HSBC Bank Malta p.l.c.

Interim Report and Accounts 2020

HSBC

COMPANY ANNOUNCEMENT

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

Quote:

During a meeting held on the 3 August 2020, the Board of Directors of HSBC Bank Malta p.l.c. approved the attached Group and Bank interim condensed financial statements for the six-month financial period commencing 1 January 2020 to 30 June 2020.

3 August 2020

2020 Interim Results – Highlights

The economic impact of the Covid-19 pandemic has been the main driver of the change in our financial performance in the first half of 2020. The resultant increase in expected credit losses contributed to a material fall in reported profit before tax compared with the same period last year in addition to the market turmoil that has impacted our Insurance business.

Financial performance (vs 1H19)

- Profit before tax down €19.1m to €1.8m due to higher expected credit losses and lower revenue reflecting the impact of the Covid-19 outbreak.
- Revenue down 16% largely driven by revaluation losses within the Life Insurance subsidiary as a result of adverse market movements (equity and interest rates). Excluding the insurance subsidiary, revenue declined by 1%.
- Expected credit losses increased by €9.7m to €8.7m due to the impact of Covid-19. In 2019 we benefited from a number of releases in the first half of the year.
- Costs are 5% below same period in 2019 reflecting strong progress on the strategy announced in 2019.
- During the first six months, lending increased by €32m (1%) and deposits grew by €168m (3%).
- Profit attributable to shareholders of €1.2m for the six months ended 30 June 2020 resulted in earnings per share of 0.3 cents compared with 3.8 cents in the same period in 2019.
- Common equity Tier 1 capital ratio of 16.6% as at 30 June 2020, up from 16.4% at the end of 2019, well above regulatory requirements.
- Return on equity of 0.5% for the six months ended 30 June 2020, compared with 5.8% for the same period in 2019.
- In line with the European Central Bank recommendation that eurozone banks should not make dividend payments at this time, regardless of capital strength, no interim dividend is being declared.

Unquote

Dr George Brancaleone LL.D.

Company Secretary

This Company Announcement is issued by

HSBC Bank Malta p.l.c.

Company Secretary Tel: (+356) 2380 2404

Registered in Malta number C3177.

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

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

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

Directors' Report

Financial performance

Profit before tax for the six months ended 30 June 2020 was €1.8m, down €19.1m from the same period in 2019. The reductions reflect the impact of the Covid-19 outbreak specifically:

- The Life Insurance subsidiary reported a loss of €8.9m, €11.3m below the profit reported in the first half of 2019. The loss was predominately driven by revaluation losses as a result of adverse market movements (equity and interest rates) and lower trading activities as a result of Covid-19.
- Expected credit losses ('ECL') increased by €9.7m to €8.7m.

Net interest income ('NII') was largely stable at €53.5m compared with €53.6m in the same period in 2019 driven by the effects of interest rate cuts made in September 2019 (EUR) and March 2020 (USD & GBP), together with a further decline in the average yield on the investment book which offset the increase in NII as a result of the growth in the retail lending book and lower interest paid on customer deposits.

Non-interest income (fees and commissions and trading income) reduced by €0.7m with strong fee performance within commercial banking as a result of new fees, offset by a reduction in fee income largely driven by a drop in activity due to Covid-19 across cards, payments, insurance and credit facilities.

Operating expenses reduced by 5% to €51.1m compared with €53.6m in the same period in 2019. This reduction reflects the implementation of the bank's strategy announced in 2019 and continued focus on cost efficiency.

At the current time, the bank has seen some but not material increases in specific credit losses in retail and commercial. This reflects the benefit of support measures introduced by government, policy guidance from regulators and the bank's conservative risk culture. However, ECL increased by €9.7m to €8.7m for the six months ended June 2020 compared to the same period in 2019 as we incorporated the probability weighted outcome of different forward economic scenarios at portfolio level which takes into consideration the expected impact of Covid-19. In 2019, we benefited from a number of releases in the first half of the year, whilst in 2020 we also benefited from a release due to change in methodology and a number of recoveries but these were more than offset by the Covid-19 impact.

HSBC Life Assurance (Malta) Limited reported a loss of €8.9m, €11.3m below the profit reported in the first half of 2019. The insurance company's performance was driven by revaluation losses as a result of adverse market movements (equity and interest rates), actuarial adjustments and lower trading activities as a result of Covid-19. Net income from assets and liabilities of insurance, measured at fair value through profit or loss, reduced by €65m to a €30m loss due to adverse equity market performance in the first six months of 2020, resulting in revaluation losses on equity and unit trust assets supporting insurance and investment contracts. This adverse movement was materially compensated by a corresponding positive movement of €62m in net insurance claims and benefits paid and movement in liabilities to policyholders, reflecting the extent to which the policyholders participate in the investment performance of the associated assets portfolio.

The effective tax rate is 35% in line with 2019. This translated into a tax expense of €0.6m.

Financial position and capital

Net loans and advances to customers stood at €3,290m, €32m or 1% higher than at 31 December 2019 with strong growth across the commercial banking lending book and stable retail lending book where growth in retail lending balances over the first two months of 2020 was offset by declines post-March due to Covid-19.

The bank's investment portfolio decreased by €9m to €935m and was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-.Customer accounts were €5,145m as at 30 June 2020, €168m or 3% higher than at 31 December 2019 driven by retail deposits which offset a marginal decline in commercial banking deposits. The bank has a robust advances-to-deposits ratio of 64% and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity Tier 1 capital was 16.6% as at 30 June 2020, compared to 16.4% at the end of 2019 and well above regulatory requirements. Total capital ratio increased to 19.3% compared to 19.0% at 31 December 2019.

In line with the European Central Bank recommendation that eurozone banks should not make dividend payments at this time, regardless of capital strength, no interim dividend is being declared.

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

"The first six months of 2020 have been both challenging and transformative. Due to the Covid-19 pandemic, the economy slowed significantly and some sectors drew to a near standstill. This meant two things for the bank. First that the financial performance of the bank inevitably suffered in line with the rest of the economy. But second, that the real measure of our performance became our success in supporting our customers, colleagues and communities during the crisis, and in laying the groundwork for the recovery to come and the future safe growth of our franchise in Malta.

In difficult times, the bank's job has always been to support our communities, provide stability and help rebuild economic growth. I am proud of the way our people have delivered this purpose as the Covid-19 pandemic has unfolded.

Our approach has hinged on three things: securing a continuous service for all who rely on us; providing a financial bridge for our personal and business customers beyond the crisis and ensuring that the bank is in a strong position to help our customers thrive once restrictions begin to ease.

We maintained a high level of business continuity and we now have over 80% of colleagues enabled to work from the safety of their home if needed. We maintained a branch network presence throughout the Covid-19 period. We also maintained strong capital and liquidity positions.

The bank launched a series of proactive customer focused initiatives at the outset of the Covid-19 pandemic, including capital repayment holidays, fee free temporary short-term working capital facilities and trade finance support. In May, the bank also confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme.

Throughout all of this, the well-being of our people and our customers has been our paramount concern. We have taken all steps necessary to enable our front-line colleagues to perform their jobs safely and effectively. For all our colleagues, we have maintained a regular flow of communication and listened closely to their needs, providing the support and flexibility to help them manage their lives during the pandemic.

This has been one of the most demanding periods that I can remember for all of our people and our valued customers. Many have had to juggle personal and professional priorities, while adapting to new and unfamiliar ways of working. I have been humbled by the dedication and commitment that my colleagues have shown in incredibly tough circumstances, and thank them sincerely for all they have done – and are doing – for our customers, communities and each other.

We are focused on the future and on successfully executing our Safe Growth strategy. We will strive to achieve revenue growth as and when market conditions improve, whilst maintaining a strong risk management culture, with zero appetite for financial crime risk."

Financial summary

Income statement

	Group		Bank	
	Half-year to			
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	€000	€000	**€000**	€000
Interest and similar income				
– on loans and advances to banks and customers	**54,584**	54,699	**54,584**	54,699
– on debt and other fixed income instruments	**2,858**	4,422	**2,858**	4,422
Interest expense	**(3,966)**	(5,521)	**(3,966)**	(5,521)
Net interest income	**53,476**	53,600	**53,476**	53,600
Fee income	**11,404**	11,959	**9,803**	10,443
Fee expense	**(1,014)**	(849)	**(757)**	(704)
Net fee income	**10,390**	11,110	**9,046**	9,739
Net trading income	**2,809**	2,756	**2,809**	2,756
Net (expense)/income from financial instruments of insurance operations measured at fair value through profit or loss	**(29,935)**	35,009	**—**	—
Dividend income	**13**	15	**2,013**	8,939
Net insurance premium income	**26,209**	32,000	**—**	—
Movement in present value of in-force long-term insurance business	**(2,278)**	29	**—**	—
Other operating income	**860**	876	**846**	896
Total operating income	**61,544**	135,395	**68,190**	75,930
Net insurance claims, benefits paid and movement in liabilities to policyholders	**6**	(61,939)	**—**	—
Net operating income before changes in expected credit losses and other credit impairment charges	**61,550**	73,456	**68,190**	75,930
Change in expected credit losses and other credit impairment charges	**(8,676)**	1,036	**(8,676)**	1,036
Net operating income	**52,874**	74,492	**59,514**	76,966
Employee compensation and benefits	**(22,458)**	(24,186)	**(21,067)**	(22,821)
General and administrative expenses	**(25,162)**	(26,444)	**(22,959)**	(24,302)
Depreciation of property, plant and equipment and right-of-use assets	**(2,193)**	(2,125)	**(2,193)**	(2,125)
Amortisation of intangible assets	**(1,249)**	(798)	**(1,211)**	(742)
Total operating expenses	**(51,062)**	(53,553)	**(47,430)**	(49,990)
Profit before tax	**1,812**	20,939	**12,084**	26,976
Tax expense	**(637)**	(7,324)	**(4,234)**	(9,239)
Profit for the period	**1,175**	13,615	**7,850**	17,737
Earnings per share	**0.3c**	3.8c		

Statements of comprehensive income

	Group		Bank	
	Half-year to			
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	€000	€000	**€000**	€000
Profit for the period	**1,175**	13,615	**7,850**	17,737
Other comprehensive income/(expense)				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Debt instruments measured at fair value through other comprehensive income:	**(2,598)**	3,089	**(2,598)**	3,089
– fair value (losses)/gains	**(3,997)**	4,752	**(3,997)**	4,752
– income taxes	**1,399**	(1,663)	**1,399**	(1,663)
Items that will not be reclassified subsequently to profit or loss:				
Defined benefit obligation:	**–**	141	**–**	141
– remeasurement of defined benefit obligation	**–**	217	**–**	217
– income taxes	**–**	(76)	**–**	(76)
Equity instruments designated at fair value through other comprehensive income:	**2**	660	**2**	660
– fair value gains	**3**	1,016	**3**	1,016
– income taxes	**(1)**	(356)	**(1)**	(356)
Other comprehensive (expense)/income for the period, net of tax	**(2,596)**	3,890	**(2,596)**	3,890
Total comprehensive (expense)/income for the period	**(1,421)**	17,505	**5,254**	21,627

Statements of financial position

	Group		Bank	
	30 Jun 2020 €000	31 Dec 2019 €000	**30 Jun 2020 €000**	31 Dec 2019 €000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**701,998**	586,072	**701,998**	586,072
Items in course of collection from other banks	**6,113**	3,436	**6,113**	3,436
Financial assets mandatorily measured at fair value through profit or loss	**708,189**	754,020	**4,475**	4,507
Held for trading derivatives	**5,060**	5,320	**5,060**	5,320
Loans and advances to banks	**663,771**	676,031	**658,560**	672,952
Loans and advances to customers	**3,289,755**	3,257,433	**3,289,755**	3,257,433
Financial investments	**934,633**	943,603	**934,631**	943,601
Prepayments and accrued income	**24,534**	23,578	**21,679**	20,715
Current tax assets	**4,668**	1,719	**256**	256
Reinsurance assets	**93,570**	78,945	**—**	—
Other non-current assets held for sale	**8,043**	8,422	**8,043**	8,422
Investment in subsidiaries	**—**	—	**30,859**	30,859
Investment property	**9,595**	9,788	**7,595**	7,589
Property, plant and equipment	**46,952**	47,403	**46,952**	47,403
Intangible assets	**61,066**	61,518	**12,101**	10,193
Right-of-use assets	**4,751**	4,685	**4,751**	4,685
Deferred tax assets	**24,089**	22,427	**24,089**	22,427
Other assets	**13,671**	13,217	**13,532**	11,064
Total assets	**6,600,458**	6,497,617	**5,770,449**	5,636,934
Liabilities				
Deposits by banks	**7,612**	840	**7,612**	840
Customer accounts	**5,144,701**	4,976,580	**5,181,944**	5,026,066
Held for trading derivatives	**5,016**	5,190	**5,016**	5,190
Accruals and deferred income	**16,986**	20,335	**13,833**	17,844
Current tax liabilities	**4,307**	2,489	**4,177**	2,489
Liabilities under investment contracts	**162,862**	183,706	**—**	—
Liabilities under insurance contracts	**643,003**	658,470	**—**	—
Provisions for liabilities and other charges	**25,385**	33,271	**24,706**	32,214
Deferred tax liabilities	**21,591**	22,443	**4,899**	4,899
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Other liabilities	**38,125**	62,327	**34,048**	58,757
Total liabilities	**6,131,588**	6,027,651	**5,338,235**	5,210,299
Equity				
Called up share capital	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	**29,606**	32,202	**29,606**	32,202
Retained earnings	**331,172**	329,672	**294,516**	286,341
Total equity	**468,870**	469,966	**432,214**	426,635
Total liabilities and equity	**6,600,458**	6,497,617	**5,770,449**	5,636,934
Memorandum items				
Contingent liabilities	**156,876**	158,654	**156,879**	158,656
Commitments	**947,650**	1,075,524	**947,650**	1,075,524

The financial statements were approved and authorised for issue by the Board of Directors on 3 August 2020 and signed on its behalf by:

John Bonello
Chairman

Simon Vaughan Johnson
Chief Executive Officer

Statements of changes in equity

	Group			
	Share capital	**Revaluation reserve**	**Retained earnings**	**Total equity**
	€000	**€000**	**€000**	**€000**
At 1 Jan 2020	**108,092**	**32,202**	**329,672**	**469,966**
Profit for the period	**—**	**—**	**1,175**	**1,175**
Other comprehensive income/(expense)				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	**—**	**(2,596)**	**—**	**(2,596)**
Total other comprehensive expense	**—**	**(2,596)**	**—**	**(2,596)**
Total comprehensive (expense)/income for the period	**—**	**(2,596)**	**1,175**	**(1,421)**
Cost of share-based payment arrangements	**—**	**—**	**325**	**325**
At 30 Jun 2020	**108,092**	**29,606**	**331,172**	**468,870**
At 1 Jan 2019	108,092	34,265	316,421	458,778
Profit for the period	—	—	13,615	13,615
Other comprehensive income/(expense)				
Financial investments measured at fair value through other comprehensive income:				
– fair value gains, net of tax	—	3,749	—	3,749
Properties:				
– transfer to retained earnings upon realisation through disposal, net of tax	—	(410)	410	—
Defined benefit obligation:				
– remeasurement of defined benefit obligation, net of tax	—	—	141	141
Total other comprehensive income	—	3,339	551	3,890
Total comprehensive income for the period	—	3,339	14,166	17,505
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– dividends	—	—	(4,215)	(4,215)
Total contributions by and distributions to owners	—	—	(4,215)	(4,215)
At 30 Jun 2019	108,092	37,604	326,372	472,068

	Bank			
At 1 Jan 2020	**108,092**	**32,202**	**286,341**	**426,635**
Profit for the period	**—**	**—**	**7,850**	**7,850**
Other comprehensive income/(expense)				
Financial investments measured at fair value through other comprehensive income:				
– fair value losses, net of tax	**—**	**(2,596)**	**—**	**(2,596)**
Total other comprehensive expense	**—**	**(2,596)**	**—**	**(2,596)**
Total comprehensive (expense)/income for the period	**—**	**(2,596)**	**7,850**	**5,254**
Cost of share-based payment arrangements	**—**	**—**	**325**	**325**
At 30 Jun 2020	**108,092**	**29,606**	**294,516**	**432,214**
At 1 Jan 2019	108,092	34,265	261,425	403,782
Profit for the period	—	—	17,737	17,737
Other comprehensive income/(expense)				
Financial investments measured at fair value through other comprehensive income:				
– fair value gains, net of tax	—	3,749	—	3,749
Properties:				
– transfer to retained earnings upon realisation through disposal, net of tax	—	(410)	410	—
Defined benefit obligation:				
– remeasurement of defined benefit obligation, net of tax	—	—	141	141
Total other comprehensive income	—	3,339	551	3,890
Total comprehensive income for the period	—	3,339	18,288	21,627
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– dividends	—	—	(4,215)	(4,215)
Total contributions by and distributions to owners	—	—	(4,215)	(4,215)
At 30 Jun 2019	108,092	37,604	275,498	421,194

Statements of cash flows

	Group		Bank	
	Half-year to			
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	€000	€000	**€000**	€000
Cash flows from operating activities				
Interest, fees, loan recoveries and premium receipts	**105,277**	102,769	**68,178**	68,541
Interest, fees and claims payments	**(40,224)**	(36,636)	**(4,884)**	(5,976)
Payments to employees and suppliers	**(51,816)**	(44,759)	**(47,022)**	(41,799)
Cash flows from operating activities before changes in operating assets/liabilities	**13,237**	21,374	**16,272**	20,766
(Increase)/decrease in operating assets:				
– financial assets mandatorily measured at fair value through profit or loss	**(8,921)**	(4,552)	**—**	—
– reserve deposit with Central Bank of Malta	**(2,742)**	8	**(2,742)**	8
– loans and advances to customers and banks	**(28,601)**	(230,295)	**(28,601)**	(230,295)
– Treasury Bills	**(168,141)**	(50,005)	**(168,141)**	(50,005)
– other receivables	**(1,076)**	6,155	**(1,052)**	5,673
Increase/(decrease) in operating liabilities:				
– customer accounts and deposits by banks	**181,333**	(38,502)	**168,534**	(50,084)
– other payables	**(6,184)**	(9,654)	**(5,969)**	(9,988)
Net cash used in operating activities before tax	**(21,095)**	(305,471)	**(21,699)**	(313,925)
– tax paid	**(2,834)**	(2,329)	**(2,061)**	(1,462)
Net cash used in operating activities	**(23,929)**	(307,800)	**(23,760)**	(315,387)
Cash flows from investing activities				
Dividends received	**13**	15	**1,313**	6,015
Interest received from financial investments	**7,271**	8,470	**7,271**	8,470
Purchase of financial investments	**(105,857)**	(256,343)	**(105,857)**	(256,343)
Proceeds from sale and maturity of financial investments	**100,540**	284,316	**100,540**	284,316
Purchase of property, plant and equipment, investment property and intangible assets	**(4,492)**	(2,484)	**(4,492)**	(2,468)
Proceeds from sale of property, plant and equipment, investment property and intangible assets	**746**	999	**746**	999
Net cash (used in)/from investing activities	**(1,779)**	34,973	**(479)**	40,989
Cash flows used in financing activities				
Dividends paid	**—**	(4,215)	**—**	(4,215)
Cash used in financing activities	**—**	(4,215)	**—**	(4,215)
Net decrease in cash and cash equivalents	**(25,708)**	(277,042)	**(24,239)**	(278,613)
Cash and cash equivalents at beginning of period	**561,649**	801,882	**551,493**	796,941
Effect of exchange rate changes on cash and cash equivalents	**2,700**	1,839	**2,700**	1,839
Cash and cash equivalents at end of period	**538,641**	526,679	**529,954**	520,167

Notes on the financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

Our interim condensed consolidated financial statements have been prepared in accordance with Chapter 5 of the Listing Rules issued by the Listing Authority and the Prevention of Financial Markets Abuse Act 2005 and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC Bank Malta p.l.c. (the 'bank') and its subsidiary undertakings (collectively referred to as the 'local group') financial position and performance since the end of 2019. These financial statements should be read in conjunction with the *Annual Report and Accounts 2019.*

The condensed interim financial information has been extracted from the unaudited group's management accounts for the six months ended 30 June 2020. It has not been subject to an audit in accordance with the requirements of International Standards on Auditing nor to a review in accordance with the requirements of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

At 30 June 2020, there were no unendorsed standards effective for the half-year to 30 June 2020 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the local group.

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

Standards applied during the half-year to 30 June 2020

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

(b) Use of estimates and judgements

Management believes that our critical accounting estimates and judgements are those that relate to the expected credit losses on loans and advances, valuation of financial instruments, policyholder claims and benefits and present value of in-force long-term assurance business as set out in the *Annual Report and Accounts 2019* under 'Critical accounting estimates and judgements' (page 65).

The level of estimation uncertainty and judgement has increased since 31 December 2019 as a result of the economic effects of the Covid-19 pandemic, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a widening in the distribution of economic forecasts. The key judgement is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;
- estimating the economic effects of those scenarios on ECL, where modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

The methodology used for the calculation of the ECL for different economic scenarios is set in 'Measurement of ECL estimates' in Note 3 on page 10.

(c) Composition of Group

There were no material changes in the composition of the local group in the half-year to 30 June 2020.

(d) Future accounting developments

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

(e) Going concern

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

(f) Accounting policies

Except as described above, the accounting policies that we applied for these interim condensed consolidated financial statements are consistent with those described on pages 65 to 77 of the *Annual Report and Accounts 2019*, as are the methods of computation.

2 Net operating (expense)/income

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

	Group	
	Half-year to	
	30 Jun 2020	30 Jun 2019
	€000	€000
Net fee income	**111**	279
Net (expense)/income from financial instruments of insurance operations measured at fair value through profit or loss	**(29,935)**	35,009
Net insurance premium income	**26,209**	32,000
Movement in present value of in-force long-term insurance business	**(2,278)**	29
Other operating income	**4**	3
Total operating (expense)/income	**(5,889)**	67,320
Net insurance claims, benefits paid and movement in liabilities to policyholders	**6**	(61,939)
Net operating (expense)/income	**(5,883)**	5,381

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

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS9 are applied and the associated allowance for ECL, as well as the fair value of financial instruments measured at FVOCI and the associated allowance for ECL.

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

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

	At 30 Jun 2020		At 31 Dec 2019	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	€000	**€000**	€000	€000
Loans and advances to customers at amortised cost:	**3,334,778**	**(45,023)**	3,294,294	(36,861)
– personal	**2,276,007**	**(16,276)**	2,269,855	(11,720)
– corporate and commercial	**864,435**	**(26,409)**	850,303	(23,669)
– non-bank financial institutions	**194,336**	**(2,338)**	174,136	(1,472)
Loans and advances to banks at amortised cost	**658,603**	**(43)**	672,953	(1)
Other financial assets measured at amortised cost:	**475,548**	**(8,949)**	460,469	(9,116)
– balances at central banks	**438,153**	**(270)**	426,741	(19)
– items in the course of collection from other banks	**6,113**	**—**	3,436	—
– accrued income and other assets[2]	**31,282**	**(8,679)**	30,292	(9,097)
Total gross carrying amount on balance sheet	**4,468,929**	**(54,015)**	4,427,716	(45,978)
Loans and other credit-related commitments:	**947,650**	**(974)**	1,075,524	(796)
– personal	**490,306**	**(20)**	541,971	(16)
– corporate and commercial (including non-bank financial institutions)	**457,344**	**(954)**	533,553	(780)
Financial guarantee and similar contracts:	**155,082**	**(620)**	156,636	(521)
– personal	**5,251**	**(31)**	5,059	(146)
– corporate and commercial (including non-bank financial institutions)	**149,831**	**(589)**	151,577	(375)
Total nominal amount off balance sheet[3]	**1,102,732**	**(1,594)**	1,232,160	(1,317)
Total	**5,571,661**	**(55,609)**	5,659,876	(47,295)

	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	€000	**€000**	€000	€000
Financial investments (debt securities) measured at fair value through other comprehensive income	**934,600**	**(243)**	943,573	(31)
Treasury Bills measured at fair value through other comprehensive income	**240,988**	**(12)**	127,075	(1)
Total	**1,175,588**	**(255)**	1,070,648	(32)

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by business segment

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Loans and advances to customers at amortised cost:	**2,952,523**	**257,934**	**124,321**	**3,334,778**	**(8,708)**	**(11,310)**	**(25,005)**	**(45,023)**	**0.3**	**4.4**	**20.1**	**1.4**
– personal	**2,147,994**	**55,285**	**72,728**	**2,276,007**	**(3,639)**	**(4,861)**	**(7,776)**	**(16,276)**	**0.2**	**8.8**	**10.7**	**0.7**
– corporate and commercial	**672,199**	**141,162**	**51,074**	**864,435**	**(3,938)**	**(5,382)**	**(17,089)**	**(26,409)**	**0.6**	**3.8**	**33.5**	**3.1**
– non-bank financial institutions	**132,330**	**61,487**	**519**	**194,336**	**(1,131)**	**(1,067)**	**(140)**	**(2,338)**	**0.9**	**1.7**	**27.0**	**1.2**
Loans and advances to banks at amortised cost	**658,603**	**—**	**—**	**658,603**	**(43)**	**—**	**—**	**(43)**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**459,719**	**2,302**	**13,527**	**475,548**	**(270)**	**(2)**	**(8,677)**	**(8,949)**	**0.1**	**0.1**	**64.1**	**1.9**
Loan and other credit-related commitments:	**763,786**	**181,684**	**2,180**	**947,650**	**(618)**	**(165)**	**(191)**	**(974)**	**0.1**	**0.1**	**8.8**	**0.1**
– personal	**478,888**	**11,171**	**247**	**490,306**	**(20)**	**—**	**—**	**(20)**	**—**	**—**	**—**	**—**
– corporate and commercial (including non-bank financial institutions)	**284,898**	**170,513**	**1,933**	**457,344**	**(598)**	**(165)**	**(191)**	**(954)**	**0.2**	**0.1**	**9.9**	**0.2**
Financial guarantee and similar contracts:	**107,228**	**47,130**	**724**	**155,082**	**(305)**	**(165)**	**(150)**	**(620)**	**0.3**	**0.4**	**20.7**	**0.4**
– personal	**5,206**	**40**	**5**	**5,251**	**(31)**	**—**	**—**	**(31)**	**0.6**	**—**	**—**	**0.6**
– corporate and commercial (including non-bank financial institutions)	**102,022**	**47,090**	**719**	**149,831**	**(274)**	**(165)**	**(150)**	**(589)**	**0.3**	**0.4**	**20.9**	**0.4**
At 30 Jun 2020	**4,941,859**	**489,050**	**140,752**	**5,571,661**	**(9,944)**	**(11,642)**	**(34,023)**	**(55,609)**	**0.2**	**2.4**	**24.2**	**1.0**
Loans and advances to customers at amortised cost:	3,093,194	82,166	118,934	3,294,294	(7,551)	(6,013)	(23,297)	(36,861)	0.2	7.3	19.6	1.1
– personal	2,158,870	48,700	62,285	2,269,855	(1,672)	(3,550)	(6,498)	(11,720)	0.1	7.3	10.4	0.5
– corporate and commercial	762,084	32,204	56,015	850,303	(4,601)	(2,412)	(16,656)	(23,669)	0.6	7.5	29.7	2.8
– non-bank financial institutions	172,240	1,262	634	174,136	(1,278)	(51)	(143)	(1,472)	0.7	4.0	22.6	0.8
Loans and advances to banks at amortised cost	672,953	—	—	672,953	(1)	—	—	(1)	—	—	—	—
Other financial assets measured at amortised cost	444,479	420	15,570	460,469	(21)	—	(9,095)	(9,116)	—	—	58.4	2.0
Loan and other credit-related commitments:	1,053,365	20,793	1,366	1,075,524	(748)	(41)	(7)	(796)	0.1	0.2	0.5	0.1
– personal	537,501	4,394	76	541,971	(16)	—	—	(16)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	515,864	16,399	1,290	533,553	(732)	(41)	(7)	(780)	0.1	0.3	0.5	0.1
Financial guarantee and similar contracts:	149,461	6,537	638	156,636	(274)	(243)	(4)	(521)	0.2	3.7	0.6	0.3
– personal	4,714	340	5	5,059	—	(146)	—	(146)	—	42.9	—	2.9
– corporate and commercial (including non-bank financial institutions)	144,747	6,197	633	151,577	(274)	(97)	(4)	(375)	0.2	1.6	0.6	0.2
At 31 Dec 2019	5,413,452	109,916	136,508	5,659,876	(8,595)	(6,297)	(32,403)	(47,295)	0.2	5.7	23.7	0.8

Measurement of ECL estimates

Methodology

The recognition and measurement of ECL involves the use of significant judgement and estimation. The bank's methodology in relation to the adoption and generation of economic scenarios is described on pages 103 to 105 of the *Annual Report and Accounts 2019*. There have been no significant changes during the 1H20 period other than the introduction of the additional downside scenario described below.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed by the bank with reference to external forecasts specifically for the purpose of calculating ECL.

The consensus Central scenario

The Central scenario features a severe but temporary economic shock to the economy in 2020 followed by a strong recovery in 2021 and steady growth thereafter. The worst quarter is expected either in Q1 or Q2 depending on the timing of the spread of Covid-19 and subsequent restrictions on mobility. GDP is forecast to recover strongly in 2021, characterised as a V-shaped recession. The unemployment rate is expected to rise sharply, before reverting gradually back to pre-crisis levels over the forecast horizon. The Central Bank of Malta has increased support to funding markets in response to Covid-19 and subsequent restrictions to activity. Interest rates are expected to remain close to current levels over the next 12 months.

This scenario has been created with forecasts available in May. While the scenario has been benchmarked to June forecasts, the scenario has not been updated to reflect more recent changes in expectations. The economic environment continues to be characterised by a high degree of uncertainty and forecasts are likely to incorporate a high degree of error. The bank has chosen to capture this uncertainty through the use of additional scenarios rather than by frequent updates to the Central scenario.

The consensus Upside scenario

Compared to the Central scenario, the consensus Upside features a faster recovery in economic activity over the first two years of the scenario before converging to long-run trends. Despite this feature, 2020 continues to be a year of contraction in GDP growth and several quarters elapse before global activity reaches the level attained at the end of 2019, just prior to the onset of the virus.

The scenario is consistent with a number of key upside risk themes. These include orderly global abatement of Covid-19 via successful containment and/or the development of a vaccine and continued support from fiscal and monetary policy.

The consensus Downside scenario

In the Downside scenario, real GDP growth is weaker compared with the Central scenario for the first two years before recovering towards its long-run trend. Unemployment rises sharply and housing and equity prices contract.

The scenario is consistent with our key downside risks. These include renewed outbreaks of the Covid-19 virus and/or slower easing of restriction of travel and activity.

Additional Downside scenario

An additional Downside scenario has been created to reflect management's view of uncertainties and risks surrounding the trajectory and impact of the coronavirus. This scenario assumes Covid-19 infections continuing through 2021 with multiple and episodic outbreaks. Severe restrictions on economic activity remain into 2021, resulting in a deep and prolonged contraction in GDP growth.

How economic scenarios are reflected in the wholesale calculation of ECL

The bank has developed a consistent methodology for the application of forward economic guidance into the calculation of ECL by incorporating forward economic guidance into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry. PDs and LGDs are estimated for the entire term structure of each instrument.

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

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

Consensus scenarios (average 2021-2025)

	Wholesale lending			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
Real GDP Growth rate (%)	1.8	2.4	0.4	(1.0)
Consumer price index (%)	1.6	2.0	0.9	–
Unemployment (%)	5.3	5.0	6.3	7.2
Short-term interest risk (%)	0.3	0.3	0.3	0.3
House price index (%)	2.4	3.9	(0.8)	(4.1)
Probability (%)	70.0	10.0	15.0	5.0

How economic scenarios are reflected in the retail calculation of ECL

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

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

Consensus scenarios (average 2021-2025)

	Retail lending			
	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
Unemployment (%)	4.2	3.9	4.5	7.7
House price index (%)	4.9	5.8	3.7	(2.8)
Probability (%)	60.0	10.0	20.0	10.0

Post-model adjustments

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

Summary of credit risk on debt instruments and Treasury Bills measured at FVOCI by stage distribution and ECL coverage by issuer

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Debt instruments at fair value through other comprehensive income:	**934,600**	**–**	**–**	**934,600**	**(243)**	**–**	**–**	**(243)**	**–**	**–**	**–**	**–**
– issued by local government	**461,255**	**–**	**–**	**461,255**	**(25)**	**–**	**–**	**(25)**	**–**	**–**	**–**	**–**
– issued by foreign governments	**214,241**	**–**	**–**	**214,241**	**(42)**	**–**	**–**	**(42)**	**–**	**–**	**–**	**–**
– issued by other bodies	**259,104**	**–**	**–**	**259,104**	**(176)**	**–**	**–**	**(176)**	**0.1**	**–**	**–**	**0.1**
Treasury Bills at fair value through other comprehensive income:	**240,988**	**–**	**–**	**240,988**	**(12)**	**–**	**–**	**(12)**	**–**	**–**	**–**	**–**
– issued by local government	**240,988**	**–**	**–**	**240,988**	**(12)**	**–**	**–**	**(12)**	**–**	**–**	**–**	**–**
At 30 Jun 2020	**1,175,588**	**–**	**–**	**1,175,588**	**(255)**	**–**	**–**	**(255)**	**–**	**–**	**–**	**–**
Debt instruments at fair value through other comprehensive income:	943,573	–	–	943,573	(31)	–	–	(31)	–	–	–	–
– issued by local government	463,664	–	–	463,664	(16)	–	–	(16)	–	–	–	–
– issued by foreign governments	224,796	–	–	224,796	(8)	–	–	(8)	–	–	–	–
– issued by other bodies	255,113	–	–	255,113	(7)	–	–	(7)	–	–	–	–
Treasury Bills at fair value through other comprehensive income:	127,075	–	–	127,075	(1)	–	–	(1)	–	–	–	–
– issued by local government	127,075	–	–	127,075	(1)	–	–	(1)	–	–	–	–
At 31 Dec 2019	1,070,648	–	–	1,070,648	(32)	–	–	(32)	–	–	–	–

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

	Non–credit impaired				Credit–impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2020	**4,270,104**	**(8,575)**	**109,916**	**(6,297)**	**136,508**	**(32,403)**	**4,516,528**	**(47,275)**
Transfers of financial instruments:	**(272,538)**	**(88)**	**256,517**	**(429)**	**16,021**	**517**	**–**	**–**
– transfers from Stage 1 to Stage 2	**(278,554)**	**1,459**	**278,554**	**(1,459)**	**–**	**–**	**–**	**–**
– transfers from Stage 2 to Stage 1	**17,584**	**(990)**	**(17,584)**	**990**	**–**	**–**	**–**	**–**
– transfers from Stage 3	**4,749**	**(580)**	**4,650**	**(535)**	**(9,399)**	**1,115**	**–**	**–**
– transfers to Stage 3	**(16,317)**	**23**	**(9,103)**	**575**	**25,420**	**(598)**	**–**	**–**
Net remeasurement of ECL arising from stage transfers	**–**	**1,411**	**–**	**(4,508)**	**–**	**(2,812)**	**–**	**(5,909)**
Changes in risk parameters	**–**	**(3,152)**	**–**	**(2,199)**	**–**	**–**	**–**	**(5,351)**
Net new and further lending/ repayments	**(184,975)**	**773**	**122,617**	**1,791**	**(10,592)**	**(510)**	**(72,950)**	**2,054**
Assets written off	**–**	**–**	**–**	**–**	**(1,185)**	**1,185**	**(1,185)**	**1,185**
At 30 Jun 2020	**3,812,591**	**(9,631)**	**489,050**	**(11,642)**	**140,752**	**(34,023)**	**4,442,393**	**(55,296)**
ECL charge for the period								**(8,021)**
Recoveries								**432**
Other								**614**
Change in expected credit losses for the period								**(6,975)**
Assets written off								**(1,185)**
Change in expected credit losses and other credit impairment charges								**(8,160)**

	At 30 Jun 2020		6 months ended 30 Jun 2020
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	**4,442,393**	**(55,296)**	**(8,160)**
Balances at central banks	**438,153**	**(270)**	**(251)**
Loans and advances to banks measured at amortised cost	**658,603**	**(43)**	**(42)**
Items in course of collection	**6,113**	**–**	**–**
Other accrued interest on debt instruments	**6,399**		**–**
Loan and other credit related commitments – banks	**20,000**	**–**	**–**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	**5,571,661**	**(55,609)**	**(8,453)**
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	**1,175,588**	**(255)**	**(223)**
Total allowance for ECL/total income statement ECL charge for the period	**N/A**	**(55,864)**	**(8,676)**

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

	Non–credit impaired				Credit–impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 Jan 2019	4,330,999	(9,165)	278,942	(7,462)	162,269	(36,207)	4,772,210	(52,834)
Transfers of financial instruments:	95,395	(1,608)	(105,320)	1,526	9,925	82	—	—
– transfers from Stage 1 to Stage 2	(39,019)	483	39,019	(483)	—	—	—	—
– transfers from Stage 2 to Stage 1	138,775	(1,800)	(138,775)	1,800	—	—	—	—
– transfers from Stage 3	5,385	(345)	3,297	(292)	(8,682)	637	—	—
– transfers to Stage 3	(9,746)	54	(8,861)	501	18,607	(555)	—	—
Net remeasurement of ECL arising from stage transfers	—	1,375	—	(1,097)	—	(2,871)	—	(2,593)
Changes in risk parameters	—	(75)	—	(90)	—	(2,223)	—	(2,388)
Net new and further lending/ repayments	(156,290)	898	(63,706)	826	(27,348)	478	(247,344)	2,202
Assets written off	—	—	—	—	(8,338)	8,338	(8,338)	8,338
At 31 Dec 2019	4,270,104	(8,575)	109,916	(6,297)	136,508	(32,403)	4,516,528	(47,275)
ECL release for the period								5,559
Recoveries								1,233
Other								1,184
Change in expected credit losses for the year								7,976
Assets written off								(8,338)
Change in expected credit losses and other credit impairment charges								(362)

	At 31 Dec 2019		12 months ended 31 Dec 2019
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	4,516,528	(47,275)	(362)
Balances at central banks	426,741	(19)	(18)
Loans and advances to banks measured at amortised cost	672,953	(1)	2
Items in course of collection	3,436	—	—
Other accrued interest on debt instruments	5,696	—	—
Loan and other credit related commitments – banks	34,522	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	5,659,876	(47,295)	(378)
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,070,648	(32)	(11)
Total allowance for ECL/total income statement ECL charge for the period	N/A	(47,327)	(389)

The above disclosure provides a reconciliation by stage of the bank's gross carrying/nominal amount and allowances for loans and advances to customers, including loan and other credit-related commitments, acceptances, accrued income and financial guarantees and similar contracts.

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease due to these transfers, for example, moving from a 12-month (Stage 1) to a lifetime (Stage 2) ECL measurement basis.

The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated ECL impact from volume movements.

4 Segmental analysis

Class of business

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by global businesses.

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

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

The local group's internal reporting to the Board of Directors and Senior Management is analysed according to these business lines on the basis of adjusted performance that removes the effects of significant items from reported results as required by IFRSs. For each of the businesses, the Senior Management, in particular the Chief Executive Officer, as chief operating decision-maker, reviews internal management reports in order to make decisions about allocating resources and assessing performance.

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

Effective from June 2020, the following realignments were effected within segmental reporting:

- Retail Banking and Wealth Management ('RBWM') is now referred to as Wealth and Personal Banking ('WPB') following Group's simplification of its organisational structure by merging Global Private Banking ('GPB') and RBWM; and
- reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data have been re-presented accordingly.

	Wealth and Personal Banking		Commercial Banking		Global Markets		Group total	
	Half-year to							
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019	**30 Jun 2020**	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Net operating income before changes in expected credit losses	**37,945**	50,200	**22,194**	21,970	**1,411**	1,286	**61,550**	73,456
external	**36,859**	48,419	**23,280**	23,751	**1,411**	1,286	**61,550**	73,456
inter-segment	**1,086**	1,781	**(1,086)**	(1,781)	**—**	—	**—**	—
of which: net interest income	***37,875***	*37,825*	***15,601***	*15,775*	**—**	—	***53,476***	*53,600*
Change in expected credit losses and other credit impairment charges	**(5,668)**	141	**(3,008)**	895	**—**	—	**(8,676)**	1,036
Net operating income	**32,277**	50,341	**19,186**	22,865	**1,411**	1,286	**52,874**	74,492
Total operating expenses	**(38,313)**	(38,684)	**(12,408)**	(14,386)	**(341)**	(483)	**(51,062)**	(53,553)
Reported profit before tax	**(6,036)**	11,657	**6,778**	8,479	**1,070**	803	**1,812**	20,939

	30 Jun 2020	31 Dec 2019	**30 Jun 2020**	31 Dec 2019	**30 Jun 2020**	31 Dec 2019	**30 Jun 2020**	31 Dec 2019
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Reported balance sheet data								
Loans and advances to customers (net)	**2,262,974**	2,260,219	**1,026,781**	997,214	**—**	—	**3,289,755**	3,257,433
Total external assets	**4,908,313**	4,849,997	**1,686,556**	1,641,808	**5,589**	5,812	**6,600,458**	6,497,617
Customer accounts	**4,112,207**	3,925,037	**1,032,494**	1,051,543	**—**	—	**5,144,701**	4,976,580

5 Fair value of financial and non-financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table sets out the fair values of financial assets and liabilities as at the reporting date.

Fair values are determined according to the following hierarchy:

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

The valuation techniques utilised in preparing these interim condensed financial statements are consistent with those applied in the preparation of financial statements for the year ended 31 December 2019. There were no transfers between levels of the fair value hierarchy during the period under review.

Financial assets and liabilities carried at fair value and basis of valuation

	Quoted market price Level 1	Valuation techniques: Using observable inputs Level 2	Valuation techniques: With significant unobservable inputs Level 3	Total
	€000	€000	€000	€000
Group				
At 30 Jun 2020				
Assets				
Treasury Bills	**—**	**240,988**	**—**	**240,988**
Held for trading derivatives	**—**	**5,060**	**—**	**5,060**
Financial assets mandatorily measured at fair value through profit or loss	**693,725**	**3,629**	**10,835**	**708,189**
Financial investments	**934,600**	**—**	**33**	**934,633**
	1,628,325	**249,677**	**10,868**	**1,888,870**
Liabilities				
Held for trading derivatives	**—**	**5,016**	**—**	**5,016**
Liabilities under investment contracts	**162,862**	**—**	**—**	**162,862**
	162,862	**5,016**	**—**	**167,878**
At 31 Dec 2019				
Assets				
Treasury Bills	—	127,075	—	127,075
Held for trading derivatives	—	5,320	—	5,320
Financial assets mandatorily measured at fair value through profit or loss	738,180	4,461	11,379	754,020
Financial investments	943,573	—	30	943,603
	1,681,753	136,856	11,409	1,830,018
Liabilities				
Held for trading derivatives	—	5,190	—	5,190
Liabilities under investment contracts	182,496	893	317	183,706
	182,496	6,083	317	188,896
Bank				
At 30 Jun 2020				
Assets				
Treasury Bills	**—**	**240,988**	**—**	**240,988**
Held for trading derivatives	**—**	**5,060**	**—**	**5,060**
Financial assets mandatorily measured at fair value through profit or loss	**—**	**—**	**4,475**	**4,475**
Financial investments	**934,600**	**—**	**31**	**934,631**
	934,600	**246,048**	**4,506**	**1,185,154**
Liabilities				
Held for trading derivatives	**—**	**5,016**	**—**	**5,016**
	—	**5,016**	**—**	**5,016**
At 31 Dec 2019				
Assets				
Treasury Bills	—	127,075	—	127,075
Held for trading derivatives	—	5,320	—	5,320
Financial assets mandatorily measured at fair value through profit or loss	—	—	4,507	4,507
Financial investments	943,573	—	28	943,601
	943,573	132,395	4,535	1,080,503
Liabilities				
Held for trading derivatives	—	5,190	—	5,190
	—	5,190	—	5,190

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 Financial assets mandatorily measured at fair value through profit or loss

	Group		Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
At 1 Jan	**11,379**	8,153	**4,507**	—
Additions	**31**	—	**—**	—
Disposal of assets	**(142)**	(206)	**—**	—
Losses recognised in profit or loss	**(433)**	(105)	**(32)**	—
At 30 Jun	**10,835**	7,842	**4,475**	—

(a) Financial assets mandatorily measured at fair value through profit or loss

The financial assets mandatorily measured at fair value through profit or loss categorised within Level 3 comprise of preferred stock of Visa Inc., which were received by the bank in 2016 in exchange for its membership interest in Visa Europe Limited, as part of a transaction in which Visa Europe Limited was acquired by Visa Inc. and holding of units in collective investment schemes, mainly in a European Mid-Market Debt Fund. The European Mid-Market Debt Fund consists of predominantly senior debt to European mid-market companies concentrating on primary market transactions, within Western Europe, focusing on the largest economies.

In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the preferred stock is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; or the price at which similar companies have changed ownership.

There has been no change to the key unobservable inputs to Level 3 financial instruments as disclosed in the bank's *Annual Report and Accounts of 2019*.

(b) Financial investments

These investments consist of shares in unlisted companies, which have illiquid price sources. In view of no quoted market or observable inputs for modelling their value, the fair value of the shares held is derived using the net asset value of the respective companies as reported in the latest available financial statements.

Any changes in the unobservable inputs of both classes of financial assets categorised in Level 3 are not considered to result in significantly higher or lower fair value measurement, given that the amounts invested are considered to be immaterial.

(c) Non-financial instruments at fair value

The local group's land and buildings, within property, plant and equipment, comprise commercial branches, bank offices and other operational premises. Investment property comprises commercial property leased out as offices to third parties including the local group's intermediate parent. All the recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

	Group		Bank	
	30 Jun 2020	31 Dec 2019	**30 Jun 2020**	31 Dec 2019
	€000	€000	**€000**	€000
Assets				
Property	**38,069**	38,186	**38,069**	38,186
Investment property	**9,595**	9,788	**7,595**	7,589
	47,664	47,974	**45,664**	45,775

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

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

Fair value of financial assets and liabilities not carried at fair value

Certain financial assets and liabilities are either carried at amortised cost or cost less impairment. The fair value of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of the fair value because these are either re-priced to current market rates frequently or are short term in nature.

The following table sets out the carrying amounts and fair value of financial assets and liabilities not carried at fair value:

	Group		Bank	
	30 Jun 2020	31 Dec 2019	**30 Jun 2020**	31 Dec 2019
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta and cash	**461,010**	458,997	**461,010**	458,997
Items in the course of collection from other banks	**6,113**	3,436	**6,113**	3,436
Loans and advance to banks	**663,771**	676,031	**658,560**	672,952
Loans and advance to customers	**3,289,755**	3,257,433	**3,289,755**	3,257,433
Accrued interest	**21,738**	21,723	**19,079**	18,858
Other assets	**13,578**	10,247	**13,395**	10,262
	4,455,965	4,427,867	**4,447,912**	4,421,938
Liabilities				
Deposits by banks	**7,612**	840	**7,612**	840
Customer accounts	**5,144,701**	4,976,580	**5,181,944**	5,026,066
Subordinated liabilities	**62,000**	62,000	**62,000**	62,000
Accrued interest	**2,805**	3,397	**2,616**	3,163
Other liabilities	**34,521**	59,530	**30,444**	55,960
	5,251,639	5,102,347	**5,284,616**	5,148,029

6 Asset encumbrance

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

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Group		Bank	
	30 Jun 2020	31 Dec 2019	**30 Jun 2020**	31 Dec 2019
	€000	€000	**€000**	€000
Total assets	**6,600,458**	6,497,617	**5,770,449**	5,636,934
Less:				
Assets pledged against the provision of credit lines by Central Bank of Malta				
– debt securities	**142,783**	60,974	**142,783**	60,974
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	**21,618**	21,941	**21,618**	21,941
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,053**	896	**1,053**	896
Less:				
Other assets that cannot be pledged as collateral	**987,211**	1,011,966	**165,257**	157,215
Assets available to support funding and collateral needs	**5,447,793**	5,401,840	**5,439,738**	5,395,908

The local group does not encumber any of the collateral received or any of its own debt securities issued.

As at 30 June 2020, the local group did not have any outstanding liabilities associated with encumbered assets and collateral received.

The bank undertakes the following types of encumbrance:

- Pledging of debt securities against the provision of credit lines by the Central Bank of Malta;
- Pledging of debt securities in favour of the Depositor Compensation Scheme; and
- Pledging of cash in favour of the Recovery and Resolution Regulations.

7 Covid-19

In the first half of 2020, we continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity. This included our continuing focus on the needs of vulnerable customers in our product and process design.

The Covid-19 pandemic has significantly impacted our lives and disrupted business operations. We have had to adapt quickly to new ways of working and adopt innovative practices to operate in an evolving and uncertain environment to meet and exceed our customers' expectations.

We developed a number of digital enhancements to support the ongoing delivery of fair outcomes for our customers in different markets. This included the launch of an online on boarding journey for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users, to ensure we continue to provide services and products to our customers securely when there is limited access to branches.

As part of our corporate social responsibility we supported NGOs that were on the front line helping those hit by Covid-19.

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

Supporting our stakeholders

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

Our stakeholders	How we have engaged
Communities	The bank donated Eur 43,000 via the HSBC Malta Foundation to four NGOs (Caritas, Food Bank Lifeline Foundation, Malta Trust Foundation and Richmond Foundation) that are aiding the most vulnerable in society and whose lives have been further complicated by the Covid-19 emergency. Other initiatives included online financial literacy talks to support our future generation as well as participation by our CMB customers during a webinar organised by the Group on Sustainable Finance post Covid-19 economic recovery.
Customers	Covid-19 has posed significant challenges for retail and business banking customers. Our immediate priority is to do what we can to provide them with support and flexibility. This has included offering payment holidays and restructuring mortgage payments, as well as extending relief loans or temporary credit limit increases for borrowers. Under our borrowing programmes, we have provided payment moratoria to retail customers and commercial banking customers who hold a mortgage or loan with us (refer to tables on pages 30 to 31 for details). We are providing facilities to support our commercial banking customers through both Malta Development Bank backed schemes and HSBC relief initiatives, as well as helping them to navigate the current environment. We have taken steps to keep five of our principal branches open throughout the pandemic while protecting customers and employees. We are currently providing service to customers through 9 branches. But with many customers doing more of their banking online, we have also deployed new technology to enable them to engage with us in new ways including introduction of an online on boarding journey for retail customers and launch of Virtual Assistant and Live Chat for commercial customers.
Employees	We maintained a high level of business continuity and we now have over 80% of colleagues enabled to work from the safety of their home if needed. We have provided new and enhanced well-being support to employees during this challenging time. We have conducted eight sessions with Richmond Foundation dedicated to working parents, specific groups of employees and open sessions for all employees to provide mental health and well-being support during the Covid-19 peak. We have encouraged a culture of looking out for each other. We have also conducted several check-in sessions by management teams to employees across the bank. We organised several social events driven by Human Resources, Corporate Sustainability and the Sports and Social committee of the bank. We have also developed a Shared Portal for our employees to remain informed and connected during this challenging period. As we enter in a new normal, we are now resuming a level of business as usual ensuring that we continue to safeguard the health and safety of our employees. Listening to employees is vital to ensure we provide the right support. More than 500 employees responded to our employee survey helping us understand how Covid-19 is impacting them and their thoughts about the future. Overall, 90% of people said they were receiving the information they needed and 85% believe that the organisation cares about their well-being. We continue to use this data and insight to shape our well-being strategy.
Investors	We are grateful for the constructive engagement that we have with our shareholders. The Board particularly values its face-to-face interactions with shareholders at the Annual General Meeting ('AGM'). Unfortunately, following the introduction of social distancing measures and restrictions on public gatherings, the 2020 AGM was postponed. In line with a recommendation by the European Central Bank , the bank will not be paying any dividend at least until January 2021. The recommendation requires all eurozone banks not to make dividend payments at this time, irrespective of the strength of their own capital positions. This is to ensure that the banking system as a whole deploys capital in support of the economy.
Regulators and Governments	We have proactively engaged with regulators and standard setters locally regarding the numerous policy changes issued in response to the pandemic to help our customers, to contribute to normalisation and recovery, and to manage the operational capacity at both banks and regulators. We have continued to uphold our standards, track and document any changes and maintained our transparency with regulators. We have also engaged extensively with regulators and the central bank in pursuit of their supervisory objectives and other activities aimed at maintaining the health of the economy, the stability of the financial system and the safety and soundness of individual financial institutions.

Risk to our operations due to Covid-19

Restrictions on mobility implemented by the Maltese government to limit the spread of Covid-19 resulted in a sharp contraction in economic activity in the first half of this year. While economic activity is expected to recover in the second half of the year, there is significant uncertainty associated with the pace and scale of resumption. As a result, 2020 is expected to reflect a severe recession, with strong recovery in economic activity expected in 2021 – albeit that this is contingent on successful containment of the virus. While activity may display a recovery in 2021, the labour market may display signs for weakness for a longer period.

In response to the crisis, the Maltese Government and Central Bank of Malta have deployed extensive measures to support households and corporates. Measures implemented by the Maltese Government include income support to households and funding support to corporates, while measures taken by the Central Bank of Malta include support to funding markets. These measures are expected to be unwound gradually as restrictions on mobility ease and as activity increases.

At bank level, we have initiated market-specific measures to support our personal and business customers through these challenging times, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. These measures have been well received and we remain responsive to our customers' changing needs. For details of our customer relief programs see tables on pages 30 to 31.

The outbreak has led to a weakening in Maltese GDP, a key input used for calculating expected credit losses and other credit impairment charges ('ECL'), and the probability of a more adverse economic scenario for at least the short term is substantially higher than at 31 December 2019. The impact will vary by sectors of the economy, with heightened risk to the tourism and hotels, restaurants and catering industries, as well as discretionary consumer sectors, being observed in the first stages of the outbreak. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured by ECL modelling techniques.

The Covid-19 crisis has resulted in the unprecedented movement in economic and market drivers, changes in retail and wholesale behaviours and a dramatic increase in government support programmes for businesses and consumers. All of these factors dramatically impact the performance of financial models including retail and wholesale credit models including IFRS loss models, capital models, traded risk models and models used in the asset/liability management processes. This has required more ongoing monitoring and more frequent testing of models across the bank particularly for credit models. It also has resulted in the use of compensating controls for some models, such as overlays and overrides on top of model outputs to help protect the bank from unwanted risks. The performance and usage of models over the next 12-18 months will continue to be impacted significantly by the consequences of Covid-19. It is too early in the current situation to be entirely certain of the magnitude of change required for the bank's models. However, it is likely that capital, credit risk and IFSR9 models will need to be recalibrated or in some cases may need to be replaced with the development of new models. The effectiveness of these models will depend in large part on the depth and length of the economic downturn currently faced.

The risk of damage or theft to the bank's physical assets or criminal injury to our employees remains unchanged; no significant incidents have impacted our buildings or staff. Expedited decisions to ensure the continuity of critical customer services are being documented through governance.

It remains unclear how this will evolve through 2020 and we continue to monitor the situation closely. Given the novel or prolonged nature of the current crisis, additional mitigating actions may be required.

At bank level, Covid-19 has had a wide ranging impact across the risk profile of HSBC Malta p.l.c, from operational – where a work from home model had to be put in place at short notice – to strategic – where the sudden halting to the economy has had an impact on the bank's ability to achieve its annual operating plan, with impacts at both revenue (due to slowing growth initiatives) and profit before tax (due to increases in expected credit losses) levels.

In response to this, the bank has:

- successfully implemented business continuity plans, where despite high levels of working from home, the majority of service standards are being maintained;
- managed the operational impacts via Major Incident Group calls (initially daily, currently bi-weekly). Where required, enhanced controls on higher risk operations (such as payment processing, global markets trading) have been implemented and monitored;
- reviewed and enhanced stress testing across all lines of business, with the results of these being factored into the outlook for the remainder of the year;
- reviewed the outputs of models used: Credit models, in determining customer risk ratings; expected credit loss models, to ensure that loss forecasts include the most up-to-date factors.

8 Dividends

Following the European Central Bank's recommendation (ECB/2020/35) published on 27 July 2020, which inter alia recommends that until 1 January 2021 no dividends are paid out and no irrevocable commitment to pay out dividends is undertaken by credit institutions for the financial years 2019 and 2020, the Board reviewed the position regarding the payment of the dividend for the year 2019.

In view of the said European Central Bank's recommendation, the Board has decided to withdraw its recommendation for the declaration of a final dividend for the year 2019 made on 18 February 2020 and no interim dividend is being declared.

Additional regulatory disclosures

Regulatory framework for disclosures

HSBC Bank Malta p.l.c. is supervised on a consolidated basis by the Joint Supervisory Team ('JST') which consists of representatives from the Malta Financial Services Authority ('MFSA') and European Central Bank ('ECB'). The two regulatory bodies receive information on the capital adequacy requirements and set capital requirements for HSBC Bank Malta p.l.c. as an entity. At a consolidated Group level, capital is calculated for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('Basel'), as implemented by the European Union ('EU') in the revisions to the Capital Requirements Regulation.

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

Pillar 3 disclosures

HSBC Bank Malta p.l.c. publishes its full Pillar 3 Disclosures in the *Annual Report and Accounts 2019*. For the interim reporting at 30 June 2020 disclosures include Own Funds, Leverage Ratios, Net Value Of Exposures and Overview of risk weighted assets ('RWAs'). These disclosures comprise quantitative and qualitative information in accordance with Part Eight of the Capital Requirements Regulation, as implemented by CRR II and the European Banking Authority ('EBA') guidelines on disclosure requirements.

The Pillar 3 disclosures are governed by the Group's disclosure policy framework. To give insight into movements during the period, we provide comparative figures, commentary of variances and flow tables for capital requirements. In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk weighted assets by article 92 of the Capital Requirements Regulation. Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to our activities, we omit them and follow the same approach for comparative disclosures. Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the Interim Report 2020 or to other locations.

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU.

Capital and RWAs

Capital management

Approach and policy

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital base to support the risks inherent in our business and invest in accordance with our strategy, meeting local regulatory capital requirements at all times.

HSBC Bank Malta p.l.c.'s capital management process culminates in the annual capital plan, which is approved by the Board.

Table 1: Own funds disclosure

Ref		Ref[2]	At 30 Jun 2020 €000	At 31 Dec 2019 €000
	Common equity tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**108,092**	108,092
	– *of which: ordinary shares*		***108,092***	*108,092*
2	Retained earnings	*1*	**274,460**	275,759
3	Accumulated other comprehensive income (and other reserves)		**29,606**	32,202
3a	Funds for general banking risk (related to BR09)		**6,209**	6,209
6	**Common equity tier 1 capital before regulatory adjustments**		**418,367**	422,262
	Common equity tier 1 capital: regulatory adjustments			
7	Additional valuation adjustments	*2*	**(1,083)**	(1,085)
8	Intangible assets (net of related deferred tax liability)		**(12,101)**	(10,193)
9a	IFRS 9 transitional adjustments		**5,634**	6,841
9b	Other		**(1,053)**	(896)
26a	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR		**(21,921)**	(21,921)
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**		**(30,524)**	(27,254)
29	**Common equity tier 1 (CET1) capital**		**387,843**	395,008
51	**Tier 2 (T2) capital before regulatory adjustments**		**62,000**	62,000
57	**Total regulatory adjustments to tier 2 (T2) capital**		**—**	—
58	**Tier 2 (T2) capital**		**62,000**	62,000
59	**Total capital (TC = T1 + T2)**		**449,843**	457,008
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment			
	– *of which: Items not deducted from CET1: direct holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*		***28,578***	*28,578*
	– *of which: Items not deducted from CET1: deferred tax assets arising from temporary differences*		***24,089***	*22,427*
60	**Total risk-weighted assets**		**2,334,829**	2,403,621
	Capital ratios and buffers			
61	Common equity tier 1		**16.6%**	16.4%
62	Tier 1		**16.6%**	16.4%
63	Total capital		**19.3%**	19.0%
64	Institution specific buffer requirement		**8.5%**	8.5%
65	– *of which: capital conservation buffer requirement*		***2.5%***	*2.5%*
66	– *of which: counter cyclical buffer requirement*		***0.0%***	*0.0%*
67	– *of which: systemic risk buffer requirement*	*3*	***0.0%***	*0.0%*
67a	– *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*		***1.5%***	*1.5%*
68	Common equity tier 1 available to meet buffers	*4*	**8.6%**	8.4%
	Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**24,089**	22,427

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 and part of profit not eligible according to Article 26(2) of CRR (i.e. profits not audited and foreseeable charges or dividends).
2 Additional value adjustments are deducted from CET1. These are calculated on all assets measured at fair value.
3 The bank does not have any systemic risk buffer as at 30 June 2020.
4 Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total weighted on and off balance sheet exposures, and further netting possibilities on market instruments. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. Although there is currently no binding leverage ratio requirement on the Bank, the risk of excess leverage is managed as part of the bank's appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

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

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

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

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

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

Table 2: Leverage ratio common disclosure

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**€000**	€000
	On balance sheet exposures (excluding derivatives)		
1	On balance sheet items (excluding derivatives)	**5,768,994**	5,616,939
2	Assets deducted in determining Tier 1 capital	**(30,524)**	(27,254)
3	**Total on balance sheet exposures (excluding derivatives and SFTs**)**	**5,738,470**	5,589,685
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**5,060**	5,320
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**5,386**	5,016
11	**Total derivative exposures**	**10,446**	10,336
	Other Off-Balance Sheet exposures		
17	Off balance sheet exposures at gross notional amount	**1,041,259**	1,161,404
18	Adjustments for conversion to credit equivalent amounts	**(868,659)**	(943,172)
19	**Total other off balance sheet exposures**	**172,600**	218,232
	Capital and total exposures		
20	**Tier 1 capital**	**387,843**	395,008
21	**Total leverage ratio exposure**	**5,921,516**	5,818,253
	Leverage ratios		
22	Leverage ratio (%) – transitional	**6.5**	6.8

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

Table 3: Summary reconciliation of accounting assets and leverage ratio exposures

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**€000**	€000
1	Total assets as per published financial statements	**6,600,458**	6,497,617
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(831,688)**	(862,374)
4	– derivative financial instruments	**5,386**	5,016
6	– off balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	**172,600**	218,232
7	– other adjustments	**(25,240)**	(40,238)
8	**Total leverage ratio exposure**	**5,921,516**	5,818,253

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

Table 4: Leverage ratio – Split of on balance sheet exposures (excluding derivatives and exempted exposures)

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**€000**	€000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**5,768,994**	5,616,939
EU-5	exposures treated as sovereigns	**1,188,188**	1,203,506
EU-6	exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities not treated as sovereigns	**591,404**	491,371
EU-7	institutions	**658,927**	666,281
EU-8	secured by mortgages of immovable properties	**2,197,047**	1,973,310
EU-9	retail exposures	**270,519**	419,071
EU-10	corporate	**579,109**	584,108
EU-11	exposures in default	**101,766**	91,836
EU-12	other exposures (e.g. equity and other non-credit obligation assets)	**182,034**	187,456

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

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Bank Malta p.l.c.
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	For consolidated Group reporting, we have adopted the standardised approach for our business in accordance with Article 317. Under the standardised approach the local group utilises risk weights determined by exposure class, credit risk mitigation and credit ratings as outlined in the CRR.
Counterparty credit risk	Four approaches to calculating CCR and determining exposure values are defined by the Basel Committee: mark-to-market, original exposure, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, foundation IRB or advanced IRB.	We use the mark-to-market approach to calculate to CCR exposure value as defined in Article 274 of the Capital Requirements Regulation.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For reporting purposes, all non-trading book equity exposures are treated under the standardised approach.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA').	The market risk capital requirement is measured using the standard rules.
Operational risk	The Basel Committee allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We currently use the standardised approach in determining our operational risk capital requirement.

Table 5: Overview of RWAs (OV1)

		Risk-weighted assets	**Minimum capital requirements** [1]	Risk-weighted assets	Minimum capital requirements [1]
		30 Jun 2020	**30 Jun 2020**	31 Dec 2019	31 Dec 2019
		€000	**€000**	€000	€000
1	Credit risk (excluding CCR)	**1,948,348**	**155,868**	2,020,304	161,624
2	– *of which: the standardised approach*	***1,948,348***	***155,868***	*2,020,304*	*161,624*
6	CCR	**5,274**	**422**	5,828	466
7	– *of which: mark to market*	***5,274***	***422***	*5,828*	*466*
19	Market risk	**23**	**2**	459	37
20	– *of which: the standardised approach*	***23***	***2***	*459*	*37*
23	Operational risk	**249,517**	**19,961**	249,517	19,961
24	– *of which: standardised approach*	***249,517***	***19,961***	*249,517*	*19,961*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**131,667**	**10,534**	127,513	10,202
29	**Total**	**2,334,829**	**186,787**	2,403,621	192,290

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

Table 6: Net value of exposure

	Group		
	30 Jun 2020		
	Net value of exposure	**Risk-weighted assets**	**Capital Required**
	€000	**€000**	**€000**
Central governments or central banks	**1,201,872**	**60,222**	**4,818**
Public sector entities	**357,821**	**38**	**3**
Multilateral development banks	**244,187**	**—**	**—**
International Organisations	**16,137**	**—**	**—**
Institutions	**697,622**	**212,566**	**17,005**
Corporates	**1,157,953**	**475,899**	**38,072**
Retail exposures	**712,784**	**200,882**	**16,071**
Secured by mortgages on immovable property	**2,197,047**	**804,857**	**64,389**
Exposures in default	**108,095**	**109,598**	**8,768**
Items associated with particularly high risk	**48,999**	**69,668**	**5,573**
Equity exposures	**33**	**33**	**3**
Other items	**136,677**	**151,526**	**12,122**
Credit risk	**6,879,227**	**2,085,289**	**166,824**
Operational risk		**249,517**	**19,961**
Foreign exchange risk		**23**	**2**
Total		**2,334,829**	**186,787**
Own funds			
Common Equity Tier 1			**387,843**
Tier 2			**62,000**
Total own funds			**449,843**
Total capital ratio			**19.3%**
	31 Dec 2019		
Central governments or central banks	1,250,635	56,068	4,485
Public sector entities	245,418	0	0
Multilateral development banks	239,821	0	0
International Organisations	16,173	0	0
Institutions	713,722	216,004	17,280
Corporates	1,158,091	540,769	43,262
Retail exposures	960,725	311,928	24,954
Secured by mortgages on immovable property	1,973,310	702,020	56,162
Exposures in default	97,008	103,952	8,316
Items associated with particularly high risk	53,182	68,321	5,466
Equity exposures	4,537	4,537	363
Other items	142,204	150,046	12,004
Credit risk	6,854,826	2,153,645	172,292
Operational risk		249,517	19,961
Foreign exchange risk		459	37
Total		2,403,621	192,290
Own funds			
Common Equity Tier 1			395,008
Tier 2			62,000
Total own funds			457,008
Total capital ratio			19.0%

Non-performing and forborne exposures

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

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

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

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

Table 7: Credit quality of forborne exposures

		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
1	**Loans and advances**	**23,667**	**73,040**	***73,040***	***73,040***	**(2,517)**	**(18,445)**	**79,820**	***56,336***
5	Other financial corporations	**—**	**512**	***512***	***512***	**—**	**(137)**	**423**	***423***
6	Non-financial corporations	**8,454**	**43,511**	***43,511***	***43,511***	**(1,102)**	**(14,592)**	**35,816**	***27,541***
7	Households	**15,213**	**29,017**	***29,017***	***29,017***	**(1,415)**	**(3,716)**	**43,581**	***28,372***
10	**Total at 30 June 2020**	**23,667**	**73,040**	***73,040***	***73,040***	**(2,517)**	**(18,445)**	**79,820**	***56,336***
1	Loans and advances	22,842	64,505	*64,505*	*64,505*	(2,287)	(16,309)	70,080	*42,776*
5	Other financial corporations	—	186	*186*	*186*	—	—	186	*186*
6	Non-financial corporations	8,514	49,559	*49,559*	*49,559*	(1,115)	(14,361)	41,606	*29,135*
7	Households	14,328	14,760	*14,760*	*14,760*	(1,172)	(1,948)	28,288	*13,455*
10	Total at 31 Dec 2019	22,842	64,505	*64,505*	*64,505*	(2,287)	(16,309)	70,080	*42,776*

The table below provides information on the value of the collateral obtained by taking possession. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet whilst the accumulated negative changes is the accumulated impairment or negative change on the initial recognition value of the collateral obtained by taking possession including amortisation in the case of PP&E and investment properties.

Table 8: Collateral obtained by taking possession and execution processes

		At 30 Jun 2020		At 31 Dec 2019	
		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
1	Property, plant and equipment (PP&E)	**—**	**—**	—	—
2	**Other than PP&E**	**4,913**	**(86)**	5,303	(97)
3	Residential immovable property	**1,676**	**(59)**	2,066	(69)
4	Commercial Immovable property	**3,196**	**(8)**	3,196	(8)
7	Other	**41**	**(19)**	41	(20)
8	**Total**	**4,913**	**(86)**	5,303	(97)

Table 9 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 30 Jun 2020 was 2.80% calculated in line with the EBA guidelines.

Table 9: Credit quality of performing and non-performing exposures by past due days

		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*
1	**Loans and advances**	**4,315,683**	**4,307,449**	**8,234**	**124,321**	**52,572**	**11,315**	**13,017**	**15,657**	**17,252**	**8,751**	**5,757**	***124,321***
2	Central banks	**438,153**	**438,153**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
3	General governments	**137,025**	**137,025**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
4	Credit institutions	**664,716**	**664,716**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
5	Other financial corporations	**194,313**	**194,304**	**9**	**519**	**430**	**—**	**—**	**—**	**—**	**—**	**89**	***519***
6	Non-financial corporations	**699,717**	**699,556**	**161**	**53,172**	**14,573**	**520**	**8,466**	**11,933**	**10,367**	**4,752**	**2,561**	***53,172***
7	*Of which SMEs*	***439,973***	***439,819***	***154***	***51,661***	***14,546***	***520***	***8,466***	***11,933***	***10,103***	***4,703***	***1,390***	***51,661***
8	Households	**2,181,759**	**2,173,695**	**8,064**	**70,630**	**37,569**	**10,795**	**4,551**	**3,724**	**6,885**	**3,999**	**3,107**	***70,630***
9	**Debt securities**	**1,175,843**	**1,175,843**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
11	General governments	**916,563**	**916,563**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
12	Credit institutions	**259,280**	**259,280**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
15	**Off-balance-sheet exposures**	**1,099,828**	**1,099,828**	**—**	**2,904**	**2,904**	**—**	**—**	**—**	**—**	**—**	**—**	***2,904***
17	General governments	**26,759**	**26,759**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
18	Credit institutions	**33,637**	**33,637**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
19	Other financial corporations	**69,335**	**69,335**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
20	Non-financial corporations	**479,112**	**479,112**	**—**	**2,670**	**2,670**	**—**	**—**	**—**	**—**	**—**	**—**	***2,670***
21	Households	**490,985**	**490,985**	**—**	**234**	**234**	**—**	**—**	**—**	**—**	**—**	**—**	***234***
22	**Total at 30 Jun 2020**	**6,591,354**	**6,583,120**	**8,234**	**127,225**	**55,476**	**11,315**	**13,017**	**15,657**	**17,252**	**8,751**	**5,757**	***127,225***
1	Loans and advances	4,280,026	4,272,977	7,049	118,934	52,525	7,490	9,313	17,728	15,921	6,800	9,157	*118,934*
2	Central banks	426,741	426,741	—	—	—	—	—	—	—	—	—	*—*
3	General governments	126,170	126,170	—	—	—	—	—	—	—	—	—	*—*
4	Credit institutions	676,389	676,389	—	—	—	—	—	—	—	—	—	*—*
5	Other financial corporations	173,566	173,566	—	635	379	70	—	—	—	—	186	*635*
6	Non-financial corporations	696,692	696,417	275	58,725	20,289	2,243	5,223	13,579	8,763	3,270	5,358	*58,725*
7	*Of which SMEs*	*525,742*	*525,668*	*74*	*53,389*	*18,578*	*1,344*	*5,223*	*13,487*	*7,890*	*2,852*	*4,015*	*53,389*
8	Households	2,180,468	2,173,694	6,774	59,574	31,857	5,177	4,090	4,149	7,158	3,530	3,613	*59,574*
9	Debt securities	1,070,680	1,070,680	—	—	—	—	—	—	—	—	—	*—*
11	General governments	815,560	815,560	—	—	—	—	—	—	—	—	—	*—*
12	Credit institutions	255,120	255,120	—	—	—	—	—	—	—	—	—	*—*
15	Off-balance-sheet exposures	1,230,156	1,230,156	—	2,004	2,004	—	—	—	—	—	—	*2,004*
17	General governments	45,185	45,185	—	—	—	—	—	—	—	—	—	*—*
18	Credit institutions	43,087	43,087	—	—	—	—	—	—	—	—	—	*—*
19	Other financial corporations	42,795	42,795	—	—	—	—	—	—	—	—	—	*—*
20	Non-financial corporations	557,028	557,028	—	1,947	1,947	—	—	—	—	—	—	*1,947*
21	Households	542,061	542,061	—	57	57	—	—	—	—	—	—	*57*
22	Total at 31 Dec 2019	6,580,862	6,573,813	7,049	120,938	54,529	7,490	9,313	17,728	15,921	6,800	9,157	*120,938*

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

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

Table 10: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*
	At 30 Jun 2020						
1	**Loans and advances**	**4,315,683**	***4,056,933***	***258,750***	**124,321**	***—***	***124,321***
2	Central banks	**438,153**	***438,153***	***—***	**—**	***—***	***—***
3	General governments	**137,025**	***137,025***	***—***	**—**	***—***	***—***
4	Credit institutions	**664,716**	***664,716***	***—***	**—**	***—***	***—***
5	Other financial corporations	**194,313**	***132,817***	***61,496***	**519**	***—***	***519***
6	Non-financial corporations	**699,717**	***553,637***	***146,080***	**53,172**	***—***	***53,172***
7	*Of which SMEs*	***439,973***	***336,169***	***103,804***	***51,661***	***—***	***51,661***
8	Households	**2,181,759**	***2,130,585***	***51,174***	**70,630**	***—***	***70,630***
9	**Debt securities**	**1,175,843**	***1,175,843***	***—***	**—**	***—***	***—***
11	General governments	**916,563**	***916,563***	***—***	**—**	***—***	***—***
12	Credit institutions	**259,280**	***259,280***	***—***	**—**	***—***	***—***
15	**Off-balance-sheet exposures**	**1,099,828**	***871,014***	***228,814***	**2,904**	***—***	***2,904***
17	General governments	**26,759**	***25,825***	***934***	**—**	***—***	***—***
18	Credit institutions	**33,637**	***31,638***	***1,999***	**—**	***—***	***—***
19	Other financial corporations	**69,335**	***37,623***	***31,712***	**—**	***—***	***—***
20	Non-financial corporations	**479,112**	***296,310***	***182,802***	**2,670**	***—***	***2,670***
21	Households	**490,985**	***479,618***	***11,367***	**234**	***—***	***234***
22	**Total**	**6,591,354**	***6,103,790***	***487,564***	**127,225**	***—***	***127,225***

Table 10: Performing and non-performing exposures and related provisions (continued)

		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
		Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	On performing exposures	On non-performing exposures
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*			
		€000	***€000***	***€000***	**€000**	***€000***	***€000***	**€000**	**€000**	**€000**
	At 30 Jun 2020									
1	**Loans and advances**	**(20,333)**	***(9,021)***	***(11,312)***	**(25,005)**	**—**	***(25,005)***	**(12,612)**	**2,713,720**	**98,769**
2	Central banks	**(270)**	***(270)***	**—**	**—**	**—**	**—**	**—**	**—**	**—**
3	General governments	**(301)**	***(301)***	**—**	**—**	**—**	**—**	**—**	**137,025**	**—**
4	Credit institutions	**(43)**	***(43)***			**—**	**—**	**—**	**—**	**—**
5	Other financial corporations	**(2,200)**	***(1,132)***	***(1,068)***	**(139)**	**—**	***(139)***	**—**	**110,833**	**423**
6	Non-financial corporations	**(9,146)**	***(3,675)***	***(5,471)***	**(17,162)**	**—**	***(17,162)***	**(12,589)**	**401,780**	**30,119**
7	*Of which SMEs*	***(7,196)***	***(2,717)***	***(4,479)***	***(16,312)***	**—**	***(16,312)***	***(12,589)***	***309,652***	***29,455***
8	Households	**(8,373)**	***(3,600)***	***(4,773)***	**(7,704)**	**—**	***(7,704)***	**(23)**	**2,064,082**	**68,227**
9	**Debt securities**	**(255)**	***(255)***	**—**	**—**	**—**	**—**	**—**	**—**	**—**
11	General governments	**(79)**	***(79)***	**—**	**—**	**—**	**—**	**—**	**—**	**—**
12	Credit institutions	**(176)**	***(176)***	**—**	**—**	**—**	**—**	**—**	**—**	**—**
15	**Off-balance-sheet exposures**	**(1,253)**	***(923)***	***(330)***	**(341)**	**—**	***(341)***	**—**	**—**	**—**
17	General governments	**(16)**	***(16)***	**—**	**—**	**—**	**—**	**—**	**—**	**—**
18	Credit institutions	**(22)**	***(2)***	***(20)***	**—**	**—**	**—**	**—**	**—**	**—**
19	Other financial corporations	**(224)**	***(198)***	***(26)***	**—**	**—**	**—**	**—**	**—**	**—**
20	Non-financial corporations	**(940)**	***(656)***	***(284)***	**(341)**	**—**	***(341)***	**—**	**—**	**—**
21	Households	**(51)**	***(51)***	**—**	**—**	**—**	**—**	**—**	**—**	**—**
22	**Total**	**(21,841)**	***(10,199)***	***(11,642)***	**(25,346)**	**—**	***(25,346)***	**(12,612)**	**2,713,720**	**98,769**

Table 10: Performing and non-performing exposures and related provisions (continued)

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			of which: Stage 1	*of which: Stage 2*		*of which: Stage 2*	*of which: Stage 3*
		€000	*€000*	*€000*	€000	*€000*	*€000*
	At 31 Dec 2019						
1	Loans and advances	4,280,026	*4,197,792*	*82,234*	118,934	—	*118,934*
2	Central banks	426,741	*426,741*	—	—	—	—
3	General governments	126,170	*126,169*	*1*	—	—	—
4	Credit institutions	676,389	*676,389*	—	—	—	—
5	Other financial corporations	173,566	*172,301*	*1,265*	635	—	*635*
6	Non-financial corporations	696,692	*661,171*	*35,521*	58,725	—	*58,725*
7	*Of which SMEs*	*525,742*	*494,370*	*31,372*	53,389	—	*53,389*
8	Households	2,180,468	*2,135,021*	*45,447*	59,574	—	*59,574*
9	Debt securities	1,070,680	*1,070,680*	—	—	—	—
11	General governments	815,560	*815,560*	—	—	—	—
12	Credit institutions	255,120	*255,120*	—	—	—	—
15	Off-balance-sheet exposures	1,230,156	*1,202,826*	*27,330*	2,004	—	*2,004*
17	General governments	45,185	*45,180*	*5*	—	—	—
18	Credit institutions	43,087	*43,087*	—	—	—	—
19	Other financial corporations	42,795	*39,907*	*2,888*	—	—	—
20	Non-financial corporations	557,028	*536,846*	*20,182*	1,947	—	*1,947*
21	Households	542,061	*537,806*	*4,255*	57	—	*57*
22	Total	6,580,862	*6,471,298*	*109,564*	120,938	—	*120,938*

Table 10: Performing and non-performing exposures and related provisions (continued)

		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
		Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	On performing exposures	On non-performing exposures
		€000	€000	€000	€000	€000	€000	€000	€000	€000
	At 31 Dec 2019									
1	Loans and advances	(13,586)	(7,573)	(6,013)	(23,297)	—	(23,297)	(12,090)	2,555,216	90,079
2	Central banks	(19)	(19)	—	—	—	—	—	—	—
3	General governments	(33)	(33)	—	—	—	—	—	119,703	—
4	Credit institutions	(1)	(1)	—	—	—	—	—	—	—
5	Other financial corporations	(1,331)	(1,278)	(53)	(143)	—	(143)	—	—	186
6	Non-financial corporations	(7,097)	(4,577)	(2,520)	(16,746)	—	(16,746)	(12,086)	413,434	32,278
7	*Of which SMEs*	*(6,763)*	*(4,389)*	*(2,374)*	*(15,589)*	—	*(15,589)*	*(12,059)*	—	—
8	Households	(5,105)	(1,665)	(3,440)	(6,408)	—	(6,408)	(4)	2,022,079	57,615
9	Debt securities	(32)	(32)	—	—	—	—	—	—	—
11	General governments	(25)	(25)	—	—	—	—	—	—	—
12	Credit institutions	(7)	(7)	—	—	—	—	—	—	—
15	Off-balance-sheet exposures	(1,306)	(1,022)	(284)	(11)	—	(11)	—	—	—
17	General governments	(2)	(2)	—	—	—	—	—	—	—
18	Credit institutions	(1)	(1)	—	—	—	—	—	—	—
19	Other financial corporations	(106)	(101)	(5)	—	—	—	—	—	—
20	Non-financial corporations	(1,034)	(901)	(133)	(11)	—	(11)	—	—	—
21	Households	(163)	(17)	(146)	—	—	—	—	—	—
22	Total	(14,924)	(8,627)	(6,297)	(23,308)	—	(23,308)	(12,090)	2,555,216	90,079

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

Table 11: Information on loans and advances subject to EBA Compliant moratoria (legislative and non-legislative)

		Gross carrying amount						
			Performing			**Non performing**		
				Of which: exposures with forbearance measures	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***		***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
	At 30 Jun 2020	**€000**	**€000**	***€000***	***€000***	**€000**	***€000***	***€000***
1	Loans and advances subject to moratorium	**483,275**	**479,135**	***22***	***111,926***	**4,140**	***3,799***	***440***
2	*of which: Households*	***259,210***	***258,811***	***–***	***6,311***	***399***	***84***	***211***
3	*of which: Collateralised by residential immovable property*	***253,893***	***253,545***	***–***	***6,031***	***348***	***57***	***185***
4	*of which: Non-financial corporations*	***125,267***	***121,526***	***22***	***50,977***	***3,741***	***3,715***	***229***
5	*of which: Small and Medium-sized Enterprises*	***56,476***	***52,735***	***22***	***31,482***	***3,741***	***3,715***	***229***
6	*of which: Collateralised by commercial immovable property*	***47,066***	***43,729***	***–***	***16,010***	***3,337***	***3,337***	***149***

Table 11: Information on loans and advances subject to legislative and non-legislative moratoria (continued)

		Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing			
				Of which: exposures with forbearance measures	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*	Inflows to non-performing exposures
	At 30 Jun 2020	€000	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances subject to moratorium	(7,597)	(5,120)	(3)	(3,926)	(2,477)	(2,422)	(143)	265
2	*of which: Households*	*(695)*	*(666)*	*–*	*(353)*	*(29)*	*–*	*(18)*	*265*
3	*of which: Collateralised by residential immovable property*	*(622)*	*(613)*	*–*	*(315)*	*(9)*	*–*	*(2)*	*241*
4	*of which: Non-financial corporations*	*(5,553)*	*(3,105)*	*(3)*	*(2,532)*	*(2,448)*	*(2,422)*	*(124)*	*–*
5	*of which: Small and Medium-sized Enterprises*	*(4,397)*	*(1,949)*	*(3)*	*(1,677)*	*(2,448)*	*(2,422)*	*(124)*	*–*
6	*of which: Collateralised by commercial immovable property*	*(3,504)*	*(1,153)*	*–*	*(920)*	*(2,351)*	*(2,351)*	*(81)*	*–*

Table 12: Breakdown of loans and advances subject to EBA compliant moratoria (legislative and non-legislative) by residual maturity of moratoria

			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		*Of which: legislative moratoria*	*Of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
	At 30 Jun 2020		€000	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances for which moratorium was offered	1,944	490,025							
2	Loans and advances subject to moratorium (granted)	1,941	489,137	400,901	5,862	61,019	414,638	4,479	–	3,139
3	*of which: Households*		*259,444*	*259,444*	*234*	*25,743*	*229,381*	*4,086*	*–*	*–*
4	*of which: Collateralised by residential immovable property*		*254,073*	*254,073*	*180*	*25,080*	*224,775*	*4,038*	*–*	*–*
5	*of which: Non-financial corporations*		*130,895*	*66,910*	*5,628*	*34,956*	*86,779*	*393*	*–*	*3,139*
6	*of which: Small and Medium-sized Enterprises*		*62,104*	*30,106*	*5,628*	*17,170*	*35,774*	*393*	*–*	*3,139*
7	*of which: Collateralised by commercial immovable property*		*50,943*	*19,798*	*3,877*	*21,671*	*21,863*	*393*	*–*	*3,139*

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. confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme .This government-backed scheme provides banks with credit risk mitigation in respect of loans granted to eligible and viable businesses which may be experiencing cash flow and liquidity pressures resulting from the adverse business conditions following the Covid-19 outbreak. As at 30 June 2020, no loans were yet drawn down under the guarantee scheme.

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

I confirm that to the best of my knowledge:

- the interim condensed financial statements give a true and fair view of the financial position of the local group and the bank as at 30 June 2020, as well as of their financial performance and cash flows for the period then ended, in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and
- the Directors' Report includes a fair review of the information required under Listing Rule 5.81 to 5.84.

Simon Vaughan Johnson

Chief Executive Officer

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