HSBC Bank Malta p.l.c.

Pillar 3 Disclosures at 31 December 2022

HSBC

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Additional regulatory disclosures

Introduction

Regulatory framework for Pillar 3 disclosures

HSBC Bank Malta p.l.c. falls under the Single Supervisory Mechanism ('SSM') of the European Central Bank ('ECB') through the Joint Supervisory Team ('JST'), which consists of representatives from both the ECB and the Malta Financial Services Authority ('MFSA'). HSBC Bank Malta p.l.c. is under the direct supervision of both the JST and MFSA. Information regarding HSBC Bank Malta p.l.c.'s capital adequacy requirements as an entity is received by the two regulatory bodies.

The Basel III framework of the Basel Committee on Banking Supervision (the 'Basel Committee') as implemented by the European Union (the 'EU') in the amended Capital Requirements Regulation and Directive, collectively referred to as CRR/CRD IV, is used to calculate capital for prudential regulatory reporting purposes at a consolidated level. The local group, comprises HSBC Bank Malta p.l.c. and its subsidiary HSBC Global Asset Management (Malta) Ltd. HSBC Life Assurance (Malta) Ltd is excluded from the regulatory scope of consolidation by eliminating assets, liabilities and post-acquisition reserves, leaving the investment of the insurance subsidiary to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted at 250%).

The Basel III framework consists of three 'pillars'. Pillar 1 measures minimum capital requirements for the credit, market and operational risks that banks face. Pillar 2 'supervisory review', focuses on the fundamentals of the supervisory review procedure and emphasizes the necessity of a qualitative approach to bank supervision. An Internal Capital Adequacy Assessment Process ('ICAAP') is required by banks to estimate their own capital. Through the Supervisory Review and Evaluation Process ('SREP'), the Regulator conducts supervisory reviews of the ICAAP and Internal Liquidity Adequacy Assessment Process ('ILAAP'). Pillar 3 'market discipline', mandates that banks publish a variety of qualitative and quantitative disclosures to the market in order to provide additional information regarding the capital structure, capital adequacy and risk management practices.

Disclosure requirements are an integral part of the Basel framework. These disclosures meet the requirements of Article 433 of Part Eight of EU Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – 'CRR 2'), in conjunction with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994, issued by the MFSA. Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive – Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation – Pillar 2) of the European Parliament and of the Council of 26 June 2013. In instances where information pertaining to Pillar 3 requirements is contained in other parts of the Annual Report, a reference has been added.

The EBA adopted updated guidelines in 2021, namely the 'Final Draft implementing technical standards on public disclosures of information referred to in Titles II and III of Part Eight of Regulation (EU) No. 575/2013 by institutions'. The disclosure framework in the EU is now in line with Basel Pillar 3 standards which bring the regulatory changes made by the revised CRR II into effect. The entirety of this regulation became legally binding 28 June 2021.

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Annual Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The local group through its internal verification procedures is satisfied that these Additional Regulatory Dislcosures are presented fairly.

Pillar 3 disclosures

Purpose

HSBC Bank Malta p.l.c.'s Pillar 3 disclosures at 31 December 2022 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with the relevant articles of Part 8 of the CRR II (Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013) and the European Banking Authority's ('EBA') guidelines on Pillar 3 disclosures.

In light of the fact that the local group is considered a significant subsidiary of HSBC Continental Europe within the local market and subject to consolidated supervision at the level of both HSBC Continental Europe as well as HSBC Holdings plc, the local group is exempt from full disclosure requirements laid down in Part Eight of the CRR.

The Pillar 3 disclosures are governed by HSBC Holdings plc ('the Group') disclosure policy framework. The disclosure policy sets out the governance, control and assurance requirements for publication of the Pillar 3 disclosure document. While the disclosure statement is not required to be externally audited, this document has been subject to an internal review process in accordance with the banks' financial reporting and governance processes.

Basis of preparation

The prudential consolidation in the statement of capital is based on CRR, whereas the consolidation of HSBC Bank Malta p.l.c.'s financial statements is based on IFRS. For accounting purposes, HSBC Bank Malta p.l.c including its subsidiary are subject to full consolidation; For regulatory reporting purposes, HSBC Life Assurance (Malta) Ltd is not consolidated as it does not fall in the CRR regime. In our disclosures, we provide comparative figures for the previous year to facilitate the analysis. Key ratios and figures are reflected throughout the Pillar 3 2022 disclosures. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives.

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

In line with Article 434 of the CRR, the Pillar 3 disclosure for HSBC Bank Malta p.l.c. is available on the HSBC websites www.hsbc.com or www.hsbc.com.mt simultaneously. This Pillar 3 disclosure includes regulatory information complementing the financial and risk information presented therein and is in line with the requirements of regulatory disclosures.

The information published within this document have been prepared as per the EBAs reporting framework 3.0 issued in March 2021 and effective from June 2021. The new reporting framework aims at facilitating the institutions' compliance with disclosure requirements and improving the consistency and quality of the information disclosed. The updates are mainly driven by changes during the adoption process of Implementing Technical Standards ('ITS') on supervisory reporting and the ITS on public disclosures.

The following quantitative tables are introduced and disclosed as from December 2022 complementing the ESG reporting guidelines.

Additional Regulatory Disclosures
At 31 December 2022
Template 1: Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity
Template 2: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral
Template 5: Banking book – Climate change physical risk: Exposures subject to physical risk
Template 10 – Other climate change mitigating actions that are not covered in the EU Taxonomy

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of Risk Weighted Assets ('RWAs') by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable.

Regulatory Developments

The Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the 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 October 2021, the European Commission ('EC') published a first draft of the rules implementing the reforms in the EU ('CRR3' or 'CRD6') with a proposed implementation date of 1 January 2025 but an output floor phased-in until 2030. The draft rules include some significant deviations from the Basel III Reforms, mainly on the application of internal models, the latter do not apply to HSBC Bank Malta p.l.c. as the bank applies the standardised approach for its reporting.

Among the changes introduced under the revised reforms and that apply to the standardised approach include:

- a new strategic investment category benefitting from a more favourable treatment and a phase-in of the 10% credit conversion factors for unconditionally cancellable commitments when calculating credit risk. It is also proposed that the Small Medium-size Enterprise ('SME') and infrastructure supporting factors are maintained;
- the retention of the option to neutralise the impact of past losses on operational risk RWAs;
- the retention of the exemptions from the credit valuation adjustment ('CVA') capital charges; and
- options to mitigate the impact and timing of implementation of the new market risk framework, should other jurisdictions make amendments.

In November 2022, the Council agreed its positions on the proposals from the Commission. In January 2023, the EU Parliament adopted its own amendments to those proposals. The three institutions are now about to enter trilogue negotiations to agree on a final version of the text. The current proposed implementation date is 1 January 2025.

Crypto Assets

In December 2022, Basel finalized its rules on the capital treatments for banks' exposures to crypto assets, which are scheduled for implementation by 1 January 2025. The EU has yet to consult on their implementation.

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

In October 2022, the European Banking Authority ('EBA') published final standards and guidelines on the treatment of interest rate risk and credit spread risk in the banking book. They reflect the final rules issued by Basel, implemented in 2019, and will replace the guidelines applicable under the Supervisory Review and Evaluation Process ('SREP') element of Pillar 2. The guidelines will apply from 30 June 2023, except for the part on credit spread risk, which will apply from 31 December 2023.

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

In the EU, regulators continue to publish multiple proposals and discussion papers on ESG topics and there has also been growing interest and work underway by regulators on the extent to which climate risks are captured and dealt with in the prudential framework.

In April 2022, the European Financial Reporting Advisory Group launched a consultation on European Sustainability Reporting Standards ('ESRS') exposure drafts, the first set of standards required under the Corporate Sustainability Reporting Directive ('CSRD') and cover environmental, social and governance matters. The ESRS was finalised in November 2022 and the EU Commission is expected to adopt the final standards in June 2023. The CSRD entered into force in January 2023 and strengthens the existing rules on non-financial reporting introduced in the Accounting Directive by the 2014 Non-financial Reporting Directive. It also broadens the scope for EU entities and includes non-EU entities, subject to meeting certain criteria.

In May 2022, the European Banking Authority ('EBA') published a discussion paper which explored whether and how environmental risks are to be incorporated into the prudential framework. The responses to the discussion paper will be used by the EBA to finalise its report on this topic.

In August 2022, the European Parliament published draft amendments to the European Commission's proposed implementation of the reforms ('CRR3' or 'CRD6') including additional EU-specific reforms covering ESG risk. These draft amendments will be subject to negotiation with the European Parliament, Council and Commission before final rules are published.

In November 2022, the European Central Bank ('ECB') published the results of its thematic review of banks' ability to adequately identify and manage climate and environmental risks. Based on the results of the review, the ECB has set staggered deadlines for banks to achieve full alignment with its supervisory expectations outlined in its 2020 guide on climate-related and environmental risks by the end of 2024 including full integration in the Internal Capital Adequacy Assessment Process ('ICAAP') and stress testing. Intermediate steps include adequate categorization and impact assessment of climate and environmental risks by March 2023 at the latest, and inclusion by the end of 2023 of those risks in their governance, strategy, and risk management.

Minimum own funds and eligible liability issuance

A workshop was held with the SRB on the 14 September 2022 and the final target MREL including Combined Buffer Requirement was set at 23.98% of Total Risk Exposure Amount. These requirements are to be fulfilled by 1 January 2024.

HSBC Bank Malta p.l.c. becomes a subsidiary of HSBC Continental Europe

On 30 November 2022, HSBC Europe B.V. transferred its direct shareholding in HSBC Bank Malta p.l.c. to HSBC Continental Europe ('HBCE'). As a result of this transaction, HBCE holds a direct shareholding of 70.0295% in HSBC Bank Malta p.l.c.

The transaction occurred in the context of a corporate restructuring by HSBC Group to comply with the obligation under Article 21(b) of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V) for non-EU headquartered banking groups like the HSBC Group to have an intermediate parent undertaking ('EU IPU') in the EU by 30 December 2023.

Depositor Compensation Scheme

In October 2022, Legal Notice ('LN') 262 (Banking Act (Cap. 371); Depositor Compensation Scheme (Amendment No. 2) Regulations, 2022) was published and became legally binding on Maltese banks. The LN confirmed the 70% cash contribution and 30% payment commitment ratios mandated under Directive 2014/49/EU and revised down the Flat Contribution on covered deposits from 1.3% to 1.1% applicable for year 2022. The Flat Contribution percentage rate will be re-adjusted to its original 1.3% through a phased approach (1.2% applicable for year 2023 and 1.3% – for year 2024).

Covid

The European Banking Authority (the 'EBA') released its COVID measures closure report on 16 December 2022. This report provides an overview of the policy measures implemented during the pandemic, their status, and the path out of policy support. The Guidelines on COVID reporting and disclosure subject to measures applied in response to the COVID crisis were also repealed by the EBA with effect from 1 January 2023, in accordance with the proportionate approach to supervisory reporting and in light of the decrease in the volume of loans subject to payment moratoria and public guarantees.

Similarly, the Malta Financial Services Authority issued a communication through circular on 16 January 2023, repealing Banking Rule BR/23 on the Reporting and Disclosure of Exposures Subject to Measure Applied in Response to the COVID Crisis (the 'Rule'), with effect from 1 January 2023.

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 promotes risk awareness, a sound operational and strategic decision making and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities with clear accountabilities. We continue to actively review and develop our risk management framework and enhance our approach to managing risk through our activities with regard to:

- People and capabilities;
- Governance;
- Reporting and management information;
- Credit risk management models; and
- Customer/Financial Data.

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. 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 ultimate responsibility for the effective management of risk 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. More information on the three lines of defence is found in section 'Non-financial risk' sub-section 'Organisation and Responsibilities'.

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. It is also integrated within other risk management tools such as stress testing, to ensure consistency in risk management.

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, relations with third parties such as regulators, rating agencies and auditors.

The main objective of a sound banking system is to provide market participants with useful information about common key risk metrics. It promotes comparability of banks' risk profiles across jurisdictions and reduces information asymmetry. The key regulatory metrics and ratios as well as the related input components as defined by the revised CRR and CRD are provided in the table EU KM1. Own funds, RWAs, capital ratios, additional SREP-based requirements for capital buffers, leverage ratios, liquidity coverage ratios, and net stable funding ratios are all included. In addition to the specific internal risk metrics specific to HSBC Bank Malta p.l.c., they function as high-level metrics and are a component of our comprehensive risk management for each individual risk type. They are reviewed and approved by our Management Board at least annually on the basis of this and they are fully integrated into concepts of strategic planning, risk appetite framework, and stress testing. From quarter two of 2022, we have included the quarterly disclosures, as required by CRR Article 433a, in our semi-annual and annual disclosure of Pillar 3 information as part of our Interim and Annual Report.

Table 1: Key metrics (KM1)

		At				
Ref*		**31 Dec 2022**	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
	Available capital (€000)+					
1	Common Equity Tier 1 ('CET1') capital^	**410,150**	377,472	375,075	392,349	412,424
1a	Fully loaded ECL accounting model CET1	**400,871**	366,506	366,985	381,405	397,593
2	Tier 1 capital^	**410,150**	377,472	375,075	392,349	412,424
2a	Fully loaded ECL accounting model Tier 1	**400,871**	366,506	366,985	381,405	397,593
3	Total capital^	**472,150**	439,472	437,075	454,349	474,424
3a	Fully loaded ECL accounting model total capital	**462,871**	428,506	428,985	443,405	459,593
	Risk-weighted exposure amounts ('RWEAs') (€000)					
4	Total risk-weighted exposure amount	**2,220,525**	2,274,843	2,297,339	2,241,360	2,243,665
	Total RWEAs as if IFRS 9 transitional arrangements had not been applied	**2,212,934**	2,266,252	2,291,238	2,231,119	2,232,148
	Capital ratios (%)					
5	Common Equity Tier 1 ratio (%)	**18.5**	16.6	16.3	17.5	18.4
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	**18.1**	16.2	16.0	17.1	17.8
6	Tier 1 ratio (%)	**18.5**	16.6	16.3	17.5	18.4
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**18.1**	16.2	16.0	17.1	17.8
7	Total capital ratio (%)	**21.3**	19.3	19.0	20.3	21.1
7a	Fully loaded ECL accounting model total capital ratio (%)	**20.9**	18.9	18.7	19.9	20.6
	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 (%)	**—**	—	—	—	—
10	Global Systemically Important Institution buffer (%)	**—**	—	—	—	—
EU 10a	Other Systemically Important Institution buffer (%)	**1.5**	1.5	1.5	1.5	1.5
11	Combined buffer requirement (%)	**4.0**	4.0	4.0	4.0	4.0
EU 11a	Overall capital requirements (%)	**14.3**	14.3	14.3	14.3	14.3
12	CET1 available after meeting the total SREP own funds requirements (%)[1]	**10.8**	8.9	8.6	9.8	10.7
	Leverage ratio					
13	Total exposure measure	**6,895,816**	6,934,865	6,925,928	6,664,138	6,528,035
14	Leverage ratio (%)^	**5.9**	5.4	5.4	5.9	6.3
14a	Fully loaded ECL accounting model leverage ratio (%)	**5.8**	5.3	5.3	5.7	6.1
	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')					
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**2,412,674**	2,207,581	1,953,281	1,715,521	1,518,839
EU 16a	Cash outflows – Total weighted value	**1,135,475**	1,104,745	1,052,305	1,030,505	1,011,015
EU 16b	Cash inflows – Total weighted value	**585,685**	588,982	683,307	593,775	732,429
16	Total net cash outflows (adjusted value)	**589,490**	546,804	440,319	397,207	351,401
	LCR ratio (%)	**425.7**	430.9	476.5	473.8	471.3
	Net Stable Funding Ratio					
18	Total available stable funding	**5,416,247**	5,058,155	5,370,199	5,251,632	5,174,663
19	Total required stable funding	**2,599,764**	2,622,116	2,664,712	2,575,075	2,601,704
20	NSFR ratio (%)	**208.3**	192.9	201.5	203.9	198.9

* *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.*

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

1 *Capital figures and ratios are reported using the CRR II transitional basis for capital instruments. Comparatives for December 2021 are being restated in accordance with current year reporting.*

Table 2: Net value of exposure at the end of year

	Group		
	At 31 Dec		
	2022		
	Net value of exposure at the end of year^	Risk-weighted assets^	Capital Required^,1
	€000	€000	€000
Central governments or central banks	**2,143,439**	**87,734**	**7,019**
Public sector entities	**456,191**	**—**	**—**
Multilateral development banks	**166,509**	**—**	**—**
International Organisations	**72,119**	**—**	**—**
Institutions	**721,606**	**182,546**	**14,603**
Corporates	**1,054,165**	**394,225**	**31,538**
Retail exposures	**732,468**	**274,497**	**21,960**
Secured by mortgages on immovable property	**2,120,661**	**767,578**	**61,406**
Exposures in default	**112,719**	**125,268**	**10,021**
Items associated with particularly high risk	**16,252**	**16,515**	**1,321**
Equity exposures	**83**	**83**	**7**
Other exposures	**137,331**	**142,433**	**11,395**
Credit risk	**7,733,543**	**1,990,879**	**159,270**
Operational risk		**225,956**	**18,076**
Foreign exchange risk		**765**	**61**
Credit Valuation Adjustment Risk		**2,925**	**234**
Total		**2,220,525**	**177,641**
Own funds			
Common Equity Tier 1			**410,150**
Tier 2			**62,000**
Total own funds			**472,150**
Total capital ratio			**21.3%**

	At 31 Dec		
	2021		
Central governments or central banks	2,036,465	81,095	6,488
Public sector entities	448,517	—	—
Multilateral development banks	121,596	—	—
International Organisations	—	—	—
Institutions	357,368	75,190	6,015
Corporates	1,328,146	513,339	41,068
Retail exposures	665,276	215,928	17,274
Secured by mortgages on immovable property	2,180,171	795,092	63,607
Exposures in default	159,768	171,352	13,708
Items associated with particularly high risk	19,534	24,051	1,924
Equity exposures	81	81	6
Other items	125,566	138,090	11,047
Credit risk	7,442,488	2,014,218	161,137
Operational risk		227,726	18,218
Foreign exchange risk		252	20
Credit Valuation Adjustment Risk		1,469	118
Total		2,243,665	179,493
Own funds			
Common Equity Tier 1			412,424
Tier 2			62,000
Total own funds			474,424
Total capital ratio			21.1%

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

1 *Capital requirements, here and in all tables where the term is used, represents the Pillar I capital charge at 8% of RWAs.*

The following material movements are observed when comparing year on year figures:

- Exposures in default decreased by 29.4% resulting from recoveries on facilities which were considered as in default;
- Exposures with Institutions increased by 101.9%, mainly driven by placements of funds with HSBC Continental Europe as a result of higher customer deposits received during the year; and
- Exposures with Multilateral Development Banks increased by 36.9%, which was for the most part determined by the purchase of 'Hold To Collect' securities, in conjunction to HSBC Bank Malta p.l.c's hedging strategy.

HSBC Bank Malta p.l.c. has adopted the regulatory transitional arrangements in CRR2 for IFRS 9, including paragraph four of article 473a. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses (‘ECL’) in the non-credit impaired book thereafter.

Any add-back must be tax affected and accompanied by a recalculation of exposure and RWAs.

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit impaired book. In the current period, the net add-back to the capital base amounted to €9,279,000.

Some figures (indicated with ^) within the table have been prepared on an IFRS 9 transitional basis. All other tables report numbers on the basis of full adoption of IFRS 9.

Regulatory Balance Sheet 2022

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs described in Note 2 on the Financial Statements differs from that used for regulatory purposes, because IFRSs provide a point in time value of all on balance sheet assets. The regulatory exposure value includes an estimation of risk and is expressed as the amount expected to be outstanding in and when the counterparty defaults. Moreover, the regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. 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 3 – EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance sheet as in published financial statements	De-consolidation of insurance entity	Regulatory balance sheet
	€000	€000	€000
Assets			
Balances with Central Bank of Malta, Treasury Bills and cash	**1,584,861**	**–**	**1,584,861**
Items in course of collection from other banks	**6,921**	**–**	**6,921**
Financial assets mandatorily measured at fair value through profit or loss	**660,282**	**(660,282)**	**–**
Derivatives	**25,745**	**–**	**25,745**
Loans and advances to banks	**732,493**	**(6,276)**	**726,217**
Loans and advances to customers	**3,175,167**	**–**	**3,175,167**
Financial investments	**1,004,770**	**–**	**1,004,770**
Prepayments and accrued income	**20,126**	**(2,239)**	**17,887**
Current tax assets	**3,496**	**(2,028)**	**1,468**
Reinsurance assets	**49,792**	**(49,792)**	**–**
Other non-current assets held for sale	**5,173**	**–**	**5,173**
Investment in subsidiaries	**–**	**28,578**	**28,578**
Investment property	**–**	**–**	**–**
Right-of-use assets	**2,459**	**–**	**2,459**
Property, plant and equipment	**44,627**	**(4)**	**44,623**
Intangible assets	**55,509**	**(36,905)**	**18,604**
Deferred tax assets	**35,620**	**–**	**35,620**
Other assets	**11,292**	**(1,327)**	**9,965**
Total assets at 31 Dec 2022	**7,418,333**	**(730,275)**	**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**
Derivatives	**10,252**	**–**	**10,252**
Accruals and deferred income	**27,300**	**(4,383)**	**22,917**
Current tax liabilities	**2,104**	**–**	**2,104**
Liabilities under investment contracts	**162,676**	**(162,676)**	**–**
Liabilities under insurance contracts	**544,246**	**(544,246)**	**–**
Provisions	**20,080**	**(1,250)**	**18,830**
Deferred tax liabilities	**15,819**	**(12,250)**	**3,569**
Borrowings from a group undertaking	**60,000**	**–**	**60,000**
Subordinated liabilities	**62,000**	**–**	**62,000**
Other liabilities	**15,569**	**(6,153)**	**9,416**
Total liabilities at 31 Dec 2022	**6,921,262**	**(692,339)**	**6,228,923**
Equity			
Called up share capital	**108,092**	**–**	**108,092**
Revaluation reserve	**64**	**–**	**64**
Retained earnings[1]	**388,915**	**(37,936)**	**350,979**
Total equity at 31 Dec 2022	**497,071**	**(37,936)**	**459,135**
Total liabilities and equity at 31 Dec 2022	**7,418,333**	**(730,275)**	**6,688,058**

1 *The retained earnings also include other movements in the equity. The balance sheet components are used in the calculation of the regulatory capital in table 4 (Own funds disclosure EU CC1). This table shows items at their accounting values which might be subject to adjustments in the calculation of regulatory capital.*

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

	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	1,496,407	—	1,496,407
Items in course of collection from other banks	4,453	—	4,453
Financial assets mandatorily measured at fair value through profit or loss	767,808	(767,808)	—
Derivatives	4,640	—	4,640
Loans and advances to banks	619,273	(6,211)	613,062
Loans and advances to customers	3,196,725	—	3,196,725
Financial investments	845,735	—	845,735
Prepayments and accrued income	20,558	(2,182)	18,376
Current tax assets	3,669	(1,810)	1,859
Reinsurance assets	77,972	(77,972)	—
Other non-current assets held for sale	6,673	—	6,673
Investment in subsidiaries	—	28,578	28,578
Investment property	1,600	(1,600)	—
Right-of-use assets	2,569	—	2,569
Property, plant and equipment	41,923	(2)	41,921
Intangible assets	50,168	(34,146)	16,022
Deferred tax assets	29,119	—	29,119
Other assets	5,513	(688)	4,825
Total assets at 31 Dec 2021	7,174,805	(863,841)	6,310,964
Liabilities and equity			
Deposits by banks	1,397	—	1,397
Customer accounts	5,621,195	34,187	5,655,382
Items in the course of transmission to other banks	21,573	—	21,573
Derivatives	4,592	—	4,592
Accruals and deferred income	21,976	(3,673)	18,303
Current tax liabilities	499	—	499
Liabilities under investment contracts	185,137	(185,137)	—
Liabilities under insurance contracts	658,197	(658,197)	—
Provisions	21,252	(1,130)	20,122
Deferred tax liabilities	15,005	(11,283)	3,722
Borrowings from a group undertaking	60,000	—	60,000
Subordinated liabilities	62,000	—	62,000
Other liabilities	12,245	(3,850)	8,395
Total liabilities at 31 Dec 2021	6,685,068	(829,083)	5,855,985
Equity			
Called up share capital	108,092	—	108,092
Revaluation reserve	24,330	—	24,330
Retained earnings[1]	357,315	(34,758)	322,557
Total equity at 31/12/2021	489,737	(34,758)	454,979
Total liabilities and equity at 31 Dec 2021	7,174,805	(863,841)	6,310,964

1 *The retained earnings also includes other movements in the equity. The balance sheet components are used in the calculation of the regulatory capital in table 6 (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 4: Principal entities with a different regulatory and accounting scope of consolidation (LI3)

			At 31 Dec 2022			
			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 *During 2022 the investment in HSBC Life Assurance (Malta) Ltd. exceeded the thresholds; as a result the portion exceeding the threshold was deducted from capital, amounting to €313,000, whereas the portion up to the threshold was subject to an RWA charge of 250%.*

Explanations of differences between accounting and regulatory exposure amounts

Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet amounts subject to credit risk regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. We apply a credit conversion factor ('CCF') to these items and add potential future exposures ('PFE') for counterparty credit risk.

Differences due to financial collateral

Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas accounting value is before such deductions.

Differences due to expected credit losses

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

Differences due to EAD modelling and other differences

The carrying value of assets is usually measured at amortised cost or fair value as at the balance sheet date. Other differences include IFRS 9 transitional arrangements applicable to standardised credit risk exposure.

Differences due to credit risk mitigation

In counterparty credit risk ('CCR'), differences arise between accounting carrying values and regulatory exposure as a result of the application of credit risk mitigation and the use of modelled exposures.

Capital management

Approach and policy

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

HSBC Bank Malta p.l.c. manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2022 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 and which determines the appropriate amount and mix of capital.

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

The Internal Capital Adequacy Assessment Process ('ICAAP') which aims at assessing the adequacy of the bank's capital resources with regards to its 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 managed through the capital management framework have been identified as material:

- Credit risk;
- Operational risk;
- Interest rate risk in the banking book;
- Insurance risk; and
- Residual risks.

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the resilience of HSBC Bank Malta p.l.c.'s 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, 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 such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond the stress testing framework, a list of risks with associated potential impacts on HSBC Bank Malta p.l.c's capital ratios is reviewed regularly. These risks are identified as possibly affecting Risk-Weighted Assets ('RWAs') and/or capital position. These risks are monitored regularly within the Asset, Liability & Capital Management Committee ('ALCO') and the Risk Management Meetings ('RMM'). For the relevant categories of risk, scenario analysis is performed. The downside scenarios are assessed against our capital management objectives and mitigating actions are identified and assigned as necessary.

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

Capital

The Basel III framework also introduces other capital buffers which include the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), 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.

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

Overview of regulatory capital framework

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

For regulatory purposes, HSBC Bank Malta p.l.c.'s capital base can be divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on the degree of permanence and loss absorbency exhibited. HSBC Bank Malta p.l.c.'s capital base is divided into two main categories, namely Common Equity Tier 1 and Tier 2, 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 5.

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 CRD/CRR various capital deductions and regulatory adjustments are made against these items – these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability as well as prudential recognition for Non-Performing Exposures in line with latest regulations and requirements.

Tier 2 ('T2') capital comprises 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. For regulatory purposes, it is a requirement that Tier 2 instruments are amortised on a straight line basis in their final five years to maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

Our T2 capital which consists of subordinated debt with HSBC Bank plc is repayable at par on maturity and must have an original maturity of a least five years. It may be called and redeemed by the issuer, subject to prior consent from the ECB.

A 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 is presented in the table below.

Table 5: 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 2028
1	Issuer	**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**	**62**
9	Nominal amount of instrument	**108,091,800**	**62,000,000**
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, 2018**
12	Perpetual or dated	**N/A**	**Dated**
13	Original maturity date	**No**	**December 14, 2028**
14	Issuer call subject to prior supervisory approval	**No**	**Yes**
15	Optional call date, contingent call dates and redemption amount	**N/A**	**N/A**
16	Subsequent call dates, if applicable	**N/A**	**N/A**
	Coupons/dividends		
17	Fixed or floating dividend coupon	**Floating**	**Floating**
18	Coupon rate and any related index	**N/A**	**3 month EURIBOR**
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**	**Non-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 2028 is available by contacting the company secretary of HSBC Bank Malta p.l.c. (companysecretarymalta@hsbc.com). Information with respect to any capital instrument in these documents should not be used for investment advice and does not constitute an offer to sell or solicitation of an offer to buy any such capital instrument or any advice or recommendation with respect to any such capital instrument. When making a decision about 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.

Disclosure on Own Funds

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

Table 6: Composition of regulatory own funds (EU CC1)

		At	
		31 Dec	31 Dec
Ref		**2022**	2021
	Common equity tier 1 (CET1) capital: instruments and reserves	**€000**	€000
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]	**310,331**	296,659
3	Accumulated other comprehensive income (and other reserves)	**64**	24,330
3a	Funds for general banking risk (related to BR09)[2]	**6,209**	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	**21,300**	11,633
6	**Common equity tier 1 capital before regulatory adjustments**	**445,996**	446,923
	Common equity tier 1 capital: regulatory adjustments		
7	Additional valuation adjustments[3]	**(918)**	(1,083)
8	Intangible assets (net of related tax liability) (negative amount)	**(8,283)**	(5,062)
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)	**(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	**(25,941)**	(28,354)
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**(35,846)**	(34,499)
29	**Common equity tier 1 (CET1) capital**	**410,150**	412,424

Table 6: Composition of regulatory own funds (EU CC1) (continued)

		At	
		31 Dec	31 Dec
	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*	**—**	—
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)**	**410,150**	412,424
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	**62,000**	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**	**62,000**	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**	**62,000**	62,000
59	**Total capital (TC = T1 + T2)**	**472,150**	474,424
60	Total Risk exposure amount	**2,220,525**	2,243,665
	Capital ratios and buffers		
61	Common equity tier 1	**18.5%**	18.4%
62	Tier 1	**18.5%**	18.4%
63	Total capital	**21.3%**	21.1%
64	Institution specific buffer requirement	**9.8%**	9.8%
65	– *of which: capital conservation buffer requirement*	***2.5%***	*2.5%*
66	– *of which: counter cyclical buffer requirement*	***—%***	*—%*
67	– *of which: systemic risk buffer requirement*[4]	***—%***	*—%*
EU-67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	***1.5%***	*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	**10.8%**	10.7%
69	Not applicable	**—**	—
70	Not applicable	**—**	—
71	Not applicable	**—**	—

Table 6: Composition of regulatory own funds (EU CC1) (continued)

		At	
		31 Dec	31 Dec
	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)	**28,265**	28,578
74	Not applicable	**—**	—
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**35,229**	29,119
	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 local group is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'. This reserve refers to the amount allocated by the bank from its retained earnings, to a non-distributable reserve against potential risks linked to the local group's non-performing loans and advances.*
3 *Additional value adjustments are deducted from CET1. These are calculated on all assets and liabilities measured at fair value.*
4 *The bank does not have any systemic risk buffer as at year end 31 December 2022.*

Table 7: Reconciliation between accounting and regulatory scope of consolidation

	At	
	31 Dec	31 Dec
	2022	2021
	€000	€000
Common Equity Tier 1 (CET) capital		
Called up share capital	**108,092**	108,092
Retained earnings	**388,915**	357,315
Revaluation reserve[1]	**64**	24,330
Adjustments		
– depositor compensation scheme	**(11,111)**	(20,193)
– intangible assets	**(8,283)**	(5,062)
– expected final dividend	**(13,139)**	(8,010)
– retained earnings-HSBC Life Assurance (Malta) Ltd	**(37,936)**	(34,804)
– unverified profits for the period/year	**—**	—
– prudential valuation adjustment	**(918)**	(1,083)
– IFRS 9 transitional adjustments	**9,279**	14,831
– single resolution fund	**(1,513)**	(1,272)
– Non performing Loans	**(22,596)**	(21,720)
(-) Amount exceeding the 17.65% threshold	**(704)**	—
	410,150	412,424
Tier 2 capital		
Subordinated liabilities	**62,000**	62,000
	62,000	62,000
Total own funds	**472,150**	474,424

1 *During the year, the fair value of the hold-to-collect-and-sell investments was impacted by adverse price movements as a result of the increase in the term market yield curves. These fluctuations reduced the revaluation reserves by €23,176,000.*

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. 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 foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.	For local group reporting, we have adopted the standardised approach for our business. Under the standardised approach the local group utilises risk weights determined by exposure class, credit risk mitigation and credit ratings as outlined in the CRR.
Counterparty credit risk	Three approaches to calculating CCR and determining exposure values are defined by the CRR, mark-to-market, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, IRB foundation or IRB advanced. Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: 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, HSBC Bank Malta p.l.c. uses the mark-to-market approach to calculate the CCR exposure value as defined in Article 274 of the Capital Requirements Regulation. The standardised approach is used for the calculation of the CVA.
Equity	For the non-trading book, equity exposures can be assessed under standardised, simplified or IRB approaches.	For HSBC Bank Malta p.l.c. reporting purposes, all non-trading book equity exposures are treated under the standardised approach.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The 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').	For HSBC Bank Malta p.l.c. the market risk capital requirement is measured using the standard 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. Thirdly, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	HSBC Bank Malta p.l.c. has historically adopted and currently uses the standardised approach in determining its operational risk capital requirements.

Capital buffers

The local group is compliant with the CRD capital requirements. Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act 1994, requires additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions ('O-SII') buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD combined buffer – Minimum 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% 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 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 8: 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	**3,258,284**	**3,256,611**	**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	**—**	**—**	**—**	**—**	**—**	**—**	**0.5**
	Sweden	**—**	**—**	**—**	**—**	**—**	**—**	**1.0**
	Others	**2,748**	**2,748**	**162**	**162**	**2,025**	**0.1**	**—**
20	**Total at 31 Dec 2022**	**3,325,957**	**3,324,284**	**137,648**	**137,648**	**1,720,601**	**100.0**	
10	Breakdown per country	€000	*€000*	€000	€000	€000	%	%
	Malta	3,281,352	3,281,352	137,439	137,439	1,717,988	92.5	—
	Bulgaria	197	197	16	16	200	—	1.0
	Czech Republic	26	26	2	2	25	—	0.5
	Hong Kong	6	6	—	—	—	—	1.0
	Luxembourg	5	5	1	1	13	—	0.5
	Norway	—	—	—	—	—	—	0.5
	Other	281,475	281,475	11,177	11,177	139,713	7.5	—
20	Total at 31 Dec 2021	3,563,061	3,563,061	148,635	148,635	1,857,939	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.*

Table 9: Amount of institution-specific countercyclical capital buffer (EU CCyB2)

		Group^	
		2022	2021
		€000	€000
1	Total risk exposure amount	**2,220,525**	2,243,665
2	Institution specific countercyclical capital buffer rate	**—**	—
3	Institution specific countercyclical capital buffer requirement	**416**	3

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

Table EU 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 10: Overview of RWAs (OV1)[1]

		At				
		31 Dec 2022	30 Sep 2022	31 Dec 2021	**31 Dec 2022**	30 Sep 2022
		Risk-weighted assets^	Risk-weighted assets	Risk-weighted assets	**Minimum capital requirements^,[1]**	Minimum capital requirements
		€000	€000	€000	**€000**	€000
1	Credit risk (excluding CCR)	**1,970,625**	2,010,293	2,001,551	**157,650**	160,823
2	– *of which: the standardised approach*	***1,970,625***	*2,010,293*	*2,001,551*	***157,650***	*160,823*
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	**23,179**	35,937	14,136	**1,854**	2,875
7	– *of which: the standardised approach*	***20,254***	*27,898*	*12,667*	***1,620***	*2,232*
8	– *of which: internal model method (IMM)*	**—**	—	—	**—**	—
EU 8a	– *of which: exposures to a CCP*	**—**	—	—	**—**	—
EU 8b	– *of which: credit valuation adjustment – CVA*	***2,925***	*8,039*	*1,469*	***234***	*643*
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)	**765**	887	252	**61**	71
21	– *of which: the standardised approach*	***765***	*887*	*252*	***61***	*71*
22	– *of which: IMA*	**—**	—	—	**—**	—
EU 22a	Large exposures	**—**	—	—	**—**	—
23	Operational risk	**225,956**	227,726	227,726	**18,076**	18,218
EU 23a	– *of which: basic indicator approach*	**—**	—	—	**—**	—
EU 23b	– *of which: standardised approach*	***225,956***	*227,726*	*227,726*	***18,076***	*18,218*
EU 23c	– *of which: advanced measurement approach*	**—**	—	—	**—**	—
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)[2]**	**87,734**	83,330	72,796	**7,019**	6,666
25	Not applicable					
26	Not applicable					
27	Not applicable					
28	Not applicable					
29	**Total**	**2,220,525**	2,274,843	2,243,665	**177,641**	181,987

^ *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.*

Pillar 2 and Internal Capital Adequacy Assessment Process

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 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 and a P2G which are added to the Pillar 1 requirements ('P1R'). The Total SREP capital requirement which is composed only of the P1R and the P2R requirement 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 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 14.25%. The OCR is composed of the 8% P1R, the 2.25% P2R and 4% CBR. The requirement of CET1 is 9.8% excluding P2G.

Internal capital adequacy assessment process

The ALCO, the Risk Committee and ultimately the Board examine the Bank's 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 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 account of substantial 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 ('SRMR'), 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. interim targets for the MREL Total Risk Exposure Amount ('TREA') commencing 1 January 2022 have been communicated at 16.63% of RWAs in addition to a combined buffer requirement ('CBR') of 4% totalling 20.63%. The MREL Leverage Risk Exposure ('LRE') is set at 5.91% of leverage exposures. As at 31 December 2022 HSBC Bank Malta p.l.c. has been able to meet the MREL requirements through own funds and other internal eligible liabilities.

The informative MREL target for 1 January 2023, including CBR, is 22.31% while the final target for 1 January 2024, including CBR, is 23.98%.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total weighted on and off balance sheet exposures, and further netting possibilities on market instruments.

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

The RAS articulates the aggregate level and types of risk that HSBC Bank Malta p.l.c. is willing to accept in its business activities in order to achieve its strategic business objectives.

The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

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

The following is the local group's leverage ratio determined in accordance with the requirements stipulated by implementing regulation EU 2016/200, 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 11: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1)

		At 31 Dec	
		2022	2021
		€000	€000
1	Total assets as per published financial statements	**7,418,333**	7,174,805
	Adjustments for:		
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(730,275)**	(863,841)
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	**34,689**	15,142
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)	**194,318**	222,170
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	**(21,249)**	(20,241)
13	**Total exposure measure**	**6,895,816**	6,528,035

Table 12: Leverage ratio common disclosure (EU LR2)

		At 31 Dec	
		2022	2021
		€000	€000
	On-balance sheet exposures (excluding derivatives)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**6,676,205**	6,320,582
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)	**(35,846)**	(34,499)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,640,359**	6,286,083
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**37,039**	7,231
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	**23,396**	12,551
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**	**60,435**	19,782
	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	**1,002,415**	1,104,643
20	(Adjustments for conversion to credit equivalent amounts)	**(808,097)**	(882,473)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	**—**	—
22	**Off-balance sheet exposures**	**194,318**	222,170
	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)	**—**	—

Table 12: Leverage ratio common disclosure (EU LR2) (continued)

		At 31 Dec	
		2022	2021
		€000	€000
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**	**410,150**	412,424
24	**Total exposure measure**	**6,895,112**	6,528,035
	Leverage ratios		
25	Leverage ratio (%) – transitional	**5.9**	6.3
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	**5.9**	6.3
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**5.9**	6.3
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)	**6,895,112**	6,528,035
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)	**6,895,112**	6,528,035
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)	**5.9**	6.3
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)	**5.9**	6.3

Table EU LR3 provides the split of the on balance sheet exposures; derivatives are excluded from the calculation.

Table 13: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives and exempted exposures) – (EU LR3)

		At 31 Dec	
		2022	2021
		€000	€000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**6,676,205**	6,320,582
EU-2	*Trading book exposures*	**—**	—
EU-3	*Banking book exposures, – of which:*	***6,676,205***	*6,320,582*
EU-4	Covered bonds	**—**	—
EU-5	exposures treated as sovereigns	**2,143,293**	2,034,590
EU-6	exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**610,756**	464,593
EU-7	Institutions	**675,864**	342,958
EU-8	Secured by mortgages of immovable properties	**2,120,661**	2,180,171
EU-9	Retail exposures	**367,726**	286,784
EU-10	Corporates	**510,835**	726,314
EU-11	Exposures in default	**103,071**	145,851
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**143,999**	139,321

Credit risk

Overview and Responsibilities

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from 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.

The principal objectives of our credit risk functions are:

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

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

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

Credit risk management

Credit risk

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

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

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

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

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

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

The conflict between Russia and Ukraine has had far-reaching effects on economics and geopolitics. HSBC remains vigilant on the war's effects and continues to respond to the extensive trade restrictions and sanctions, noting the difficulties associated with enforcing some of these sanctions' novel, complex, and ambiguous aspects. The Russian government including its officials, individuals with close ties to the Russian government, and a number of Russian financial institutions and businesses have all been the subject of numerous sanctions; to which Russia has responded by implementing a number of countermeasures.

The tables in the following page set out details of HSBC Bank Malta p.l.c.'s credit risk exposures by exposure class and approach. Further explanation of HSBC Bank Malta p.l.c.'s approach to credit risk, including detail of the past due and impaired exposure, and its approach to credit risk impairment, can be found in the Annual Report and Accounts of HSBC Bank Malta p.l.c.

Credit quality of exposures by exposures class and instruments

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

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

		Gross carrying amount/nominal amount[1]						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions[1]					
		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)

			Collateral 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

1 *As shown in the above table EU CR1 during the current financial period ended 31 December 2022 the Bank refined the disclosure reported under the 'Gross carrying amount/nominal amount' for the performing and non-performing exposures and 'Accumulated impairment, negative changes in fair value due to credit risk and provisions' for the non-performing exposures which resulted in the incorporation of gross accrued interest receivable and allowance for expected credit losses in respect of accrued interest receivable for non-performing exposures for the period ended 31 December 2022. As at 31 December 2022 the gross accrued interest receivable classified as performing and non-performing exposures amounted to €12,442,000 (2021: €10,138,000) and €8,756,000 (2021: €14,831,000) respectively. The accumulated impairment, negative changes in fair value due to credit risk and provisions amounted to €5,559,000 (2021: €9,688,000). Comparative information for 2021 in the Pillar 3 disclosures have 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, 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	1,482,455	1,482,455	—	—	—	—	(10)	(10)	—	—	—	—
010	Loans and advances	3,471,733	3,214,922	256,811	183,242	—	183,242	(30,355)	(14,740)	(15,615)	(37,365)	—	(37,365)
020	Central banks	41,490	41,490	—	—	—	—	—	—	—	—	—	—
030	General governments	151,266	151,266	—	—	—	—	(29)	(29)	—	—	—	—
040	Credit institutions	335,078	335,078	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	121,898	38,783	83,115	4,752	—	4,752	(3,444)	(344)	(3,100)	(485)	—	(485)
060	Non-financial corporations	626,753	500,156	126,597	85,075	—	85,075	(10,654)	(2,473)	(8,181)	(26,742)	—	(26,742)
070	– *of which: SMEs*	341,404	262,961	78,443	84,237	—	84,237	(8,037)	(1,742)	(6,295)	(25,900)	—	(25,900)
080	Households	2,195,248	2,148,149	47,099	93,415	—	93,415	(16,228)	(11,894)	(4,334)	(10,138)	—	(10,138)
090	Debt securities	1,075,988	1,075,988	—	—	—	—	(76)	(76)	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	954,391	954,391	—	—	—	—	(75)	(75)	—	—	—	—
120	Credit institutions	121,597	121,597	—	—	—	—	(1)	(1)	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	1,096,893	987,901	108,992	11,205	—	11,205	(1,135)	(642)	(493)	(635)	—	(635)
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
170	General governments	105,528	105,528	—	—	—	—	(7)	(7)	—	—	—	—
180	Credit institutions	15,967	15,967	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	56,324	29,647	26,677	—	—	—	(95)	(55)	(40)	—	—	—
200	Non-financial corporations	511,378	437,242	74,136	11,096	—	11,096	(988)	(535)	(453)	(635)	—	(635)
210	Households	407,696	399,517	8,179	109	—	109	(45)	(45)	—	—	—	—
220	Total at 31 Dec 2021	7,127,069	6,761,266	365,803	194,447	—	194,447	(31,576)	(15,468)	(16,108)	(38,000)	—	(38,000)

			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	(23,066)	2,717,116	107,636
020	Central banks	—	—	—
030	General governments	—	151,199	—
040	Credit institutions	—	—	—
050	Other financial corporations	—	68,210	463
060	Non-financial corporations	(23,066)	403,402	24,508
070	– *of which: SMEs*	*(23,066)*	*182,751*	*24,508*
080	Households	—	2,094,305	82,665
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 2021	(23,066)	2,717,116	107,636

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	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. The local group 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.

Credit concentration risk analysed by counterparty

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 15.5% of the total loan portfolio as at end of 2022. 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 2022 amounted to €167,614,000 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 and in real time.

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 Loss ('EL') and credit risk adjustments

The local group 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. adopted IFRS9 framework which uses the following three stage model for impairments that looks at the changes in credit quality:

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

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

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

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

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

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

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. Names on the Watch/Worry list and performing forborne facilities are also considered as having increased credit risk and form part of Stage 2 ECL calculation.

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

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

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

Impaired loans and advances

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

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

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

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

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

		At 31 Dec 2021
		Gross carrying amount
		€000
010	Initial stock of non-performing loans and advances	145,601
020	Inflows to non-performing portfolios	71,969
030	Outflows from non-performing portfolios	(34,328)
040	*Outflows due to write-offs*	*(4,308)*
050	*Outflow due to other situations*	*(30,020)*
060	Final stock of non-performing loans and advances	183,242

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 17 presents an analysis of performing and non-performing exposures by days past due. The gross NPL ratio at 31 December 2022 was 3.52% (5.01% in 2021) calculated in line with the EBA guidelines.

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

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*of which: defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
5	Cash balances at central banks and other demand deposits[1]	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 17: Credit quality of performing and non-performing exposures by past due days EU CQ3 (continued)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay but not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*of which: defaulted*
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	*€000*
5	Cash balances at central banks and other demand deposits	1,482,455	1,482,455	—	—	—	—	—	—	—	—	—	—
10	Loans and advances	3,471,733	3,462,361	9,372	183,242	92,770	17,075	27,272	5,913	21,433	9,244	9,535	*183,242*
20	Central banks	41,490	41,490	—	—	—	—	—	—	—	—	—	—
30	General governments	151,266	151,266	—	—	—	—	—	—	—	—	—	—
40	Credit institutions	335,078	335,078	—	—	—	—	—	—	—	—	—	—
50	Other financial corporations	121,898	121,898	—	4,752	811	—	3,881	—	—	—	60	*4,752*
60	Non-financial corporations	626,753	623,777	2,976	85,075	31,258	9,800	20,310	533	15,933	5,216	2,025	*85,075*
70	– *of which: SMEs*	*341,404*	*338,428*	*2,976*	*84,237*	*31,258*	*9,800*	*20,310*	*533*	*15,933*	*5,216*	*1,187*	84,237
80	Households	2,195,248	2,188,852	6,396	93,415	60,701	7,275	3,081	5,380	5,500	4,028	7,450	*93,415*
90	Debt securities	1,075,988	1,075,988	—	—	—	—	—	—	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	954,391	954,391	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	121,597	121,597	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	1,096,893			11,205								*11,205*
160	Central banks	—			—								—
170	General governments	105,528			—								—
180	Credit institutions	15,967			—								—
190	Other financial corporations	56,324			—								—
200	Non-financial corporations	511,378			11,096								*11,096*
210	Households	407,696			109								*109*
220	Total at 31 Dec 2021	7,127,069	6,020,804	9,372	194,447	92,770	17,075	27,272	5,913	21,433	9,244	9,535	194,447

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

		At 31 Dec 2022		At 31 Dec 2021	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
		€000	**€000**	€000	€000
010	Property Plant and Equipment (PP&E)				
020	Other than PP&E	**3,372**	**(103)**	4,128	(252)
030	Residential immovable property	**1,314**	**(42)**	1,383	(34)
040	Commercial Immovable property	**2,036**	**(39)**	2,723	(208)
050	Movable property (auto, shipping, etc.)	**—**	**—**	—	—
060	Equity and debt instruments	**—**	**—**	—	—
070	Other collateral	**22**	**(22)**	22	(10)
080	Total	**3,372**	**(103)**	4,128	(252)

Table 19: Quality of non-performing exposures by geography (EU CQ4)

		Gross carrying/nominal amount						
			of which: non-performing	*of which: defaulted*	*of which: subject to impairment*	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
		€000	€000	€000	€000	€000	€000	€000
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 19: Quality of non-performing exposures by geography (EU CQ4) (continued)

		Gross carrying/nominal amount						
			of which: non-performing	*of which: defaulted*	*of which: subject to impairment*	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
		€000	€000	€000	€000	€000	€000	€000
010	On-balance-sheet exposures	4,730,963	183,242	183,242	4,730,963	(67,796)		—
020	Malta	4,026,609	*175,965*	*175,965*	*4,026,609*	(66,957)		—
030	United Kingdom	155,304	*2,641*	*2,641*	155,304	(244)		—
040	France	151,344	*229*	*229*	151,344	(13)		—
050	United Arab Emirates	135,131	*662*	*662*	135,131	(172)		—
060	Germany	119,962	—	—	119,962	(15)		—
070	Other countries	142,613	*3,745*	*3,745*	142,613	(395)		—
080	Off-balance-sheet exposures	1,108,098	*11,205*	*11,205*			1,770	
090	Malta	1,086,621	*11,203*	*11,203*			1,768	
100	France	8,843	—	—			—	
110	United Kingdom	3,716	—	—			2	
120	Belgium	1,882	—	—			—	
130	United States	436	*2*	*2*			—	
140	Other countries	6,600	—	—			—	
150	Total at 31 Dec 2021	5,839,061	194,447	194,447	4,730,963	(67,796)	1,770	—

Table 20: 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	**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)**	**—**
010	Agriculture, forestry and fishing	643	*132*	*132*	*643*	(14)	—
020	Mining and quarrying	—	*—*	*—*	*—*	—	—
030	Manufacturing	56,789	*10,488*	*10,488*	*56,789*	(5,074)	—
040	Electricity, gas, steam and air conditioning supply	75,633	*—*	*—*	*75,633*	(184)	—
050	Water supply	33,368	*—*	*—*	*33,368*	(7)	—
060	Construction	23,843	*3,729*	*3,729*	*23,843*	(1,142)	—
070	Wholesale and retail trade	213,747	*15,173*	*15,173*	*213,747*	(5,437)	—
080	Transport and storage	14,174	*16*	*16*	*14,174*	(186)	—
090	Accommodation and food service activities	94,579	*27,440*	*27,440*	*94,579*	(11,817)	—
100	Information and communication	32,273	*1*	*1*	*32,273*	(1,698)	—
110	Real estate activities	114,750	*16,753*	*16,753*	*114,750*	(5,140)	—
120	Financial and insurance activities	507	*—*	*—*	*507*	(6)	—
130	Professional, scientific and technical activities	6,472	*26*	*26*	*6,472*	(51)	—
140	Administrative and support service activities	4,652	*776*	*776*	*4,652*	(573)	—
150	Public administration and defense, compulsory social security	5,865	*—*	*—*	*5,865*	(1)	—
160	Education	4,143	*3,658*	*3,658*	*4,143*	(619)	—
170	Human health services and social work activities	26,108	*6,219*	*6,219*	*26,108*	(5,214)	—
180	Arts, entertainment and recreation	291	*105*	*105*	*291*	(20)	—
190	Other services	3,991	*559*	*559*	*3,991*	(213)	—
200	Total at 31 Dec 2021	*711,828*	*85,075*	*85,075*	*711,828*	*(37,396)*	—

Table 21: 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**	**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***
005	Cash balances at central banks and other demand deposits	—	—	—	—	—	—	—	—
010	Loans and advances	69,074	125,873	*125,873*	*125,873*	(6,518)	(28,632)	84,717	*64,106*
020	Central banks	—	—	—	—	—	—	—	—
030	General governments	—	—	—	—	—	—	—	—
040	Credit institutions	—	—	—	—	—	—	—	—
050	Other financial corporations	26,168	4,739	*4,739*	*4,739*	(1,194)	(478)	491	*459*
060	Non-financial corporations	27,255	73,112	*73,112*	*73,112*	(4,143)	(22,840)	27,398	*21,289*
070	Households	15,651	48,022	*48,022*	*48,022*	(1,181)	(5,314)	56,828	*42,358*
080	Debt securities	—	—	—	—	—	—	—	—
090	Loan commitments given	—	—	—	—	—	—	—	—
100	Total at 31 Dec 2021	69,074	125,873	*125,873*	*125,873*	(6,518)	(28,632)	84,717	*64,106*

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

During the financial years ended 31 December 2020 and 2021, moratoria on capital and/or interest payments in respect of retail and wholesale exposures were granted in accordance with Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') issued by the Central Bank of Malta (‘CBM’), in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines').

During same period, the bank has also participated in the Malta Development Bank Covid-19 Guarantee Scheme, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee.

The following tables provide information on payment moratoria and forbearance measures granted to existing loans which have now matured and customers have gradually returned to the pre-moratoria repayment schedules, and on public guarantees to new lending, both in the context of Covid-19.

These temporary additional disclosures were announced on 2 June 2020 by the European Banking Authority (‘EBA’), and set out its expectations on how the disclosures guidelines are to be applied.

Table 22: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria

			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		*of which: legislative moratoria*	*of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
	At 31 Dec 2022		€000	*€000*	*€000*	€000	€000	€000	€000	€000
1	Loans and advances for which moratorium was offered	**1,763**	**320,028**							
2	Loans and advances subject to moratorium (granted)	**1,542**	**310,976**	***310,976***	***310,976***	—	—	—	—	—
3	– *of which: Households*	—	***194,121***	**194,121**	**194,121**	—	—	—	—	—
4	– *of which: Collateralised by residential immovable property*	—	***192,557***	**192,557**	**192,557**	—	—	—	—	—
5	– *of which: Non-financial corporations*	—	***99,190***	**99,190**	**99,190**	—	—	—	—	—
6	– *of which: Small and Medium-sized Enterprises*	—	***43,886***	**43,886**	**43,886**	—	—	—	—	—
7	– *of which: Collateralised by commercial immovable property*	—	***63,758***	**63,758**	**63,758**	—	—	—	—	—

Table 22: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria (continued)

			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		*of which: legislative moratoria*	*of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
	At 31 Dec 2021		€000	*€000*	*€000*	€000	€000	€000	€000	€000
1	Loans and advances for which moratorium was offered	1,983	390,995							
2	Loans and advances subject to moratorium (granted)	1,678	377,750	*377,750*	*377,750*	—	—	—	—	—
3	– *of which: Households*	—	*216,247*	216,247	216,247	—	—	—	—	—
4	– *of which: Collateralised by residential immovable property*	—	*213,713*	213,713	213,713	—	—	—	—	—
5	– *of which: Non-financial corporations*	—	*107,816*	107,816	107,816	—	—	—	—	—
6	– *of which: Small and Medium-sized Enterprises*	—	*52,891*	52,891	52,891	—	—	—	—	—
7	– *of which: Collateralised by commercial immovable property*	—	*45,772*	45,772	45,772	—	—	—	—	—

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

In May 2020, HSBC Bank Malta p.l.c. had confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme. This government-backed scheme provided banks with credit risk mitigation in respect of loans granted to eligible and viable businesses which may be experiencing cash flow and liquidity pressures resulting from the adverse business conditions following the Covid-19 outbreak.

Table 23: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis

		Gross carrying amount		**Public guarantees received**	**Inflows linked to new lending**
			of which: forborne	**Maximum amount of the guarantee that can be considered**	**Gross carrying amount**
	At 31 Dec 2022	**€000**	***€000***	**€000**	**€000**
1	Newly originated loans and advances subject to public guarantee schemes	**28,020**	***4,505***	**25,218**	**82**
2	– *of which: Households*	**—**			
3	– *of which: Collateralised by residential immovable property*	**—**			
4	– *of which: Non-financial corporations*	***28,020***	**4,505**	***25,218***	***82***
5	– *of which: Small and Medium-sized Enterprises*	***12,371***	**—**		
6	– *of which: Collateralised by commercial immovable property*	***13,318***	**—**		
	At 31 Dec 2021	€000	*€000*	€000	€000
1	Newly originated loans and advances subject to public guarantee schemes	37,986	*5,738*	34,187	16,047
2	– *of which: Households*	—			
3	– *of which: Collateralised by residential immovable property*	—			
4	– *of which: Non-financial corporations*	*34,194*	5,738	*30,774*	*16,016*
5	– *of which: Small and Medium-sized Enterprises*	*17,859*	—		
6	– *of which: Collateralised by commercial immovable property*	*15,118*	—		

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. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to WPB 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; 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 6-monthly intervals, or more frequently as the need arises, for example, where market conditions are subject to significant change. Professional valuations are obtained on an annual basis for high value impaired mortgage loans. Valuation of collateral on commercial real estate is obtained on a 3-yearly basis (in line with article 208 of EU regulation 575/2013), with valuation of commercial property securing defaulted exposures being obtained on an annual basis.

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 also commonly occurs 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 at the request of another bank. In our corporate lending portfolio, we also take guarantees from corporates as part of a 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 24: Credit risk mitigation 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	**2,427,125**	**2,820,323**	**2,537,763**	**282,560**
2	Debt securities	**1,291,416**	**–**	**–**	**–**
3	**Total at 31 Dec 2022**	**3,718,541**	**2,820,323**	**2,537,763**	**282,560**
4	*– of which: non performing exposure*	***53,256***	***74,510***	***74,510***	**–**
EU-5	*– of which: defaulted*	***53,256***	***74,510***	***74,510***	**–**

Table 24: Credit risk mitigation techniques – overview (CR3) (continued)

		Exposures unsecured: carrying amount	Exposures secured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
		€000	€000	€000	€000
1	Loans	2,312,678	2,824,752	2,542,741	282,011
2	Debt securities	1,075,988	—	—	—
3	Total at 31 Dec 2021	3,388,666	2,824,752	2,542,741	282,011
4	*– of which:non performing exposure*	*75,606*	*107,636*	*107,636*	—
EU-5	*– of which: defaulted*	*75,606*	*107,636*	*107,636*	—

Credit risk exposures and credit risk mitigant techniques

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

Table 25: 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	**2,143,293**	—	**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 €20,254,000 in 2022 (2021: €12,667,000).*

Table 25: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) (continued)

		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	Central governments or central banks	2,034,590	—	2,318,632	47,868	81,095	3.4
2	Regional government or local authorities	—	—	—	—	—	—
3	Public sector entities	342,997	105,520	191,687	31	—	—
4	Multilateral development banks	121,596	—	121,596	—	—	—
5	International organisations	—	—	—	—	—	—
6	Institutions	342,958	14,410	342,958	9,444	75,190	21.3
7	Corporates	726,314	585,028	579,556	74,884	500,672	76.5
8	Retail	286,784	378,492	284,703	3,254	215,928	75.0
9	Secured by mortgages on immovable property	2,180,171	—	2,180,171	—	795,092	36.5
10	Exposures in default	145,851	13,917	144,935	1,254	171,352	117.2
11	Exposures associated with particularly high risk	13,674	5,860	13,437	2,597	24,051	150.0
12	Covered bonds	—	—	—	—	—	—
13	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
14	Collective investment undertakings	—	—	—	—	—	—
15	Equity	81	—	81	—	81	100.0
16	Other items	125,566	—	125,566	—	138,090	110.0
17	Total at 31 Dec 2021	6,320,582	1,103,227	6,303,322	139,332	2,001,551	31.1

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 and IMM. Exposure values calculated under these approaches are used to determine RWAs; HSBC Bank Malta p.l.c. applies the mark-to-market approach. Under the mark-to-market approach, the EAD is calculated as current exposure plus regulatory add-ons.

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

- Credit authority is held by Wholesale Credit Risk ('WCR') which is part of the Wholesale Credit and Market Risk ('WMR') subfunction within the Risk function, either at local level or at regional level or even at Group level.
- Credit exposure monitoring is performed by the WMR subfunction.

Credit authority for CCR

HSBC Bank Malta p.l.c.'s WCR has a delegated approval authority for Corporates. Depending on the level of the credit limit and customer risk rating ('CRR'), credit approval might require concurrence from the Group WMR when HSBC Bank Malta p.l.c.'s delegated approval authority threshold is exceeded. Sovereigns', Intra-Group and Banks' limits require the 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. WMR may recommend credit limit application to the relevant credit authority, for specific limit requests. WMR'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, as well as bond investments and trading lines. They may be either funded (loans, money market advances, bond trading) or unfunded such as guarantees and underwriting limits. Cat A limits are set according to maturity bands.

Category B ('Cat B') limits

Cat B limits cover key counterparty credit exposures arising from off-balance sheet products and are used for the monitoring of the Potential Future Exposure ('PFE'). Usage under Cat B represents the cost of replacement of the OTC contracts. In most instances, Cat B limits are set at entity level (known as the parent level) according to maturity bands. Some complex corporates are mainly controlled at entity level but may have shared limits under the total relationship.

Category S ('Cat S') limits

Cat S limits cover the risk that counterparties will fail to meet their delivery obligations, either through payment systems ('PSL'), or through settlement processes for treasury and securities transactions ('TSL').

Portfolio-level limits

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

Table 26: Analysis of counterparty credit risk ('CCR') exposure by approach (EU CCR1)

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	EAD post-CRM	Exposure value	RWAs
		€000	€000	€000	€000	€000	€000	€000	€000
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**
EU1	EU-Original Exposure Method (for derivatives)	—	—		1.4	—	—	—	—
EU2	EU-Simplified SA-CCR (for derivatives)	—	—		1.4	—	—	—	—
1	SA-CCR (for derivatives)	5,165	8,177		1.4	18,679	18,679	18,679	12,667
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 2021					18,679	18,679	18,679	12,667

Table 27: Transactions subject to own funds requirements for CVA risk – EU CCR2

		At 31 Dec 2022		At 31 Dec 2021	
		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	**10,784**	**2,925**	8,308	1,469
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	**—**	**—**	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**10,784**	**2,925**	8,308	1,469

Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the bank's income or portfolio value.

There were no material changes to the policies and practices for the management of market risk during 2022. 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 28: Market risk under standardised approach (MR1)

		At	
		31 Dec 2022	31 Dec 2021
		RWAs	RWAs
		€000	€000
	Outright products		
1	Interest rate risk (general and specific)	**—**	—
2	Equity risk (general and specific)	**—**	—
3	Foreign exchange risk	**765**	252
4	Commodity risk	**—**	—
	Options		
5	Simplified approach	**—**	—
6	Delta-plus approach	**—**	—
7	Scenario approach	**—**	—
8	Securitisation (specific risk)	**—**	—
9	Total	**765**	252

Non-Financial Risk ('NFR') – previously known as Operational Risk

Overview

HSBC Bank Malta p.l.c. defines NFR as the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during our day-to-day operations while taking financial risks. Non-financial risks may have an impact on our management of financial risks, for example, inaccurate financial reporting may lead to unexpected capital or liquidity risk, or a trading process failure may result in higher market risk taking.

Notable sources of NFR include external, non-authorised activities, errors and omissions including events characterised by a low probability but with a high impact in case of occurrence.

We have historically experienced NFR losses in the following major categories:

- External Fraud event
- Transaction processing

Further information can be found in The Report of the Directors under section Risk governance of the Annual Report and Accounts.

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

Table 29: Non Financial Risk RWEAs and capital required (EU-OR1)

		Relevant indicator			Own funds requirement	Risk exposure amount
	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	**—**	**—**	**—**	**—**	**—**
	At 31 Dec 2021	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	139,090	132,150	127,940	18,218	227,726
3	Subject to TSA:	139,090	132,150	127,940	—	—
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 2022 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 2022. 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.

Activity to strengthen the three lines of defence ('LOD') model continued to be a key focus in 2022.

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 review and challenge 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 that our risk management, governance and internal control processes are designed and operating effectively.

Measurement and monitoring

We have codified our RMF in 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 non-financial risks within acceptable levels. Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment; and
- investigating whether cost-effective insurance cover is available to mitigate the 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 follow up the progress of documented action plans. Operational risk losses are entered into the group-wide risk management system and reported to RMM, the Risk Committee of the Board, and the Board itself, on a regular basis. Loss capture thresholds are in line with industry standards.

Continuity of business operations during Covid pandemic

As a result of the Covid outbreak, business continuity responses have been successfully implemented and the majority of service level agreements have been maintained. We have not experienced any major impacts to the supply chain for our third party service providers due to Covid.The risk of damage or theft to our physical assets or criminal injury to our employees remains unchanged and no significant incidents have impacted our buildings or staff.

The European Banking Authority (the 'EBA') released its COVID measures closure report on 16 December 2022. This report provides an overview of the policy measures implemented during the pandemic, their status, and the path out of policy support. The Guidelines on COVID reporting and disclosure subject to measures applied in response to the COVID crisis were also repealed by the EBA with effect from 1 January 2023, in accordance with the proportionate approach to supervisory reporting and in light of the decrease in the volume of loans subject to payment moratoria and public guarantees.

Similarly, the Malta Financial Services Authority issued a communication through circular on 16 January 2023, repealing Banking Rule BR/23 on the Reporting and Disclosure of Exposures Subject to Measure Applied in Response to the COVID Crisis (the 'Rule'), with effect from 1 January 2023.

Other risks

Reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of the local Group and result in financial or non-financial effects or loss of confidence in HSBC Bank Malta p.l.c. Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. We have taken, and are taking measures to enhance our AML, sanctions and other regulatory compliance frameworks.

Sustainability risk

Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.

Sustainability risk is:

- measured by assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high-risk transactions; and
- managed using sustainability risk policies covering project finance lending and sector-based sustainability policies for sectors and themes with potentially large environmental or social impacts.

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 to manage within Market Risk limits and in accordance with internal transfer pricing rules. All interest rate risk must be identified, measured, monitored, managed and controlled within metrics and limits. Key metrics to monitor IRRBB are projected net interest income ('NII') and economic value of equity ('EVE') sensitivities ('Δ') under varying interest rate scenarios as prescribed by the regulators.

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

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

An ΔEVE 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 business. The portfolio is accounted for at fair value through other comprehensive income. This is quantified based on the worst losses over a one-year period going back to the beginning of 2007 with an assumed holding period of 60 days. Hold-to-collect-and-sell stressed VaR uses the same models as those used for trading book capitalisation and covers only the portfolio managed by Markets Treasury under this business model. Markets Treasury sensitivities are measured and monitored daily against risk limits which includes breakdown by currency, tenor basis, curve and asset class whilst HTC&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) 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 business. Hedging is generally executed through natural hedging or through interest rate derivatives. Any interest rate risk that Markets Treasury cannot economically hedge remains within the business.

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

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

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

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

During 2022 an increase of 100 basis points was noted in NII sensitivity to the parallel shock up. This was mainly driven by the mortgages and off balance sheet portfolios as the contributors to this variation. The shock down sensitivity increased by 100 basis points mainly due to the higher market rates scenarios which allowed more room for shock. The implementation of CRT V during 4Q 2022 added to more NII sensitivity mainly driven by mortgages. The sensitivities are asymmetric mainly the result of flooring; with limited response in the down shock on term deposits.

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

		2022	2021#	2022	2021#
	Supervisory shock scenarios	**Changes of the economic value of equity**		**Changes of the net interest income**	
1	Parallel up	**(9,432)**	(29,698)	**32,596**	20,629
2	Parallel down	**17,231**	7,921	**35,621**	(19,217)
3	Steepener	**(725)**	(4,538)		
4	Flattener	**(401)**	9,083		
5	Short rates up	**(4,154)**	1,127		
6	Short rates down	**3,818**	7,391		

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

In accordance with Article 448(1), point (g) CRR, the average and longest repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties is 3 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.

The insurance contracts we sell relate to the underlying needs of our 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.

By focusing largely on the personal lines of business, we are able to optimise volumes and diversify individual insurance risks.

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-200 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%).

Liquidity and funding

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 & 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 Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

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

Net stable funding ratio ('NSFR')

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The NSFR is calculated based on CRR2, which became effective in June 2021.

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.

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.

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.

Liquidity risk management

Liquidity risk is the risk that HSBC Bank Malta p.l.c. does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required. In accordance with Article 451a(4) CRR, a qualitative assessment of the Liquidity risk management is being disclosed. To complement the qualitative assessment, the following table has been defined to provide the quantitative LCR information and complements Article 435 (1) (f) of the CRR.

Table 31: Quantitative information of LCR (EU LIQ1)

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on 31 Dec 2022	**Dec'22**	Sep'22	Jun'22	Mar'22	**Dec'22**	Sep'22	Jun'22	Mar'22
EU 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
		€000	€000	€000	€000	**€000**	€000	€000	€000
High-Quality Liquid Assets									
1	Total high-quality liquid assets ('HQLA'), after application of haircuts in line with Article 9 of regulation (EU) 2015/61					**2,412,674**	2,207,581	1,953,281	1,715,521
Cash – Outflows									
2	Retail deposits and deposits from small business customers	**4,563,997**	4,514,402	4,442,451	4,382,485	**334,641**	329,870	322,913	316,653
3	*– of which: Stable deposits*	***3,150,016***	*3,128,838*	*3,100,972*	*3,080,091*	***157,501***	*156,442*	*155,049*	*154,005*
4	*– of which: Less stable deposits*	***1,413,981***	*1,385,564*	*1,341,479*	*1,302,395*	***177,140***	*173,428*	*167,864*	*162,648*
5	Unsecured wholesale funding	**1,315,015**	1,263,500	1,193,135	1,135,768	**621,193**	600,900	560,161	532,246
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	***452,183***	*443,248*	*433,124*	*409,079*	***107,821***	*105,591*	*103,228*	*97,333*
7	*Non-operational deposits (all counterparties)*	***862,832***	*820,252*	*760,011*	*726,689*	***513,372***	*495,309*	*456,933*	*434,913*
8	Unsecured debt	**–**	–	–	–	**–**	–	–	–
9	Secured wholesale funding					**–**	–	–	–
10	Additional requirements	**911,128**	924,319	923,263	939,245	**128,237**	122,215	110,539	116,499
11	*Outflows related to derivative exposures and other collateral requirements*	***34,404***	*26,288*	*13,813*	*18,884*	***34,404***	*26,288*	*13,813*	*18,884*
12	*Outflows related to loss of funding on debt products*	**–**	–	–	–	**–**	–	–	–
13	*Credit and liquidity facilities*	***876,724***	*898,031*	*909,450*	*920,361*	***93,833***	*95,927*	*96,726*	*97,615*
14	Other contractual funding obligations	**54,421**	53,909	57,483	62,615	**42,136**	42,276	48,566	54,544
15	Other contingent funding obligations	**185,391**	189,680	202,537	211,262	**9,270**	9,484	10,127	10,563
16	Total Cash Outflows					**1,135,475**	1,104,745	1,052,305	1,030,505
Cash – Inflows									
17	Secured lending (e.g. reverse repos)	**–**	–	–	–	**–**	–	–	–
18	Inflows from fully performing exposures	**569,783**	579,910	684,970	588,045	**550,333**	564,003	668,485	571,352
19	Other cash inflows	**35,352**	24,979	14,822	22,423	**35,352**	24,979	14,822	22,423
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)					**851,606**	828,559	789,229	772,878
20	Total Cash Inflows	**605,135**	604,889	699,792	610,468	**585,685**	588,982	683,307	593,775
EU-20a	Fully exempt inflows	**–**	–	–	–	**–**	–	–	–
EU-20b	Inflows subject to 90% cap	**–**	–	–	–	**–**	–	–	–
EU-20c	*Inflows subject to 75% cap*[1]	***605,135***	*604,889*	*699,792*	*610,468*	***585,685***	*588,982*	*683,307*	*593,775*
Total Adjusted Value									
EU-21	Liquidity Buffer					**2,412,674**	2,207,581	1,953,281	1,715,521
22	Total Net Cash Outflows					**589,490**	546,804	440,319	397,207
23	Liquidity Coverage Ratio					**425.7%**	430.9%	476.5%	473.8%

1 LCR figures for June and March 2022 related to 'Total unweighted value (average)' are being restated in accordance with current year reporting.

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

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

The key functions supporting liquidity management are the following:

- Asset Liability and Capital Management which manages the balance 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 also is responsible for executing the management of the Interest Rate Risk in the Banking Book and forms part of the First Line of Defence.

- Risk Function through the Risk Management Meeting ('RMM') is the formal governance Committee established to provide recommendation and advice to HSBC Bank Malta p.l.c.'s CRO on enterprise-wide management of all risks. The Risk function is the Second Line of Defence for risk matters including liquidity.
- Asset and Liability Management Committee ('ALCO') is the primary senior management committee for considering liquidity adequacy within the bank.
- The Board represents the bank's administrative, management and supervisory body.

Liquidity risk is largely managed locally, however local Markets Treasury interacts with other Group entities to deploy the excess liquidity and with HSBC Continental Europe on strategy of its 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 are expected to document procedures for:

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

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

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

On an annual basis the management body provide a declaration on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy. The Liquidity Adequacy Statement as per ILAAP signed by the banks Chairman and CEO states: "HSBC Bank Malta p.l.c. maintains liquidity resources which are adequate in both amount and quality at all times to support the business activity, and ensures there is no significant risk that its liabilities cannot be met as they fall due". During 2022 only four counterparties had a deposit greater than 1% of the total liabilities and equated to 7% of the total customer deposits.

Table 32: Net Stable Funding Ratio (EU LIQ2)

		Unweighted value by residual maturity at 31 Dec 2022				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding ('ASF') Items		€000	€000	€000	€000	€000
1	Capital items and instruments				**521,135**	**521,135**
2	Own funds	—	—	—	**472,150**	**472,150**
3	Other capital instruments		—	—	**48,985**	**48,985**
4	Retail deposits		**4,619,290**	—	—	**4,277,702**
5	Stable deposits		**3,162,235**	—	—	**3,004,123**
6	Less stable deposits		**1,457,055**	—	—	**1,273,579**
7	Wholesale funding:		**1,442,661**	**5,712**	**60,016**	**617,410**
8	Operational deposits		**447,374**	—	—	**223,687**
9	Other wholesale funding		**995,287**	**5,712**	**60,016**	**393,723**
10	Interdependent liabilities		—	—	—	—
11	Other liabilities:	—	**30,879**	—	—	—
12	NSFR derivative liabilities	—				
13	All other liabilities and capital instruments not included in the above categories		**30,879**	—	—	—
14	**Total available stable funding ('ASF')**					**5,416,247**
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					**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:		**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		**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		**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*		***10,084***	***10,348***	***1,705,480***	***1,216,192***
22	Performing residential mortgages		**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*		***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		**1,927**	—	—	—
25	Interdependent assets		—	—	—	—
26	Other assets:	—	**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		**10,252**	—	—	**513**
31	All other assets not included in the above categories		**148,413**	—	**33,330**	**123,669**
32	Off-balance sheet items		—	—	**1,004,913**	**58,389**
33	**Total RSF**					**2,599,764**
34	**Net Stable Funding Ratio (%)**					**208.3**

Table 32: Net Stable Funding Ratio (EU LIQ2) (continued)

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

Business risk

Business risk is the potential negative effect on profits and capital from the local group not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our risk appetite, business planning and stress testing processes, so that our business model and planned activities are monitored, resourced and capitalised consistent with the commercial, economic and risk environment in which the local group operates, and that any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non-recourse portfolio, we do not report any dilution risk, as we obtain an indemnity from the seller that indemnifies us against this risk. Moreover, factoring transactions involve lending at a discount to the face-value of the receivables which provides protection against dilution risk.

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.

ESG Risks

Qualitative information on environmental risk

Strategy & Business processes

The HSBC Group's strategy centres around four pillars: i) focus on areas of strengths; ii) digitise at scale; iii) energise for growth; and iv) support the transition to a net zero global economy. 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 business model.

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. Characterised by a deep and progressive ESG regulatory landscape, Europe as a region has a growing need to expand risk management and disclosure beyond climate to environmental risks (e.g. biodiversity) as well as other aspects of ESG beyond the environment (e.g. human rights).

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. In this context, the local group supports the Group's ambition to transition to net zero and has developed a sustainability framework anchored on the HSBC Group's public commitments and aligned to local regulatory requirements.

Become a Net Zero bank in the bank's portfolio

In 2020, the HSBC Group set out ambitions to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To align with its net zero ambition, HSBC Bank Malta p.l.c. implements the science-based sustainability risk policies published by the HSBC Group, that define its appetite for business in specific sectors and encourage customers to meet international standards. Recently, the HSBC Group published two policies including the Coal Policy 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'), and by 2040 in all other markets); and the Energy Policy where HSBC states, the HSBC Group will no longer provide new finance or advisory services for the specific purpose of projects pertaining to new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields.

Support customers on their transition to Net Zero

The HSBC Group aims to provide and facilitate between $750 billion and $1 trillion of sustainable finance and investment by 2030 to support customers in their transition to net zero and a sustainable future. The local group has supported customers' transition to net zero and sustainable solutions by providing attractive rates on Energy Efficiency Loans.

We have also added a new sustainable investment fund to our product shelf with the total subscriptions into the sustainable funds offered exceeding €18 million.

Within Commercial Banking, we have continued to engage with our customers with a view to identifying ways in which we can support their transition to a more sustainable business. Our approach remains multi-faceted, taking into consideration the different sectors in which our customers operate and the challenges and opportunities that they face. Our Green Loans and Trade Finance solutions are designed to finance a range of projects and activities, including renewable energy, waste prevention/reduction, green buildings and retrofit of existing commercial premises, energy efficiency, sustainable water and wastewater management. We also offer a range of sustainability linked products, where the customer's overall performance is measured against pre-agreed and meaningful environmental, social or governance ('ESG') criteria. We have stepped up engagement with our top customers whose activities expose them to high ESG risks and are discussing and supporting their transition plans. We have meanwhile continued to provide extensive training to our Relationship Managers, using Group resources where appropriate, and are supporting some colleagues who are seeking to obtain external certification in this broad subject.

A number of information sessions on sustainability finance were held with the Malta Chamber of SMEs. The Malta Chamber of SMEs and HSBC Malta Foundation held a series of sustainability seminars for small and medium-sized enterprises on corporate sustainability practices across a variety of industries.

HSBC Bank Malta 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.

Become a Net Zero bank in its operations and supply chain by 2030 or sooner

In line with HSBC Group's ambition to reduce its energy consumption by 50% by 2030 and to achieve 100% renewable power across its operations by 2030, HSBC Bank Malta p.l.c. is focusing its action on four objectives: reduce operational greenhouse gas ('GHG') emissions, including those related to business travel, improve energy efficiency, reduce production of non-recycled waste and reduce paper consumption. The biggest impact on our carbon footprint is maintaining our property portfolio and during the year we have commenced major works on our Operations Centre at Qormi, to redevelop and fully refurbish the campus, replacing all the plant and equipment to achieve operational efficiency levels to meet our targets. The redevelopment includes energy saving measures and the creation of a solar farm, which will potentially provide 75% of our electricity needs in future years. The project is aiming for Gold status LEED accreditation and is already well on track to meet these requirements. In line with the HSBC Bank plc framework to deliver the HSBC Group's commitments, the local group has structured a program of work to fulfil regulatory requirements with a particular focus on the European Central Bank ('ECB'). Work is underway with the global lines of business and functions to build tools, competencies, and targets to identify and assess the impact of the Climate-related and Environmental risks on the bank's activity and meet ECB expectations.

We rolled out PVC cards made up of 85% recycled material, issuing them to customers needing new or replacement cards. The recycled PVC plastic card action is expected to reduce CO_2 emissions and save tons of plastic waste per year as part of our net zero strategy.

We have implemented measures to further reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings and continue to track our water consumption.

Governance

Responsibilities of the management body

The Board of HSBC Bank Malta p.l.c. has overall accountability for determining the strategy, including the environmental and climate transition strategy and oversight of the risk management framework including climate-related and environmental risks. The Board oversees the development of the approach, execution and associated reporting by the executive management. The HSBC Bank Malta p.l.c. Risk Committee, a subcommittee of the HSBC Bank Malta p.l.c. Board, is responsible for overseeing and advising the Board on risk-related matters, including climate-related and environmental risks.

From an executive perspective, the Executive Committee recommend climate and environmental transition strategy and climate risk appetite to the Board for approval.

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. identifies, assesses and 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 2022 with the addition of new ESG key risk indicators and will continue to be reinforced with the implementation of new additional indicators.

The initial measures are focused on the oversight and management of the key climate-related risks for the bank relative to transition risks (wholesale credit risk and retail credit risk) and physical risks throughout 2023.

Integration of measures to manage environmental risk

Significant improvements have been made throughout 2022 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:

a. 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').
b. The Head of Sustainability Europe leads internal execution and transformation, reporting to the HBEU Chief of Staff ('CoS') and the Group Sustainability CoS.

Role of committees and lines of reporting

At the management level, the climate and ESG governance has been enhanced with the setup of two new Committees: the Climate and ESG Risk Oversight Forum and the Climate Business Council . 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.

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 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 committee has an escalation path to the HSBC Bank Malta p.l.c. Risk Management Meeting.

Climate Business Council ('CBC')

The CBC was set up in 2021 with the aim of facilitating collaboration and knowledge sharing, and supporting the Group's Sustainable Finance and Climate related initiatives. The CBC drives and monitors the implementation of the bank's sustainable finance strategy, it also ensures that the strategy is fit for purpose and is updated as required. The CBC provides guidance and resolves issues in developing the sustainable finance business across the bank. It also determines the objectives of agreed initiatives and appropriate ownership as well as ensuring measurement and reporting of progress. The CBC is chaired by the Chief Executive Officer of the bank and updates on progress are provided to stakeholders including the local Board and regional committees for oversight and endorsement of the strategies and actions.

In 2023, CBC will be amalgamated with CESGROF to enable stronger oversight of climate and environmental risks.

The roles and responsibilities of the governance structure for climate-related and environmental risks are defined in the terms of reference of each governance forum.

The bank also supports the Climate Action Network ('CAN'). This is a network led by employees of the bank where different teams from across business lines and functions drive sustainable projects inside and outside the bank. We had two climate action network teams in 2022 thanks to the commitment of our employees ranging from environmental to future skills topics. The CAN teams drive 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.

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. 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 the bank of achieving 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 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.

In 2022, HSBC Group (including HSBC Bank Malta p.l.c.) delivered its first internal climate scenario analysis exercise where four bespoke scenarios have been used. It was designed to articulate HSBC view of the range of potential outcomes for global climate change.

These scenarios, which reflect different levels of physical and transition risk and are varied by severity and probability, where:

a. the Net Zero scenario, which aligns with HSBC net zero strategy and is consistent with the Paris Agreement;

b. the Current Commitments scenario, which assumes that climate action is limited to the current governmental commitments and pledges;

c. the Downside Transition Risk scenario, which assumes that climate action is delayed until 2030; and

d. the Downside Physical Risk scenario, which assumes climate action is limited to current governmental policies.

Climate scenario analysis allows HSBC Bank Malta p.l.c. to model how different potential climate pathways may affect its customers and portfolios, particularly in respect of credit losses.

In 2022, climate considerations are incorporated into HSBC mortgage origination processes for the retail business and new money request processes for the wholesale business.

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' climate ambition.

Description of the link between environmental risks and traditional banking risks

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 a 12-month horizon. The most material risks identified are driven by regulatory and/or reputational impacts in the following risk area: Strategic Risk/Reputational Risk; Regulatory compliance/Breach of Regulatory Duty to Clients and Other Counterparties; Resilience risk/Third Party Risk and Financial Reporting Risk.

We are in the process of performing an assessment of the materiality of climate and environmental risks, across the entire risk map. This assessment will help to provide a holistic view of the most significant climate and environmental risks within HSBC Bank Malta p.l.c.

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 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 transition plan and the definition of the 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[1]. This reconfirms the intent to integrate Nature-related actions into the HSBC transition plan.

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

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.

The sectors identified as priorities, and for which an internal policy has been developed, are forestry and its derivative products, agricultural commodities, mining and metals, chemicals, energy, defence, UNESCO world heritage sites and Ramsar wetlands.

These policies define the appetite of the bank for business in these sectors and seek to encourage customers to meet good international standards of practice. Where HSBC identifies activities that could cause material negative impacts, it will only provide finance if it can confirm clients are managing these risks responsibly. Such customers are subject to greater due diligence and generally require additional approval by sustainability risk specialists. The bank's sustainability policies continue to be aligned with its approach to climate risk, and its net zero ambition.

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.

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 as part of HSBC transition risk framework to understand the customer's climate strategies and risk. 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. In December 2022, the Group announced its revised energy policy which will be 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.

Relationship managers are the primary point of contact for the local group customers and are responsible for checking annually whether customers meet applicable policies. A network of Sustainability Risk Managers (based in the HSBC Group) provides local expertise, support, and guidance to the Businesses and to Risk (credit approvers). The sustainability risk analysis must be undertaken annually or more frequently if risk increases, with trigger events leading to re-assessment of sustainability risk.

Risk function takes into account the Sustainability Risk Rating when approving the overall risk in relation or transaction.

A wide-ranging stress testing programme is also deployed and is a key part of the HSBC Bank Malta p.l.c. risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on HSBC.

The local group's stress testing programme assesses its capital and liquidity strength through a rigorous examination of its resilience to external shocks. As well as undertaking regulatory-driven stress tests, internal stress tests are conducted in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

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. Further, Environmental Risk Data is also in scope for BCBS 239. The BCBS 239 compliance plan for environmental risk data will conclude at the end of 2023.

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, 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. The Board receives an update on Sustainable Finance initiatives driven by HBMT on a regular basis. . Board members receive ESG-related training as part of their ongoing development. Given the wide-ranging remit of ESG matters, the governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, where appropriate.

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 written employment contracts and policies, procedures in employee handbooks, on employee websites and a 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, 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 interests 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 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 of Global Banking and Markets and 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 2022, sets out HSBC's commitments to the environment, diversity and human rights, and which 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.

The local group'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 2022, 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 relation policy set in 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 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 to measure employee engagement score, to capture 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 to listen to concerns of employees. Nevertheless, it has been recognised that at times people may not feel comfortable speaking up through the usual channels. As a result, a global whistleblowing platform has been implemented. 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 done 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 carrying out disciplinary actions.

Under the Exchange Meeting programme, agenda-free consultation meetings are held that managers attend without any seniority-based privileges. Staff members are free to discuss any issues they wish. 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 2022, 53% of our senior leadership roles were held by women and 83.5% of internal appointments were from our female population.

The bank works on unconscious bias by launching 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 July we 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 also expanded our internship proposition by collaborating with the University of Malta and continued our collaboration with all educational institutions to recruit students and provide them with a rich working experience. This year, several students returned to HSBC as full-time employees upon completion of their studies, proof over the positive value of 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.

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

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 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 the group.

The learning department is offering 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.

Employees' 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. Reason why, wellbeing questions have been added in the annual Snapshot survey to get feedbacks 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 staff, 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 managed.

In the context of the 2022 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 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;
- Performance and reward sanctions: accurate capture of performance and reward adjustments aligned to the conduct and consequence management guidelines.

There is low risk appetite with regards to regulatory requirements.

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,
- operating with resilience and security to avoid harm to customers and markets.

The conduct approach is embedded into the way 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.

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. During 2022, the Foundation supported a number of projects including the Prince's Trust International Achieve Programme, the JAYE (Young Enterprise) Malta Foundation, The Malta Chamber of Commerce, The Chamber of SME's, the Malta Community Chest Fund Foundation and Fondazzjoni Patrimonju Malti amongst others.

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 is to establish the requirements and guidelines for a net zero carbon commercial building in the Maltese context.

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 compliance risk.

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.

The Sustainability Risk Oversight Forum, made up of senior members of the Global Risk and Compliance function and global businesses, continued to oversee the development and implementation of policies that identify, manage and mitigate the Group's sustainability risk, including an assurance framework. This framework has been designed to take a more holistic view of the ESG risks faced in HSBC sustainability risk policies, including:

- monitoring ESG news across the sustainability risk policies;
- overseeing clients considered to be of higher risk or under exit;
- reviewing client files across the sustainability risk policies and;
- setting and reporting against a defined set of key control indicators aligned to HSBC's risk appetite.

The framework is used to monitor the in-scope portfolio and keep track if there is any deterioration in the risk ratings. With the respective risk rating assigned, sustainability risk specialists will take the necessary actions to mitigate unacceptable risks. If necessary, client relationship can be proactively ended.

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

Anti-bribery and corruption policy states 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 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 third parties that expose HSBC to this risk.

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.

Table 33 sets out information on HSBC Bank Malta p.l.c. 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.

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.

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 their website). 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 for 2022 reporting as counterparty alignment data under EU Taxonomy Regulation 2020/852 is not yet available.

Identification of environmentally sustainable exposures (CCM)

In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Bank Malta p.l.c. is only expected to disclose information from 31 December 2023.

GHG financed emissions

The disclosure requirement for information on GHG financed emissions is voluntary in the first year 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; regular reassessment of methodology and data is needed to take account of new and upcoming regulatory requirements and climate science.

The 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, as well as financing which HSBC helps clients access through capital markets activities.

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 reference benchmark to assess its financed emissions. It provides with industry specific emissions projections from which HSBC constructs benchmark pathways. This benchmark helps 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 started measuring its financed emissions for two emissions-intensive sectors: the oil and gas, and power and utilities sectors in 2021. The HSBC 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.

For the purpose of disclosures in accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Bank Malta p.l.c. 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.

The exposures reported in the table below are those of the principal operating entities within HSBC Bank Malta p.l.c.'s prudential scope of consolidation.

Table 33: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1)

		Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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 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**	**years**
1	**Exposures towards sectors that highly contribute to climate change***	**554,842**	***39,540***	***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	–	–	–	–	–	–	–	–	–	–	–	–

Table 33: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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 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	years
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	–	–	–	–
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
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.	–	–	–	–	–	–	–	–	–	–	–	–

Table 33: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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 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**	**years**
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	39,540	2,058	–	(336)	(132)	–	44,371	–	43,155	–	6.0
35	D35.1 – Electric power generation, transmission and distribution	39,540	39,540	–	–	(6)	–	–	39,540	–	–	–	0.9
36	D35.11 – Production of electricity	–	–	–	–	–	–	–	–	–	–	–	–
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	47,986	–	2,058	–	(330)	(132)	–	4,831	–	43,155	–	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	–	–	–	–
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)	51,046	28,224	1,166	–	3.9

Table 33: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Template 1) (continued)

		Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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 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	years
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*	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	39,540	140,450	55,327	(22,881)	(8,205)	(11,421)	525,547	125,499	79,147	–	3.6

* *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

The disclosure presents the gross carrying amount of loans collateralised with commercial and residential immovable property and of repossessed real estate collateral. Table 34 also includes information on the level of energy efficiency of the underlying collateral measured in kWh/m^2 energy consumption and in terms of the label of the energy performance certificates ('EPC') - where a mapping to the EU EPC label exists. In the absence of an EPC label, the energy consumption is estimated. This estimation methodology is set out below.

In Malta, 87% of exposures on loans collateralised by property are related to residential property while 13% 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 1% 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, it has been decided to break down the relative exposures in row 5 allowing estimations.

The level of energy has been estimated 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:

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

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.

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

Table 34: Banking book-Climate change transition risk: Loans collateralised by immovable property-Energy efficiency of the collateral (Template 2)

		Total gross carrying amount						
			Level of energy efficiency (EP score in kWh/m² of collateral)					
			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 34: Banking book-Climate change transition risk: Loans collateralised by immovable property-Energy efficiency of the collateral (Template 2) (continued)

		Total gross carrying amount								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
		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**	–	–	–	–	–	–	–	**100**	**2,569,995**
2	– *of which: Loans collateralised by commercial immovable property*	–	–	–	–	–	–	–	***100***	***332,157***
3	– *of which: Loans collateralised by residential immovable property*	–	–	–	–	–	–	–	***100***	***2,234,488***
4	– *of which: Collateral obtained by taking possession: residential and commercial immovable properties*	–	–	–	–	–	–	–	***100***	***3,350***
5	– *of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated**								***100***	***2,569,995***
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*								–	–

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

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

As at 31 December 2022 the bank did not have any exposures with customers that rank in the list of the top 20 carbon-intensive firms.

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 exposures include loans and advances(other than those held 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 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.

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.

Data limitations

The disclosure is dependent on availability, accuracy and precision of geographical location information. For loans secured by residential or commercial property, the geographical location was determined using the location of the collateral or the location of the counterparty's operations or head office based on the availability of data. For €894 million (30%) of the total loan and advances to customers balance sheet amount in our 31 December 2022 reporting, we had limited or no data available to clearly identify the geographical location and assess the impact of the associated physical risk.

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 ThinkHazard! 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;
- 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 group 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:

(a) Acute risks (event-driven risks that last for a few days) – extreme weather events such as storms and cyclones, extreme rainfall and heatwaves;

(b) 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 volcanos.

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.

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

Table 35: Banking book-Climate change physical risk: Exposures subject to physical risk (Template 5)

	Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount					
			of which exposures sensitive to impact from climate change physical events				
			Breakdown by maturity bucket				
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
		€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	M - Professional scientific and technical activities	108,964	19,660	35,232	–	–	6.4
17	N - Administrative and support service activities	14,070	6,998	–	–	–	2.6
18	P - Education	3,819	7	–	–	–	–
19	Q - Human health and social work activities	18,140	10	–	–	–	2.5
20	R - Arts entertainment and recreation	292	–	–	–	–	–
21	S - Other services activities	2,199	40	–	–	–	1.4

Table 35: Banking book-Climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount							
		of which exposures sensitive to impact from climate change physical 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	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	– of which: Stage 2 exposures	– of which: non-performing exposures
		€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	M - Professional scientific and technical activities	—	54,892	—	150	13	(35)	(3)	(13)
17	N - Administrative and support service activities	—	6,998	—	5,272	—	(293)	(250)	—
18	P - Education	—	7	—	7	—	—	—	—
19	Q - Human health and social work activities	—	10	—	—	—	—	—	—
20	R - Arts entertainment and recreation	—	—	—	—	—	—	—	—
21	S - Other services activities	—	40	—	4	2	(3)	(1)	(2)

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

The table on the following page 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 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 ('GAR').

We have set out below our assessment of the actions to mitigate climate-related risks, and reported these 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.

HSBC Bank Malta p.l.c. 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 36 - Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)

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
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	—	—	—	
	Households	—	—	—	
	of which Loans collateralised by residential immovable property	—	—	—	
	of which building renovation loans	—	—	—	
	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	These loans are invested in housing refurbishment and renewable energy projects in order to improve energy efficiency, which contributes to mitigate transition risk.
	of which Loans collateralised by residential immovable property	—	—	—	
	of which building renovation loans	404			
	Other counterparties	—	—	—	

Appendix I

Summary of disclosures withheld

CR2-A: Changes in the stock of general and specific credit risk adjustments	The Bank's NPE ratio is less than the 5% threshold as at end 2022.
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 Continental Europe, 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 Continental Europe, 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 Continental Europe, 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 Continental Europe, 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 as at end 2022.
EU CQ6: Collateral valuation – loans and advances	The Bank's NPE ratio is less than the 5% threshold as at end 2022.
EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown	The Bank's NPE ratio is less than the 5% threshold as at end 2022.
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 as at end 2022.
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 1 million EUR or more per year	The bank does not have remuneration exceeding these thresholds.
ESG Template 3: Banking book – Climate change transition risk: Alignment metrics	The disclosure will become effective from June 2024
ESG Template 4: Banking book – Climate change transition risk: Exposures to top 20 carbon-intensive firms	The Bank does not have any business relationship with the top 20 carbon-intensive firms as at end 2022
ESG Template 6: Summary of GAR KPIs	The disclosure will become effective from year end 2023
ESG Template 7: Mitigating actions: Assets for the calculation of GAR	The disclosure will become effective from year end 2023
ESG Template 8: GAR (%)	The disclosure will become effective from year end 2023
ESG Template 9: Mitigating actions: BTAR	The disclosure will become effective from June 2024

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