22,808	—	—	*441*	*6,303*	(2,171)	*(34)*	*(1,940)*	21,324	1,458	26	—	1.4
41	F.41 – Construction of buildings	9,200	—	—	*358*	*4,728*	(946)	*(25)*	*(855)*	8,389	811	—	—	1.7
42	F.42 – Civil engineering	6,584	—	—	*1*	*274*	(225)	—	*(162)*	6,558	—	26	—	0.9
43	F.43 – Specialised construction activities	7,024	—	—	*82*	*1,301*	(1,000)	*(9)*	*(923)*	6,377	647	—	—	1.4
44	**G – Wholesale and retail trade; repair of motor vehicles and motorcycles**	143,419	—	—	*21,105*	*5,022*	(3,879)	*(1,087)*	*(1,903)*	133,104	6,998	3,317	—	1.0
45	**H – Transportation and storage**	5,697	—	—	*77*	*2*	(255)	*(2)*	*(1)*	5,697	—	—	—	0.9
46	H.49 – Land transport and transport via pipelines	130	—	—	*30*	—	(3)	*(1)*	—	130	—	—	—	1.2

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**							
	31 Dec 2023		***of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation***	***of which: environment ally sustain able (CCM)***	***of which: stage 2 expo-sures***	***of which: non-perfor-ming expo-sures***		***of which: Stage 2 expo-sures***	***of which: non-perfor-ming expo-sures***	**<= 5 years**	**> 5 year <= 10 years**	**> 10 year <= 20 years**	**> 20 years**	**Average weighted maturity**
	Sector/ Subsector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
47	H.50 – Water transport	**10**	—	—	—	—	—	—	—	**10**	—	—	—	—
48	H.51 – Air transport	**8**	—	—	—	—	—	—	—	**8**	—	—	—	—
49	H.52 – Warehousing and support activities for transportation	**5,546**	—	—	*47*	*2*	**(252)**	*(1)*	*(1)*	**5,546**	—	—	—	**0.9**
50	H.53 – Postal and courier activities	**3**	—	—	—	—	—	—	—	**3**	—	—	—	—
51	**I – Accommodation and food service activities**	**51,606**	—	—	*9,903*	*17,647*	**(4,097)**	*(406)*	*(3,039)*	**42,695**	**6,042**	**2,869**	—	**3.2**
52	**L – Real estate activities**	**82,106**	—	—	*3,955*	*8,816*	**(3,218)**	*(1,075)*	*(870)*	**30,128**	**46,412**	**5,566**	—	**5.2**
53	**Exposures towards sectors other than those that highly contribute to climate change[1]**	**255,543**		—	*8,510*	*13,184*	**(7,656)**	*(1,506)*	*(3,140)*	**196,467**	**47,734**	**11,342**	—	**3.6**
54	**K – Financial and insurance activities**	**52,495**	—	—	—	*8,291*	**(1,812)**	—	*(1,112)*	**41,454**	**3,730**	**7,311**	—	**3.8**
55	**Exposures to other sectors (NACE codes J, M-U)**	**203,048**		—	*8,510*	*4,893*	**(5,844)**	*(1,506)*	*(2,028)*	**155,013**	**44,004**	**4,031**	—	**3.5**
56	**TOTAL**	**752,469**	*120,280*	—	*54,108*	*54,212*	**(23,556)**	*(5,071)*	*(11,566)*	**572,560**	**109,109**	**70,800**	—	**3.1**

1 *In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks – Climate Benchmark Standards Regulation – Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.*

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	€000	*€000*	*€000*	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	years
1	Exposures towards sectors that highly contribute to climate change[1]	554,842	*84,875*	—	*95,710*	*48,262*	(16,859)	*(4,915)*	*(9,459)*	393,521	85,042	76,279	—	3.5
2	A – Agriculture, forestry and fishing	319	—	—	*131*	*137*	(9)	*(2)*	*(6)*	319	—	—	—	0.4
3	B – Mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—	—
4	B.05 – Mining of coal and lignite	—	—	—	—	—	—	—	—	—	—	—	—	—
5	B.06 – Extraction of crude petroleum and natural gas	—	—	—	—	—	—	—	—	—	—	—	—	—
6	B.07 – Mining of metal ores	—	—	—	—	—	—	—	—	—	—	—	—	—
7	B.08 – Other mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—	—
8	B.09 – Mining support service activities	—	—	—	—	—	—	—	—	—	—	—	—	—
9	C – Manufacturing	62,378	—	—	*8,258*	*3,628*	(1,180)	*(314)*	*(504)*	55,028	1,258	6,092	—	3.1
10	C.10 – Manufacture of food products	6,717	—	—	*3,582*	—	(95)	*(54)*	—	4,436	188	2,093	—	4.7
11	C.11 – Manufacture of beverages	7,180	—	—	*2,409*	—	(157)	*(132)*	—	7,180	—	—	—	2.8
12	C.12 – Manufacture of tobacco products	—	—	—	—	—	—	—	—	—	—	—	—	—
13	C.13 – Manufacture of textiles	9,014	—	—	—	—	(22)	—	—	9,014	—	—	—	4.5
14	C.14 – Manufacture of wearing apparel	2	—	—	—	—	—	—	—	2	—	—	—	—

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environ mentally sustaina ble (CCM)*	*of which: stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*		*of which: Stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	€000	*€000*	*€000*	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	years
15	C.15 – Manufacture of leather and related products	—	—	—	—	—	—	—	—	—	—	—	—	—
16	C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	65	—	—	10	—	—	—	—	65	—	—	—	—
17	C.17 – Manufacture of pulp, paper and paperboard	614	—	—	317	37	(14)	(7)	(6)	614	—	—	—	0.6
18	C.18 – Printing and service activities related to printing	2,331	—	—	1,429	—	(109)	(106)	—	2,331	—	—	—	1.6
19	C.19 – Manufacture of coke oven products	—	—	—	—	—	—	—	—	—	—	—	—	—
20	C.20 – Production of chemicals	1,372	—	—	—	—	(9)	—	—	1,372	—	—	—	2.1
21	C.21 – Manufacture of pharmaceutical preparations	—	—	—	—	—	—	—	—	—	—	—	—	—
22	C.22 – Manufacture of rubber products	2,253	—	—	—	—	(6)	—	—	2,253	—	—	—	0.6
23	C.23 – Manufacture of other non-metallic mineral products	16,727	—	—	—	—	(180)	—	—	14,391	200	2,136	—	3.4

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	€000	*€000*	*€000*	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	years
24	C.24 – Manufacture of basic metals	11,031	—	—	*201*	*3,109*	(465)	*(3)*	*(412)*	10,161	870	—	—	0.7
25	C.25 – Manufacture of fabricated metal products, except machinery and equipment	63	—	—	*11*	—	(4)	*(3)*	—	63	—	—	—	1.8
26	C.26 – Manufacture of computer, electronic and optical products	—	—	—	—	—	—	—	—	—	—	—	—	—
27	C.27 – Manufacture of electrical equipment	101	—	—	—	—	(1)	—	—	101	—	—	—	1.5
28	C.28 – Manufacture of machinery and equipment n.e.c.	—	—	—	—	—	—	—	—	—	—	—	—	—
29	C.29 – Manufacture of motor vehicles, trailers and semi-trailers	—	—	—	—	—	—	—	—	—	—	—	—	—
30	C.30 – Manufacture of other transport equipment	48	—	—	—	*48*	—	—	—	48	—	—	—	—
31	C.31 – Manufacture of furniture	3,453	—	—	*88*	*275*	(94)	*(2)*	*(74)*	1,590	—	1,863	—	7.3
32	C.32 – Other manufacturing	1,014	—	—	*209*	—	(11)	*(7)*	—	1,014	—	—	—	0.2
33	C.33 – Repair and installation of machinery and equipment	393	—	—	*2*	*159*	(13)	—	*(12)*	393	—	—	—	0.6
34	D – Electricity, gas, steam and air conditioning supply	87,526	*84,875*	—	*2,058*	—	(336)	*(132)*	—	44,371	—	43,155	—	6.0

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	€000	*€000*	*€000*	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	years
35	D35.1 – Electric power generation, transmission and distribution	84,875	*84,875*	—	—	—	(202)	—	—	41,720	—	43,155	—	0.9
36	D35.11 – Production of electricity	—	—	—	—	—	—	—	—	—	—	—	—	—
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	2,651	—	—	*2,058*	—	(134)	*(132)*	—	2,651	—	—	—	10.2
38	D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	—	—
39	E – Water supply; sewerage, waste management and remediation activities	24,069	—	—	*217*	—	(6)	*(1)*	—	24,069	—	—	—	2.8
40	F – Construction	22,434	—	—	*1,720*	*2,279*	(1,909)	*(63)*	*(1,669)*	18,787	50	3,597	—	3.4
41	F.41 – Construction of buildings	6,591	—	—	*449*	*726*	(696)	*(6)*	*(632)*	3,079	33	3,479	—	8.0
42	F.42 – Civil engineering	9,915	—	—	*64*	*261*	(220)	—	*(143)*	9,888	—	27	—	1.6
43	F.43 – Specialised construction activities	5,928	—	—	*1,207*	*1,292*	(993)	*(57)*	*(894)*	5,820	17	91	—	1.4
44	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	183,360	—	—	*36,672*	*8,684*	(4,699)	*(816)*	*(3,263)*	168,218	7,259	7,883	—	1.3
45	H – Transportation and storage	5,827	—		*570*	*8*	(51)	*(22)*	*(8)*	5,792	—	35	—	1.4
46	H.49 – Land transport and transport via pipelines	591	—	—	*29*	—	(7)	*(2)*	—	591	—	—	—	1.8
47	H.50 – Water transport	5	—	—	—	—	—	—	—	5	—	—	—	—

Table 31: Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022		*of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation*	*of which: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/ Subsector	€000	*€000*	*€000*	*€000*	*€000*	€000	*€000*	*€000*	€000	€000	€000	€000	years
48	H.51 – Air transport	5	—	—	—	—	—	—	—	5	—	—	—	—
49	H.52 – Warehousing and support activities for transportation	5,226	—	—	*541*	*8*	(44)	*(20)*	*(8)*	5,191	—	35	—	1.3
50	H.53 – Postal and courier activities	—	—	—	—	—	—	—	—	—	—	—	—	—
51	I – Accommodation and food service activities	80,437	—	—	*41,019*	*21,845*	(6,652)	*(3,209)*	*(3,094)*	51,047	28,224	1,166	—	3.9
52	L – Real estate activities	88,492	—	—	*5,065*	*11,681*	(2,017)	*(356)*	*(915)*	25,890	48,251	14,351	—	6.0
53	Exposures towards sectors other than those that highly contribute to climate change[1]	175,351		—	*44,740*	*7,065*	(6,022)	*(3,290)*	*(1,962)*	132,026	40,457	2,868	—	3.7
54	K – Financial and insurance activities	—	—	—	—	—	—	—	—	—	—	—	—	—
55	Exposures to other sectors (NACE codes J, M - U)	175,351		—	*44,740*	*7,065*	(6,022)	*(3,290)*	*(1,962)*	132,026	40,457	2,868	—	3.7
56	TOTAL	730,193	*84,875*	—	*140,450*	*55,327*	(22,881)	*(8,205)*	*(11,421)*	525,547	125,499	79,147	—	3.6

1 *In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks – Climate Benchmark Standards Regulation – Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.*

Banking book – climate change transition risk: loans collateralised by immovable property – energy efficiency of collateral

This table presents the gross carrying amount[1] of loans collateralised with commercial and residential immovable property and of repossessed real estate collateral. The loans are presented in the template within the EU area based upon where the loan itself is booked, as a proxy for the location of the underlying collateral.The table also includes information on the level of energy efficiency of the underlying collateral measured in kWh/m² energy consumption and in terms of the label of the energy performance certificates ('EPC')[2]. In the absence of an EPC label, the energy consumption is estimated. This estimation methodology is set out below.

In Malta, 88% of exposures on loans collateralised by property are related to residential property while 12% of them are related to commercial property. The share of repossessed collaterals is non-significant.

As from Q4 2022, EPCs are being requested from customers on new residential mortgages to enable reporting of the level of energy. EPCs collected account for less than 3.35% of total exposure on loans collateralised by property. The collected EPCs only show the level of energy and do not include a label. In order to keep a conservative approach, where estimation is required, the level of energy has been estimated using a few different methods according to the data availability. The majority is based on a mapping of property types with government statistics. In this context, the information published in the paper 'Long Term Renovation Strategy 2050', issued by Maltese Ministry for the environment-climate change and planning has been leveraged. The average level of energy consumption has been computed for each type of commercial asset (offices, education, restaurants, etc) to map and allocate them to the appropriate bucket of level of energy consumption:

The methodology used for determining energy efficiency is primarily based on estimations and is mainly dependent on external sources (Malta Government Statistics). This approach has limitations, as the existing Maltese energy efficiency statistics are based on a reporting date of 2019 and energy levels may have changed subsequently, for example where refurbishments have been made.

The EBA periodically releases Q&As which clarify the requirements of the regulation. An ongoing review of this additional guidance is undertaken to ensure compliance. As a result of this, the presentation of some columns in the table has been amended. Specifically, the column 'Without EPC label of collateral' now presents the exposure rather than percentage of exposures without EPC label, and the column 'Of which level of energy efficiency estimated' presents the percentage, rather than amount of exposures without EPC label where the energy level has been estimated. This change in presentation has been reflected in the prior period table.

HSBC Bank Malta p.l.c. aims to continue to engage with business and corporate customers for the information needed and seeks to refine its methodology to align with the requirements.

1 *As defined in Part 1 of Annex V of Commission Implementing Regulation (EU) 2021/451.*

2 *As defined in Article 2(12) of 2010/31/EU for EU countries, or in the relevant regulation for those exposures outside the EU. Energy Performance of Buildings Directive 2010/31/EU10 ('EPBD') and the Energy Efficiency Directive 2012/27/EU promote policies that aim to achieve a highly energy efficient and decarbonised building stock by 2050. The EPBD introduced energy performance certificates ('EPC') as instruments for improving the energy performance of buildings.*

Table 32: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2)

		a	b	c	d	e	f	g
		Total gross carrying amount						
			Level of energy efficiency (EP score in kWh/m² of collateral)					
	31 Dec 2023		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500
	Counterparty sector	€000	€000	€000	€000	€000	€000	€000
1	**Total EU area**	**2,477,591**	**61,980**	**2,155,554**	**5,447**	**10,563**	**423**	**243,624**
2	– *of which: Loans collateralised by commercial immovable property*	***301,074***	***25,490***	***23,360***	—	***10,150***	—	***242,074***
3	– *of which: Loans collateralised by residential immovable property*	***2,173,296***	***36,090***	***2,130,923***	***5,447***	***413***	***423***	—
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	***3,221***	***400***	***1,271***	—	—	—	***1,550***
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated**	***2,477,591***	***61,980***	***2,155,554***	***5,447***	***10,563***	***423***	***243,624***
6	**Total non-EU area**	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—

Table 32: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2) (continued)

		h	i	j	k	l	m	n	o	p
		Total gross carrying amount								
		Level of energy efficiency (EPC label of collateral)							**Without EPC label of collateral**	
	31 Dec 2023	**A**	**B**	**C**	**D**	**E**	**F**	**G**		***of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated***
	Counterparty sector	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**%**
1	**Total EU area**	—	—	—	—	—	—	—	**2,477,591**	**100**
2	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	***301,074***	**100**
3	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	***2,173,296***	**100**
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	***3,221***	**100**
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*[1]	—	—	—	—	—	—	—	***2,477,591***	**100**
6	**Total non-EU area**	—	—	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—	—	—

1 *Include the gross carrying amount of loans collateralised by residential property where an actual EPC was collected (without EPC label) which amounted to €83,021,000 (2022: €11,264,000).*

Table 32: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2) (continued)

		a	b	c	d	e	f	g
		Total gross carrying amount						
			Level of energy efficiency (EP score in kWh/m² of collateral)					
	31 Dec 2022		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500
	Counterparty sector	€000	€000	€000	€000	€000	€000	€000
1	Total EU area	2,569,995	61,828	2,102,628	147,931	12,473	340	244,795
2	– *of which: Loans collateralised by commercial immovable property*	*332,157*	*57,294*	*18,800*	*525*	*12,293*	—	*243,245*
3	– *of which: Loans collateralised by residential immovable property*	*2,234,488*	*4,048*	*2,082,514*	*147,406*	*180*	*340*	—
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	*3,350*	*486*	*1,314*	—	—	—	*1,550*
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated**	*2,569,995*	*61,828*	*2,102,628*	*147,931*	*12,473*	*340*	*244,795*
6	Total non-EU area	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—

Table 32: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral (Template 2) (continued)

		h	i	j	k	l	m	n	o	p
		Total gross carrying amount								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
	31 Dec 2022	A	B	C	D	E	F	G		*of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated*
	Counterparty sector	€000	€000	€000	€000	€000	€000	€000	€000	%
1	Total EU area	—	—	—	—	—	—	—	2,569,995	100
2	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	*332,157*	100
3	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	*2,234,488*	100
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	*3,350*	100
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated**	—	—	—	—	—	—	—	*2,569,995*	100
6	Total non-EU area	—	—	—	—	—	—	—	—	—
7	– *of which: Loans collateralised by commercial immovable property*	—	—	—	—	—	—	—	—	—
8	– *of which: Loans collateralised by residential immovable property*	—	—	—	—	—	—	—	—	—
9	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	—	—	—	—	—	—	—	—	—
10	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	—	—	—	—	—	—	—	—	—

Banking book – Climate change transition risk: Exposures to top 20 carbon-intensive firms

This table provides information on exposures to the top 20 most carbon-intensive firms in the world by comparing the corporate counterparties of the operating entities in the loan book against a list of top 20 carbon-intensive firms, compiled using data from reports of the Climate Accountability Institute ('CAI'). The Disclosure seeks to include exposure to any company that belongs to the group of any of the top 20 emitters. The top 20 Carbon emitters have been identified using the CAI's Carbon Majors 2018 data set, specifically the 'Top Twenty CO2e 2018' table.

The gross carrying amount of exposure to the top 20 carbon-emitting companies is given as a proportion of the total gross carrying amount of exposures in the banking book. The gross carrying amount includes loans and advances, debt securities and equity instruments, excluding financial assets held for trading and held for sale assets.

Following a review of our methodology for identifying the top 20 carbon emitting companies, the primary data source has been amended for this disclosure from CDP (previously known as the Carbon Disclosure Project), used at year-ended 2022, to the CAI, which includes a wider data coverage. The gross carrying amount was EUR 56m as at December 2023 (December 2022: Nil)

HSBC Bank Malta p.l.c. is required to report the taxonomy-aligned exposures that are in accordance with the EU Taxonomy Regulation 2020/852 and aligned with Table 36 Mitigating actions: Assets for the calculation of GAR (Template 7) for non-financial corporations.

The methodology for determining exposures to the top 20 carbon emitting companies is expected to evolve as data availability, industry guidance and market practice changes over time. We will seek to be transparent in our disclosures about the methodologies applied, but results may not be comparable year on year.

Table 33: Banking book – climate change transition risk: Exposures to top 20 carbon-intensive firms (Template 4)

	a	b	c	d	e
	Gross carrying amount €000 (aggregate)	**Gross carrying amount to the counterparties compared to total gross carrying amount as % (aggregate)[1]**	***of which: environmentally sustainable (CCM)[2]***	**Weighted average maturity in years**	**Number of top 20 polluting firms included**
31 Dec 2023					
	55,823	**1.13**	**—**	**0.3**	**1**
31 Dec 2022					
	—	—	—	—	—

1 *For counterparties among the top 20 carbon emitting companies in the world.*

Banking book – Climate change physical risk: Exposures subject to physical risk

Scope

This table provides information on exposures subject to climate change physical risk (chronic and acute risks) and includes a sectoral breakdown of gross exposures to non-financial corporations and by geography of location of the activity of the counterparty or of the collateral. The loans are presented in the template by the geographical location based upon where the loan itself is booked, as a proxy for the location of the underlying collateral. The exposures include loans and advances, debt securities and equity instruments other than those held for trading or for sale. In addition, loans secured by residential and commercial property and repossessed real estate, including exposures to both financial and non-financial counterparties, have been separately disclosed. Collateralised loans to non-financial counterparties are also included in the sectoral breakdown.

For those exposures identified as subject to climate change physical risk, the template provides further details on the type of physical risk (acute, chronic or both), the quality of those exposures, including non-performing status, stage 2 classification, related provisions and relevant maturity buckets. Those exposures identified as being subject to both acute and chronic physical risk are required to be reported only in column (j) of the table.

The table rows 10-12 represent loans that are granted for house purchases and collateralised by residential and commercial real estate. Included in the total collateralised loans as at 31st December 2023.

The counterparty sector classification disclosed in the template is aligned to the HSBC Bank Malta p.l.c. FINREP reporting.

Repossessed collateral is classified as held for sale under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations and as such is reported in the <=5 years maturity bucket with an average weighted maturity of one year since we expect it to be sold within 12 months.

Methodology

The data source to assess whether exposures are subject to climate change physical risk was based on an internal risk assessment of the geographical locations which are considered as having a higher climate-related risk. The climate-related risk assessment is primarily driven by an increase in sea level in Malta and the inclusion of high flood risk areas for the year ended 2023.

Data limitations

For Corporate loans, the disclosure is dependent on the availability of location information for one of the following three things: the collateral securing the loans (where relevant), the counterparties activities, or the head office. Where the location of collateral is not available or where loans are not secured by property, the location of both counterparty operations, as well as, head office was taken into consideration for assessment of physical risk. In addition, for retail loans, residential addresses were also considered.

Based on the available data, the geographical location of the collateral or activity of the counterparty or head office location was mapped at the most granular level where possible. For exposures in Malta, the physical risk impact data from the Think Hazard! database was overlaid with local risk assessment based on the location of buildings in these localities.

Availability and quality of data will evolve over time and may lead to differences in the data reported in future years.

Assumptions

In the absence of further guidance, the methodology adopted relies on a number of assumptions which may not be consistent with the approach adopted by other financial institutions and therefore lead to non-comparable results. These concern, for example, the following:

- The selection of acute and chronic risks;
- The inclusion of both climate and geophysical risks; and
- The threshold for determining a location is subject to high physical risk.

In Article 18a of Commission Implementing Regulation (EU) 2021/637 on prudential disclosure of ESG risks in accordance with Article 449a CRR, physical risk is defined thus: 'As part of the overall environmental risk, the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of the physical effects of environmental factors on the institution's counterparties or invested assets'. Based on this, HSBC considers both climate and geophysical hazards as meeting the definition of physical risk. Climate hazards are weather-related, hydro-meteorological events including floods, wildfire, cyclone, landslide, water scarcity and extreme heat. The geophysical hazards considered - earthquakes, tsunamis and volcanoes - originate from within the Earth and are not much influenced by climate variables or human actions.

Acute and chronic risks have been defined in accordance with European Bank for Reconstruction and Development ('EBRD') guidance produced for the Task Force on Climate-Related Financial Disclosures ('TCFD') in 2018, resulting in the following categorisation:

- Acute risks (event-driven risks that last for a few days) – extreme weather events such as storms and cyclones, extreme rainfall and heatwaves; and
- Chronic risks (those due to longer-term shifts in climate patterns) – variability in precipitation, temperature, water stress and sea-level rise.

Acute risks refer to events or specific episodes that have the potential to inflict significant physical damage. The following climate and geophysical hazards are assumed to be acute: floods, wildfire, cyclone, landslide, earthquake, tsunami and volcanoes.

Chronic risks are those that carry a range of physical impacts of considerably longer duration than those posed by acute risks. They are best understood as processes, not events. The following climate hazards are assumed to be chronic: water scarcity (dry ground) and extreme heat from sustained long-term increase in air temperature.

An assessment to identify exposures which are sensitive to impact from climate change physical events was carried out on the following basis:

- An immediate 1m rise in sea level (Climate Change Post states a 1m rise in sea level for Malta by year 2100).
- Taking into consideration the locations (towns/villages) in proximity and touching the island's low shoreline.
- Exposure to any location which has the higher % risk from the rise of sea level is sufficient to expose all assets in that location to High physical risk. This is a conservative but rational approach as, in most cases, any location which has higher risk would be expected to impact fully the value of a physical asset.

During 2023 we have taken additional factors namely Flood Risk in respect of high risk localities. Flooding in Malta occurs due to the surface water run-off flows along the roads constructed along the valley bed. There are areas that experience some problems as a result of the uncontrolled street surface water runoff.

Most areas are considered to be subject to 'normal risk', whilst some areas are considered to be subject to 'high risk' and are more prone to the probability of being submerged under water due to flash floods.

It is anticipated that HSBC's methodology will evolve over time to align with changes in market practice and regulation.

Table 34: Banking book-Climate change physical risk: Exposures subject to physical risk (Template 5)

		a	b	c	d	f	g
			Gross carrying amount				
			of which: exposures sensitive to impact from climate change physical events				
			Breakdown by maturity bucket				
	Variable: Geographical area subject to climate change physical risk – acute and chronic events		**<= 5 years**	**> 5 year <= 10 years**	**> 10 year <= 20 years**	**> 20 years**	**Average weighted maturity**
	31 Dec 2023	**€000**	**€000**	**€000**	**€000**	**€000**	**years**
1	A – Agriculture, forestry and fishing	**200**	**9**	**—**	**—**	**—**	**1.5**
2	B – Mining and quarrying	**—**	**—**	**—**	**—**	**—**	**—**
3	C – Manufacturing	**107,853**	**72,450**	**60**	**6,067**	**—**	**1.8**
4	D – Electricity, gas, steam and air conditioning supply	**66,366**	**20,065**	**—**	**—**	**—**	**0.8**
5	E – Water supply; sewerage, waste management and remediation activities	**16,871**	**—**	**—**	**—**	**—**	**—**
6	F – Construction	**22,808**	**8,746**	**—**	**—**	**—**	**1.2**
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	**143,419**	**75,612**	**409**	**117**	**—**	**0.3**
8	H – Transportation and storage	**5,697**	**3,810**	**—**	**—**	**—**	**1.2**
9	L – Real estate activities	**82,106**	**6,192**	**—**	**493**	**—**	**3.4**
10	Loans collateralised by residential immovable property	**2,173,296**	**11,476**	**14,116**	**90,644**	**231,342**	**23.0**
11	Loans collateralised by commercial immovable property	**301,074**	**62,511**	**367**	**7,892**	**—**	**2.5**
12	Repossessed collaterals	**3,221**	**2,841**	**—**	**—**	**—**	**1.0**
13	**Other relevant sectors (breakdown below where relevant)**	**307,149**	**90,105**	**35,514**	**1,332**	**—**	**4.0**
14	I – Accommodation and food service activities	**51,606**	**4,550**	**—**	**1,332**	**—**	**5.4**
15	J – Information and communication	**23,950**	**22**	**—**	**—**	**—**	**—**
16	K – Financial and insurance activities	**52,495**	**2,831**	**—**	**—**	**—**	**2.9**
17	M – Professional scientific and technical activities	**136,563**	**71,763**	**35,514**	**—**	**—**	**4.2**
18	N – Administrative and support service activities	**21,224**	**10,271**	**—**	**—**	**—**	**2.6**
19	O – Public administration and defense, compulsory social security	**—**	**—**	**—**	**—**	**—**	**—**
20	P – Education	**1,353**	**—**	**—**	**—**	**—**	**—**
21	Q – Human health and social work activities	**17,615**	**344**	**—**	**—**	**—**	**—**
22	R – Arts entertainment and recreation	**295**	**72**	**—**	**—**	**—**	**—**
23	S – Other services activities	**2,048**	**252**	**—**	**—**	**—**	**—**

Table 34: Banking book – Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		h	i	j	k	l	m	n	o
		Gross carrying amount							
		of which: exposures sensitive to impact from climate change physical events							
							Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk - acute and chronic events	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
	31 Dec 2023	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	A – Agriculture, forestry and fishing	—	*9*	—	*9*	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—	—	—
3	C – Manufacturing	—	*78,577*	—	*7,026*	*96*	(997)	*(807)*	*(20)*
4	D – Electricity, gas, steam and air conditioning supply	—	*20,065*	—	—	—	(7)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	—	—	—	—	—	—	—	—
6	F – Construction	—	*8,746*	—	*6*	*340*	(328)	—	*(238)*
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	—	*76,138*	—	*15,836*	*1,693*	(1,401)	*(627)*	*(461)*
8	H – Transportation and storage	—	*3,810*	—	—	—	(58)	—	—
9	L – Real estate activities	—	*6,685*	—	*4*	*220*	(368)	*(3)*	*(42)*
10	Loans collateralised by residential immovable property	—	*347,578*	—	*18,642*	*8,348*	(4,244)	*(1,445)*	*(1,603)*
11	Loans collateralised by commercial immovable property	—	*70,770*	—	*18,712*	*3,329*	(2,896)	*(1,115)*	*(1,028)*
12	Repossessed collaterals	—	*2,841*	—	—	—	(472)	—	—
13	**Other relevant sectors (breakdown below where relevant)**	—	*126,951*	—	*55*	*2,634*	(2,374)	*(17)*	*(1,056)*
14	I – Accommodation and food service activities	—	*5,882*	—	*50*	*1,715*	(931)	*(2)*	*(852)*
15	J – Information and communication	—	*22*	—	—	—	—	—	—
16	K – Financial and insurance activities	—	*2,831*	—	—	*505*	(18)	—	—
17	M – Professional scientific and technical activities	—	*107,277*	—	—	*7*	(800)	*(10)*	*(7)*
18	N – Administrative and support service activities	—	*10,271*	—	*1*	*9*	(424)	*(5)*	—
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—	—	—
20	P – Education	—	—	—	—	—	—	—	—
21	Q – Human health and social work activities	—	*344*	—	—	*318*	(197)	—	*(197)*
22	R – Arts entertainment and recreation	—	*72*	—	—	*70*	—	—	—
23	S – Other services activities	—	*252*	—	*4*	*10*	(4)	—	—

Table 34: Banking book-Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		a	b	c	d	f	g
			Gross carrying amount				
			of which: exposures sensitive to impact from climate change physical events				
			Breakdown by maturity bucket				
	Variable: Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	31 Dec 2022	€000	€000	€000	€000	€000	years
1	A – Agriculture, forestry and fishing	319	—	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—
3	C – Manufacturing	62,378	8,616	412	1,529	—	4.2
4	D – Electricity, gas, steam and air conditioning supply	87,526	2,581	—	43,155	—	10.6
5	E – Water supply; sewerage, waste management and remediation activities	24,069	—	—	—	—	—
6	F – Construction	22,434	6,695	—	—	—	1.2
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	183,360	29,120	117	—	—	0.5
8	H – Transportation and storage	5,827	1,449	—	—	—	2.3
9	L – Real estate activities	88,492	794	693	188	—	4.6
10	Loans collateralised by residential immovable property	2,234,488	3,626	5,637	38,990	124,546	24.5
11	Loans collateralised by commercial immovable property	332,157	26,242	693	1,717	—	3.3
12	Repossessed collaterals	3,372	2,277	—	—	—	1.0
13	Other relevant sectors (breakdown below where relevant)	255,788	30,808	35,232	—	—	5.8
14	I – Accommodation and food service activities	80,437	4,093	—	—	—	2.3
15	J – Information and communication	27,867	—	—	—	—	—
16	K – Financial and insurance activities	—	—	—	—	—	—
17	M – Professional scientific and technical activities	108,964	19,660	35,232	—	—	6.4
18	N – Administrative and support service activities	14,070	6,998	—	—	—	2.6
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—
20	P – Education	3,819	7	—	—	—	—
21	Q – Human health and social work activities	18,140	10	—	—	—	2.5
22	R – Arts entertainment and recreation	292	—	—	—	—	—
23	S – Other services activities	2,199	40	—	—	—	1.4

Table 34: Banking book – Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

		h	i	j	k	l	m	n	o
		Gross carrying amount							
		of which: exposures sensitive to impact from climate change physical events							
							Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk - acute and chronic events	*of which: exposures sensitive to impact from chronic climate change events*	*of which: exposures sensitive to impact from acute climate change events*	*of which: exposures sensitive to impact both from chronic and acute climate change events*	*of which: Stage 2 exposures*	*of which: non-performing exposures*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
	31 Dec 2022	€000	€000	€000	€000	€000	€000	€000	€000
1	A – Agriculture, forestry and fishing	—	—	—	—	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—	—	—
3	C – Manufacturing	—	*10,557*	—	*287*	—	(121)	*(11)*	—
4	D – Electricity, gas, steam and air conditioning supply	—	*45,736*	—	—	—	(196)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	—	—	—	—	—	—	—	—
6	F – Construction	—	*6,695*	—	—	*233*	(149)	—	*(118)*
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	—	*29,237*	—	*2,612*	*81*	(158)	*(27)*	*(18)*
8	H – Transportation and storage	—	*1,449*	—	—	—	(7)	—	—
9	L – Real estate activities	—	*1,675*	—	*891*	*188*	(51)	*(41)*	—
10	Loans collateralised by residential immovable property	—	*172,799*	—	*8,268*	*6,764*	(2,207)	*(401)*	*(1,265)*
11	Loans collateralised by commercial immovable property	—	*28,652*	—	*11,901*	*483*	(930)	*(645)*	*(118)*
12	Repossessed collaterals	—	*2,277*	—			(103)		
13	Other relevant sectors (breakdown below where relevant)	—	*66,040*	—	*5,439*	*15*	(368)	*(254)*	*(15)*
14	I – Accommodation and food service activities	—	*4,093*	—	*6*	—	(37)	—	—
15	J – Information and communication	—	—	—	—	—	—	—	—
16	K – Financial and insurance activities	—	—	—	—	—	—	—	—
17	M – Professional scientific and technical activities	—	*54,892*	—	*150*	*13*	(35)	*(3)*	*(13)*
18	N – Administrative and support service activities	—	*6,998*	—	*5,272*	—	(293)	*(250)*	—
19	O – Public administration and defense, compulsory social security	—	—	—	—	—	—	—	—
20	P – Education	—	*7*	—	*7*	—	—	—	—
21	Q – Human health and social work activities	—	*10*	—	—	—	—	—	—
22	R – Arts entertainment and recreation	—	—	—	—	—	—	—	—
23	S – Other services activities	—	*40*	—	*4*	*2*	(3)	*(1)*	*(2)*

EU Taxonomy economic performance indicators[1,3]

Climate change mitigation and climate change adaptation objectives and non-climate environmental objectives[1,3]

In order to meet the European Union's ('EU') climate and energy targets for 2030, the European Commission ('EC') has created the EU Taxonomy classification system for environmentally sustainable economic activities. The EU Taxonomy provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In 2021, the EC adopted the Delegated Act Supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act')[2,3] followed by an amendment to the Delegated Act in 2022 to include certain energy sectors and in 2023 the EC amended the Disclosures Delegated Act to align the disclosure requirements with the Environmental Delegated Act. Under these regulations, HSBC Bank Malta p.l.c. is therefore required to provide information to investors about the environmental performance of its assets and economic activities.

In this disclosure, as required from 1 January 2024, information is presented on Taxonomy-alignment of economic activities (i.e. disclosure of the key performance indicators) where Taxonomy 'eligible' economic activities are assessed to determine whether they are environmentally sustainable (i.e. Taxonomy 'aligned') against technical screening criteria.

In 2024, under the Disclosures Delegated Act, the bank is not required to report KPIs with comparative information in the first year of reporting. Accordingly, comparative information has not been reported.

Scope of consolidation

The Taxonomy KPIs in the templates presented are calculated based on exposures and balances within the local group's prudential scope of consolidation as at 31 December 2023. Therefore, the bank's EU Taxonomy KPIs comprises assets and activities relating to HSBC Bank Malta p.l.c. and HSBC Global Asset Management (Malta) Ltd. HSBC Life Assurance (Malta) Ltd is excluded from the scope of prudential consolidation.

EU Taxonomy KPIs disclosed and Reporting Limitations

The following KPIs are reported in the templates presented.

The green asset ratio ('GAR') is a ratio calculated as the percentage of EU Taxonomy-aligned assets as a proportion of total covered assets.

- The numerator of the GAR includes loans and advances, debt securities, equities and repossessed collateral financing taxonomy-aligned economic activities based on turnover KPI of underlying assets.
- The denominator of the GAR includes total loans and advances, total debt securities, total equities and total repossessed collaterals and all other covered on-balance sheet assets.

HSBC Bank Malta p.l.c. is dependent on several data sources to determine exposures subject to NFRD and calculate Taxonomy ratios. Availability of data and improvements in data quality over time, as firms adopt the Taxonomy requirements for their own disclosures, could lead to differences in the data reported in future years as compared to the current year.

The local group will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as we develop our capabilities to assess the Taxonomy alignment of our portfolios.HSBC Bank Malta p.l.c. is dependent on several data sources to determine exposures subject to NFRD and calculate Taxonomy ratios. Availability of data and improvements in data quality over time, as firms adopt the Taxonomy requirements for their own disclosures, could lead to differences in the data reported in future years as compared to the current year.

The local group will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as we develop our capabilities to assess the Taxonomy alignment of our portfolios.

KPI: Green Asset Ratio

Total covered assets

The calculation of the Taxonomy on-balance sheet KPIs include on-balance exposures covering loans and advances, debt securities and equity instruments not held for trading and repossessed collateral. This includes exposures to undertakings such as large EU banks, asset managers, insurance companies and issuers that are in scope of Articles 19a or 29a of Directive 2013/34/EU4 ('NFRD').

Retail exposures except for the mortgage lending portfolios, credit consumption loans for cars and building renovations loans are excluded from the Taxonomy framework and not assessed for Taxonomy eligibility. On this basis, these exposures are included within the category of "Other assets''.

Taxonomy-eligible and aligned economic activities

Taxonomy-eligible economic activities are those activities which can be assessed as environmentally sustainable. Taxonomy-aligned economic activities are those activities which have been assessed as environmentally sustainable.

Eligibility and alignment of general purpose lending where the use of proceeds is unknown, have been assessed using the turnover and CapEx eligibility and alignment ratios published in the most recently available annual reports by the bank's counterparties in scope of NFRD.

Eligibility and alignment of specific purpose lending, where the use of proceeds is known, such as retail loans collateralised by residential immovable property, building renovation loans, and motor vehicle loans, have been assessed in line with the technical screening criteria established in the EU Taxonomy, comprising 'substantial contribution' and 'do no significant harm' criteria, along with compliance with minimum safeguards, the latter not applicable to households and public authorities.

Exposures to multi-lateral developments banks have been classified as credit institutions in accordance with EU Taxonomy regulation and have been assessed for Taxonomy eligibility and alignment accordingly.

In certain cases, the bank is unable to obtain the required information from counterparties. For example, financial undertakings are only required to disclose KPIs in accordance with the EU Taxonomy for the first time in 2024, therefore at the time of publication, such counterparty data is not available and exposures to financial undertakings can only be assessed for eligibility and not alignment.

In all templates, 'Environmentally sustainable assets' refers to Taxonomy aligned assets.

Taxonomy non-eligible economic activities

Taxonomy non-eligible economic activities are those activities which cannot be assessed as environmentally sustainable. This relates to exposures towards activities which are not covered by the EU Taxonomy framework.

Assets excluded from the numerator for GAR calculation (covered in the denominator)

Exposures to undertakings in scope of NFRD/CSRD[4]

Exposures to undertakings that are not obliged to publish Non-Financial Reporting information have been excluded from the assessment of Taxonomy-eligible economic activities. These exposures are excluded from the numerator of the GAR but included in the denominator.

Derivatives

Derivatives in the banking book are excluded from the numerator but included in the denominator of the total GAR.

On demand interbank loans

On demand interbank loans are on-demand loan exposures with other credit institutions. These are excluded from the numerator but included in the denominator of the total GAR.

Cash and cash-related assets

Cash and cash-related assets are excluded from the numerator but included in the denominator except for cash with central banks which is not covered by the GAR calculation.

Other assets

Other assets include other retail exposures not covered by the Taxonomy framework, cash, tangible and intangible assets, all of which are excluded from the Taxonomy framework and therefore cannot be assessed for Taxonomy eligibility. Other assets are included in the total assets used in the denominator for the calculation of the ratios.

Assets not covered for GAR calculation

Assets not covered in the GAR calculation are excluded from both the numerator and denominator.

Central governments and Supranational issuers

Exposures to central governments and supranational issuers are out of scope for the GAR calculation. Lending to or financing of local governments where the use of proceeds is unknown (i.e. general purpose lending) is also excluded from the numerator and the denominator of the GAR and these exposures have been included as part of Central governments and supranational issuers.

Central banks

Exposures to Central banks includes cash held and all other banking exposures with central banks. These are out of scope for the GAR calculation.

Trading book

The trading portfolio, including trading derivatives is out of scope for the GAR calculation.

Eligibility by environmental objective

Prior to the release of amended templates published by the EC in June 2023, non-financial undertakings were not required to report taxonomy eligibility of an economic activity by environmental objective. However, since the publication of revised templates, non-financial undertakings will be required to report taxonomy eligibility split by environmental objective from 1 January 2024. As a result, at the time of publication, taxonomy eligible KPIs by environmental objective for the Bank's non-financial counterparties are not available. In order to meet the requirement to report based on actual information provided by counterparties, only total eligibility (CCM+CCA) will be reported in the relevant templates without disclosing separately in the columns for each of the environmental objectives.

Non-financial counterparty eligibility and alignment data

HSBC Bank Malta p.l.c. is highly reliant on published counterparty eligibility and alignment ratios to assess eligibility and alignment of exposures. The bank places reliance on 3rd party data vendors to collect the majority of the eligibility and alignment data used in KPI calculations. A number of checks and controls are operated to validate any data used and this has identified that counterparty data quality and consistency is variable. Controls in place include checking for template mathematical accuracy, checking enabling and transitional activities reported are consistent with the EU Taxonomy framework, checking for incomplete data, and checking for consistency of calculations across counterparties.

To consistently report the Bank's Taxonomy eligibility and alignment of exposures there is a dependency on counterparty KPIs. However, some counterparties calculates ratios using a different calculation methodlogy and in these cases, where sufficient information is available to do so, the data is normalised so that data between counterparties is comparable and can be used consistently across calculations. Where counterparty information is incomplete and deemed not reliable to make an assessment for Taxonomy eligibility and alignment, these counterparties have been excluded from the numerator of the Bank's GAR calculation. Where there is sufficient counterparty information to identify the cause of any mathematical error, these errors are corrected. In addition, where it clear that counterparties have incorrectly classified activities, these classifications are corrected based on the classification in the EU Taxonomy compass..

Exposures subject to the Non Financial Reporting Directive[2,3]

In determining the methodology for identifying exposures subject to NFRD it has been necessary to make some judgements, considering data availability. Methodologies will develop over time to align with changes in market practice and regulation. In particular, detailed below are key judgments and assumptions made:

Counterparties which are subject to NFRD are large public interest undertakings with more than an average of 500 employees during the financial year and incorporated within the European Union. Due to data limitations, for some of counterparties, it has not been possible to assess all the criteria required to determine the NFRD status. Instead, reliance has been placed upon a simplification using the available internal data, as well as data provided by third party vendors.

The counterparty data considered in making an assessment included, where available: country of incorporation, customer group by global business segment, turnover, balance sheet size, number of employees, and ultimately, availability of NFRD and Taxonomy reporting.

For NFRD counterparties that have taken the exemption to report at subsidiary level because they are included in the consolidated reporting of their parent, the parent's Taxonomy KPIs have not been relied upon unless the parent undertaking has clearly stated that the relevant subsidiary has taken the exemption option to report Taxonomy KPIs.

Household exposures

Loans to households collateralised by residential property and loans to households for building renovations have been assessed as eligible under the Climate Change Mitigation objective in accordance with the definition of activities 7.1 to 7.7 in the Climate Delegated Act. Loans to households for the purchase of motor vehicles, where granted after 1 January 2022, have been assessed as eligible under the Climate Change Mitigation objective in accordance with the definition of activity 6.5 of the Climate Delegated Act. However, there is insufficient data available to fully assess any of these exposures for alignment against the technical screening criteria and in particular, the do no significant harm criteria.

1 *Taxonomy Regulation (EU) 2020/852.*
2 *Commission Delegated Regulation(EU) 2021/2178 supplementing Taxonomy Regulation.*
3 *Commission Delegated Regulation (EU) 2023/2486 supplementing Taxonomy Regulation and amending Disclosures Delegated Act.*
4 *The CSRD amends the Non-Financial Reporting Directive (NFRD) - Directive 2013/24/EU*

Summary of GAR KPIs (Template 6)

This table sets out a summary of stock and flow KPIs required to be disclosed by HSBC Malta Bank p.l.c. KPIs in this table are calculated using counterparty Turnover ratios.

Table 35 Summary of GAR KPIs - based on counterparty turnover (Template 6)

	KPI			
	Climate change mitigation	Climate change adaptation	Total (Climate change mitigation + Climate change adaptation)	% coverage (over total assets)*
	%	%	%	%
GAR stock	—	—	—	**61.57**
GAR flow	—	—	—	—

* *% of assets covered by the KPI over banks´ total assets.*

Mitigating actions: Assets for the calculation of GAR - Based on Counterparty Turnover (Template 7)

This table presents assets used in the calculation of the GAR disaggregated by counterparty type and asset class. Total assets are further categorised between GAR assets in the numerator, GAR assets in the denominator, and assets excluded from the GAR calculation, with eligible and aligned GAR assets presented by climate objective. Minor amendments have been made to row labels 32 and 45 to clarify where GAR assets form the numerator or denominator of the KPI.

Exposures to non-EU financial corporations and EU financial corporations that are not subject to NFRD disclosure obligations are included in Other assets.

This table is based on Turnover KPIs reported by HSBC Bank Malta p.l.c.'s counterparties.

The gross carrying amount column excludes impairment allowances for all banking exposures. As a result, Total Assets reported in this table is not equal to Total Assets reported in HSBC Bank Malta p.l.c.'s balance sheet with the difference due to impairment allowances on banking exposures.

Table 36: Mitigating actions: Assets for the calculation of GAR - Based on Counterparty Turnover (Template 7)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date															
			Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**					**TOTAL (CCM + CCA)**				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					***of which: towards taxonomy relevant sectors (Taxonomy-eligible)***					***of which towards: taxonomy relevant sectors (Taxonomy-eligible)***				
				of which: environmentally sustainable (Taxonomy-aligned)					***of which: environmentally sustainable (Taxonomy-aligned)***					***of which: environmentally sustainable (Taxonomy-aligned)***			
		Total gross carrying amount			***of which : specialised lending***	***of which : transitional***	***of which : enabling***			***of which : specialised lending***	***of which : adaptation***	***of which : enabling***			***of which : specialised lending***	***of which : transitional / adaptation***	***of which : enabling***
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	**2,544,575**		—	—	—	—		—	—	—	—	**2,294,676**	—	—	—	—
2	**Financial corporations**	**229,300**		—	—	—	—		—	—	—	—	**22,257**	—	—	—	—
3	Credit institutions	**229,300**		—	—	—	—		—	—	—	—	**22,257**	—	—	—	—
4	Loans and advances	**207,043**		—	—	—	—		—	—	—	—	—	—	—	—	—
5	Debt securities, including UoP	**22,257**		—	—	—	—		—	—	—	—	**22,257**	—	—	—	—
6	Equity instruments	—		—	—	—	—		—	—	—	—	—	—	—	—	—
7	Other financial corporations	—		—	—	—	—		—	—	—	—	—	—	—	—	—
8	– *of which: investment firms*	—		—	—	—	—		—	—	—	—	—	—	—	—	—
9	Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
11	Equity instruments	—		—	—	—	—		—	—	—	—	—	—	—	—	—
12	– *of which: management companies*	—		—	—	—	—		—	—	—	—	—	—	—	—	—
13	Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—	—
14	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
15	Equity instruments	—		—	—	—	—		—	—	—	—	—	—	—	—	—
16	– *of which: insurance undertakings*	—		—	—	—	—		—	—	—	—	—	—	—	—	—
17	Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—	—
18	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
19	Equity instruments	—		—	—	—	—		—	—	—	—	—	—	—	—	—
20	**Non-financial corporations (subject to NFRD disclosure obligations)**	**33,928**		—	—	—	—		—	—	—	—	**1,444**	—	—	—	—
21	Loans and advances	**33,928**		—	—	—	—		—	—	—	—	**1,444**	—	—	—	—

Table 36: Mitigating actions: Assets for the calculation of GAR - Based on Counterparty Turnover (Template 7) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date															
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					of which: towards taxonomy relevant sectors (Taxonomy-eligible)					of which towards: taxonomy relevant sectors (Taxonomy-eligible)				
				of which: environmentally sustainable (Taxonomy-aligned)					of which: environmentally sustainable (Taxonomy-aligned)					of which: environmentally sustainable (Taxonomy-aligned)			
		Total gross carrying amount			of which: specialised lending	of which: transitional	of which: enabling			of which: specialised lending	of which: adaptation	of which: enabling			of which: specialised lending	of which: transitional/adaptation	of which: enabling
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
22	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
23	Equity instruments	—		—	—	—	—		—	—	—	—	—	—		—	—
24	**Households**	**2,160,409**		—	—	—	—		—	—	—	—	**2,150,436**	—	—	—	—
25	– *of which: loans collateralised by residential immovable property*	**2,137,020**		—	—	—	—		—	—	—	—	**2,137,020**	—	—	—	—
26	– *of which: building renovation loans*	**2,291**		—	—	—	—		—	—	—	—	**2,291**	—	—	—	—
27	– *of which: motor vehicle loans*	**21,098**		—	—	—	—		—	—	—	—	**11,125**	—	—	—	—
28	**Local governments financing**	**117,717**		—	—	—	—		—	—	—	—	**117,717**	—	—	—	—
29	Housing financing	—		—	—	—	—		—	—	—	—	—	—	—	—	—
30	Other local governments financing	**117,717**		—	—	—	—		—	—	—	—	**117,717**	—	—	—	—
31	Collateral obtained by taking possession: residential and commercial immovable properties	**3,221**		—	—	—	—		—	—	—	—	**2,822**	—	—	—	—
32	**TOTAL GAR ASSETS (IN THE NUMERATOR)**	**2,544,575**		—	—	—	—		—	—	—	—	**2,294,676**	—	—	—	—
	Assets excluded from the numerator for GAR calculation (covered in the denominator)																
33	**EU Non-financial corporations (not subject to NFRD disclosure obligations)**	**717,912**															
34	Loans and advances	**717,912**															
35	Debt securities	—															
36	Equity instruments	—															
37	**Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)**	**629**															
38	Loans and advances	**629**															
39	Debt securities	—															

Table 36: Mitigating actions: Assets for the calculation of GAR - Based on Counterparty Turnover (Template 7) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date															
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
				of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*					*of which towards: taxonomy relevant sectors (Taxonomy-eligible)*			
					of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*					*of which: environmentally sustainable (Taxonomy-aligned)*		
		Total gross carrying amount			*of which : speci-alised lend-ing*	*of which : trans-itional*	*of which : enab-ling*			*of which : speci-alised lend-ing*	*of which : adap-tation*	*of which : enab-ling*			*of which : speci-alised lend-ing*	*of which : trans-itional / adap-tation*	*of which : enab-ling*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
40	Equity instruments	**—**															
41	Derivatives	**7,483**															
42	On demand interbank loans	**518,531**															
43	Cash and cash-related assets	**33,582**															
44	Other assets (e.g. Goodwill, commodities etc.)	**508,723**															
45	**TOTAL ASSETS IN THE DENOMINATOR (GAR)**	**4,331,435**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**2,294,676**	**—**	**—**	**—**	**—**
	Other assets excluded from both the numerator and denominator for GAR calculation																
46	Sovereigns	**1,439,811**															
47	Central banks exposure	**1,257,899**															
48	Trading book	**6,094**															
49	**TOTAL ASSETS EXCLUDED FROM NUMERATOR AND DENOMINATOR**	**2,703,804**															
50	**TOTAL ASSETS**	**7,035,239**		**—**	**—**	**—**	**—**		**—**	**—**	**—**		**2,294,676**	**—**	**—**	**—**	**—**

GAR % (Template 8)

This table presents stock and flow of eligible and aligned exposures as a proportion of total covered assets by Taxonomy climate objective.

Flow is defined as new assets originating during the year net of repayments and other reductions. The disclosure includes flows of medium and long term eligible loan exposures. As the starting point to identify new loans granted during the year is the stock of loans at 31st December 2023, it is possible that some loans both granted and repaid during 2023 have not been accounted for in the flow. To identify the date that loans have been granted, the signature date currently available is used. Some renegotiated loans may have a different signature date than the original loan.

Products which are revolving and / or short term in nature such as overdrafts, trade loans and contracts, factoring and credit facilities have been included at point in time in the stock and not repeated in the flow. For all such products, there are operational challenges in identifying new facilities authorised during the year. Debt securities and equity securities have also been included at point in time in the stock and not repeated in the flow.

The final column of the table requires disclosure of the proportion of total new assets covered by the flow KPI, where total new assets is calculated as the difference between total assets in the current year and total assets in the prior year. Since for the 2023 reporting year, comparatives are not required, this column has not been populated.

This table is based on Turnover KPIs reported by HSBC Bank Malta p.l.c.'s counterparties.

Table 37: Mitigating actions - GAR % (Template 8)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date : KPIs on stock															
		Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**					**TOTAL (CCM + CCA)**					
		Proportion of eligible assets funding taxonomy relevant sectors					**Proportion of eligible assets funding taxonomy relevant sectors**					**Proportion of eligible assets funding taxonomy relevant sectors**					
			of which: environmentally sustainable					***of which: environmentally sustainable***					***of which: environmentally sustainable***				
	% (compared to total covered assets in the denominator)			***of which: specialised lending***	***of which: transitional***	***of which: enabling***			***of which: specialised lending***	***of which: adaptation***	***of which: enabling***			***of which: specia lised lending***	***of which: transitional / adaptation***	***of which: enabling***	**Proportion of total assets covered**
		%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
1	**GAR**		—					—					—				**61.57**
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	—	—	—	—	—	—	—	—	—	—	**52.98**	—	—	—	—	**36.17**
3	Financial corporations	—	—	—	—	—	—	—	—	—	—	**0.51**	—	—	—	—	**3.26**
4	Credit institutions	—	—	—	—	—	—	—	—	—	—	**0.51**	—	—	—	—	**3.26**
5	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	– *of which: investment firms*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7	– *of which: management companies*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8	– *of which: insurance undertakings*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9	Non-financial corporations subject to NFRD disclosure obligations	—	—	—	—	—	—	—	—	—	—	**0.03**	—	—	—	—	**0.48**
10	Households	—	—	—	—	—				—	—	**49.65**	—	—	—	—	**30.71**
11	– *of which: loans collateralised by residential immovable property*	—	—	—	—	—				—	—	**49.34**	—	—	—	—	***30.38***
12	– *of which: building renovation loans*	—	—	—	—	—				—	—	**0.05**	—	—	—	—	***0.03***
13	– *of which: motor vehicle loans*	—	—	—	—	—				—	—	**0.26**	—	—	—	—	***0.30***
14	Local government financing	—	—	—	—	—				—	—	**2.72**	—	—	—	—	**1.67**
15	Housing financing	—	—	—	—	—				—	—	—	—	—	—	—	—

Table 37: Mitigating actions - GAR % (Template 8) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date : KPIs on stock															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					
			of which: environmentally sustainable					*of which: environmentally sustainable*					*of which: environmentally sustainable*				
	% (compared to total covered assets in the denominator)			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional / adaptation*	*of which: enabling*	Proportion of total assets covered
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
16	Other local governments financing	—	—	—	—	—				—	—	2.72	—	—	—	—	1.67
17	Collateral obtained by taking possession: residential and commercial immovable properties	—	—	—	—	—				—	—	0.07	—	—	—	—	0.05

Table 37: Mitigating actions - GAR % (Template 8) (continued)

		q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
		Disclosure reference date : KPIs on flows															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					
			of which: environmentally sustainable					*of which: environmentally sustainable*					*of which: environmentally sustainable*				
	% (compared to total covered assets in the denominator)			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional / adaptation*	*of which: enabling*	Proportion of total assets covered
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	**GAR**		—					—					—				
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	—	—	—	—	—	—	—	—	—	—	1.38	—	—	—	—	
3	Financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
4	Credit institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
5	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
6	– *of which: investment firms*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
7	– *of which: management companies*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
8	– *of which: insurance undertakings*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
9	Non-financial corporations subject to NFRD disclosure obligations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
10	Households	—	—	—	—	—				—		1.38	—	—	—	—	
11	– *of which: loans collateralised by residential immovable property*	—	—	—	—	—				—		1.23	—	—	—	—	

Table 37: Mitigating actions - GAR % (Template 8) (continued)

		q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
		Disclosure reference date : KPIs on flows															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					
			of which: environmentally sustainable					*of which: environmentally sustainable*					*of which: environmentally sustainable*				
% (compared to total covered assets in the denominator)				***of which: speci-alised lend-ing***	***of which: trans-itional***	***of which: enab-ling***			***of which: speci-alised lend-ing***	***of which: adapt-ation***	***of which: enab-ling***			***of which: speci alised lend-ing***	***of which: trans-itional / adapt-ation***	***of which: enab-ling***	**Propo-rtion of total assets cove-red**
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
12	– *of which: building renovation loans*	—	—	—	—	—				—		0.01	—	—	—	—	
13	– *of which: motor vehicle loans*	—	—	—	—	—				—		0.14	—	—	—	—	
14	Local government financing	—	—	—	—	—				—		—	—	—	—	—	
15	Housing financing	—	—	—	—	—				—		—	—	—	—	—	
16	Other local governments financing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
17	Collateral obtained by taking possession: residential and commercial immovable properties	—	—	—	—	—				—		—	—	—	—	—	

Other climate change mitigating actions that are not covered in the EU Taxonomy

The table below reports other climate change mitigating actions that support counterparties in the transition and adaptation process for the objectives of climate change mitigation and adaptation. These mitigating actions include green bonds, sustainable bonds, sustainability-linked bonds, green loans and sustainability-linked loans, that are linked to aspects of climate change. The exposures reported in this table are eligible but do not need to be aligned with the criteria laid out in the EU Taxonomy Regulation 2020/852 and would not be considered under the Green Asset Ratio.

HSBC Bank Malta p.l.c. has set out below our assessment of the actions to mitigate climate-related risks, and reported these on-balance sheet exposures in the table. These include loans invested in energy efficiency, green buildings, clean transportation and renewable energy. Related exposures have been included where the use of proceeds is determined to be investments in projects that aim to mitigate climate transition or physical risk. Where it was not possible to fully determine whether sustainability-linked products are linked to aspects of climate change, these exposures have been excluded.

Green and sustainable bonds are part of the high quality liquid asset buffer, therefore carry a zero risk weighting for capital requirement purposes. Certain aspects of this reporting rely on manual data sourcing.

HSBC Bank Malta p.l.c. is taking steps to establish an ESG data utility tool to help streamline and support data needs across the organisation. This will involve enhancing the processes, systems, controls and governance to help achieve the required scale to meet the demands of future ESG reporting.

The exposures in the table have not been fully assessed for alignment against the criteria set out in the EU Taxonomy Regulation due to lack of sufficient information. Although they are not assessed as aligned, they still contribute towards mitigating climate change physical risk and transition risk. The methodology for determining the aligned exposures is expected to evolve as data availability, industry guidance and market practice changes over time.

The Bank aims to continue to engage with business customers to increase contribution in projects which help to support the transition to a lower-carbon economy.

Table 38 – Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)

a	b	c	d	e	f
Type of financial instrument	**Type of counterparty**	**Gross carrying amount €000**	**Type of risk mitigated (Climate change transition risk)**	**Type of risk mitigated (Climate change physical risk)**	**Qualitative information on the nature of the mitigating actions**
At 31 Dec 2023					
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	—	—	—	
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Other counterparties	**56,768**	**Y**	**Y**	The proceeds from these bonds are invested in projects with a climate change transition risk and/or physical risk mitigation objective. Financings are intended to be deployed to transition projects such as energy efficient buildings, clean transportation and renewable energy. Some bonds support projects which contribute to mitigate climate physical risk, including water management and soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	—	—	—	
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Households	**3,774**	**Y**	**N**	These loans finance housing refurbishment and green car loan in order to improve energy efficiency and contribute to mitigating transition risk.
	– *of which: Loans collateralised by residential immovable property*	—	—	—	
	– *of which: building renovation loans*	***376***	**Y**	**N**	
	Other counterparties	—	—	—	

Table 38 – Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10) (continued)

a	b	c	d	e	f
Type of financial instrument	Type of counterparty	Gross carrying amount €000	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
At 31 Dec 2022					
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	—	—	—	
	– *of which: Loans collateralised by commercial immovable property*	—	—	—	
	Other counterparties	28,077	Y	Y	These bonds are invested in projects whose aim is to mitigate both transition and physical risks. They finance renewable energy projects, energy efficient buildings, green transportation (electric rail infrastructure, electric buses), research & development and deployment of innovative low carbon technology, which help to reduce dependency on fossil fuel intensive energy and then highly contribute to mitigate transition risk. Some bonds support projects which contribute to mitigate climate physical risk, such as soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	—	—	—	
	Non-financial corporations	8,134	Y	N	These loans are part of the ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They finance green buildings projects (buildings refurbishments), renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
	– *of which Loans collateralised by commercial immovable property*	—	—	—	
	Households	4,207	Y	N	
	– *of which Loans collateralised by residential immovable property*	—	—	—	
	– *of which building renovation loans*	*404*			
	Other counterparties	—	—	—	

Remuneration policy

Information on the bank's Remuneration Policy and practices is disclosed in the Remuneration Report section within the Annual Report and Accounts and are presented in accordance with Article 450 of the CRR.

Appendix I - Summary of disclosures withheld

EU CCR3: Standardised approach – CCR exposures by regulatory exposure class and risk weights	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR4: IRB approach – CCR exposures by exposure class and PD scale	The Bank does not apply the IRB approach. In addition, being a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR5: Composition of collateral for CCR exposures	The bank does not have collateral on CCR exposures. As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR6: Credit derivatives exposures	The bank does not have credit derivatives. As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CCR7: RWEA flow statements of CCR exposures under the IMM	The Bank does not apply the IMM approach.
EU CCR8: Exposures to CCPs	The bank does not engage in exposures to CCPs. As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CR5 – standardised approach	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU CR6: IRB approach – Credit risk exposures by exposure class and PD range	The Bank does not apply the IRB approach.
EU CR6-A: Scope of the use of IRB and SA approaches	The Bank does not apply the IRB approach.
EU CR7: IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	The Bank does not apply the IRB approach.
EU CR7-A: IRB approach – Disclosure of the extent of the use of CRM techniques	The Bank does not apply the IRB approach.
EU CR8: RWEA flow statements of credit risk exposures under the IRB approach	The Bank does not apply the IRB approach.
EU CR9: IRB approach – Back-testing of PD per exposure class (fixed PD scale)	The Bank does not apply the IRB approach.
EU CR9.1: IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The Bank does not apply the IRB approach.
EU CR10: Specialized lending and equity exposures under the simple risk weighted approach	The Bank does not apply the IRB approach.
EU-SEC1 – Securitisation exposures in the non-trading book	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC2: Securitisation exposures in the trading book	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU-SEC5 – Exposures securitised by the institution – Exposures in default and specific credit risk adjustments	HSBC Bank Malta p.l.c. is not engaged in securitisation activities.
EU CQ2: Quality of forbearance	The Bank's NPE ratio is less than the 5% threshold.
EU CQ6: Collateral valuation – loans and advances	The Bank's NPE ratio is less than the 5% threshold.
EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown	The Bank's NPE ratio is less than the 5% threshold.
EU CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries	The Bank's NPE ratio is less than 5% threshold.
EU MR2-A: Market risk under the internal Model Approach ('IMA')	The Bank does not apply the IMA approach.
EU MR2-B: RWA flow statements of market risk exposures under the IMA	The Bank does not apply the IMA approach.
EU MR3: IMA values for trading portfolios	The Bank does not apply the IMA approach.
EU PV1: Prudent valuation adjustments ('PVA')	The Bank's absolute fair value of asset and liabilities is less than the €15 billion threshold.
EU AE1: Encumbered and unencumbered assets	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU AE2: Collateral received and own debt securities issued	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU AE3: Sources of encumbrance	As a subsidiary of HSBC Holdings plc, the bank is subject to light disclosures and therefore exempted from publishing this table.
EU REM3: Deferred remuneration	The Bank does not have deferred remuneration.
EU REM4: Remuneration of EUR 1 million or more per year	The bank does not have remuneration exceeding these thresholds.

Appendix II - Abbreviations

The following abbreviated terms are used throughout this document.

A	
AGM	Annual General Meeting
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1	Additional tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
bps	basis points
C	
CCM	Environmentally sustainable
CCP	Central counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CESGROF	Climate and Environmental Social and Governance Risk Oversight Forum
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive
CRE	Commercial real estate
CRM	Credit risk mitigation/mitigant
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EPBD	Energy Performance of Building Directive
EPC	Energy Performance Certificate
ESG	Environmental, Social and Governance
EU	European Union
EVE	Economic value of equity
F	
FIM	Functional Instruction Manual
G	
GAR	Green Asset Ratio
GHG	Greenhouse gas
H	
HBMT	HSBC Bank Malta p.l.c.
HR	Human Resources
HSBC	HSBC Holdings together with its subsidiary undertakings
HTC&S SVaR	Hold-to-collect-and-sell stressed value at risk
I	
IAA	Internal Assessment Approach
ICAAP	Internal Capital Adequacy Assessment Process
IEA	International Energy Agency
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
IMA	Internal Models Approach
IMM	Internal Model Method
IRB	Internal ratings based approach
IRC	Incremental risk charge
ITS	Implementing Technical Standard
L	
LAB	Liquid Asset Buffer
LCR	Liquidity Coverage Ratio
LFRF	Liquidity and Funding Risk Management Framework
LGD	Loss given default
M	
MI	Management Information
MREL	Minimum requirements for own funds and eligible liabilities
MRT	Material Risk Taker
N	
NACE	The Statistical Classification of Economic Activities in the European Community
NSFR	Net Stable Funding Ratio
NZE	Net-Zero Emission
O	
OCR	Overall Capital Requirement
OECD	Organisation for Economic Cooperation and Development
OTC	Over-the-counter
P	
P1R	Pillar 1 requirement
P2G	Pillar 2 guidance
P2R	Pillar 1 requirement
PD	Probability of default
PFE	Potential future exposure
PP&E	Property plant and equipment
R	
RAS	Risk appetite statement
RMM	Risk Management Meeting
RWA	Risk-weighted asset
S	
SOT	Standard Outlier Test
SA-CCR	Standardised approach for counterparty credit risk
SFT	Securities Financing Transactions
SME	Small and medium-sized enterprise
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
T	
TCFD	Task Force on Climate-related Financial Disclosure
The Board	Board of Directors of HSBC Bank Malta p.l.c.
T2	Capital Tier 2 capital
U	
UNGC	United Nations Global Compact
W	
WPB	Wealth and Personal Banking

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