COMPANY ANNOUNCEMENT

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

Quote:

During a meeting held on 31 July 2024, the Board of Directors of HSBC Bank Malta p.l.c. approved the attached interim condensed consolidated financial statements for both the Group and the Bank for the six-month financial period ended 30 June 2024.

31 July 2024

2024 Interim Results – Highlights

HSBC Bank Malta reported record half year profits reflecting revenue growth, investment in people and technology as well as strong credit quality of the loan book. A record profit performance of €78.6m in the first half of the year has enabled us to continue the trend of rewarding our shareholders with the highest interim dividend over the last 10 years. The Directors are recommending a gross interim dividend of 10 cents per share.

Financial performance

- Profit before tax increased by €19.3m to €78.6m, mainly driven by an increase in revenue due to the higher interest rate environment and higher credit recovery which was partially offset by higher costs as the bank continued to invest.
- Revenue increased by €21.5m or 20% driven by rising interest rates and a 34% increase in trading income. Progress was also reported in net fee income and income from the insurance subsidiary.
- A release of €7.0m was reported on expected credit losses ('ECL') in view of curing of non-performing loans and releases of overlays held by the bank in relation to inflationary pressures.
- Costs are €6.6m higher than the same period in 2023. This increase was largely driven by the investment in people, technology as well as the new headquarters in Qormi, 'HSBC Hub'.
- During the first six months, loans to customers and deposits were slightly lower than those reported at 31 December 2023.
- Profit attributable to shareholders of €50.7m for the six months ended 30 June 2024 resulted in earnings per share of 14.1 cents which compared favourably with 10.7 cents in the same period in 2023.
- An interim gross dividend of 10 cents per share is being recommended.
- Return on equity of 18.3% for the six months ended 30 June 2024 compared favourably with 16.2% for the same period in 2023.
- Cost efficiency ratio ('CER') improved to 43.9% from 46.6% in the same period last year as the increase in revenue outweighed the increase in costs.
- The bank maintained a strong liquidity and capital position as at 30 June 2024, with a Liquidity Coverage Ratio of 552% and Tier 1 Capital of 21.1% .

Unquote

Paula Mamo LL.D.
Company Secretary

This Company Announcement is issued by

HSBC Bank Malta p.l.c.

Company Secretary Tel: (+356) 2380 2474

Registered in Malta number C3177

Registered office: 116, Archbishop, Valletta VLT 1444, Malta

HSBC Bank Malta p.l.c authorised by the Malta Financial Services Authority to provide investment services under the Investment Services Act 1994.
HSBC Bank Malta p.l.c. is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Ltd under the Insurance Distribution Act (Cap. 487 of the Laws of Malta)

Directors' Report

Financial performance

Profit before tax for the six months ended 30 June 2024 was €78.6m, an increase of €19.3m from the same period in 2023. Higher profits reflect an improvement in all revenue lines as well as a higher recovery of expected credit losses ('ECL'). These positive variances were partially offset by higher costs as the bank continued to invest.

Net interest income ('NII') increased by €17.0m to €106.6m compared with €89.7m in the same period in 2023. The increase in NII was driven by the higher interest environment as the average interest rates in H1 2024 were higher than those prevailing in H1 2023.

Non-funds income (fees and commissions and trading income) increased by €1.3m reflecting a rise in both trading and new fee income. Trading income increased by 34% compared to the same period last year driven by higher foreign exchange income generated from the strong relationship with corporate customers.

Operating expenses increased by €6.6m to €56.1m, compared with €49.5m in the same period in 2023. While there were several contributors to the movement in operating expenses, the most material drivers were increases in staff costs, IT expenses and real estate costs as the bank continues to invest in its people, technology and new headquarters in Qormi. Releases in litigation provisions reported in H1 2024 were roughly of the same value to a refund from insurance in relation to operational losses reported in 2023.

During the six months, there was a release of ECL of €7.0m, compared to a release of €2.6m reported in the same period last year. Both the retail and corporate business lines contributed to the release. The release in the corporate business line was mainly a result of amounts recovered from non-performing loans and an improvement in the credit quality. On the other hand, the release in the retail business was mainly driven by a release of provisions held for inflationary pressures which did not materialise.

HSBC Life Assurance (Malta) Ltd reported a profit of €4.5m compared to €1.6m reported in the same period last year. The increase in profits is a result of an improvement in the composition and volume of new business together with yield curve and positive movements on the financial securities' prices.

The effective tax rate was 35% in both periods. This translated into an interim tax expense of €27.9m.

Financial Position and Capital

Net loans and advances to customers amounted to €2,981m, a decrease of €103m or 3% when compared to 31 December 2023. The bank continued to improve asset quality by reducing non-performing loans by 28% while retaining a prudent credit policy to ensure long term sustainability of its service proposition.

The bank's investment portfolio increased by €394m to €1,710m as the bank invested in longer tenure assets to strategically hedge against future movements in interest rates. The investment portfolio is composed of highly rated securities and continues to be conservatively positioned with the lowest investment grade of A-.

Customer accounts were €6,058m as at 30 June 2024, a decrease of €83m or 1.4% compared to 31 December 2023. The bank had a satisfactory advances-to-deposits ratio of 49%, and its liquidity ratios were well in excess of regulatory requirements.

The bank continued to strengthen its capital ratios and is fully compliant with the regulatory capital requirements. The bank's common equity tier 1 capital was 21.1% as at 30 June 2024, compared to 20.6% at the end of 2023. The total capital ratio increased to 24.1% compared to 23.5% as at 31 December 2023.

The bank continued its trend in rewarding its shareholders with the highest interim dividend over the last 10 years. The Board has thus recommended an interim gross dividend of 10 cents per share which amounts to a gross dividend of €36.0m. The interim dividend will be paid on 17 September 2024 to shareholders who are on the bank's register of shareholders on 16 August 2024.

Geoffrey Fichte, the Chief Executive Officer of HSBC Malta, said:

"HSBC is celebrating 25 years in Malta. Our results for the first half of the year reflect the strong relationship with customers built over these years as part of Malta's economic transformation, as well as the continued success of our turn-around strategy announced early last year. We're growing revenue across all of our businesses and continue to invest for the long term. HSBC's robust management of risk and focus on high-quality and long-term customer relationships continues to deliver results.

"This year we signed an ambitious and ground-breaking three-year collective agreement to energise our talent on customer service excellence. We inaugurated our new headquarters, HSBC Hub, in Qormi, a €30m investment in the future of work. We accelerated investments in technology, sustainability and new ATMs to support customers.

"We thank our customers and shareholders for their support, and are recommending a gross interim dividend of 10 cents per share which is the highest dividend over the last 10 years. Our capital and liquidity remain strong, and we continue to pursue growth opportunities in Malta."

Financial summary

Income Statements

	Notes	Group		Bank	
		Half-year to			
		30 Jun 2024	30 Jun 2023	**30 Jun 2024**	30 Jun 2023
		€000	€000	**€000**	€000
Interest and similar income					
– on loans and advances to banks and customers and other financial assets		**104,165**	90,598	**104,165**	90,598
– on debt and other fixed income instruments		**15,581**	6,856	**15,581**	6,856
Interest expense		**(13,113)**	(7,777)	**(13,113)**	(7,777)
Net interest income		**106,633**	89,677	**106,633**	89,677
Fee income		**12,128**	12,045	**10,340**	10,053
Fee expense		**(1,289)**	(1,305)	**(1,126)**	(1,122)
Net fee income	3	**10,839**	10,740	**9,214**	8,931
Insurance service revenue		**10,040**	10,948	**—**	—
Insurance service expense		**(4,959)**	(4,806)	**—**	—
Net expenses from reinsurance contracts		**(266)**	(4,094)	**—**	—
Insurance service result		**4,815**	2,048	**—**	—
Net income from assets and liabilities of insurance businesses, measured at fair value through profit or loss		**18,791**	15,868	**—**	—
Insurance finance expense		**(18,388)**	(15,300)	**—**	—
Net trading income		**4,615**	3,453	**4,615**	3,453
Dividend income from subsidiaries		**—**	—	**1,077**	769
Other operating income/(expense)		**443**	(216)	**443**	(151)
Net operating income before change in expected credit losses and other credit impairment charges		**127,748**	106,270	**121,982**	102,679
Change in expected credit losses and other credit impairment charges		**6,986**	2,554	**6,986**	2,554
Net operating income		**134,734**	108,824	**128,968**	105,233
Employee compensation and benefits		**(21,392)**	(19,118)	**(20,932)**	(18,569)
General and administrative expenses		**(29,824)**	(26,723)	**(28,536)**	(25,073)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(1,661)**	(1,298)	**(1,661)**	(1,298)
Amortisation and impairment of intangible assets		**(3,250)**	(2,409)	**(3,216)**	(2,377)
Total operating expenses		**(56,127)**	(49,548)	**(54,345)**	(47,317)
Profit before tax		**78,607**	59,276	**74,623**	57,916
Tax expense		**(27,861)**	(20,752)	**(26,466)**	(20,280)
Profit for the period		**50,746**	38,524	**48,157**	37,636
Earnings per share		**€0.14**	€0.11		

Statements of comprehensive income

	Group		Bank	
	Half-year to			
	30 Jun 2024	30 Jun 2023	**30 Jun 2024**	30 Jun 2023
	€000	€000	**€000**	€000
Profit for the period	**50,746**	38,524	**48,157**	37,636
Other comprehensive income				
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:	**3,010**	3,565	**3,010**	3,565
– fair value gains	**4,630**	5,484	**4,630**	5,484
– income taxes	**(1,620)**	(1,919)	**(1,620)**	(1,919)
Items that will not be reclassified subsequently to profit or loss:				
Equity instruments designated at fair value through other comprehensive income:	**1**	4	**1**	4
– fair value gains	**2**	6	**2**	6
– income taxes	**(1)**	(2)	**(1)**	(2)
Other comprehensive income for the period, net of tax	**3,011**	3,569	**3,011**	3,569
Total comprehensive income for the period	**53,757**	42,093	**51,168**	41,205

Statements of Financial Position

	Notes	Group		Bank	
		At 30 Jun 2024	At 31 Dec 2023	**At 30 Jun 2024**	At 31 Dec 2023
		€000	€000	**€000**	€000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash		**1,499,844**	1,676,639	**1,499,844**	1,676,639
Items in the course of collection from other banks		**4,841**	8,427	**4,841**	8,427
Financial assets mandatorily measured at fair value through profit or loss		**695,767**	693,024	**—**	—
Derivatives	7	**17,792**	13,577	**17,792**	13,577
Loans and advances to banks		**613,075**	720,583	**600,774**	716,140
Loans and advances to customers		**2,980,917**	3,083,843	**2,980,917**	3,083,843
Financial investments	8	**1,710,033**	1,315,859	**1,710,031**	1,315,857
Prepayments, accrued income and other assets		**45,550**	33,699	**37,457**	30,086
Current tax assets		**2,005**	1,153	**—**	152
Reinsurance contract assets		**5,358**	2,557	**—**	—
Non-current assets held for sale		**5,594**	5,816	**5,594**	5,816
Investment in subsidiaries		**—**	—	**30,859**	30,859
Right-of-use assets		**2,196**	2,284	**2,196**	2,284
Property, plant and equipment		**56,756**	51,694	**56,754**	51,691
Intangible assets		**21,257**	20,762	**20,922**	20,356
Deferred tax assets		**26,907**	31,002	**26,852**	30,623
Total assets		**7,687,892**	7,660,919	**6,994,833**	6,986,350
Liabilities					
Deposits by banks		**2,023**	5,117	**2,023**	5,117
Customer accounts		**6,058,398**	6,141,520	**6,084,470**	6,172,269
Items in the course of transmission to other banks		**14,590**	18,359	**14,590**	18,359
Liabilities under investment contracts		**160,172**	156,958	**—**	—
Derivatives	7	**7,950**	5,748	**7,950**	5,748
Accruals, deferred income and other liabilities		**103,798**	55,055	**94,189**	44,761
Current tax liabilities		**58,651**	35,190	**56,458**	35,190
Insurance contract liabilities		**525,865**	519,363	**—**	—
Provisions	9	**21,800**	21,849	**20,670**	20,719
Deferred tax liabilities		**3,974**	3,727	**3,974**	3,727
Borrowings from a group undertaking		**90,000**	90,000	**90,000**	90,000
Subordinated liabilities		**65,000**	65,000	**65,000**	65,000
Total liabilities		**7,112,221**	7,117,886	**6,439,324**	6,460,890
Equity					
Called up share capital		**108,092**	108,092	**108,092**	108,092
Revaluation reserve		**13,419**	10,408	**13,419**	10,408
Retained earnings		**454,160**	424,533	**433,998**	406,960
Total equity		**575,671**	543,033	**555,509**	525,460
Total liabilities and equity		**7,687,892**	7,660,919	**6,994,833**	6,986,350
Memorandum items					
Guarantees and other contingent liabilities	10	**221,135**	200,495	**221,070**	200,445
Commitments	10	**884,297**	838,659	**884,297**	838,659

The financial statements were approved and authorised for issue by the Board of Directors on 31 July 2024 and signed on its behalf by:

Manfred Galdes
Chairman

Geoffrey Fichte
Chief Executive Officer

Statements of changes in equity

	Notes	Group			
		Share capital	Revaluation reserve	Retained earnings	Total equity
		€000	€000	€000	€000
At 1 Jan 2024		**108,092**	**10,408**	**424,533**	**543,033**
Profit for the period		**—**	**—**	**50,746**	**50,746**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax		**—**	**3,011**	**—**	**3,011**
Total other comprehensive income		**—**	**3,011**	**—**	**3,011**
Total comprehensive income for the period		**—**	**3,011**	**50,746**	**53,757**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**—**	**—**	**(41)**	**(41)**
– dividends	2	**—**	**—**	**(21,078)**	**(21,078)**
Total contributions by and distributions to owners		**—**	**—**	**(21,119)**	**(21,119)**
At 30 Jun 2024		**108,092**	**13,419**	**454,160**	**575,671**
At 1 Jan 2023		108,092	64	365,089	473,245
Profit for the period		—	—	38,524	38,524
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax		—	3,569	—	3,569
Total other comprehensive income		—	3,569	—	3,569
Total comprehensive income for the period		—	3,569	38,524	42,093
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements		—	—	(66)	(66)
– dividends	2	—	—	(13,139)	(13,139)
Total contributions by and distributions to owners		—	—	(13,205)	(13,205)
At 30 Jun 2023		108,092	3,633	390,408	502,133

	Notes	Bank			
		Share capital	Revaluation reserve	Retained earnings	Total equity
		€000	€000	€000	€000
At 1 Jan 2024		**108,092**	**10,408**	**406,960**	**525,460**
Profit for the period		**—**	**—**	**48,157**	**48,157**
Other comprehensive income					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax		**—**	**3,011**	**—**	**3,011**
Total other comprehensive income		**—**	**3,011**	**—**	**3,011**
Total comprehensive income for the period		**—**	**3,011**	**48,157**	**51,168**
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		**—**	**—**	**(41)**	**(41)**
– dividends	2	**—**	**—**	**(21,078)**	**(21,078)**
Total contributions by and distributions to owners		**—**	**—**	**(21,119)**	**(21,119)**
At 30 Jun 2024		**108,092**	**13,419**	**433,998**	**555,509**
At 1 Jan 2023		108,092	64	350,973	459,129
Profit for the period		—	—	37,636	37,636
Other comprehensive income (net of tax)					
Financial investments measured at fair value through other comprehensive income:					
– fair value gains, net of tax		—	3,569	—	3,569
Total other comprehensive income		—	3,569	—	3,569
Total comprehensive income for the period		—	3,569	37,636	41,205
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners:					
– share-based payment arrangements, net of tax		—	—	(66)	(66)
– dividends	2	—	—	(13,139)	(13,139)
Total contributions by and distributions to owners		—	—	(13,205)	(13,205)
At 30 Jun 2023		108,092	3,633	375,404	487,129

Statements of cash flows

	Group		Bank	
	Half-year to			
	30 Jun 2024 €000	30 Jun 2023 €000	**30 Jun 2024 €000**	30 Jun 2023 €000
Cash flows from operating activities				
Interest, fees, loan recoveries and premium receipts	**146,638**	138,110	**111,294**	101,960
Interest, fees and claims payments	**(55,673)**	(44,192)	**(13,003)**	(6,518)
Payments to employees and suppliers	**(49,735)**	(44,981)	**(45,518)**	(42,364)
Cash flows from operating activities before changes in operating assets and liabilities	**41,230**	48,937	**52,773**	53,078
Decrease/(increase) in operating assets:				
– financial assets mandatorily measured at fair value through profit or loss	**17,410**	(11,727)	**—**	—
– reserve deposit with Central Bank of Malta	**(3,154)**	133	**(3,154)**	133
– loans and advances to banks and customers	**96,305**	32,824	**96,305**	32,824
– Treasury Bills	**79,788**	(121,324)	**79,788**	(121,324)
– other assets	**(499)**	(1,405)	**(336)**	(1,294)
(Decrease)/increase in operating liabilities:				
– deposits by banks and customer accounts	**(86,783)**	(37,146)	**(91,183)**	(49,525)
– other liabilities	**40,859**	(1,221)	**41,039**	(1,028)
Net cash from operating activities before tax	**185,156**	(90,929)	**175,232**	(87,136)
– tax paid	**(2,517)**	(746)	**(2,257)**	(443)
Net cash from operating activities	**182,639**	(91,675)	**172,975**	(87,579)
Cash flows from investing activities				
Dividends received	**—**	—	**700**	500
Interest received from financial investments	**8,740**	4,925	**8,740**	4,925
Purchase of financial investments	**(418,821)**	(178,876)	**(418,821)**	(178,876)
Proceeds from sale and maturity of financial investments	**34,181**	88,806	**34,181**	88,806
Purchase of property, plant and equipment and intangible assets	**(10,182)**	(5,009)	**(10,182)**	(4,911)
Net cash from investing activities	**(386,082)**	(90,154)	**(385,382)**	(89,556)
Cash flows from financing activities				
Dividends paid	**(21,078)**	(13,139)	**(21,078)**	(13,139)
Proceeds from borrowings from a group undertaking	**—**	30,000	**—**	30,000
Net cash from financing activities	**(21,078)**	16,861	**(21,078)**	16,861
Net decrease in cash and cash equivalents	**(224,521)**	(164,968)	**(233,485)**	(160,274)
Cash and cash equivalents at beginning of period	**1,825,764**	1,938,625	**1,821,342**	1,932,348
Effect of exchange rate changes on cash and cash equivalents	**(11,085)**	4,855	**(11,029)**	4,594
Cash and cash equivalents at end of period	**1,590,158**	1,778,512	**1,576,828**	1,776,668

Notes on the interim condensed consolidated financial statements

1 Basis of preparation and material 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 Capital Market 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 2023. These financial statements should be read in conjunction with the Annual Report and Accounts 2023.

The condensed interim financial information has been extracted from the unaudited group's management accounts for the six months ended 30 June 2024. 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 2024, there were no IFRS Accounting Standards effective for the half-year to 30 June 2024 affecting these financial statements, and there was no difference between IFRS Accounting Standards adopted by the EU and IFRS Accounting Standards issued by the IASB in terms of their application to the local group.

Standards applied during the half-year to 30 June 2024

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

(b) Use of estimates and judgements

The preparation of financial information in accordance with the requirements of IFRS Accounting Standards as adopted by the EU requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the second half of 2024 could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2024 Interim Financial Results. Management's selection of the local group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied, the high degree of judgement and estimation of uncertainty involved.

Management believes that the local group's critical estimates and judgements are those that relate to:

- Expected credit loss allowances on loans and advances;
- Valuation of insurance contract liabilities;
- Valuation of financial instruments; and
- Measurement of post employment and other long-term employee benefits.

Excluding those related to the 'Measurement of the ECL estimates' as highlighted in Note 4, there were no changes in the current period to the other critical estimates and judgements applied in 2023, as set out in Note 54 of the Annual Report and Accounts 2023.

In management's view, apart from judgements involving estimations as reflected above, there are no material or critical judgements made in the process of applying the local group's accounting policies that have a more material effect on the amounts recognised in the financial statements.

(c) Composition of local group

There were no changes in the composition of the local group in the half-year to 30 June 2024.

(d) Future accounting developments

IFRS 18 'Presentation and Disclosure in Financial Statements'

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace IAS 1 'Presentation of Financial Statements' but carries over many requirements from that IFRS Accounting Standard unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While IFRS 18 will not change recognition criteria or measurement bases, it might have a significant impact on presenting information in the financial statements, in particular the income statement. The local group is currently assessing any impacts as well as data readiness before developing a more detailed implementation plan.

Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'

In May 2024, the IASB issued amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on or after 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The local group is undertaking an assessment of the potential impact.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local group has 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 uncertainty that the current inflationary and elevated interest rate environment has had on the local group's and bank's operations, as well as considering potential impacts from other top and emerging risks, including exposure to extreme climate change and environmental risk events, geopolitical risks, drops in asset prices, and local jurisdiction risks and the related impact on profitability, capital and liquidity.

(f) Accounting policies

The accounting policies that we applied for these interim condensed consolidated financial statements are consistent with those described on pages 77 to 94 of the Annual Report and Accounts 2023, as are the methods of computation.

2 Dividends

	Bank			
	30 Jun 2024 EUR per share	30 Jun 2023 EUR per share	**30 Jun 2024 €000**	30 Jun 2023 €000
Gross of tax				
– prior year's final dividend	**0.09**	0.06	**32,428**	20,214
	0.09	0.06	**32,428**	20,214
Net of tax				
– prior year's final dividend	**0.06**	0.04	**21,078**	13,139
	0.06	0.04	**21,078**	13,139

The bank is proposing an interim net dividend of €23,420,000 in respect of the financial period ended 30 June 2024. The interim dividend will be paid on 17 September 2024 to shareholders who are on the bank's register of shareholders on 16 August 2024.

	Bank	
	30 Jun 2024 €000	30 Jun 2023 €000
Proposed interim dividend		
Profit for the period (net of tax)	**50,746**	38,524
Proposed interim dividend	**23,420**	14,052
Available for distribution	**23,420**	14,052
Issued and fully paid up shares	**360,306,099**	360,306,099
	EUR per share	EUR per share
Proposed interim dividend		
– gross of tax per share	**0.10**	0.06
– net of tax per share	**0.07**	0.04

3 Net fee income

	Half-year to			
	Group		Bank	
	30 Jun 2024	30 Jun 2023	**30 Jun 2024**	30 Jun 2023
	€000	€000	**€000**	€000
Net fee income by product:				
Funds under management	**1,365**	1,259	**—**	—
Cards	**2,337**	2,384	**2,337**	2,384
Credit facilities	**837**	757	**837**	757
Broking income	**357**	426	**357**	426
Account services	**1,666**	1,613	**1,666**	1,613
Remittances	**1,189**	1,099	**1,189**	1,099
Imports/exports	**759**	661	**759**	661
Receivables finance	**422**	451	**422**	451
Insurance agency commission	**690**	820	**—**	—
Other	**2,506**	2,575	**2,773**	2,662
Fee income	**12,128**	12,045	**10,340**	10,053
Less: fee expense	**(1,289)**	(1,305)	**(1,126)**	(1,122)
Net fee income	**10,839**	10,740	**9,214**	8,931
Net fee income by global business				
Wealth and Personal Banking	**5,506**	6,029	**3,881**	4,220
Commercial Banking	**5,333**	4,711	**5,333**	4,711

Net fee income amounting to €378,000 (2023: €452,000) is derived from the investment services activities of the local group. During the periods ending 30 June 2024 and 30 June 2023, none of the net fee income generated by the local group and bank was attributable to the Global Markets segment.

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

The bank's exposure to credit risk mainly arises from its lending activities. In this respect, all lending activities are classified under either wholesale or personal lending.

Wholesale lending includes both small business owners served through Personal Banking as well as the financing of corporate and non-bank financial institutions both from a working capital perspective and investing primarily in income producing assets and, to a lesser extent, construction and development of the same. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects. In the following table, these wholesale lending exposures are presented as exposures to corporate and commercial entities as well as exposures to non-bank financial institutions. Non-bank financial institutions are mainly financial corporations other than banks and entities within the group of companies that are mainly engaged in financial and insurance activities including non-financial holding companies. Corporate and commercial entities are wholesale entities that have activities other than finance related.

The bank provides a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets acquired. The bank also offers loans secured on existing assets, such as first charges on residential property, and unsecured lending products such as overdrafts, credit cards and car loans.

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL, as well as the fair value of debt instruments measured at fair value through other comprehensive income ('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 5 'Segmental analysis'.

All credit card balances are classified as personal, whereas some of the balances held by corporate customers are reported under Commercial Banking ('CMB') in Note 5 'Segmental analysis'.

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

	At 30 Jun 2024		At 31 Dec 2023	
	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:	**3,019,030**	**(38,113)**	3,129,321	(45,478)
– personal	**2,160,414**	**(18,640)**	2,214,220	(23,754)
– corporate and commercial	**814,284**	**(18,998)**	855,362	(19,931)
– non-bank financial institutions	**44,332**	**(475)**	59,739	(1,793)
Loans and advances to banks at amortised cost	**600,775**	**(1)**	716,140	—
Other financial assets measured at amortised cost:	**2,212,623**	**(4,835)**	2,151,423	(4,723)
– balances at central banks	**1,159,182**	**(2)**	1,257,498	(21)
– items in the course of collection from other banks	**4,841**	**—**	8,427	—
– debt instruments measured at amortised cost	**1,017,752**	**(38)**	858,915	(29)
– accrued income and other assets[2]	**30,848**	**(4,795)**	26,583	(4,673)
Total gross carrying amount on balance sheet	**5,832,428**	**(42,949)**	5,996,884	(50,201)
Loans and other credit-related commitments:	**884,297**	**(1,125)**	838,659	(1,230)
– personal	**292,762**	**(34)**	293,459	(28)
– corporate and commercial (including non-bank financial institutions)	**574,104**	**(1,091)**	533,594	(1,202)
– banks	**17,431**	**—**	11,606	—
Financial guarantees	**10,177**	**(188)**	10,279	(88)
– personal	**119**	**—**	200	—
– corporate and commercial (including non-bank financial institutions)	**10,058**	**(188)**	10,079	(88)
Total nominal amount off balance sheet[3]	**894,474**	**(1,313)**	848,938	(1,318)
Total	**6,726,902**	**(44,262)**	6,845,822	(51,519)

	Fair value	**Allowance for ECL[4]**	Fair value	Allowance for ECL
	€000	**€000**	€000	€000
Debt instruments measured at fair value through other comprehensive income	**692,274**	**(32)**	456,930	(38)
Treasury Bills measured at fair value through other comprehensive income	**311,904**	**(3)**	385,580	(11)
Total	**1,004,178**	**(35)**	842,510	(49)

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 that are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the statement of financial position on page 4, include both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *Debt instruments measured at FVOCI continue to be measured at fair value with the change in ECL recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

Summary of credit risk by stage distribution and ECL coverage by industry sector

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1 €000	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
Loans and advances to customers at amortised cost:	**2,725,582**	**218,559**	**74,889**	**3,019,030**	**(9,271)**	**(12,801)**	**(16,041)**	**(38,113)**	**0.3**	**5.9**	**21.4**	**1.3**
– personal	**2,016,431**	**96,392**	**47,591**	**2,160,414**	**(4,088)**	**(6,312)**	**(8,240)**	**(18,640)**	**0.2**	**6.5**	**17.3**	**0.9**
– corporate and commercial	**677,999**	**109,273**	**27,012**	**814,284**	**(4,845)**	**(6,352)**	**(7,801)**	**(18,998)**	**0.7**	**5.8**	**28.9**	**2.3**
– non-bank financial institutions	**31,152**	**12,894**	**286**	**44,332**	**(338)**	**(137)**	**—**	**(475)**	**1.1**	**1.1**	**—**	**1.1**
Loans and advances to banks at amortised cost	**600,775**	**—**	**—**	**600,775**	**(1)**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**2,203,876**	**995**	**7,752**	**2,212,623**	**(43)**	**—**	**(4,792)**	**(4,835)**	**—**	**—**	**61.8**	**0.2**
Loan and other credit-related commitments:	**781,368**	**102,331**	**598**	**884,297**	**(797)**	**(288)**	**(40)**	**(1,125)**	**0.1**	**0.3**	**6.7**	**0.1**
– personal	**290,321**	**2,352**	**89**	**292,762**	**(34)**	**—**	**—**	**(34)**	**—**	**—**	**—**	**—**
– corporate and commercial (including non-bank financial institutions)	**473,616**	**99,979**	**509**	**574,104**	**(763)**	**(288)**	**(40)**	**(1,091)**	**0.2**	**0.3**	**7.9**	**0.2**
– banks	**17,431**	**—**	**—**	**17,431**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial guarantees:	**9,728**	**449**	**—**	**10,177**	**(149)**	**(39)**	**—**	**(188)**	**1.5**	**8.7**	**—**	**1.8**
– personal	**119**	**—**	**—**	**119**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial (including non-bank financial institutions)	**9,609**	**449**	**—**	**10,058**	**(149)**	**(39)**	**—**	**(188)**	**1.6**	**8.7**	**—**	**1.9**
At 30 Jun 2024	**6,321,329**	**322,334**	**83,239**	**6,726,902**	**(10,261)**	**(13,128)**	**(20,873)**	**(44,262)**	**0.2**	**4.1**	**25.1**	**0.7**

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1 €000	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
Debt instruments measured at fair value through other comprehensive income	**692,274**	**—**	**—**	**692,274**	**(32)**	**—**	**—**	**(32)**	**—**	**—**	**—**	**—**
Treasury Bills measured at fair value through other comprehensive income	**311,904**	**—**	**—**	**311,904**	**(3)**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**
At 30 Jun 2024	**1,004,178**	**—**	**—**	**1,004,178**	**(35)**	**—**	**—**	**(35)**	**—**	**—**	**—**	**—**

Summary of credit risk by stage distribution and ECL coverage by industry sector (continued)

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to customers at amortised cost:	2,874,317	154,642	100,362	3,129,321	(14,662)	(13,463)	(17,353)	(45,478)	0.5	8.7	17.3	1.5
– personal	2,062,416	101,088	50,716	2,214,220	(7,719)	(8,433)	(7,602)	(23,754)	0.4	8.3	15.0	1.1
– corporate and commercial	760,211	53,554	41,597	855,362	(6,241)	(5,030)	(8,660)	(19,931)	0.8	9.4	20.8	2.3
– non-bank financial institutions	51,690	—	8,049	59,739	(702)	—	(1,091)	(1,793)	1.4	—	13.6	3.0
Loans and advances to banks at amortised cost	716,140	—	—	716,140	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	2,142,466	959	7,998	2,151,423	(50)	(1)	(4,672)	(4,723)	—	0.1	58.4	0.2
Loan and other credit-related commitments:	799,788	34,803	4,068	838,659	(751)	(58)	(421)	(1,230)	0.1	0.2	10.3	0.1
– personal	291,001	2,276	182	293,459	(28)	—	—	(28)	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	497,181	32,527	3,886	533,594	(723)	(58)	(421)	(1,202)	0.1	0.2	10.8	0.2
– banks	11,606	—	—	11,606	—	—	—	—	—	—	—	—
Financial guarantees:	10,029	250	—	10,279	(66)	(22)	—	(88)	0.7	8.8	—	0.9
– personal	200	—	—	200	—	—	—	—	—	—	—	—
– corporate and commercial (including non-bank financial institutions)	9,829	250	—	10,079	(66)	(22)	—	(88)	0.7	8.8	—	0.9
At 31 Dec 2023	6,542,740	190,654	112,428	6,845,822	(15,529)	(13,544)	(22,446)	(51,519)	0.2	7.1	20.0	0.8

Summary of credit risk by stage distribution and ECL coverage by industry sector (continued)

	Fair Value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
Debt instruments measured at fair value through other comprehensive income	456,930	—	—	456,930	(38)	—	—	(38)	—	—	—	—
Treasury Bills measured at fair value through other comprehensive income	385,580	—	—	385,580	(11)	—	—	(11)	—	—	—	—
At 31 Dec 2023	842,510	—	—	842,510	(49)	—	—	(49)	—	—	—	—

Measurement uncertainty and sensitivity analysis 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 119 to 124 of the Annual Report and Accounts 2023.

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. The Central, Upside and Downside scenarios selected with reference to external forecast distributions are termed the 'consensus economic scenarios'. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur.

As highlighted below there were changes in the probability % weighting for the Central, Upside, Downside and Downside 2 scenarios as described below.

How economic scenarios are reflected in the wholesale calculation of ECL

In line with HSBC's methodology, for the wholesale portfolio, forward economic guidance ('FEG') is incorporated into the calculation of ECL through the estimation of the term structure of probability of default ('PD') and loss given default ('LGD').

For the PD calculation, forward-looking PDs are approximated by using a proxy country's PDs and macroeconomic paths, shifted by a scalar. A suitable proxy is selected using the Bhattacharyya methodology which compares various proxy sites' principal component macroeconomic variables to local variables to determine the most suitable site. The scalar is then calculated, which is intended to capture the difference between the proxy and local sensitivities to economic shocks.

For the LGD calculation, the correlation of FEG, derived from the assumed macroeconomic paths of the proxy site, to collateral values, which are in turn derived from the bank's data, is taken into account.

For non-credit impaired loans, the local group uses the proxy country's real gross domestic product ('GDP') growth rate, unemployment rate, consumer price index, short-term interest rate and the house price index as the relevant macroeconomic variables to determine the term structure of PD and LGD. The macroeconomic paths modelled in respect of the macroeconomic variables used by the proxy country are assessed by management to be similar to those modelled in respect of the retail portfolios, with similar shocks and trajectories being applied for the proxy country's and Malta's economies.

For credit impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on credit impaired loans that are individually considered not to be significant, the model incorporates forward economic guidance proportionate to the probability weighted outcome and the consensus Central scenario outcome for individually significant stage 3 loans.

For PDs, the correlation of FEG to default rates is considered. In this respect, forward-looking PDs are approximated by using a proxy country's PDs and macroeconomic paths, shifted by a scalar. A suitable proxy is selected using the Bhattacharyya methodology which compares various proxy sites' principal component macroeconomic variables to local variables to determine the most suitable site. The scalar is then calculated, which is intended to capture the difference between the proxy and local sensitivities to economic shocks. For the LGD calculation, the correlation of FEG, derived from the assumed macroeconomic paths of the proxy site, to collateral values, which are in turn derived from the bank's data, is taken into account.

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

The projected economic paths in respect of each of the key macroeconomic variables specific to the Maltese economy across the four macroeconomic scenarios described above are presented in the tables below:

Malta: Consensus scenarios (average 2Q24-2Q29)

	Consensus scenarios			**Downside 2 scenario**
	Central	**Upside**	**Downside**	
Real GDP Growth rate (%)	**3.7**	**4.3**	**2.9**	**2.0**
Consumer price index (%)	**2.1**	**2.0**	**2.1**	**0.9**
Unemployment (%)	**2.6**	**2.5**	**2.8**	**3.2**
Short-term interest rate (%)	**2.8**	**2.7**	**2.3**	**2.2**
House price index (%)	**6.0**	**6.8**	**5.1**	**(2.3)**
Probability weights (%)	**75.0**	**10.0**	**10.0**	**5.0**

Malta: Consensus scenarios (average 2Q23-2Q28)

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
Real GDP Growth rate (%)	3.5	4.0	2.8	2.2
Consumer price index (%)	2.1	2.1	2.0	1.7
Unemployment (%)	3.1	2.8	3.6	4.0
Short-term interest rate (%)	3.0	2.9	2.4	2.5
House price index (%)	6.4	7.0	5.7	(2.9)
Probability weights (%)	75.0	5.0	15.0	5.0

Malta: Real GDP growth rates – H1 2024 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2024: Annual average growth rate (%)	**4.1**	**4.4**	**3.4**	**1.9**
2025: Annual average growth rate (%)	**3.5**	**4.9**	**1.6**	**(2.3)**
2026: Annual average growth rate (%)	**3.6**	**5.0**	**2.7**	**1.2**
2027: Annual average growth rate (%)	**3.9**	**4.1**	**3.7**	**5.0**
2028: Annual average growth rate (%)	**3.9**	**3.8**	**3.8**	**4.6**
Five year average growth rate (%)	**3.7**	**4.3**	**2.9**	**2.0**

Malta: Unemployment rate – H1 2024 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2024: Annual average rate (%)	**2.6**	**2.5**	**2.8**	**2.8**
2025: Annual average rate (%)	**2.7**	**2.4**	**3.0**	**3.3**
2026: Annual average rate (%)	**2.8**	**2.7**	**2.9**	**3.7**
2027: Annual average rate (%)	**2.6**	**2.6**	**2.6**	**3.2**
2028: Annual average rate (%)	**2.5**	**2.5**	**2.5**	**2.9**
Five year average rate (%)	**2.6**	**2.5**	**2.8**	**3.2**

Malta: Consumer price index – H1 2024 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2024: Annual average growth rate (%)	**2.8**	**2.6**	**3.0**	**5.0**
2025: Annual average growth rate (%)	**2.2**	**1.7**	**2.5**	**1.7**
2026: Annual average growth rate (%)	**2.0**	**2.2**	**1.5**	**(2.2)**
2027: Annual average growth rate (%)	**2.0**	**2.1**	**2.0**	**0.2**
2028: Annual average growth rate (%)	**2.0**	**2.0**	**2.0**	**0.9**
Five year average % change (%)	**2.1**	**2.0**	**2.1**	**0.9**

Malta: House price index – H1 2024 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2024: Annual average growth rate (%)	**4.6**	**5.5**	**3.6**	**2.9**
2025: Annual average growth rate (%)	**9.3**	**11.2**	**6.7**	**(1.1)**
2026: Annual average growth rate (%)	**4.8**	**5.8**	**3.9**	**(10.9)**
2027: Annual average growth rate (%)	**5.6**	**5.6**	**5.5**	**(4.0)**
2028: Annual average growth rate (%)	**5.1**	**5.1**	**5.1**	**1.5**
Five year average % change (%)	**6.0**	**6.8**	**5.1**	**(2.3)**

Malta: Short-term interest rates – H1 2024 projections

	Consensus scenarios			Downside 2 scenario
	Central	Upside	Downside	
2024: Annual average rate (%)	**3.7**	**3.4**	**3.9**	**4.3**
2025: Annual average rate (%)	**3.1**	**2.8**	**2.6**	**2.9**
2026: Annual average rate (%)	**2.7**	**2.7**	**1.1**	**1.4**
2027: Annual average rate (%)	**2.6**	**2.6**	**1.8**	**1.6**
2028: Annual average rate (%)	**2.6**	**2.6**	**2.5**	**1.8**
Five year average rate (%)	**2.8**	**2.7**	**2.3**	**2.2**

Scenario weighting

In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered both global and country-specific factors. This has led management to assign scenario probabilities that are tailored to its view of uncertainty which in the context of Malta, remain elevated due to the current level of inflationary pressures as well as Europe's exposure to the military conflict between Russia and Ukraine through the economic costs incurred from the imposition of sanctions and trade disruption.

Standard probabilistic assessments based on historical and observed macroeconomic experience are of limited value when extreme economic events occur, given that such events are poorly represented in historical macroeconomic data. As such, the historical distributions are only used as a guidance and less relied upon when determining the appropriate weights.

Management continues to review the weightings given that the macroeconomic outlook remains highly uncertain. In this respect during the period under review the assigned scenario weights were consistent with their calibrated probabilities, the same as in the fourth quarter of 2023. The combined probability assigned to the Downside scenarios as at 30 June 2024 is 10%, with the same weight being assigned to the consensus Upside scenario at 30 June 2024. As at 30 June 2024, the consensus Upside and Central scenarios had a combined weighting of 85% (31 December 2023: 85%). The probability weight assigned to the Downside 2 scenario has remain constant to 5% as at 30 June 2024, based on expert judgement applied in response to no changes in the severity of modelled scenarios since the prior year. The 10% probability weight assigned to the Downside scenarios reflects the uncertain economic outlook driven by the elevated inflation rates and the current increasing interest rate environment.

The probability weights assigned to the respective scenarios across all wholesale and retail portfolios as at 30 June 2024, 31 December 2023, 30 June 2023 and 31 December 2022 are presented in the table below:

	Consensus Scenarios			Downside 2 scenario
	Central	Upside	Downside	
Probability (%) – 30 June 2024	**75.0**	**10.0**	**10.0**	**5.0**
Probability (%) – 31 December 2023	75.0	10.0	10.0	5.0
Probability (%) – 30 June 2023	75.0	5.0	15.0	5.0
Probability (%) – 31 December 2022	60.0	5.0	25.0	10.0

How economic scenarios are reflected in the retail calculation of ECL

With respect to the retail portfolio, historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by leveraging economic response models. The impact of these scenarios on PDs is modelled over a period equal to the remaining maturity of underlying assets. In contrast, no FEG impact on LGD is modelled in respect of exposures classified within any of the retail portfolios. The key macroeconomic variables used for the retail portfolio are specific to Malta and have been calibrated in line with the methodology explained on previous pages.

Based on an assessment performed by the local group in respect of the correlation between historical observed default rates and various macroeconomic variables, it was determined that the most relevant macroeconomic variables to use within the ECL calculation in respect of mortgages were unemployment and real GDP growth rates. A relative 80:20 weighting was assigned to unemployment and real GDP growth rates respectively. Expert judgement was applied in the selection of the macroeconomic variables as well as the assignment of the relative weightings. In view of the fact that the loan-to-value ('LTV') ratio represents one of the criteria used for segmentation purposes in respect of exposures classified within the mortgage portfolio, the house price index ('HPI') is also considered in the estimation of forward-looking point-in-time ('PIT') PDs, with exposures migrating between segments on the basis of forecasted shocks to the HPI, which in turn impact the LTV segmentation.

In contrast, the modelling of forward-looking macroeconomic scenarios in respect of exposures classified within unsecured retail portfolios is linked to a singular macroeconomic variable. In this respect, the key macroeconomic variable used in the estimation of ECLs in respect of retail overdrafts and personal loans is the unemployment rate, whereas the real GDP growth rate is used as the key macroeconomic variable for credit cards.

Economic scenarios sensitivity analysis of ECL estimates

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward-looking economic conditions described on previous pages. As a result, management assessed and considered the sensitivity of the ECL outcome to the forward-looking economic conditions as part of the ECL governance process.

As at 30 June 2024 and 31 December 2023, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described on previous pages for the wholesale and retail portfolios, applying a 100% weighting to each scenario in turn. In this respect, the credit loss allowances estimated on the basis of an assumption that the ECL outcome was determined solely on the basis of each respective scenario are presented in the table below.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date. There is a particularly high degree of estimation uncertainty in numbers representing more severe risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes the ECL related to defaulted (stage 3) obligors. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of obligors in default. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Therefore, the ECL in respect of wholesale stage 3 exposures is assumed to remain constant across the sensitivity outcomes presented in the table below.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. Accordingly, the management judgemental adjustments modelled in respect of both comparative periods and referred to previously are assumed to remain constant across the sensitivity outcomes presented in the table below.

ECL sensitivity: Applying a 100% weighting to each respective scenario – June 2024

	Weighted average ECL	Consensus scenarios			Downside 2 scenario
		Central	Upside	Downside	
	€000	€000	€000	€000	€000
Wholesale lending	12,914	12,530	11,175	14,536	18,910
Personal lending	21,595	21,229	18,318	22,210	26,833

ECL sensitivity: Applying a 100% weighting to each respective scenario – December 2023

	Weighted average ECL	Consensus scenarios			Downside 2 scenario
		Central	Upside	Downside	
	€000	€000	€000	€000	€000
Wholesale lending	12,843	12,402	11,111	14,718	19,167
Personal lending	26,629	26,436	25,983	27,307	33,493

Post-model adjustments

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

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

	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 2024	3,681,745	(15,479)	190,654	(13,544)	112,428	(22,446)	3,984,827	(51,469)
Transfers of financial instruments:	(90,392)	(1,065)	110,379	(1,572)	(19,987)	2,637	—	—
– transfers from stage 1 to stage 2	(125,097)	2,099	125,097	(2,099)	—	—	—	—
– transfers from stage 2 to stage 1	25,161	(1,655)	(25,161)	1,655	—	—	—	—
– transfers from stage 3	10,960	(1,515)	17,473	(2,418)	(28,433)	3,933	—	—
– transfers to stage 3	(1,416)	6	(7,030)	1,290	8,446	(1,296)	—	—
Net remeasurement of ECL arising from stage transfers	—	3,042	—	(3,280)	—	(748)	—	(986)
Changes in risk parameters	—	3,237	—	7,578	—	(1,663)	—	9,152
Net new and further lending/ repayments	(78,826)	45	21,301	(2,310)	(8,737)	882	(66,262)	(1,383)
Assets written off	—	—	—	—	(465)	465	(465)	465
At 30 Jun 2024	3,512,527	(10,220)	322,334	(13,128)	83,239	(20,873)	3,918,100	(44,221)
ECL charge for the period								7,248
Assets written off								(465)
Change in expected credit losses excluding effect of write-offs								6,783
Recoveries								397
Other								(217)
Change in expected credit losses and other credit impairment charges								6,963

	At 30 Jun 2024		6 months ended 30 Jun 2024
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	3,918,100	(44,221)	6,963
Balances at central banks	1,159,182	(2)	19
Loans and advances to banks measured at amortised cost	600,775	(1)	(1)
Debt instruments measured at amortised cost	1,017,752	(38)	(9)
Items in course of collection	4,841	—	—
Accrued interest on debt instruments and other accrued income	8,821	—	—
Loan and other credit related commitments – banks	17,431	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	6,726,902	(44,262)	6,972
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	1,004,178	(35)	14
Total allowance for ECL/total income statement ECL release for the period	N/A	(44,297)	6,986

Changes in ECL for the period comprise the reclassification of the discount unwind element to interest income, amounting to €0.3m for the period ended 30 June 2024 and included in 'Other' along with the effects of foreign exchange adjustments in the above reconciliation.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers, including loan and other credit-related commitments, acceptances, accrued income and financial guarantees (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 2023	3,590,772	(10,671)	366,403	(18,924)	136,385	(25,025)	4,093,560	(54,620)
Transfers of financial instruments:	134,477	(7,566)	(134,836)	6,602	359	964	—	—
– transfers from stage 1 to stage 2	(61,515)	317	61,515	(317)	—	—	—	—
– transfers from stage 2 to stage 1	197,343	(7,567)	(197,343)	7,567	—	—	—	—
– transfers from stage 3	1,827	(338)	5,284	(1,007)	(7,111)	1,345	—	—
– transfers to stage 3	(3,178)	22	(4,292)	359	7,470	(381)	—	—
Net remeasurement of ECL arising from stage transfers	—	5,495	—	(2,327)	—	(719)	—	2,449
Changes in risk parameters	—	(2,147)	—	(2,048)	—	(803)	—	(4,998)
Net new and further lending/ repayments	(43,504)	(590)	(40,913)	3,153	(23,749)	2,570	(108,166)	5,133
Assets written off	—	—	—	—	(567)	567	(567)	567
At 31 Dec 2023	3,681,745	(15,479)	190,654	(13,544)	112,428	(22,446)	3,984,827	(51,469)
ECL charge for the year								3,151
Assets written off								(567)
Change in expected credit losses excluding effect of write-offs								2,584
Recoveries								1,466
Other								532
Change in expected credit losses and other credit impairment charges								4,582

	At 31 Dec 2023		12 months ended 31 Dec 2023
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
	€000	€000	€000
As above	3,984,827	(51,469)	4,582
Balances at central banks	1,257,498	(21)	(8)
Loans and advances to banks measured at amortised cost	716,140	—	1
Debt instruments measured at amortised cost	858,915	(29)	(10)
Items in course of collection	8,427	—	—
Accrued interest on debt instruments and other accrued income	8,409	—	—
Loan and other credit-related commitments – banks	11,606	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the Income Statement	6,845,822	(51,519)	4,565
Debt instruments and Treasury Bills measured at fair value through other comprehensive income	842,510	(49)	15
Total allowance for ECL/total income statement ECL release for the year	N/A	(51,568)	4,580

The above disclosure provides a reconciliation by stage of the bank's gross carrying/nominal amount and allowances for loans and advances to customers, including the portion of loan and other credit-related commitments relating solely to loans and advances to customers excluding loans and other credit-related commitments to banks.

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis, including the underlying CRR movements of the financial instruments transferring stage. Movements in ECL arising as a result of changes to the underlying PDs and LGDs, including as a result of changes in macroeconomic scenarios, are captured in the 'changes in risk parameters' line item. The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated allowance ECL impact from volume movements within the bank's lending portfolio.

The ECL release for the period ended 30 June 2024 amounted to €7.0m when compared to a release of €4.6m for the year ended 31 December 2023. This release for the period ended 30 June 2024 is due to the curing of non-performing loans and releases of overlays held by the bank in relation to inflationary pressures. The release of €4.6m for the year ended 31 December 2023 was mainly attributable to an improvement in the credit quality of our customers across retail and commercial banking and as well as improved forward economic outlook.

5 Segmental analysis

Our global businesses

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by the following global businesses which are the local group's reportable segments under IFRS 8, 'Operating Segments'.

- Wealth and Personal Banking ('WPB') provides a full range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include retail banking products such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. WPB also provide wealth management services, including 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, international trade and receivables finance. CMB also offers its customers access to products and services offered by other global businesses, for example Global Markets ('GM').
- GM provides tailored financial solutions to corporate and institutional clients. The client-focused business line delivers a full range of banking capabilities, including assistance with managing risk via interest rate derivatives, the provision of foreign exchange spot and derivative products.

The local group's internal reporting to the Board of Directors and Senior Management is analysed according to these business lines. For each of the businesses, the Senior Management, in particular the Chief Executive Officer ('CEO'), reviews internal management reports in order to make decisions about allocating resources and assessing performance.

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

Global business results are assessed by the CEO on the basis of adjusted performance that removes the effects of notable items. 'Notable items' are components of our income statement that management would consider as outside the normal course of business and generally non-recurring in nature. As a result management and investors would ordinarily identify and consider notable items separately to improve the understanding of the underlying trends in the business.

Results are presented in the tables below on an adjusted basis as required by IFRS Accounting Standards. As required by IFRS 8, reconciliation of the reported results to adjusted results by global business, excluding notable items, is also presented when applicable. The local group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributable to global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Where relevant, income and expense amounts presented include the results of inter-segment funding. All such transactions are undertaken on arm's length terms.

Adjusted profit before tax and balance sheet data

Adjusted performance is computed by adjusting reported results for the effects of notable items, which distort period-on-period comparisons. The local group considers adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant, and providing insight into how management assesses period-on-period performance. During the periods ended 30 June 2024 and 30 June 2023 there were no notable items requiring adjustment. Accordingly, the adjusted profit by global business reported below is the same as the reported profit.

	Group							
	Wealth and Personal Banking		Commercial Banking		Global Markets		Group total	
	Half-year to							
	30 Jun 2024 €000	30 Jun 2023 €000	**30 Jun 2024 €000**	30 Jun 2023 €000	**30 Jun 2024 €000**	30 Jun 2023 €000	**30 Jun 2024 €000**	30 Jun 2023 €000
Net interest income	**73,388**	66,202	**33,245**	23,475	**—**		**106,633**	89,677
– external	**75,098**	59,099	**31,535**	30,578	**—**	—	**106,633**	89,677
– internal	**(1,710)**	7,103	**1,710**	(7,103)	**—**	—	**—**	—
Net non-interest income	**6,184**	6,684	**7,490**	5,599	**2,223**	1,694	**15,897**	13,977
Insurance service result	**4,815**	2,048	**—**	—	**—**	—	**4,815**	2,048
Net income from assets and liabilities of insurance businesses, measured at fair value through profit or loss	**18,791**	15,868	**—**	—	**—**	—	**18,791**	15,868
Insurance finance expense	**(18,388)**	(15,300)	**—**	—	**—**	—	**(18,388)**	(15,300)
Net operating income before loan impairment charges	**84,790**	75,502	**40,735**	29,074	**2,223**	1,694	**127,748**	106,270
Change in expected credit losses and other credit impairment charges	**4,439**	1,376	**2,547**	1,178	**—**	—	**6,986**	2,554
Net operating income	**89,229**	76,878	**43,282**	30,252	**2,223**	1,694	**134,734**	108,824
Employee compensation and benefits	**(16,491)**	(14,417)	**(4,663)**	(4,483)	**(238)**	(218)	**(21,392)**	(19,118)
General and administrative expenses	**(23,233)**	(20,043)	**(6,407)**	(6,544)	**(184)**	(136)	**(29,824)**	(26,723)
Depreciation and impairment of property, plant and equipment and right-of-use assets	**(1,365)**	(1,057)	**(291)**	(237)	**(5)**	(4)	**(1,661)**	(1,298)
Amortisation and impairment of intangible assets	**(2,446)**	(1,736)	**(791)**	(662)	**(13)**	(11)	**(3,250)**	(2,409)
Total operating expenses	**(43,535)**	(37,253)	**(12,152)**	(11,926)	**(440)**	(369)	**(56,127)**	(49,548)
Adjusted/Reported profit before tax	**45,694**	39,625	**31,130**	18,326	**1,783**	1,325	**78,607**	59,276

	30 Jun 2024 €000	31 Dec 2023 €000	**30 Jun 2024 €000**	31 Dec 2023 €000	**30 Jun 2024 €000**	31 Dec 2023 €000	**30 Jun 2024 €000**	31 Dec 2023 €000
Reported balance sheet data								
Loans and advances to customers (net)	**2,143,413**	2,192,535	**837,504**	891,308	**—**	—	**2,980,917**	3,083,843
Financial assets mandatorily measured at fair value through profit and loss	**695,767**	693,024	**—**	—	**—**	—	**695,767**	693,024
Total external assets	**5,937,457**	5,701,093	**1,731,771**	1,945,396	**18,664**	14,430	**7,687,892**	7,660,919
Customer accounts	**4,550,848**	4,518,941	**1,507,550**	1,622,579	**—**	—	**6,058,398**	6,141,520
Liabilities under investment contracts	**160,172**	156,958	**—**	—	**—**	—	**160,172**	156,958
Insurance contract liabilities	**525,865**	519,363	**—**	—	**—**	—	**525,865**	519,363

6 Fair value of financial and non-financial instruments

i Valuation of financial instruments

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Fair values are determined according to the following hierarchy:

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

The valuation techniques utilised in preparing these interim condensed consolidated financial statements are consistent with those applied in the preparation of financial statements for the year ended 31 December 2023. There were no transfers between levels of the fair value hierarchy during the period under review.

ii Disclosures in respect of fair values of financial instruments carried at fair value

The following table sets out the financial instruments by fair value hierarchy other than assets and liabilities attributable to the insurance business within the scope of IFRS 17:

Financial instruments carried at fair value and bases of valuation

	Group			
	At 30 Jun 2024			
	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	€000	€000	€000	€000
Assets				
Treasury Bills	**231,419**	**80,485**	**—**	**311,904**
Derivatives	**—**	**17,792**	**—**	**17,792**
Financial assets mandatorily measured at fair value through profit or loss	**687,771**	**—**	**7,996**	**695,767**
Financial investments measured at fair value through other comprehensive income	**692,274**	**—**	**45**	**692,319**
	1,611,464	**98,277**	**8,041**	**1,717,782**
Liabilities				
Derivatives	**—**	**7,950**	**—**	**7,950**
Liabilities under investment contracts	**160,172**	**—**	**—**	**160,172**
	160,172	**7,950**	**—**	**168,122**
	At 31 Dec 2023			
Assets				
Treasury Bills	273,131	112,449	—	385,580
Derivatives	—	13,577	—	13,577
Financial assets mandatorily measured at fair value through profit or loss	684,821	—	8,203	693,024
Financial investments measured at fair value through other comprehensive income	456,930	—	43	456,973
	1,414,882	126,026	8,246	1,549,154
Liabilities				
Derivatives	—	5,748	—	5,748
Liabilities under investment contracts	156,958	—	—	156,958
	156,958	5,748	—	162,706

	Bank			
	At 30 Jun 2024			
Assets				
Treasury Bills	**231,419**	**80,485**	**—**	**311,904**
Derivatives	**—**	**17,792**	**—**	**17,792**
Financial investments measured at fair value through other comprehensive income	**692,274**	**—**	**43**	**692,317**
	923,693	**98,277**	**43**	**1,022,013**
Liabilities				
Derivatives	**—**	**7,950**	**—**	**7,950**
	—	**7,950**	**—**	**7,950**

Financial instruments carried at fair value and bases of valuation (continued)

	At 31 Dec 2023			
	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	€000	€000	€000	€000
Assets				
Treasury Bills	273,131	112,449	—	385,580
Derivatives	—	13,577	—	13,577
Financial investments measured at fair value through other comprehensive income	456,930	—	41	456,971
	730,061	126,026	41	856,128
Liabilities				
Derivatives	—	5,748	—	5,748
	—	5,748	—	5,748

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

	Group		Bank	
	2024	2023	**2024**	2023
	€000	€000	**€000**	€000
Level 3				
Financial assets mandatorily measured at fair value through profit or loss				
At 1 Jan	**8,203**	7,980	**—**	—
Disposal/redemptions	**—**	(187)	**—**	—
Transfer from Level 1 to Level 3	**—**	16	**—**	—
Changes in fair value (recognised in profit or loss)	**(207)**	(339)	**—**	—
At 30 Jun	**7,996**	7,470	**—**	—

The financial assets mandatorily measured at fair value through profit or loss are principally attributable to insurance operations and those categorised within Level 3 mainly comprise holdings in units in collective investment schemes. These holdings consist of shares in alternative funds which are unlisted and have illiquid price sources. In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians, which is not necessarily supported by audited financial statements.

In view of the insignificance of the Level 3 assets in the context of the local group's total assets, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant.

There has been no change to the key unobservable inputs to Level 3 financial instruments as disclosed in the bank's Annual Report and Accounts 2023.

iii Disclosures in respect of fair values of non-financial instruments carried at fair value

The local group's land and buildings, within property, plant and equipment, comprises commercial branches, bank offices and other operational premises. All the recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

	Group / Bank	
	30 Jun	31 Dec
	2024	2023
	€000	€000
Assets		
Property	**37,438**	37,321

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

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

iv Disclosures in respect of fair values of financial instruments not carried at fair value

Certain financial instruments are carried at amortised cost.

The following table sets out the carrying amounts of these financial instruments:

	Group		Bank	
	30 Jun 2024 €000	31 Dec 2023 €000	**30 Jun 2024 €000**	31 Dec 2023 €000
Assets				
Balances with Central Bank of Malta and cash	**1,187,940**	1,291,059	**1,187,940**	1,291,059
Items in the course of collection from other banks	**4,841**	8,427	**4,841**	8,427
Loans and advances to banks	**613,075**	720,583	**600,774**	716,140
Loans and advances to customers	**2,980,917**	3,083,843	**2,980,917**	3,083,843
Financial investments measured at amortised cost	**1,017,714**	858,886	**1,017,714**	858,886
Accrued interest[1]	**24,164**	22,323	**20,729**	19,705
Other assets[2]	**15,811**	8,955	**12,597**	8,851
	5,844,462	5,994,076	**5,825,512**	5,986,911
Liabilities				
Deposits by banks	**2,023**	5,117	**2,023**	5,117
Customer accounts	**6,058,398**	6,141,520	**6,084,470**	6,172,269
Items in the course of transmission to other banks	**14,590**	18,359	**14,590**	18,359
Borrowings from a group undertaking	**90,000**	90,000	**90,000**	90,000
Subordinated liabilities	**65,000**	65,000	**65,000**	65,000
Accrued interest[3]	**5,946**	4,771	**5,946**	4,771
Other liabilities[4]	**58,113**	24,039	**52,900**	8,472
	6,294,070	6,348,806	**6,314,929**	6,363,988

1 *Accrued interest comprises of interest receivable from Balances with Central Bank of Malta, Loans and advances to banks and customers and Financial investments measured at amortised cost.*
2 *Other assets include accrued income and committed letters of credit.*
3 *Accrued interest comprises of interest payable on Deposits by banks, Customer accounts, Borrowings from a group undertaking and Subordinated liabilities.*
4 *Other liabilities include bills payable, committed letters of credit and lease liabilities.*

As at 30 June 2024, financial instruments measured at amortised cost comprise debt instruments amounting to €1,017,714,000 (2023: €858,886,000). The fair value of these financial instruments as at 30 June 2024, determined by reference to quoted market prices is €1,003,253,000 (2023: €854,664,000).

As at 30 June 2024 and 31 December 2023, the local group and bank did not hold Treasury Bills measured at amortised cost.

The fair value for debt instruments is categorised as Level 1, given that the fair value is determined by reference to quoted bid market prices in active markets.

The fair values of the other financial instruments measured at amortised cost are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or the local group has the ability to re-price them at its own discretion, or because these are short-term in nature. Fair values for these financial instruments (other than for cash) are estimated using discounted cash flows applying current market interest rates for instruments with similar remaining maturities and hence utilising mainly Level 3 inputs.

Fair values in relation to loans and advances to customers and in relation to customer accounts repayable on demand are deemed to be fairly close to carrying amounts principally in view of the local group's ability to reprice at its discretion. The majority of customer term deposit accounts are held for a period of less than 12 months and therefore their fair value is also deemed to closely approximate the carrying amount due to their short-term nature. These estimates are considered Level 3 fair value estimates.

Similarly deposits by banks are principally repayable on demand and, as a result, their fair value is approximated by their carrying amount. The fair value of balances with the Central Bank of Malta, loans and advances to banks, borrowings from a group undertaking and subordinated liabilities is deemed to approximate the carrying amount due to the fact that they are short-term in nature and/or reprice frequently.

7 Derivatives

The local group transacts derivatives primarily to create risk management solutions for clients, referred to as 'trading derivatives', and derivatives to manage and hedge own risks, referred to as 'hedge accounting derivatives'.

Trading derivatives

Trading derivative transactions relate mainly to sales activities. These activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

All of the positions held for trading purposes are covered by back-to-back derivative transactions with HSBC Group entities, managing the market risk arising from these positions. Any market risk retained locally is managed within approved local trading mandates. Therefore, revenue is generated based on volume and spread.

Hedge accounting derivatives

The local group uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset portfolio. This enables the local group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. During the financial year ended 31 December 2022, the local group has entered into fair value hedges, which consisted of interest rate swaps that are used to protect against changes in the fair value of fixed-rate-long-term debt instruments due to the movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivatives (the 'hedging instrument') and in the fair value of the item in relation to the risk being hedged (the 'hedged item') are recognised in the income statement.

Hedge effectiveness is determined at inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The local group entered into interest rate swaps that had similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The local group matched the nominal amount of the hedged item with the notional amount of the interest rate swaps. As all critical terms matched since the inception of the fair value hedge, the hedging instruments share the same risk exposures as the hedged items and, as a result, an economic relationship is deemed to exist.

Hedge effectiveness for interest rate swaps was also assessed by reference to qualitative tests, including both retrospective and prospective effectiveness tests. However, to the extent hedging instruments are exposed to different risks than hedged items, this could result in hedge ineffectiveness. This may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged item.

The hedge ratio in respect of the hedge accounting derivatives for the period ended 30 June 2024 and 31 December 2023 was 1:1. The weighted average swap rate in respect of the hedge accounting derivatives as at June 2024 was 2.82% per annum (2023: 2.08%).

Derivatives

	Group / Bank							
	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Foreign exchange derivatives								
Foreign exchange	**227,157**	**—**	**5,719**	**—**	**5,719**	**5,471**	**—**	**5,471**
Interest rate derivatives								
Interest rate swaps	**89,046**	**271,000**	**2,509**	**9,564**	**12,073**	**2,479**	**—**	**2,479**
At 30 Jun 2024	**316,203**	**271,000**	**8,228**	**9,564**	**17,792**	**7,950**	**—**	**7,950**
Foreign exchange derivatives								
Foreign exchange	323,493	—	3,556	—	3,556	3,226	—	3,226
Interest rate derivatives								
Interest rate swaps	96,554	271,000	2,538	7,483	10,021	2,522	—	2,522
At 31 Dec 2023	420,047	271,000	6,094	7,483	13,577	5,748	—	5,748

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

Foreign exchange derivatives represent commitments to purchase and sell pre-established amounts of currencies and are gross settled.

Interest rate swaps are commitments to exchange one set of cash flows for another (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

Fair value hedges

The local group enters into fixed-for-floating interest rate swaps to hedge the exposure to change in fair value caused by the movement in interest rates on certain fixed-rate debt securities that are measured at FVOCI. Therefore, the hedges provide protection for changes in fair value of the relevant securities.

Hedging instrument and hedged item by hedged risk

	Group / Bank					
	Notional[1]	Accumulated fair value movements since hedge inception	Balance sheet presentation	Change in fair value for the year[2,3]	Hedge ineffectiveness recognised in profit and loss	Profit or loss presentation
	€000	€000		€000	€000	
Hedging instrument	**271,000**	**8,713**	**Derivatives**	**2,153**	**44**	**Net profit/(loss) representing ineffective portion of fair value hedges**
Hedged item	**N/A**	**(8,844)**	**Financial investments**	**(2,109)**		
At 30 Jun 2024	**271,000**	**(131)**		**44**	**44**	
Hedging instrument	271,000	6,560	Derivatives	(8,613)	(34)	Net profit/(loss) representing ineffective portion of fair value hedges
Hedged item	N/A	(6,735)	Financial investments	8,579		
At 31 Dec 2023	271,000	(175)		(34)	(34)	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component in respect of hedged item.*
3 *Used in effectiveness testing; comprising the full fair value change of hedging instrument not excluding any component.*

The carrying amount of the hedged item as at 30 June 2024 amounted to €253,978,000 (2023: €252,904,000).

8 Financial investments

	Group		Bank	
	30 Jun 2024	31 Dec 2023	**30 Jun 2024**	31 Dec 2023
	€000	€000	**€000**	€000
Measured at fair value through other comprehensive income:				
Debt instruments	**692,274**	456,930	**692,274**	456,930
Equity and other non-fixed income instruments	**45**	43	**43**	41
Measured at amortised cost:				
Debt instruments	**1,017,714**	858,886	**1,017,714**	858,886
	1,710,033	1,315,859	**1,710,031**	1,315,857

The financial investments which are denominated in currencies other than the reporting currency are economically hedged through balances in corresponding currencies mainly forming part of customer accounts and deposits by banks.

Credit loss allowances in respect of debt instruments measured at fair value through other comprehensive income and at amortised cost amounted to €32,000 and €38,000 as at 30 June 2024 respectively (2023: €38,000 and €29,000 respectively).

Debt securities measured at fair value through other comprehensive income with a carrying amount of €32,531,000 (2023: €88,789,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 30 June 2024 and 31 December 2023, no balances were outstanding against these credit lines.

Debt securities measured at amortised cost with a carrying amount of €53,740,000 (2023: €4,324,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 30 June 2024 and 31 December 2023, no balances were outstanding against these credit lines.

In addition, debt securities measured at fair value through other comprehensive income with a carrying amount of €13,894,000 (2023: €13,262,000) have been pledged in terms of the Depositor Compensation Scheme ('DCS').

9 Provisions

	Group				
	Termination benefits	**Litigation provision**	**Post– employment and other long-term employee benefits**	**Other provisions**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Provisions (excluding contractual commitments)					
At 31 Dec 2023	**942**	**1,957**	**14,629**	**2,478**	**20,006**
Additions	**148**	**6**	**1,200**	**500**	**1,854**
Amounts utilised	**—**	**(7)**	**(231)**	**(231)**	**(469)**
Unused amounts reversed	**—**	**(1,102)**	**—**	**(306)**	**(1,408)**
At 30 Jun 2024	**1,090**	**854**	**15,598**	**2,441**	**19,983**

	Loan commitments and financial guarantees	**Performance and other guarantees**	**Total**
	€000	**€000**	**€000**
Provisions in respect of contractual commitments			
At 31 Dec 2023	**1,318**	**525**	**1,843**
Movement during the period	**(5)**	**(21)**	**(26)**
At 30 June 2024	**1,313**	**504**	**1,817**
Total Provisions			
At 31 Dec 2023			**21,849**
At 30 Jun 2024			**21,800**

	Group				
	Termination benefits	Litigation provision	Post–employment and other long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)					
At 31 Dec 2022	1,786	2,108	11,819	2,623	18,336
Additions	950	1,104	975	294	3,323
Amounts utilised	(1,666)	(629)	(125)	(183)	(2,603)
Unused amounts reversed	(128)	(626)	(9)	(256)	(1,019)
Remeasurement of post–employment and other long-term employee benefits	—	—	1,969	—	1,969
At 31 Dec 2023	942	1,957	14,629	2,478	20,006

	Loan commitments and financial guarantees	Performance and other guarantees	Total
	€000	€000	€000
Provisions in respect of contractual commitments			
At 31 Dec 2022	1,322	422	1,744
Movement during the year	(4)	103	99
At 31 Dec 2023	1,318	525	1,843
Total Provisions			
At 31 Dec 2022			20,080
At 31 Dec 2023			21,849

	Bank				
	Termination benefits	**Litigation provision**	**Post– employment and other long-term employee benefits**	**Other provisions**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Provisions (excluding contractual commitments)					
At 31 December 2023	**942**	**1,957**	**14,629**	**1,348**	**18,876**
Additions	**148**	**6**	**1,200**	**500**	**1,854**
Amounts utilised	**—**	**(7)**	**(231)**	**(231)**	**(469)**
Unused amounts reversed	**—**	**(1,102)**	**—**	**(306)**	**(1,408)**
At 30 Jun 2024	**1,090**	**854**	**15,598**	**1,311**	**18,853**

	Loan commitments and financial guarantees	**Performance and other guarantees**	**Total**
	€000	**€000**	**€000**
Provisions in respect of contractual commitments			
At 31 Dec 2023	**1,318**	**525**	**1,843**
Movement during the period	**(5)**	**(21)**	**(26)**
At 30 Jun 2024	**1,313**	**504**	**1,817**
Total Provisions			
At 31 Dec 2023			**20,719**
At 30 Jun 2024			**20,670**

	Bank				
	Termination benefits	Litigation provision	Post–employment and other long-term employee benefits	Other provisions	Total
	€000	€000	€000	€000	€000
Provisions (excluding contractual commitments)					
At 31 December 2022	1,786	1,988	11,819	1,493	17,086
Additions	950	1,104	975	294	3,323
Amounts utilised	(1,666)	(629)	(125)	(183)	(2,603)
Unused amounts reversed	(128)	(506)	(9)	(256)	(899)
Remeasurement of post–employment and other long-term employee benefits	—	—	1,969	—	1,969
At 31 December 2023	942	1,957	14,629	1,348	18,876

	Loan commitments and financial guarantees	Performance and other guarantees	Total
	€000	€000	€000
Provisions in respect of contractual commitments			
At 31 Dec 2022	1,322	422	1,744
Movement during the year	(4)	103	99
At 31 Dec 2023	1,318	525	1,843
Total Provisions			
At 31 Dec 2022			18,830
At 31 Dec 2023			20,719

Termination benefits refer to outstanding payments due to employees who applied for voluntary redundancy schemes issued by the bank to support a number of strategic initiatives to further improve its operational structure, benefiting from the Group's operating models, as the bank aims to drive efficiencies and enhance customer experience, and create a leaner working model that is externally-focused, performance-led, customer centred and fit for the future.

Litigation provision includes civil court, arbitration or tribunal proceedings brought against the local group (whether by claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. This provision is expected to be settled after more than one year from the reporting date and the impact of discounting is not considered to be significant.

Post–employment and other long-term employee benefits relate to obligations emanating from the provisions of the Collective Agreement. The local group has a present obligation towards its employees in respect of long service bonuses, bonuses on retirement due to age and compensation paid upon retirement for medical grounds. This provision is principally non-current in nature, with the maturity profile of the obligation spanning over the estimated remaining working life.

Other provisions represent mainly an onerous contract provision resulting from a closed investment product held by one of the subsidiary companies whereby future losses were estimated and a provision for obligations in respect of medical insurance cost for employees who retired under previous voluntary schemes.

The component of provisions for liabilities and other charges in respect of contractual commitments represents expected credit losses in relation to off-balance sheet financial guarantee contracts and commitments where the local group has become party to an irrevocable commitment, as defined under IFRS 9 'Financial Instruments'. The movement in expected credit losses in respect of such instruments is disclosed within the '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' table within Note 4.

Contractual commitments also comprise performance and other guarantee contracts that fall outside the scope of IFRS 9, including standby letters of credit and non-financial guarantees, such as performance guarantees. Further details in this respect are set out in Note 10.

For more details on the above provisions please refer to Note 39 'Provisions' on page 168 of the Annual Report and Accounts 2023.

10 Contingent liabilities, contractual commitments and guarantees

	Group Contract amount		Bank Contract amount	
	30 Jun 2024	31 Dec 2023	**30 Jun 2024**	31 Dec 2023
	€000	€000	**€000**	€000
Guarantees and other contingent liabilities:				
– financial guarantees	**10,177**	10,279	**10,177**	10,279
– performance and other guarantees	**176,504**	156,601	**176,504**	156,601
– standby letters of credit	**17,894**	17,689	**17,894**	17,689
– other contingent liabilities	**16,560**	15,926	**16,495**	15,876
At the end of the period	**221,135**	200,495	**221,070**	200,445
Commitments:				
– documentary credits	**9,649**	6,216	**9,649**	6,216
– standby facilities, credit lines and other commitments to lend	**874,648**	832,443	**874,648**	832,443
At the end of the period	**884,297**	838,659	**884,297**	838,659

The local group provides guarantees and standby letters of credit on behalf of third party customers. These are generally provided in the normal course of the local group's banking business. The maximum potential amount of future payments which the local group could be required to make at the end of the period is disclosed in the table above. The risks and exposures arising from guarantees and standby letters of credit are captured and managed in accordance with the local group's overall credit risk management policies and procedures. Guarantees and standby letters of credits have a term of less than one year.

Guarantees provided by the local group comprise financial guarantees as well as performance and other guarantees. Financial guarantees are within the scope of the impairment requirements emanating from IFRS 9 in view of the fact that these represent irrevocable commitments which exposes the local group to credit risk. In contrast, performance and other guarantees represent transaction-related guarantees and, as such, do not meet the definition of financial guarantees in accordance with IFRS 9. Similarly, standby letters of credit represent exposures relating to particular contracts or to non-financial transactions. In this respect, performance guarantees and standby letters of credit fall outside the scope of the impairment requirements emanating from IFRS 9 in view of the fact that such contracts do not give rise to credit risk. Consequently, the local group assesses whether such contracts give rise to provisions or contingent liabilities in line with the requirements emanating from IAS 37.

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon. As a significant portion of guarantees and standby letters of credit is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

Other contingent liabilities relate to possible future contributions payable to the DCS and the Single Resolution Fund ('SRF'), as well as legal claims against the bank. The DCS provides compensation, up to certain limits, to eligible customers of credit institutions that are unable, or likely to be unable, to pay claims against them. The DCS may impose a further contribution on the bank to the extent the contributions imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate contribution to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the DCS, changes in the level of protected products (including deposits and investments) and the population of DCS members at the time. At 30 June 2024, assets pledged in favour of the DCS comprised debt securities measured at fair value through other comprehensive income with a carrying amount of €13,894,000 (2023: €13,262,000). The Depositor Compensation Scheme reserve amounts to €12,982,000 (2023: €12,372,000). A contingent liability for an identical amount is disclosed in the table above to reflect the possibility that this commitment becomes payable.

In addition, in accordance with article 70(3) of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, the available financial means of the SRF may include irrevocable payment commitments which are fully backed by unencumbered collateral of low-risk assets. The share of irrevocable payment commitments cannot exceed 30% of the total amount of contributions. At 30 June 2024, irrevocable payment commitments to the SRF amounted to €1,760,000 (2023: €1,760,000), reflecting cash collateral in respect of the total payment commitment obligation to the SRF. The cash collateral is classified within 'Other assets' in the statement of financial position. In addition, a contingent liability for an identical amount is disclosed in the table above to reflect the possibility that this commitment becomes payable.

Other contingent liabilities also include legal claims against the local group and the bank amounting to €1,818,000 (2023: €1,794,000) and €1,753,000 (2023: €1,744,000) respectively. Based on legal advice, it is not considered probable that settlement will require the outflow of economic benefits in the case of these legal claims, or the amount of the obligation cannot be reliably measured. The above commitments exclude commitments in relation to capital expenditure.

The local group also enters into loan commitments in the form of documentary credits, undrawn formal standby facilities and credit lines and other commitments to lend. These represent irrevocable commitments to lend and, as such, give rise to an exposure to credit risk in the event that these contracts are fully drawn and the client defaults. The local group measures ECL in respect of such commitments in accordance with the impairment requirements emanating from IFRS 9.

The expected credit loss allowances relating to guarantees, standby letters of credit and loan commitments is disclosed in Note 4.

11 Asset encumbrance

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 local 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 2024 €000	31 Dec 2023 €000	**30 Jun 2024 €000**	31 Dec 2023 €000
Total assets	**7,687,892**	7,660,919	**6,994,833**	6,986,350
Less:				
Debt securities pledged in terms of Depositor Compensation Scheme	**13,894**	13,262	**13,894**	13,262
Less:				
Cash pledged in terms of the Recovery and Resolution Regulations	**1,760**	1,760	**1,760**	1,760
Less:				
Other assets that cannot be pledged as collateral	**840,432**	838,432	**167,746**	172,199
Assets available to support funding and collateral needs	**6,831,806**	6,807,465	**6,811,433**	6,799,129

Out of the €6,832,000,000 (2023: €6,807,000,000) assets available for the local group and €6,811,000,000 (2023: €6,799,000,000) for the bank, €3,669,000,000 (2023: €3,873,000,000) do not form part of the local group's and the bank's High Quality Liquid Assets ('HQLA') and are therefore not categorised as liquid assets. Debt securities and loans and advances to customers pledged against the provision of credit lines by the Central Bank of Malta amounting to €86,271,000 and €91,716,000 respectively (2023: €93,113,000 and €109,665,000) are being treated as unencumbered assets since the nature of these exposures makes them available for immediate release.

At December 2023, the Single Resolution Board ('SRB') has reached the target level for the SRF. As a result, the regular annual contribution was not collected for 2024 (2023: €247,000).

The debt securities pledged in terms of the DCS increased by €632,000 during the period ended 30 June 2024 (2023: €2,157,000).

12 Transactions with related parties

There were no changes in the related party transactions described in the Annual Report and Accounts 2023 that have a material effect on the financial position or performance of HSBC in the half-year to 30 June 2024. All related party transactions that took place in the half-year to 30 June 2024 were similar in nature to those disclosed in the Annual Report and Accounts 2023.

Statement pursuant to Capital Markets Rule 5.75.3 issued by the Malta Financial Services Authority

I confirm that to the best of my knowledge:

– the interim condensed consolidated financial statements give a true and fair view of the financial position of the local group and the bank as at 30 June 2024, 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 Capital Markets Rules 5.81 to 5.84.

Geoffrey Fichte

Chief Executive Officer

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