BOV Bank of Valletta

ANNUAL REPORT 2022

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GENERAL INFORMATION

BOARD OF DIRECTORS

Gordon Cordina (Chairman)
Kevin J Borg
Miguel Borg
Diane Bugeja
Elizabeth Camilleri
Kenneth Farrugia
James Grech
Alfred Lupi
Anita Mangion
Alfred Mifsud
Antonio Piras
Deborah Schembri
Godfrey Swain
Stephen Agius *(resigned 2 June 2022)*
Rick Hunkin *(resigned 12 October 2022)*

COMPANY SECRETARY

Ruth Spiteri Longhurst

EXECUTIVE COMMITTEE (ExCo) as at 31 December 2022

Kenneth Farrugia *(Chief Executive Officer)*
Ernest John Agius *(Chief Operations Officer)*
Joseph Agius *(Chief Technology Officer)*
Simon Azzopardi *(Chief Wealth Management Officer)*
Izabela Banas *(Chief Financial Officer)*
Miguel Borg *(Chief Risk Officer)*
Ray Debattista *(Acting Chief People & Change Officer) (Observer on ExCo)*
Albert Frendo *(Chief Business Banking Officer)*
Anatoli Grech *(Group Chief Compliance Officer)*
Theodoros Papadopoulos *(Chief Digital, Strategy & Transformation Officer)*
Roderick Meilaq *(Secretary)*

AUDITORS

KPMG

LEGAL ADVISORS

Camilleri Preziosi

NOTICE OF MEETING

The Annual General Meeting of the Bank will be held at the Grand Master Suite, Hilton Malta, St Julian's, on Thursday 25 May 2023 at 10.00 a.m.

ADDRESS

BOV Centre,
Triq il-Kanun, Central Business District,
Santa Venera CBD 4060 - Malta

Registered Office:
58, Triq San Żakkarija,
Il-Belt Valletta VLT 1130 - Malta

Registration Number: C 2833

Bank of Valletta p.l.c. is a public limited company licensed to carry out the business of banking and conduct investment services by the Malta Financial Services Authority. Bank of Valletta p.l.c. is an enrolled tied insurance intermediary of MAPFRE MSV Life p.l.c. (MMSV). MMSV is authorised and regulated by the Malta Financial Services Authority to carry on long term business under the Insurance Business Act 1998.

Since last publication there were no changes to the name of the reporting entity.

Gordon Cordina

Chairman

ESG CAFC NRC NED *

Dr Gordon Cordina is a leading economist in the Maltese Islands, with a professional experience spanning 25 years covering banking, policy-making, academia and private sector consultancy. He serves as Chairman of the Board of Directors and ESG Committee and is also co-chairman of the Nominations and Remuneration Committee. Dr Cordina is a graduate of the University of Cambridge and the University of Malta. His main area of academic interest is the growth and macroeconomic dynamics facing economies that are prone to heightened risks.

Dr Cordina has several years of Board and Risk Committee experience in major financial institutions in Malta, amongst which at Bank of Valletta p.l.c. Dr Cordina served as Manager of the Research Department of the Central Bank of Malta, Director General of the National Statistics Office of Malta, Head of the Economics Department of the University of Malta and Economic Advisor to the Malta Council for Economic and Social Development. Through the private consultancy firm he co-founded in 2006, he is involved in a number of local and international research projects and consultancy assignments with institutions including the EU Commission, NGOs and private sector entities. Dr Cordina is a visiting senior lecturer at the University of Malta.

Dr Cordina was appointed Chairman of Bank of Valletta p.l.c. in October 2020, of MAPFRE MSV Life p.l.c in September 2021 and director of MAPFRE Middlesea p.l.c. in September 2022.

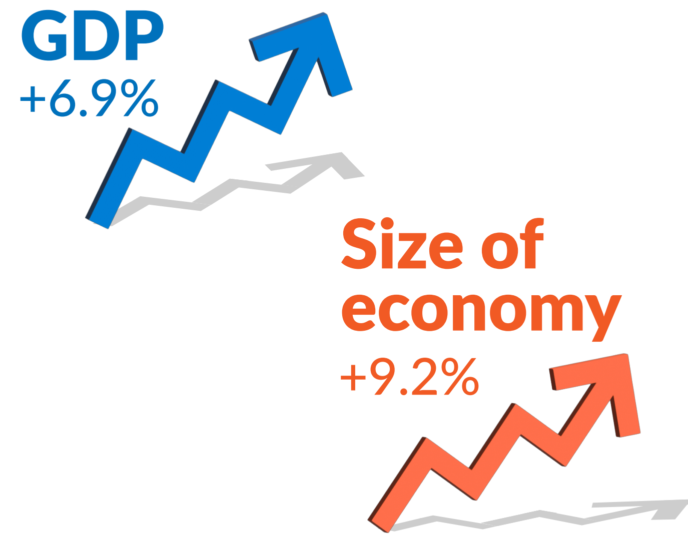
Chairman's statement

Gordon Cordina
Chairman

3 Positive outcomes for 2022

- *Resolution of Deiulemar case*
- *Removal of Malta from the FATF's increased monitoring process*
- *Issuing of Callable Senior Non-Preferred Notes on the International Market*

THE ENVIRONMENT WE OPERATE IN



In 2022 the international economic landscape was shaped by three interrelated developments. As anticipated, the global economic recovery from the COVID-19 pandemic progressed further, and positively, growth generally turned out higher than expected. However, this rapid pick-up in international demand strained again supply chains, causing prices to rise. This effect was amplified by the outbreak of the war in Ukraine, whose consequences produced a second major shock within a short period of time. The economic effect of this conflict was a surge in worldwide inflation, thus unleashing a problem which countries had not experienced for many years. In response, central banks across the globe have raised official interest rates significantly in 2022 and have done so in bigger and quicker steps than normal. Further interest rate tightening is planned for 2023. A decade-long period of exceptionally accommodative monetary policy ended, and such conditions are unlikely to be repeated in the foreseeable future.

Notwithstanding such economic headwinds from abroad, Malta's economy continued to exhibit strong dynamism in 2022. The restructuring undergone by the economy over the years, which resulted in sectors gaining in importance and allowing for more even distribution of activity, has paid off in terms of sustaining the country's resiliency. In 2022, real GDP grew by 6.9%, and as a result, the economy's size was 9.2% larger than in 2019. At a macro level, the rebound from the pandemic shock was thus complete, even though in the case of the hardest-hit tourism sector there is still some further progress required. On a positive note, recovery in tourism in 2022 was generally stronger than originally anticipated and this augurs well for the achievement of the target of full recovery by 2024.

The suite of published forecasts for the Maltese economy indicate that the country is expected to continue growing despite the challenges posed by inflation and the higher interest rate scenario. The future annual growth is however likely to be closer to the long-term average of around 4%, rather than the exceptionally high rates which were recorded in some years before the pandemic.

In 2022, household consumption has continued to expand, boosted by the release of pent-up demand, and supported by the growth in jobs and the confidence offered by a historically low unemployment rate. Malta's labour market proved resilient despite the end of the government's wage supplement scheme, which had been in place to protect jobs since the beginning of the pandemic. In turn, so far, there have been no signs that the spike in Malta's annual inflation, which in certain months exceeded 7%, has created any significant downside impact on consumption patterns.

The high inflation rate, which had not been anticipated at the beginning of the year, was in sharp contrast with the low rates recorded in Malta over the past decade. Still, the price shock which faced resident households and businesses was lower than that experienced across the euro area, because of the government's decision to freeze energy prices. The additional fiscal cost in the form of subsidies to the energy supplier meant that in 2022 the fiscal deficit remained high, despite the phasing out of pandemic-related support.

The exceptionally strong fiscal support which has been in place since 2020 has pushed Malta's public debt close to the 60% of GDP benchmark, reversing most of the decline which had taken place over the previous decade. In a very small open economy, it makes sense for the government to assume a key role in stabilising the economy and protecting households and businesses against temporary external shocks. However, in the eventuality that part of the energy price shock turns out to be permanent, it is important that an appropriate exit strategy is established and communicated in a timely manner to enable economic agents to absorb the shock smoothly.

Apart from the partial protection against inflation, most bank borrowers in Malta have to date also been shielded from the 250 basis points interest rate increases implemented by the European Central Bank in 2022. The latter aided BOV's profitability as the new interest rate environment enabled the bank to save costs which were previously incurred when depositing excess liquidity with the central bank. Moreover, the rise in international interest rates generated higher revenue from the subset of borrowers whose interest rate is directly linked to foreign rates. At the same time, BOV's strong funding, underpinned by resident deposits, offered leeway for the bank to postpone the normalisation of its lending rates for households and small businesses. When setting its base rate for loans and deciding on the types of deposit products to offer, BOV will remain guided by its objective to strike the right balance among all its stakeholders, while ensuring that changes are gradual and well communicated. As Malta's largest bank, BOV is conscious that its actions have a material impact on the economy and is a key enabler of the country's economic prospects.

In 2022 there were three positive highlights for BOV which augur well for the Bank's future. Firstly, the resolution of the Deiulemar case, through an out-of-court settlement, although producing a one-off significant impact on the yearly financial performance, has eliminated a serious litigation risk which could have acted as a serious drag on BOV's operations. Secondly, the announcement that Malta was no longer subject to the FATF's increased monitoring process, eliminated the risk of a prolonged grey listing status, which could eventually have impacted BOV's performance and its ability to service clients effectively. Thirdly, the successful issue of Callable Senior Non-Preferred Notes on the international market will allow BOV to meet its statutory requirements and be able to expand its activities when these fit within its risk appetite.

Both the resolution of the Deiulemar case and the issue of the international notes have placed the Bank on a significantly more secure footing to plan its business.

Recent years have been challenging for the Bank and resulted in a period where no dividends were distributed. The Board considers it prudent to maintain this stance for the time being, to support the capital and liquidity of the Bank, and to meet the regulatory expectations. Once conditions improve, and subject to the guidance provided by the competent authorities, the Board intends to re-establish the pattern of stable and predictable distribution of dividends.

In 2023, the Board will be approving a new strategy for the bank to cover the period 2024 to 2026. The updated strategy will place more emphasis on the customer, while aiming to have in place the right digital means and meet the regulatory expectations which have increased over time.

Renewal is essential for BOV to continue occupying a leading role in Malta. In this respect, the Bank recognises the need to face and embrace the challenges and opportunities brought about by technology. In 2023 BOV will continue its journey to shape banking in Malta into the future, while remaining customer centric. BOV is also determined to be a leader in the shift towards a new paradigm, where through its actions it can help focus on the broader concept of wellbeing which factors environmental, social and governance goals.

Over the years, the Bank has been there to support the community. In the coming years the Bank will be taking its mission to the next level, by undertaking a leading role in ESG matters. This objective will not only shape how the Bank acts in shouldering its own responsibility towards climate, environmental and social concerns, but it will also guide the way we offer our services, to foster a culture of responsibility towards ESG among our clients too. This priority will be in line with the ESG regulatory requirements which over time are likely to become more onerous and be consistent with new market expectations in this sphere.

Changes have been implemented and more will be necessary, but there is increasing confidence about a brighter future. I thank our shareholders for their continued support. Now that the COVID-19 pandemic is behind us, the Bank looks forward to improved interaction with our shareholders. I also thank the executive team and staff for their valuable work and commitment to support the bank's performance. We have reached a good stage of our improvement journey.

BANK'S POSITION WITHIN THE MARKET

LEADER | *INNOVATOR* | *CATALYST*

30 BRANCHES *offering all services*

1 WEALTH MANAGEMENT CENTRE

1 CORPORATE FINANCE CENTRE

4 AGENCIES *offering deposit services*

5 INVESTMENT CENTRES

5 BUSINESS CENTRES

1 SUB AGENCY

Kenneth Farrugia
Director & CEO
ED

Mr Kenneth Farrugia is the Chief Executive Officer of Bank of Valletta p.l.c. Mr Farrugia sits on the Board of Directors of the Bank as an Executive Director, chairs the Executive Committee and is a member of several management committees. Mr Farrugia also chairs the Board of Directors of BOV Fund Services Limited and sits on the Board of Directors of BOV Asset Management Limited.

Mr Farrugia began his career at Bank of Valletta in 1985. Over this period, he has occupied various executive positions covering the Bank's asset management, retail banking and credit business areas.

Mr Farrugia also occupied various financial services related industry positions including Chair of the Malta Asset Servicing Association, Chair of Malita Investments p.l.c which is listed on the Malta Stock Exchange, board member of the European Fund and Asset Management Association as well as Chair of FinanceMalta, Malta' national promotional body for the financial services industry.

Mr Farrugia is a Harvard Business School Alumnus, having completed a General Management Program at Harvard Business School.

CEO's Commentary

OPERATING INCOME

€293.4 million

+21%

NET INTEREST INCOME

€201.9 million

+29%

NET FEE AND COMMISSION INCOME

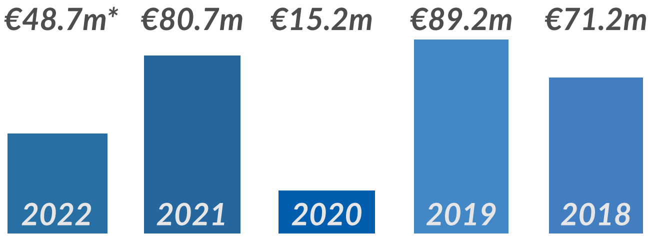
€76.6 million

+2.6%

As I reflect on the key events that shaped this financial year, FY2022 has yet again followed on the heels of the previous year and ended to be both challenging and rewarding in equal measure. As the world was gradually emerging from the pandemic, the war in Ukraine brought about the onset of significant instability, economic sanctions against Russia, an unprecedented surge in inflation as well as the ensuing decision by the world central banks to increase interest rates in strong succession. These developments have all left their mark in one way or another on the global world economies to include Malta. On the other hand, on the positive side, the removal of Malta from the grey-list as well as the Bank's settlement of the Deiulemar legal case, despite the negative financial impact of its resolution, gave a positive tone to the year under review.

Despite these challenges, as a result of the Bank's strong franchise in the domestic market and robust business model foundations, we managed to deliver strong organic growth, while at the same time remaining very well capitalised with a strong capital ratio. In fact, the Bank registered a double-digit year-on-year percentage growth in operating revenue, whilst containing the operating costs to a single digit percentage increase.

PROFITS FOR THE LAST 5 YEARS



**Profit of €151.7 million before the one-off net settlement of €103.0 million Deiulemar litigation.*

Overall, our core commercial banking value streams remained strong during the year as a result of a continued recovery in business activity, which in turn positively impacted the strength and quality of our loan book. We have also carefully managed the inflationary impact on our operating costs, especially in the light of the rising inflation forecasts, which brought about an increase in wages and other operating expenses.

Moreover, during this reporting period, results were positively impacted by a net release of estimated credit losses ('ECL') reflecting better economic conditions relative to FY2021 coupled with significant recoveries of past debts.

These positive results have been driven by the collective collaboration and commitment of our loyal, and highly committed employees. This has enabled us to further drive forward our strategic journey towards a lean, and at the same time digital led, business and operational model. Our key focus remains centred around the optimisation of our business and operational model aiming to ensure that we create and deliver value to our customers and other key stakeholders, in order to meet, and possibly exceed, their expectations.

Financial performance of the Group

Bank of Valletta Group delivered a profit before tax for FY2022 of €48.7 million compared to €80.7 million achieved in the previous year. However, when one considers the one-off net settlement of €103.0 million Deiulemar litigation, inclusive of legal fees, which took place in May 2022, the profit before tax was registered at €151.7million, an increase of €71.0 million, or 88% higher when compared to the results in FY2021.

Operating Income

The Group maintained its business momentum in FY2022 and delivered solid revenue growth led by client-driven activities and equally positive interest rate dynamics. Overall, total operating income at €293.4 million, increased by €50.4 million or 21%, compared to 2021 with the most significant increase notable in net interest income ('NII').

Net interest income

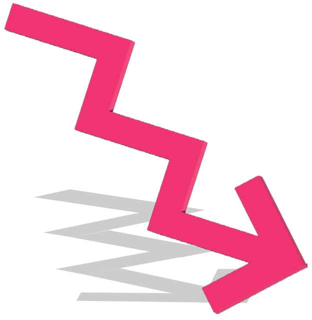
Net interest income generated during FY2022 was €201.9 million compared to €156.3 million in the same period last year and remained the main revenue driver representing 69% of operating income.

Healthy growth in both the corporate and personal lending portfolios was significantly supported by the rising of interest rates in the Eurozone as of mid-year 2022 which reduced the burden of interest expense paid. Back in 2016, the European Central Bank ('ECB') had introduced a negative interest rate which had, year on year, a noteworthy negative impact on NII performance. This stemmed from the Bank's high levels of liquidity, resulting in interest being charged on the surplus overnight funds deposited with the Central Bank of Malta. Consequential to the ECB's interest rate rises in 2022, negative interest has firstly reduced significantly and then moved to positive territory. Furthermore, a decrease in interest expense relating to term deposits of €4 million has also played a role in the reduced interest expense.

TOTAL COSTS

€192.6 million

-1.5%



Commissions and other income

Commission income increased by 2.6% on a year-on-year basis across all business lines partially subdued by weaker performance in investment services due to the dampened investor sentiment and volatile capital markets. Half-way through the year, the high balance fee for our corporate clients was removed as this was directly related to interest rate environment. Further growth was driven by the fair value movements particularly those on equity investments that are measured at Fair Value Through Profit or Loss reflecting latest share prices.

Costs

Total costs for FY2022 amounted to €192.6 million which results in a 1.5% decrease over that registered in FY2021.

Operating costs, which exclude strategic initiatives costs of €7.8 million, stood at €184.8 million (2021: €172.5 million) up by 7.1% or €12.3 million compared to prior year. This increase was mainly driven by human capital requirements in specialised areas and associated growth in average compensation. During the year, BOV introduced a voluntary occupational pension scheme as well as stepped up its early retirement scheme which further contributed to higher employee costs. Regulatory costs have declined compared to FY2021 in view of the change in Deposit Guarantee Scheme ('DGS') legislation back in October 2022 coupled by a slower growth in customer deposit levels (2022: 3% increase whilst FY2021: 8% increase).

The pace of strategic change continued to be critically balanced with the Bank's obligation to deliver superior controls in line with regulatory requirements, the optimisation of the Bank's operations and the thrusts to further strengthen the customer service experience. To this end, strategic initiatives investment for FY2022 was at €7.8 million versus €23.1 million in FY2021. The year under review has seen the modernisation of several processes through business process re-engineering as well as the automation initiatives driven by robotic process automation and the introduction of an online solution for home loans.

Releases of credit provisions

During this financial year, the Bank has experienced a net release of Expected Credit Losses ('ECL') of €49.1 million (FY2021: €18.9 million net release). The main factor behind this shift was the decision, taken earlier in the year, to release COVID-19 provisions amounting to €24.9 million booked in prior years. Throughout FY2022, the impact from the COVID-19 pandemic continued to decline as Malta shifted gradually back to normality.

As at December 2022, the Bank implemented a new internal credit rating system ('ICRS') to support the management of its business loan portfolio. This new model enables the Bank to differentiate between different credit profiles as from the origination of credit exposures, avoiding concentration in a few grades. The ICRS model was integrated with the ECL model which has now been enhanced to cater for further triggers indicating significant increases in credit risk across the business portfolio. During the first half of FY2023, the Bank will be working on a similar model for the Retail loan portfolio.

The outcome of the ECL model, €7.1 million release, is a combination of drivers emanating from the introduction of the new ICRS, changes resulting from the annual model calibration exercise and changes on the credit portfolio in terms of volumes, asset quality and collateral coverage.

A further release in expected credit losses of €13.3 million relates to changes in post-model adjustments held against the non-performing portfolio as at December 2022. This release represents a reversal of prior year adjustments on loans in the non-performing category for less than 4 years and other reversals driven by changes in the non-performing portfolio resulting from settlements and write-offs. The non-performing exposures, particularly long outstanding, are deemed as highly risky in terms of recoverability. This supports the need for further provisions in addition to those resulting from the ECL model.

The Bank continues to monitor and closely manage the portfolio of non-performing loans and as at December 2022, the non-performing exposures ('NPE') ratio improved from 4.1% in 2021 to 3.5%, whilst the stock of NPLs decreased by €17.5 million. During the year a total of €11.4 million charge in provisions resulted from write offs of credit-impaired assets. The latter were offset by €15.1 million in recoveries from past debts. The ECL coverage of the credit impaired assets is marginally lower at 53.8% (2021: 54.1%).

Share of profit from Associates

The Group's share of profit from insurance associates for the year resulted in a profit of €1.9 million (2021: €14.5 million profit), a significant decline of €12.6 million compared to the comparative period, largely driven by the volatility of global financial markets during the year and rising interest rates.

Balance Sheet position

Total assets of the Group stood at €14.5 billion as at 31 December 2022, marginally higher than the comparative year (2021: €14.4 billion). The funding of the Bank remains primarily through customer deposits with more than half of these driven by retail deposits. Customer deposits as at end of 2022 amounted to €12.5 billion resulting in a growth of a further 3% compared to December 2021 (2021: €12.2 billion). Growth was experienced in both retail and corporate deposits with increases in retail deposits at a much higher rate than that of business clients. Earlier in FY2022, measures were taken by the Bank to manage the growth in liquidity, namely by decreasing interest rates and refraining from offering term deposit products. The Bank closely monitors its liquidity position and aims to offer stability to the market by balancing out the net impact arising from positions held in customer deposits as well as loans and advances.

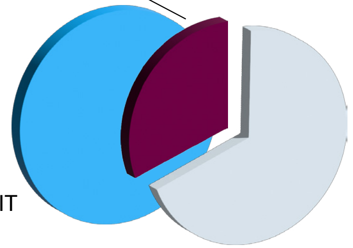
Increasing Eurozone interest rates brought about new market opportunities easing excess liquidity from the €4.6 billion reached as at December 2021 to 3.4 billion for December 2022 leading to a growth in investments, primarily in Euro denominated securities, of €1 billion or 28% when compared to December 2021. Effective rate of return on treasury investments improved from 0.40% in 2021 to 0.47% in 2022 with the increase mainly driven from securities in foreign currency. Most of the treasury assets are measured at amortised cost reflecting the Bank's primary business model to hold securities until maturity with a view to collect interest revenues over the life of the investment.

In order to meet regulatory requirements pertaining to the minimum requirement for own funds and eligible liabilities ('MREL'), on 6 December 2022, the Bank issued €350 million Callable Senior Non-Preferred Notes with the final maturity date of the notes being 6 December 2027 at coupon rate of 10% per annum. The issue attracted an order book of high-quality money accounts of around €460 million, with amounts evenly split between domestic and international investors. Investor participation was a diverse one, with official institutions accounting for around 32.1% of the Notes allocated, followed by public and private banks at 28%, asset managers at 24.5% and hedge funds at 13.1% (other 2.3%). In terms of geographical diversification, domestic accounts were allocated 53.7% of the final size and 46.3% were allocated to a portfolio of international investors. These notes are traded on the Irish Stock Exchange. This issue will also allow the Bank to increase its lending book and expand investment horizons of its treasury operations.

Net loans and advances to customers amounted to €5.6 billion, an increase of €436.4 million during the year, up 8.4% compared to FY2021. Retail gross balances grew by 8.5% with home loans dominating this segment whilst business balances contributed at a growth rate of 6.6% versus prior year.

The Bank's liquidity ratio as at year end stood at 426%, down from 444% as at December 2021. This drop reflects the decrease in liquid assets year on year as these were transformed into investments yielding a higher rate of return. Notwithstanding, the Group's liquidity position remains significantly above the minimum regulatory requirement. The Group's gross advances to deposits ratio stood at 46%.

DEIULEMAR EFFECT ON PRE TAX PROFIT



As stated earlier, post the Deiulemar settlement, the Group's capital ratios remained strong and above regulatory requirements, with the CET 1 and total capital ratios as at 31 December 2022 of 21.79% (December 2021: 21.90%) and 25.39% (December 2021: 25.53%), respectively.

Deiulemar settlement

In May 2022, the Bank reached an out of court settlement agreement, without any admission of fault, bringing all legal claims surrounding the Deiulemar issue to an end. The Bank shall not have any further ongoing contingent or actual liability relating to this claim. The impact of this settlement is that BOV's 2022 profitability has been impacted by €103 million, which is the settlement of €182.5 million less the provisions already raised by the Bank in view of previous offers and assessment of legal costs.

BOV has been conservatively preserving capital to ensure it can withstand any eventuality and that this settlement would not impact our ability to comfortably meet continuing regulatory capital requirements. A total of €363 million in pledged assets previously held with an Italian bank are now free from any encumbrance. Released capital may be used to explore additional business opportunities and improve shareholders' value. The Bank has sufficient capital to maintain its ratios well above regulatory requirements, including buffers.

Anti-Financial Crime Transformation

One of our key strategic objectives remains that of implementing the most effective standards to combat financial crime. During 2022 we continued to invest in strengthening our financial crime compliance capabilities across the group to enable us to combat financial crime pro-actively and effectively. We have embarked on a large project to optimise our pre and post transaction monitoring capabilities. We are also undergoing a process to review our client base in a proportionate and risk sensitive manner. We understand, and regret, that the latter process can cause an inconvenience to some customers however this interaction is necessary in view of our regulatory obligations, the expectations of the regulators and ultimately to protect our customers and the jurisdiction. We are also implementing digital solutions that will lead to more efficient interaction with our customers. Financial crime compliance will remain at centre of our focus in the future years and it is equally important that other subject persons in Malta strive to retain the standard reached over the past months which have also led to Malta's removal from the FATF grey list in June 2022.

Strategy Update

In 2020, the Board approved a strategy which planned to take BOV on a transformation journey over three years – BOV 2023. Although external factors such as COVID-19, legal embattlements and the economic effects of the outbreak of the war in Ukraine posed several challenges, we continued moving forward with our strategic ambitions of digitalisation and simplification.

During the subsequent two years, we invested in regulatory and mandatory projects, which led to a lower overall investment level during 2022 as many costs were front-loaded. Despite the regulatory focus, migration to alternative channels has been robust. We implemented several quick wins on service delivery using the latest techniques to provide low-cost-high speed improvements. Moreover, the Bank took forward the re-engineering of a number of processes as well as the streamlining of procedures to deliver customer service improvements.

Through digitalisation, we have already seen early signs of benefit in terms of the faster growth of the Bank's investment and lending businesses. One such initiative was the launch of the Home Loans digital portal, which is providing our customers with ease of access to a home loans financing calculator and the ability to apply for a home loan through a completely digital channel. We have also invested significantly in our credit and wealth management back-office processes to deliver more robust controls to reduce complexity without impacting customer service. On the same note, the branch modernisation programme kicked off in 2021 and is making headway. Four branches are now fully renovated with a refreshed, eco-friendly, and customer-centric layout. Additional branches across the network will undergo similar renovation in the coming months. Another area the Bank has started working on alongside the transformation is the enhancement of internal data capabilities. Through this initiative, the Bank is aiming to markedly strengthen its understanding of the customer. Several other data quality enhancements are also underway which will also support future product development and customer value propositions.

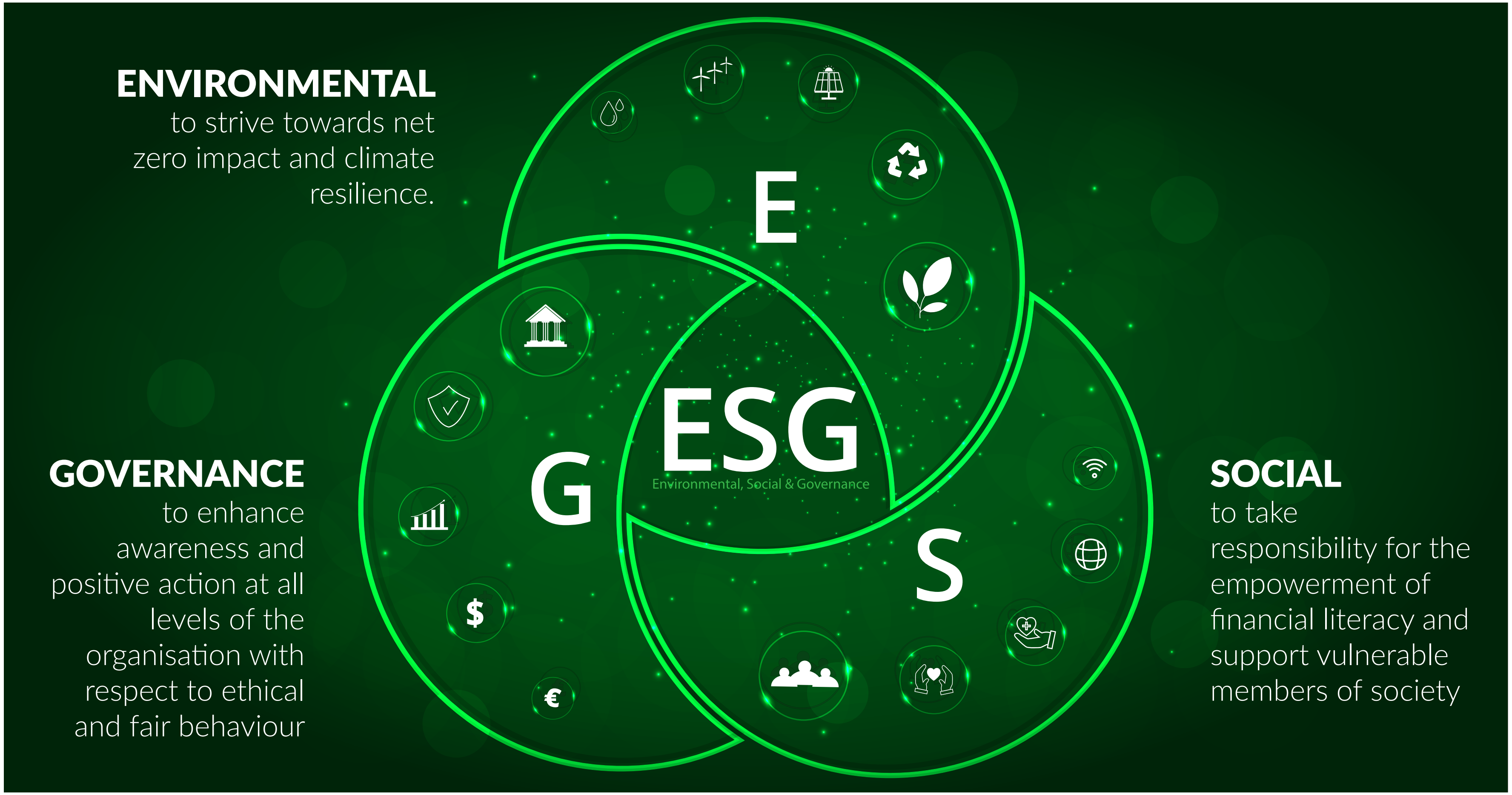
Overall, we have made good progress in many areas, and further improvements are in the pipeline. However, we needed to balance the pace of change we desire when managing staff through a significant transformation whilst continually improving the Group's risk and control environment to ensure compliance with current, new, and emerging regulatory requirements.

Closing statement

I would like to express my deep appreciation to our customers, shareholders and business partners who have played an important role in the achievement of these results. In particular, I am grateful to continue experiencing the loyalty and commitment of our employees, as they strive to support our customers and their requirements, while at the same time maintaining our commitment to responsible and sustainable banking practices. They have exemplified our mission to add and create value to our customers and the Bank and I am proud and grateful to each one of our employees for the results they achieved during this reporting period. I also wish to thank my fellow colleagues on the management team that have once again shown great dedication, energy and care. We are excited about the opportunities ahead of us and we look forward to continue progressing further in FY2023 as we take forward our ambitious transformation program.

Going forward, we will remain anchored to maintain a strong balance sheet, sustain our business value streams, nurture our investment in the Bank's human capital, strengthen our risk, governance and controls, remain relevant to our customers, and lastly support the development of the community we operate in by embedding ESG principles in our business and operational model.

During the course of FY2023, we are also excited to actively develop and prepare a new 3-year strategic plan – BOV2026. Our strategic thrusts revolving around our Customers, Operations, Risk Management and our People will be driven by both Data and Digital led initiatives as key enablers, ensuring ESG is embedded in our business and operational model in the process.



Dr Gordon Cordina
Chairman

Kevin J Borg
Non Executive Director

James Grech
Non Executive Director

Antonio Piras
Non Executive Director

Kenneth Farrugia
Chief Executive Officer
Executive Director

Miguel Borg
Executive Director

Alfred Lupi
Non Executive Director

Deborah Schembri
Non Executive Director

Dr Diane Bugeja
Non Executive Director

Anita Mangion
Non Executive Director

Godfrey Swain
Non Executive Director

Elizabeth Camilleri
Non Executive Director

Alfred Mifsud
Non Executive Director

Dr Ruth Spiteri Longhurst
Group Company Secretary

Kevin J. Borg

Director

NRC NED *

A graduate in Economics, Mr Kevin J Borg is an accomplished professional with almost 25 years experience in leadership of the business community with the Malta Chamber of Commerce, Enterprise and Industry, having occupied the position of Director General for almost 15 years and various other roles within the Chamber prior to that. Over the years, though these positions, Kevin built himself a distinct reputation for integrity and professionalism with all stakeholders he has connected with including entrepreneurs, political leaders and social partners.

Mr Borg is currently a member of the Nominations and Remuneration Committee. He is also the Chief Executive Officer of the Malta Maritime Forum and Consultant to the Malta Employers' Association.

Through his previous position, Mr Borg sat on a number of national boards including the MCESD, MEUSAC, Education Malta, Malta Business Bureau, and the Retail Price Index Board besides BusinessEurope and Eurochambres at the European level.

Amongst other projects during his time at the Chamber, Kevin was actively involved in the EU accession preparations for Malta as well as in the merger process with the Federation of Industry which took place in 2009.

Appointed to the Board in May 2021.

Miguel Borg

Director

ED

Mr Miguel Borg is the Chief Risk Officer and an Executive Director of Bank of Valletta p.l.c. He serves as the Deputy Chairman of the Executive Committee and chairs the Credit Committee, the Internal Control & Risk Committee and the Credit Sanctioning Committee of BOV. Mr Borg is a Director of BOV Fund Services Limited and chairs the Risk Committee of the company. He also chairs the Risk Committee of MAPFRE MSV Life p.l.c. Prior to joining the Bank, he worked at the Central Bank of Malta. Mr Borg holds a Masters in Economics and is a member of a number of international risk management associations. Mr Borg serves as a member of the Ethics Committee of PRMIA (USA). Mr Borg lectures at the University of Malta.

Appointed to the Board in August 2017.

Dr Diane Bugeja

Director

CAFC NED *

Dr Diane Bugeja currently chairs the Compliance and Anti Financial Crime Committee. Dr Bugeja is a lawyer by profession practising primarily in financial services law, financial regulation and anti-financial crime compliance. She is currently a Senior Associate at Camilleri Preziosi Advocates. Prior to joining Camilleri Preziosi, Dr Bugeja held the post of Senior Manager at a Big Four audit firm, working in Malta and in London, and subsequently joined the enforcement departments of the UK Financial Conduct Authority and the Malta Financial Services Authority.

Dr Bugeja holds a Ph.D in law from King's College London and a M.Sc from the London School of Economics and Political Science. Dr Bugeja is also a visiting lecturer at the University of Malta.

Appointed to the Board in December 2019.

Elizabeth Camilleri

Director

ESG NED *

Ms Elizabeth Camilleri is a member of the ESG Committee. She is a digital growth and transformation specialist, working with boards and C-Level executives across a number of B2C and B2B2C sectors worldwide.

Born and educated in Malta, Ms Camilleri subsequently moved to the UK for her MBA at London Business School specialising in strategy and digital innovation. It was there that she found her passion for data and digital transformation and its power to enable any organisation to compete in a fast-changing environment.

Ms Camilleri currently sits on a number of boards and advises others on digital transformation and the creation of exponential growth through the use of data and technological innovation. Before that, she had founded and built a market tech company (Shopological) which she sold in 2019. Previous roles encompassed working at global organisations such as Gartner (Head of Strategy Consulting), Orange Global (Growth Strategist for the Board), PWC (Consultancy, Malta) and mid-sized companies such as eDreams (Marketing Director) and Biochemicals (Malta, Export Marketing Manager).

Appointed to the Board in May 2021.

James Grech

Director

NED

Mr James Grech's career commenced as a management accountant with a local accounting firm. He later joined the Bank in 1998 and is currently the Executive Head of Foreign Bank Relationships Department. He served on the Compliance, Risk Management and Audit Board committees. He was also a member of the ALCO management committee. He is a member of the Strategy and Advisory committee. Mr Grech was the Chairman of Malta Industrial Parks and to date is the Chairman of Gozo Channel Holding Company Limited and a director of other local companies. He holds an Honours Degree in Management and a Masters in Business Administration from Henley Management College (UK). His dissertation focused on the effectiveness of Board Performance and Corporate Governance. Mr Grech has lectured on Financial Services at the Malta College of Arts, Science and Technology, and on Corporate Governance at the University of Malta.

Appointed to the Board in 2004 till 2008. Re-appointed to the Board by the shareholders in the respective AGMs in December 2014 to date.

Alfred Lupi

Director
A NED *

An Accountant by profession, with a university degree in economics, Mr. Lupi was the Chief Financial Officer of two major companies in Malta and the Executive Chairman of a supermarket group. He was also a director of the Central Bank of Malta, chairing its Audit Committee and also served as Acting Governor. For a number of years he chaired the Accountancy Board and was subsequently a member of its Quality Assurance Oversight Committee. Mr Lupi has held a number of board appointments mainly in the financial sector.

Mr Lupi was Interim Chairman of the Bank from May 2020 until October 2020. He currently chairs the Audit Committee and serves on the board of BOV Fund Services Limited.

Appointed to the Board in December 2015.

Anita Mangion

Director
ESG CAFC NED *

Since her appointment on the Board of Bank of Valletta p.l.c. in 2016, Ms Anita Mangion has served on various committees: Audit, Remuneration and Compliance Committee. She has also chaired the Digitilisation and Fintech working groups and co-chaired the Board's Strategy Advisory Group. Ms Mangion is currently a member of the ESG Committee and the Compliance and Anti-Financial Crime Committee. In November 2021, Ms Mangion was appointed Non Executive Director on the boards of Vilhena Funds Sicav and the BOV Joseph Calleja Foundation.

Ms Mangion is an experienced Strategy and IT consultant: specialised in Corporate Governance, Business Optimisation and Digital Transformation; passionate on ESG, FinTechs and Innovation. For almost two decades, she consulted in such matters diverse local and international entities where she successfully drove enterprise-wide projects and implemented sustainable profitable frameworks. Her professional career started at MFSA and the Malta Stock Exchange before moving to senior roles in the Telecoms and IT sector and subsequently to advisory, where she now collaborates with Tech Giants, C-suite executives and boards. Ms Mangion holds an Executive MBA (eBusiness); B.Com. Management Hons and B.Sc. Business and Computing (University of Malta). She also studied Business and IT at Indiana University-USA; Technology Entrepreneurship and New Business Operations at University of Malta in collaboration with Oxford University-UK. She served as Non-Executive Director at Malta Industrial Parks Limited (today named INDIS) from 2013 to 2017, where she was appointed member of the Tenders Committee, Audit Committee and chair of the ICT Steering Committee.

Appointed to the Board in December 2016.

Alfred Mifsud

Director
A R NED *

Mr Alfred Mifsud currently chairs the Risk Committee and is a member of the Audit Committee. Mr Mifsud was previously a member of the Compliance and Anti Financial Crime Committee. Mr Mifsud holds a Masters in Business Administration from Sheffield Hallam University and a Financial Studies Diploma by the former Chartered Institute of Bankers. From 2015 to 2017 he was Deputy Governor of the Central Bank of Malta, with main responsibilities of the monetary policy and banking operations. Prior to that, Mr Mifsud was Chairman of Crystal Finance Investments Limited, a position he held for 15 years. From 1992 to 1996 he was a Governor on the Board of Malta Financial Services Centre which now is MFSA. From 1996 to 1998, Mr Mifsud was Chairman of Mid-Med Bank p.l.c.

Appointed to the Board in December 2019.

Antonio Piras

Director
NRC R NED *

Mr Antonio Piras co-chairs the Nominations and Remuneration Committee and is a member of the Risk Committee. He was previously a member of the Audit Committee. Mr Piras occupies the role of deputy chairman of the Board of Banca UBAE (Rome) and is also the chairman of the Remuneration Committee of Banca UBAE (Rome).

Mr Piras was previously director of the board of Iacobucci Aerospace HF (Rome) and vice chairman of Eurofidi Soc. Consortile Garanzia Fidi s.c.a.r.l. (Turin). Until 2014, he was the CEO of Equitalia Centro S.p.A (Florence) and chairman and CEO of other companies of Equitalia Group.

In 1971, Mr Piras started his career at UniCredit Group, former Credito Italiano, holding various key roles in the Italian commercial network until 1997. Afterwards, Mr Piras was appointed as CEO of UniCredit Factoring (Milan), Deputy General Manager of Banca dell'Umbria, Chairman and CEO of Pekao Leasing Sp.z.o.o (Warsaw) and Leasing Fabryczny Sp.z.o.o (Lublin), CEO of UniRiscossioni S.p.A. (Turin), all companies held by UniCredit, from where he ended his career as Senior Executive Vice President in 2009.

Appointed to the Board in December 2016.

Deborah Schembri

Director
A NED *

Ms Deborah Schembri is a Certified Public Accountant, holds a Masters in Business Administration from Henley Management College (UK) and holds an Advanced Diploma in Retirement Provision pursued with the UK Pensions Management Institute.

Ms Schembri served as the Chairperson of the Malta Association of Retirement Scheme Administrators and possesses successful experience in strategy formulation, corporate governance, business & product development, customer relationships and employee engagement. She has over twenty years experience in the financial services and other local entities, holding C-level positions. She worked with one of the Big Four audit firms and for ten years she also served as the CEO & Managing Director of a financial services organisation.

Currently Ms Schembri holds the role of Group CFO of a major local diversified group of companies operating locally and internationally and also sits on committees within the Malta Chamber of Commerce and the Institute of Financial Services Practitioners.

Appointed to the Board in June 2022 and also serves on the Audit Committee since October 2022.

Godfrey Swain
Director
ESG R NED *

Mr Godfrey Swain is a member of the Bank's Risk Committee, ESG Committee and a Director on the Board of MAPFRE MSV Life p.l.c. He is an international executive with thirty years of banking experience, recently serving as CEO of Myanmar Citizens Bank (MCB) based in Yangon tasked with executing a banking transformational strategy in partnership with the International Finance Corporation (IFC), an arm of the World Bank. Mr Swain previously served as Deputy CEO, Head of Retail Banking and Marketing based in Ho Chi Minh City delivering a growth and modernization mission for Vietnam International Bank (VIB), a large-scale bank with Vietnamese and Australian shareholding.

Mr Swain served as a senior Hong Kong and Shanghai Bank (HSBC) international executive for twenty years holding key roles as Managing Director and Country Head of Retail Banking and Wealth Management for HSBC in Japan, Vietnam and previously Malta where he also held roles of Head of Marketing and Communications and founding CEO/MD of HSBC Life Assurance (Malta) Limited. Mr Swain was a member of the Hong Kong based HSBC Asia Pacific Regional Management team, director on various boards including Life Assurance and Fund Management subsidiaries and EXCO, ALCO, Risk Management and Governance Committee member in the countries and territories where he worked. Mr Swain started his financial services career in Adelaide and Sydney with National Mutual Life, Australia.

Mr Swain is a business graduate from Monash University, holds a diploma in strategic management from Henley School of Management and participated in HSBC executive programmes in London, Hong Kong and Singapore.

Appointed to the Board in May 2021.

Dr Ruth Spiteri Longhurst
Group Company Secretary

Dr Ruth Spiteri Longhurst was appointed Group company secretary in April 2016. Previously she occupied the post of Executive Head of the Compliance Unit within the Bank. Ruth is also the company secretary of MAPFRE MSV Life p.l.c., BOV Asset Management Limited and BOV Fund Services Limited.

Ruth graduated Doctor of Laws from the University of Malta in 2001 and obtained Master of Arts in Financial Services in 2004. Ruth has been employed with the Bank for the past twenty one years.

A	Audit Committee
CAFC	Compliance and Anti Financial Crime Committee
NRC	Nominations and Remuneration Committee
ESG	Environmental, Social, and Governance Committee
R	Risk Committee
ED	Executive Director
NED	Non-Executive Director
*	Independent

Kenneth Farrugia
Chief Executive Officer

Ernest Agius
Chief Operations Officer

Miquel Borg
Chief Risk Officer

Anatoli Grech
Group Chief Compliance Officer

Joseph Agius
Chief Technology Officer

Ray Debattista
Acting Chief People & Change Officer (Observer on ExCo)

Theodoros Papadopoulos
Chief Digital, Strategy and Transformation Officer

Simon Azzopardi
Chief Wealth Management Officer

Elena Dourou
Group Chief Internal Auditor (Observer on ExCo)

Izabela Banas
Chief Financial Officer

Albert Frendo
Chief Business Banking Officer

Ernest Agius
Chief Operations Officer

Ernest Agius was appointed BOV's Chief Operations Officer, in May 2016. He is responsible for the Bank's Administration Functions including Facilities, Security and Health & Safety, Procurement, the Architect's Unit, the Transaction Monitoring & Screening Function, Investment & Custody Operations, Centralised Operations including, Cash, Cheque, ATM and Safe Deposit Lockers Management, Core Banking System Development & Support, SWIFT & SEPA Payments Processing and Reconciliations, Customer On-Boarding including Account Opening and the Customer Lifecycle Management unit.

Ernest joined Bank of Valletta in 2015. With over 35 years of experience within the financial services working for local and global institutions, Ernest has held a number of senior executive positions within the Business, migrating Customers to digital channels and IT. He has vast experience in Banking Operations, Financial Crime Compliance, and has led major transformation projects involving complex technology, automation, and de-risking.

He has been a member of the Executive Committee since June 2016, a member of the Change Management Committee, the Internal Control & Risk Management Committee, Product Governance and Pricing Committee, Change Management Committee, and the Incident Management Team. Ernest sits on the Board of Churchwharf Properties Ltd.

Joseph Agius
Chief Technology Officer

Joseph Agius was appointed Chief Technology Officer in October 2014 and became a member of the Bank of Valletta Executive Committee in October 2016.

Since joining the Bank in 1985, Joseph has garnered over thirty-five years' of experience in IT and Financial Services. During this time, he has been actively involved in the implementation of various mission-critical projects, including the Core Banking Transformation programme.

In his role as Chief Technology Officer, Joseph is responsible for driving the Bank's IT strategy. He is a strong proponent for the modernisation of IT infrastructure and applications whilst running IT as a business with its inherent business value. He supports fellow EXCO colleagues in their technology initiatives.

Joseph holds an Honours degree in Computer Science from the University of Reading and an MBA in eBusiness from Grenoble Graduate School of Business. He is also a Chartered Engineer and a member of the British Computer Society.

Joseph is a non-executive director on the Malta Information Technology Agency's (MITA) Board of Directors and was recently appointed as Chairperson of the Foundation for IT Accessibility (FITA) Board.

Simon Azzopardi
Chief Wealth Management Officer

Simon Azzopardi joined the Bank of Valletta in 1987. He has served in various areas of the Bank including the retail network, corporate lending, strategic planning, and marketing. During his career at BOV, he has occupied various senior positions in Risk Management, International Corporate Centre, Chairman's Office, and various subsidiaries. He was also responsible for the setting up and running of the Cairo representative office. Simon enjoys considerable experience in the provision of investment services. As Chief Wealth Management Officer (appointment date 22 January 2021), he is a member of the Bank's Executive Committee, the Assets and Liabilities Committee, and other executive committees. He currently is a Director on the Board of BOV Fund Services. He is also a member of various committees which include, the MMSV Investment Committee, the MMS Investment Committee, the Investment Committee BOV Asset Management, and the Risk & Regulatory Committee BOV Funds Services.

Simon holds a degree (B.Comm Hons) in Banking & Finance from the University of Malta, and an MSc in International Securities, Investment, and Banking from the University of Reading. He is also an Associate of the Chartered Insurance Institute and a Fellow of the Chartered Institute of Bankers.

Izabela Banas
Chief Financial Officer

Izabela Banas was appointed as the Bank's Chief Financial Officer on 1 March 2021.

She serves as Chair of Asset and Liability Management Committee and is a member of the Bank's Executive Committee and a number of management committees. Izabela is a director on the Board of MAPFRE MMSV Life p.l.c., a member of MAPFRE MMSV Life p.l.c. Audit Committee and regular attendee at the BOV's Board of Directors as well as BOV and MAPFRE Middlesea p.l.c. Audit Committees.

Izabela is an experienced Finance professional and has held a number of senior positions within the Financial Services industry in the UK and Switzerland. Izabela joined Bank of Valletta after five years with HSBC Group in London where her last role was as a Chief Financial Officer for Private Bank EMEA. Having started her career at General Electric Company as part of Financial Management Programme, she has since covered wide span of organisations, industries and geographies including Credit Suisse Group, Willis Insurance Brokers and Private Equity owned industrial companies in Germany and in the UK.

She holds a degree in Economics with specialisation in Finance from University of Illinois at Urbana-Champaign and is a certified Lean Six Sigma Black Belt.

Elena Dourou
Group Chief Internal Auditor

Elena Dourou joined BOV on 1 October 2020 as Group Chief Internal Auditor.

She has vast experience in the financial sector and internal audit and a successful international career. Among other major institutions, she has worked in Deloitte, ABN Amro Bank, National Bank of Greece, Piraeus Bank (Greece), and Ferratum Bank (Malta) in positions relevant to an internal audit, consulting, and internal controls. Before joining the BOV, she was working at the Hellenic Corporation of Assets and Participations, where she was responsible to monitor the internal audit departments of its subsidiaries to ensure harmonisation of processes and application of Internal Audit Standards in 15 major Greek Public Sector organisations.

Elena is a Fellow Certified Chartered Accountant, a Certified Internal Auditor, and a Certified Information Systems Auditor and holds an MBA from Oxford Brookes University.

Ray Debattista

Acting Chief People & Change Officer

Ray Debattista was appointed as Acting Chief People and Change Officer in 2022. He is an observer on the Bank's Executive Committee. He joined the Bank in 1984 and throughout his career he occupied various roles within the organisation, spanning both the retail network and other corporate functions.

Ray has an in-depth knowledge of the Bank and its people, having garnered over nineteen years of experience in Human Resources. During this time, his responsibilities spanned recruitment, employee engagement, performance management, training, career development, talent management as well as employee and industrial relations.

In his role, Ray is responsible for developing and executing an HR strategy in support of the Bank's overall business plan and strategic direction. He champions the Bank's drive to become the Employer of Choice by focusing on employee journeys and career paths, whilst driving and implementing initiatives that enhance the wellbeing of the Bank's people, promoting initiative and commitment among employees. Together with his teams, Ray is also responsible for succession planning, talent and change management, as well as the management of healthy working relationships with key stakeholder groups representing the Bank's employees.

Ray Debattista also serves on several committees including the Strategy Advisory Group, the Change Management Committee, and the Project Investment Review Board. Mr Debattista holds a Masters Degree in Business Administration from Henley Management.

Albert Frendo

Chief Business Banking Officer

Albert Frendo is an accountant by profession and is responsible for the stewardship of Business Banking being one of the key pillars of the revamped Business Model along with Investment and Retail Banking. The provision of credit for business customers is an important element of such function. His career at the Bank spans over thirty years with wide-ranging experience in cost management and financial reporting, risk management, and credit finance. For twelve years, he headed the Bank's Risk Function and was later assigned with the management of the Bank's overall Credit Portfolio, responsible for a number of key credit areas including Corporate, SME, Consumer and Trade Finance, Collections, and Collateral Management. He was entrusted to launch Risk Sharing Instruments in Malta aimed at SMEs including JEREMIE, CIP, SMEG, SME Initiative (JAIME), and SME Invest.

Albert is a member of the Bank's Executive Committee and a number of management committees. Albert holds a degree in Accountancy from the University of Malta and a Master's in Business Administration, with a specialisation in Management Consulting, from Grenoble Graduate School of Business in France. Albert also sits on the board of Tigne Mall p.l.c.

As communicated to the market on 14 March 2023, Mr Albert Frendo has taken up voluntary retirement from the Bank and accordingly has relinquished his position of Chief Business Banking Officer.

Anatoli Grech

Group Chief Compliance Officer

Anatoli Grech holds the position of Group Chief Compliance Officer. He previously held the position of Head of Strategy and Regulatory Affairs at BOV Asset Management Limited, the asset management company of the Bank.

He is a member of the Executive Committee, the Internal Control and Risk Management Committee, Change Management Committee of BOV and chairs the Product Governance and Pricing Committee. Anatoli is a Director on the Board of BOV Asset Management Limited and the Chair of its Risk and Regulatory Committee.

Anatoli is also a member of the Risk and Regulatory Committee of BOV Fund Services Limited and MAPFRE MSV Life p.l.c. He is also a member of the board of the European Savings and Retail Banking Group, a member of the Banking Supervision Committee of the European Banking Federation and a member of the WSBI-ESBG Task Force on AML.

Theodoros Papadopoulos

Chief Digital, Strategy and Transformation Officer

Theodoros Papadopoulos was appointed as Chief Digital, Strategy and Transformation Officer in September 2021 and as a member of the Bank's Executive Committee. Later on, in 2022, Mr. Papadopoulos has also been entrusted to lead the Transformation and Strategy of BOV. He sits on various other management committees including CMC, PGPC, and Data Council.

He has extensive experience in redesigning and implementing digital products in Customer Experience, Voice of the Customer, Design Thinking, and Customer Journey Mapping.

Prior to joining the Bank of Valletta, Mr. Papadopoulos occupied the role of Global Hotels Projects Team Member with Booking.com in the Netherlands in 2011 and was eventually appointed as Manager, of Strategic Partnerships in 2013. In 2016, Theodoros joined Eurobank EFG in Athens, Greece where in his position as Director of User Experience, he helped the bank to increase its digital footprint in the market.

Theodoros holds an MSc in Digital Communications and Media/Multimedia of Stockholm University, an MSc in International Business (Public Policy) from Södertörn University in Sweden, and a BA in Public Relations and Communication Policy. He is a vastly experienced professional in Digital Transformation, Digital Banking, Innovation, and Technology and has worked with Fortune 500 companies, recognized for strong people leadership and Change Management.

Corporate Social Responsibility (CSR)

The Pandemic has changed our habits and has rewired a lot of our actions as humans in the way we go about our daily life. We got used to ordering food through an app and have generally increased our usage of digital technologies. At the same time, we have started a new pattern of habits that includes less human interactivity, and less cultural activities, interacting mostly through screens.

Bank of Valletta, through its extensive Community Programme aims to be one of the triggers that breaks these current habits, going back to pre-pandemic times or create new ones.

Environmental, Resource and Climate Sustainability

We know that the environment plays a big role in people's health and well-being – a healthy environment supports healthy people. Our efforts took a two pronged approach – supporting initiatives that have a direct positive impact on the environment while creating awareness about salient issues.

Bank of Valletta's collaboration with Birdlife through the Dinja Waħda Programme saw 85 schools, and hundreds of students taking up initiatives to reduce humanity's impact on the environment and creating awareness among the younger generations.

The Bank conducted an in-depth energy audit, both on its internal consumption as well as that of its employees, especially when commuting to work. We are now in the process of highlighting potential changes that will drastically reduce consumption as well as ways to incentivise our staff members to reduce their carbon footprint in relation to their job.

Another awareness campaign, this time related to Life under Water, was organised in conjunction with Din l-Art Ħelwa through a photographic competition and exhibition that aimed to highlight both the beauty of underwater life as well as the destructive impact we are having on this environment.

Hands on Heritage Programme

Din l-Art Ħelwa Underwater photographic competition

Education and Financial Literacy

Education develops skills essential to daily living while financial literacy is the foundation of one's lifelong relationship with money.

'***Read with Me***', the Bank's collaboration with the National Literacy Agency to promote literacy and reading from a young age, held over 900 reading sessions across the islands, encouraging reading in a fun way for young children and their parents.

More emphasis was placed on disseminating information about the advantages of using digital forms of payment over traditional methods such as cash or cheques through the Bank's online channels, information sessions for customers and through the 'European Money Week'- a collaboration with the Malta Bankers' Association. Progress is being registered in the Bank's mission to introduce financial literacy across primary and secondary schools in Malta and Gozo.

Excellence in Education continued to receive the Bank's support through sponsorships of the Dean's List within the Faculty of Arts at the University of Malta and the Prize in Medicine for the top Medical Student.

Over 4,000 children attended Fondazzjoni Wirt Artna's ('FWA') '***Hands on Heritage***' Programme throughout the summer – a hands-on approach to learning about our History in various historical venues through FWA's collaboration with Bank of Valletta. The Bank also enriched the collections of numerous libraries around Malta and Gozo through the donation of books, both from the Bank's collection as well as purchasing books to cater for the patrons' needs.

BOV Prize in Medicine

Cultural heritage & environmental capital of the Maltese Islands

Conserving, protecting, promoting and developing natural and cultural heritage forms a strategic part of Bank of Valletta's contributions towards the community in which it operates.

Due to its long-lasting traditions and dynamic history, the Maltese Islands are very rich in cultural resources that require proper conservation.

The long-term restoration project of the imposing Gran Salon at the Auberge de Provence in Valletta, now in its 5th year, a collaboration between the Bank and Heritage Malta, yielded a knight's period painting in a blocked arch which has provided valuable information about the original décor of this magnificent building.

The 9-piece titular painting at the Parish of The Blessed Virgin of Lourdes in Paola by Emvin Cremona was restored to its former glory while other restoration projects, such as a 19th Century Crucifix by Mastru Xandru, a statue of the Immaculate conception by the same artist and a Statue of St Roque are currently receiving the much-needed attention by professional restorers and conservators.

Long-term collaborations with the main Heritage Trusts in Malta, such as Fondazzjoni Wirt Artna, Fondazzjoni Patrimonju Malti and Din l-Art Ħelwa continue to ensure that Malta's rich cultural heritage will be enjoyed by future generations.

The visual and performing arts were also high on the Bank's Agenda with support to the musical 'Sweeney Todd' at the Manoel Theatre and the production of operas 'Aida' and 'Carmen' at the two main theatres in Gozo. Joseph Calleja was back with his annual traditional Malta concert to the delight of those present, with new and upcoming artists continuing to receive support through the BOV Joseph Calleja Foundation.

Joseph Calleja Concert

Kalkara Crucifix

Ethical and Responsible Behaviour

Ethical behaviour in the corporate and sports environment is the practice of acting in acceptable ways that are consistent with the best values of the environment.

Bank of Valletta strongly believes in the physical and mental benefits of sporting initiatives, for the direct participants, the people behind scenes and the spectators and continues to consolidate itself as the main supporter of sporting initiatives on our Islands. Football, both in Malta and Gozo, Basketball, Aquatic Sports, Bowling, Horse Racing, Sailing, Tennis and Golf are among the sporting disciplines that benefit from the Bank's support.

Besides the support provided to the economy through the financing of businesses and a host of financial services to increase their efficiency, Bank of Valletta supports a number of business associations whose main purposes are to share and discuss their challenges, whilst providing access to networking for their peers.

Knowledge sharing is provided through seminars and webinars organised by the Associations in conjunction with BOV for members and the public at large. Topics are wide ranging and related to the Association's targets. Associations include the Malta Chamber of Commerce, Enterprise and Industry, the Gozo Business Chamber, the Malta Maritime Forum, the Malta Hotels and Restaurants Association, Finance Malta, Ernst and Young and the Chamber of Engineers among others.

MHRA seminar

Supporting vulnerable members of society

Mahatma Gandhi said 'the true measure of any society can be found in how it treats its most vulnerable members.'

The L-Istrina BOV Piggy Bank Campaign, in its 19th consecutive year helped raise the much needed funds for the Malta Community Chest Fund while creating a sense of solidarity among schoolchildren.

A new multi-sensory room was inaugurated at the Esplora Interactive Science Centre in Kalkara through a collaboration between BOV and the Malta Council for Science and Technology. This project will provide visitors with an immersive experience, using specialised equipment to provide a calming environment which stimulates mental activity and promotes interaction.

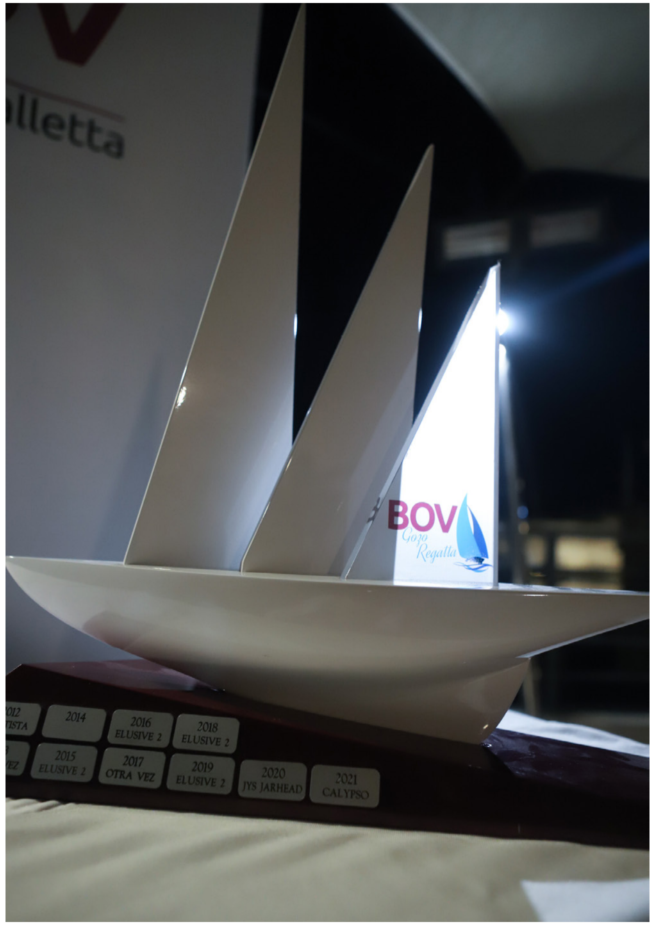
An innovative collaboration with the Karl Vella Foundation will see patients receiving medical care abroad, and their caregivers have access to psychological support during these very difficult periods of their lives.

Charity also begins at home – BOV encourages its staff members to donate blood regularly and there is never a shortage of employees who take the opportunity to donate through blood donation drives organised by the Bank.

The Bank also continued to provide support to various philanthropic NGOs throughout the year, such as id-Dar tal-Providenza, Caritas Malta, The Malta Hospice Movement and the Richmond Foundation among others, to help them in fulfilling their missions.

Multi-sensory room at Esplora Interactive Science Centre

Blood Donation by BOV staff members



The BOV Gozo Regatta

Directors' Report as at 31 December 2022

The Directors present their 49th Annual Report, together with the audited financial statements of the Bank of Valletta Group (the Group) and the Bank for the Financial Year (FY) ended 31 December 2022.

Principal Activities

The Bank of Valletta Group comprises Bank of Valletta p.l.c. (the Bank) and two subsidiary companies namely BOV Asset Management Limited (BOV AM) and BOV Fund Services Limited (BOV FS). The Group also has two equity-accounted investee companies, MAPFRE Middlesea p.l.c. and MAPFRE MSV Life p.l.c. The Group's principal activities are set out below.

The Group offers banking, financial and investment services and connected activities within the domestic Maltese market. The principal activities of the Bank comprise the following:

1. The receipt and acceptance of customers' monies for deposit in current, savings and term accounts which may be denominated in Euro and other major currencies,
2. The provision of loans and advances to a wide array of customers, and
3. The provision of investment services, covering a comprehensive suite of investment products and services that meet the customers' needs throughout their lifecycle, including stockbroking, advisory and discretionary portfolio management services.

The Group also provides a number of other services, including, bancassurance, corporate advisory, fund management, fund administration, and other services, such as 24-hour internet banking service, issuance of major credit cards, night safe facilities, automated teller machines, foreign exchange transactions, and outward and inward payment transfers.

The Parent Company

Bank of Valletta p.l.c. is licensed to carry out the business of banking and investment services in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Investment Services Act, 1994 (Chapter 370, Laws of Malta). The Bank is an enrolled tied insurance intermediary of MAPFRE MSV Life p.l.c. under the Insurance Intermediaries Act, 2006 (Chapter 487, Laws of Malta).

The Bank offers the entire range of retail banking services as well as the sale of financial products such as units in collective investment schemes. The Bank also offers investment banking services, including underwriting and management of Initial Public Offerings (IPOs).

The Subsidiaries

BOV AM provides management services for collective investment schemes and portfolio management services for institutional clients. BOV AM is a fully owned subsidiary of the Bank and has three regulatory functions: Asset Management, Risk Management and Compliance.

BOV FS is also a fully owned subsidiary of the Bank and is recognised as a fund administrator and licensed as a Company Services Provider by the Malta Financial Services Authority. BOV FS provides a comprehensive suite of services to fund managers and fund promoters, as well as a full suite of fund administration, shareholder registry services, regulatory reporting and corporate services.

Equity-Accounted Investees

MAPFRE MSV Life p.l.c. operates as a life assurance company licensed under the Insurance Business Act, 1998 (Chapter 403, Laws of Malta). MAPFRE Middlesea p.l.c. is engaged in the business of insurance, including group life assurance.

The Bank's Strategic Plan

During FY2022, the Board of Directors continued to oversee the implementation of various strategic initiatives by the Bank's Executive Management team in support of the Bank's 2023 Strategy. The Bank's strategy is driven by three main strategic objectives: digitizing the Bank's operational model, dynamically managing the balance sheet, and creating value for customers and stakeholders.

The Bank's program of initiatives revolved around four key areas, including customers, internal operations, human capital of the Bank, and risk management. These initiatives, along with other supporting enablers such as digital, data, and ESG, are aimed at positioning the Bank as a leader, innovator, and catalyst in the market while ensuring the sustainability, compliance, and security of the Bank's business and operational model.

Throughout the process, the Board ensured that the Bank's strategy remained aligned with the Bank's approved Risk Appetite Framework (RAF).

For more information on the Bank's Strategic Plan, please refer to the CEO's Commentary.

Directors' Report as at 31 December 2022 (continued)

Principal Risks and Uncertainties pursuant to Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta)

The Directors are aware of the various risks faced by the Group as a result of its involvement in different business lines and operations. A number of measures are in place to ensure that such risks and uncertainties are maintained at acceptable levels and are in line with the Group's risk appetite and strategy of sustainable, long-term growth and profitability. In line with Bank policy, the Risk Appetite Statement and Framework was reviewed and approved by the Board of Directors in October 2021. The said Risk Appetite Framework was used to monitor and report on a monthly basis the risk level on different material risk types during the year ended 31 December 2022, also triggering timely and decisive corrective action where risk levels surpassed defined thresholds. The RAF was again reviewed in December 2022. Such revised iteration will be used in financial year 2023. The document lays out the responsibilities of various stakeholders, including the Board of Directors and Senior Management, and establishes a number of qualitative and quantitative parameters for acceptable risk taking.

In line with the provisions of the Risk Appetite Statement and Framework, Senior Management is responsible for the day-to-day monitoring and control of risk-taking, subject to the regular oversight of the Board of Directors through the Risk Committee. The overall structure is aimed at ensuring a sound risk culture supported by a performance management system that discourages excessive risk taking.

The key risks faced by the Group include credit risk, market risk, liquidity risk and operational risk. These, and other risks and uncertainties inherent in the business, require sound capital management to ensure adequacy against regulatory requirements and adverse events. With this in mind, the Group regularly sets out and reviews capital targets in line with actual and forecast business levels and monitors performance against such targets on a regular basis. A more detailed explanation of key risks and capital management is included within the Pillar 3 Disclosures Report available on the Bank's website, as well as Note 39 to the Financial Statements.

The Directors also recognise the fact that the Group may be subject to reputation and litigation risk as a result of its actions and operations. Conscious of the serious repercussions such risks may have on the Group's and the various stakeholders' well-being, both the Board of Directors and Senior Management exercise zero tolerance to conduct risk and aim to instil the highest levels of ethical behaviour through a number of policies, procedures and controls.

Operational Overview

A review of the business of the Group for the year ended 31 December 2022 and an indication of future developments are provided in the Chairman's Statement and the CEO's Commentary, which can be found in the front section of this Annual Report.

Dividends

In respect of the current period, the Directors did not declare any interim dividends in view of the net loss reported for that period arising from the settlement of the Deiulemar litigation, and the need to remain aligned with regulatory expectations within this context. The Bank staged a significant recovery in underlying profitability for the year as a whole, which however remains weighed down by the cost of the Deiulemar settlement. For this reason, the Directors are not proposing any dividend for the year. This is consistent with efforts to sustain the capital and liquidity strength of the Bank's balance sheet, generating the capacity for further business growth over the coming years. This approach meets the exacting regulatory expectations on the Bank, and is consistent with a prudent approach in the context of overall developments in the global economy and financial markets.

Board of Directors

The following Directors served on the Board during FY2022:

Gordon Cordina (Chairman)
Stephen Agius (resigned on 2 June 2022)
Kevin J. Borg
Miguel Borg
Diane Bugeja
Elizabeth Camilleri
Kenneth Farrugia (appointed on 12 October 2022)
James Grech
Rick Hunkin (resigned on 12 October 2022)
Alfred Lupi
Anita Mangion
Alfred Mifsud
Antonio Piras
Deborah Schembri (appointed on 20 October 2022)*
Godfrey Swain

*Deborah Schembri was appointed Director on the Bank of Valletta Board during the Annual General Meeting held on the 2 June 2022. Her appointment was subject to regulatory approval, which approval was received on the 20 October 2022.

Directors' Report as at 31 December 2022 (continued)

Directors' Responsibilities

The Directors are required by the Companies Act, 1995 (Chapter 386, Laws of Malta) to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of the profit or loss of the Group and the Bank for the year then ended.

In preparing the financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business as a going concern.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and the Bank, and which enable the Directors to ensure that the financial statements comply with the Banking Act, 1994 (Chapter 371, Laws of Malta), Companies Act, 1995 (Chapter 386, Laws of Malta) and with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU. This responsibility includes designing, implementing and maintaining such internal controls as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Group and the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After reviewing the Group's plans for the coming financial years, the Directors are satisfied that at the time of approving these financial statements, it is appropriate to continue adopting the going concern basis in preparing these financial statements.

Auditors

A resolution to re-appoint KPMG as statutory auditors of the Bank will be proposed at the forthcoming Annual General Meeting (AGM). KPMG have expressed their willingness to remain in office.

Going concern – Capital Markets Rules 5.62

The financial statements are prepared on a going concern basis. The Directors regard that pursuant to Capital Markets Rule 5.62, this is appropriate, after due consideration of the Bank's profitability, liquidity, the statement of financial position, capital adequacy and solvency. Specifically, the Directors have prepared financial and capital plans for the next three years which show that the Bank is in a position to continue operating as a going concern for the foreseeable future, which is at least, but is not limited to, twelve months from the end of the reporting period. These plans take into account risks arising in its ordinary course of business including complaints or legal proceedings by third parties, operational and compliance risks in relation to but not limited to compliance with legislation and regulations.

Information Pursuant to Capital Markets Rule 5.64

1. Authorised Share Capital

The Bank has an authorised share capital of €1,000 million divided into 1,000 million ordinary shares with a nominal value of €1.00 each.

2. Issued Share Capital

The issued shares of the Bank consist of one class of ordinary shares with equal voting rights attached. The Bank has an issued and fully paid up share capital of €583,849,270 divided into 583,849,270 shares with a nominal value of €1.00 each. There were no changes to the issued share capital during FY2022.

3. Shareholding Structure

Clause 4.3 of the Bank's Memorandum of Association provides that, with the exception of existing large shareholders, presently the Government of Malta and UniCredit S.p.A., no person may at any time, whether directly or indirectly and in any manner whatsoever, acquire such number of shares in the Bank, as would in aggregate be in excess of 5% of the issued share capital of the Bank.

As at 31 December 2022, Malta Government Investments Limited had a shareholding in the Bank of 0.48% and National Development and Social Fund (NDSF) had a shareholding in the Bank of 2.88%. Both entities are fully owned by the Government.

Any shareholder holding in excess of 50% of the issued share capital of the Bank or if no such shareholder exists, the shareholder holding the highest number of shares not being less than 25% of the issued share capital, may appoint the Chairman. Qualifying Shareholders with 10% or more of the shares in issue are entitled to recommend one Director for every 10% holding.

Directors' Report as at 31 December 2022 (continued)

The Directors confirm that as at 31 December 2022, shareholding in excess of 5% of the issued share capital of the Bank was held directly by:

Government of Malta:	25.0%
UniCredit S.p.A.:	10.2%

4. Appointment of Directors

The rules governing the appointment and replacement of the Bank's Directors are contained in Articles 24 to 31 of the Bank's Articles of Association. More details on the appointment and rotation process of Directors is found under the Corporate Governance Statement of Compliance, under principle 3.

An extraordinary resolution approved by the shareholders in general meeting is required to amend the Memorandum and Articles of Association.

5. Powers of Directors

The Board of Directors has the power to transact all business of whatever nature, not expressly reserved by the Memorandum and Articles of Association of the Bank, to be exercised by the Bank in general meeting or by any provisions contained in any applicable laws.

The shareholders in general meeting authorised the Board to exercise during the Prescribed Period, all the powers of the Bank to issue and allot shares up to an aggregate nominal amount equal to the Prescribed Amount. The Prescribed Period refers to a term of five years approved during an Annual General Meeting held on 2 June 2022 and which term expires on the 1 June 2027. This authority is renewable for further periods of five years each.

6. Directors' Service Contracts

The Directors have service contracts with the Bank. More information on the Directors' service contracts can be found under the Remuneration Report.

7. Collective Agreements

The relative Collective Agreements regulate the compensation payable to employees in case of resignation, redundancy or termination of employment for other reasons. More information relating to Collective Agreements is found further below under the section entitled Non-Financial Disclosures.

8. Employee Share Scheme

The Bank has a Variable Remuneration Share Plan, through which the Board of Directors is authorised to:

i. establish the Plan and to do all such acts and things as may be necessary or expedient to give effect to the Plan; and
ii. issue up to and including 14,596,232 shares from the authorised share capital of the Bank for the purpose of satisfying the obligations of the Bank that will ensue from the operation of the Plan, without first offering the same to shareholders in proportion to their then existing holdings.

During FY2022 no shares were issued from the authorised share capital of the Bank for the purpose of satisfying the obligations of the Bank pursuant to the Plan.

9. Amendments to the Articles of Association

Article 28.3 of the Bank's Articles of Association was revised, following Shareholders' approval during the Annual General Meeting held on the 2 June 2022. The main changes effected to Article 28.3 were intended to:

a. clarify that the Non-Executive Directors required to retire in any given year are those who have been in office longest since the date of their election or re-election; and

b. make clear that if, in any given year, the Non-Executive Directors who have been in office longest and are due to retire by rotation, have occupied office for less than two years, said directors shall not retire by rotation.

The practical impact of (b) is that if, in any given year, all the Non-Executive Directors due to retire by rotation - by virtue of their holding office longest – have occupied office for less than two years, no Non-Executive Directors will retire by rotation in that year.

Information pursuant to Capital Markets Rules 5.64.7 and 5.64.10

It is hereby declared that as at 31 December 2022, information required under Capital Markets Rules 5.64.7 and 5.64.10 was not applicable to the Bank.

Directors' Report as at 31 December 2022 (continued)

Information pursuant to Capital Markets Rule 5.70.1

There were no material contracts to which the Bank, or any one of its subsidiaries, was a party and in which anyone of the Bank's Directors was directly or indirectly interested.

Declaration pursuant to the following Investment Services Rules for Investment Services Providers:
- **Part BI: Rules applicable to Investment Services Licence Holders which qualify as MiFID firms (R1-2.2.3)**
- **Part BIV: Standard Licence Conditions applicable to Investment Services Licence Holders which qualify as Depositories (2.30)**

Pursuant to the captioned Malta Financial Services Authority (MFSA) Investment Services Rules, it is hereby declared that during the reporting period, there were no breaches of the MFSA Investment Services Rules, Standard Licence Conditions or other regulatory requirements which were subject to an administrative penalty or other regulatory sanction.

Whistleblowing

The Bank has in place a Whistleblowing Policy aimed to encourage reporting of improper practices and suspected wrongdoing in a controlled manner which safeguards the confidentiality of the whistleblower. The nature of the disclosures made through the Whistleblowing process are reported to the Audit Committee.

Information pursuant to the Sixth Schedule of the Companies Act, 1995 (Chapter 386, Laws of Malta)

Branches, Agencies and Centres

The Bank has the following Branches, Agencies and Centres around Malta and Gozo:

- 30 Branches offering both deposit taking and lending services
- 4 Agencies offering deposit services only
- 1 Sub-Agency/Satellite Branch
- 1 Corporate Finance Centre
- 5 Business Centres
- 1 Wealth Management Centre
- 5 Investment Centres

Research and Development

In light of the business sector in which it operates, the Bank does not consider research and development as a main area of activity.

Events occurring after the end of the accounting period

There were no events occurring after the end of the accounting period which warrant reporting in this Annual Report.

Related Party Transactions

No significant related party transactions occurred during FY2022.

Non-Financial Disclosures

The following disclosures are made pursuant to Directive 2014/95/EU:

1. Business Model

Bank of Valletta's business model is driven by its two key customer segments, personal and business customers. We provide our customers with a comprehensive suite of banking and financial services solutions that in turn contribute to the generation of our revenues.

Our customer segments are in turn serviced through two key service pillars. The Retail and Wealth Management pillar services the requirements of our personal customers and micro businesses, through a model that is driven by the presence of Universal Bankers located across the Bank's branch network. Complementing the branch footprint as our largest service touch-point, the Bank also services its customers through a dedicated Customer Call Centre. To address the investment and financial planning service requirements of our affluent customers, Investment Centres located in Malta and Gozo as well as a Wealth Management Unit. Our service solutions include amongst others deposit, investments, financing as well as various payment solutions.

On the other hand, through our Business Banking pillar, we provide a suite of banking products and services to our business customers. Whilst large corporates are serviced through our Corporate Finance Centre, the Bank also has several Business Centres in Malta and Gozo to service small and medium sized business enterprises.

Directors' Report as at 31 December 2022 (continued)

As the leading Bank in Malta, we have continued to develop and evolve our comprehensive range of product and service solutions to meet the requirements of our customers as they progress through the different stages of their life-cycle. Insofar as business clients are concerned, apart from the mainstream corporate banking and financing services, the Bank has also introduced various innovative financing solutions that have been designed in partnership with the European Investment Bank and the Malta Development Bank that in turn are delivering significant value to our customers.

We are currently taking forward several projects to strengthen our leadership position in Malta. In the process, we firmly recognise the important role of ESG going forward and ensuring that we embed ESG factors in our business and operational model. In parallel, we also continue to heavily invest in the development of the Bank's human talent. Our People are the foundation of the Bank's success as they service our esteemed customers across various touch-points, develop our technological infrastructure, manage the various risks faced by the Bank and drive our program of innovation. This investment and others that the Bank is taking forward will ensure that our business model is sustainable and remains compliant and secure to the benefit of our customers, employees, shareholders and other stakeholders in the economy.

2. Environmentally Friendly Measures – Environmental Social Governance (ESG) Risk Management and Disclosures

The Non-Financial Disclosure relating to Environmental Social Governance are found in the ESG Risk Management Disclosures Report on page 42 of this Annual Report.

3. Social Matters

a. Trade Unions

The Trade Union element within the BOV Group is still strong with a substantial number of the employees within the Bank being members of a trade union. The two main trade unions within the Bank are MUBE and GWU. The GWU is currently the recognised union with which the Bank negotiates its Collective Agreement. This year the Bank achieved this very important milestone of signing two Collective Agreements for the clerical and managerial categories and the support staff. The Bank's relationship with both unions is very good and is characterised by unilateral communication and healthy discussions. In fact, the Bank has not experienced industrial actions of any form in years.

b. Community Programme

COVID-19 changed the ways we interact with the community. We learned to maintain physical distance and interact via video platforms.

As the pandemic began to recede, the more conventional methods of community engagement started to return. As Malta's largest Bank and a very active citizen of the community, the Bank continued supporting the various sectors of the Maltese Community while treasuring some of the valuable discoveries made during the pandemic.

We are continuing to invest in the Arts, Heritage, Education, Sport, the Business Community and Charity to make a lasting impact while focusing on finding better ways to serve our clients in this community.

The Bank's Corporate Social Responsibility is described in further detail under Principle 12 within the Corporate Governance Statement of Compliance within this Annual Report.

c. Relationship Management

Customer engagement resides at the very core of Bank of Valletta's relationship driven value proposition. We do recognise the importance of a strong customer engagement process and the significant impact that this has on customer loyalty. The Bank's engagement with its customers ensures that we remain highly relevant to their needs and service expectations as they dynamically evolve over the stages of their lifecycle.

Within this context, the Bank's business model is centred around its key personal and business customer segments. This model is supported by a comprehensive suite of banking, financing and investment solutions that are delivered through various service channels aiming to meet the customer service touch-point preferences of the Bank's customers.

In fact, the Bank has a strong network of branches, as well as specialist investment and business centres spread across Malta and Gozo, as well as a dedicated Customer Service Centre. Moreover, for those customers that prefer to self-service their banking requirements, the Bank provides a suite of functionalities through its Internet and Mobile Banking Channels. The Bank's various customer touch-points are in turn serviced by highly trained human resources that strive to meet, and possibly exceed, the service expectations of our customers.

Directors' Report as at 31 December 2022 (continued)

4. Employee Matters

The total headcount of all employees is 2,253 as at 31 December 2022. This includes genders across the whole spectrum as well as employees working on both permanent and temporary basis. A similar breakdown of the total headcount of is also provided by Nationality below.

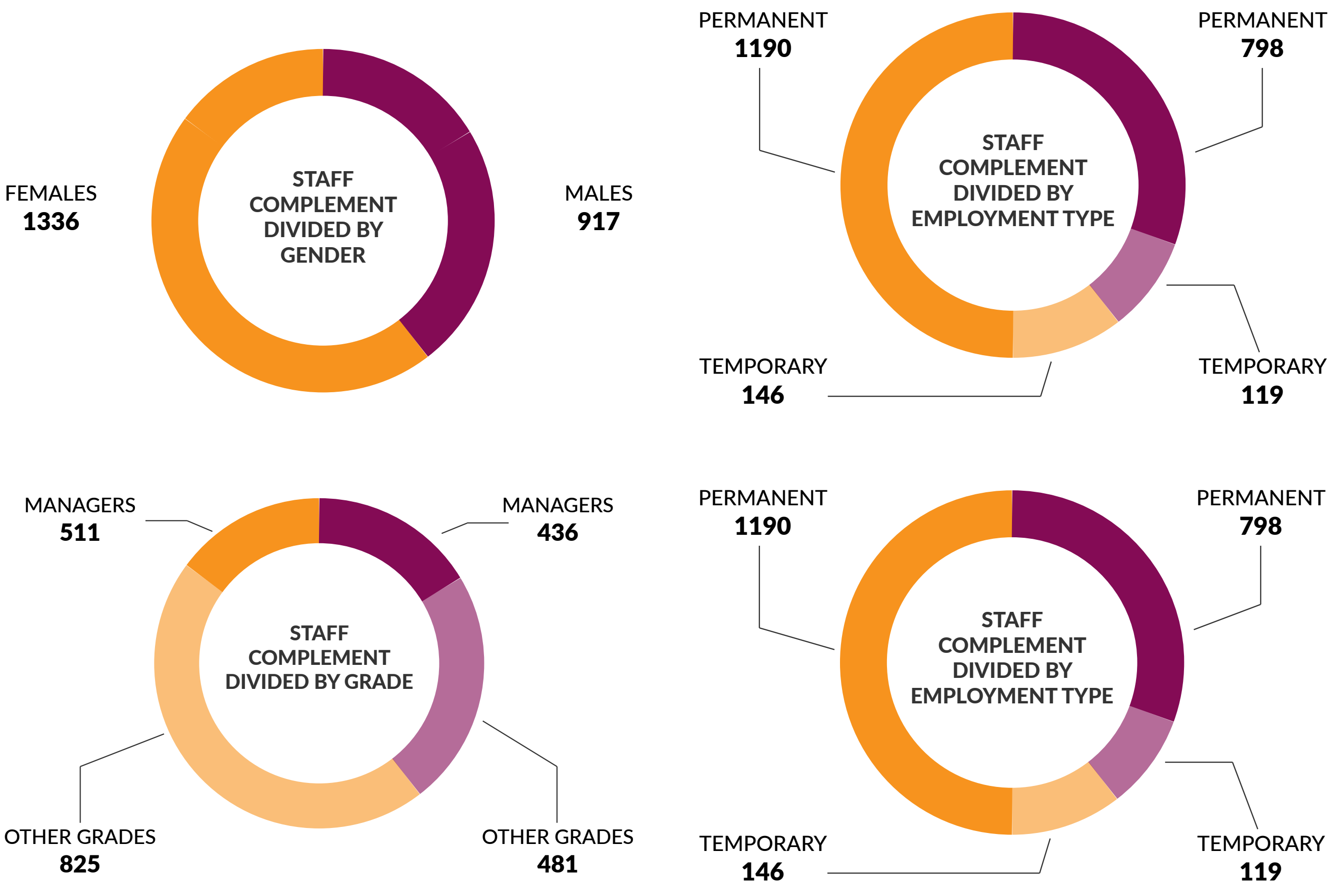
The full-time employment rate is 98.1%. With regards to gender distribution, female employees account for 59.3%. Within the Management cohort (category 4 and 5), female employees represent 55.1%, whilst the percentage of female Directors stands at 30.8%.

Presently, the percentage figure of multinational workforce increased to 2.75%.

	Number Head Count			
Number of employees by employment contract	Permanent		Temporary	
By Gender	Male	Female	Male	Female
Employees in Management	423	509	13	2
Rest of Workforce	375	681	106	144
By Nationality	Male	Female	Male	Female
Maltese	776	1171	109	138
Foreign	22	19	10	8

The Bank uses various tools for screening new employees as part of its due diligence process, including Police Conduct, Safe Watch and Credit Info screening, reference letters and others, as the case may be, whilst remaining within the ambit of the General Data Protection Regulation (GDPR) requirements. The due diligence process in respect to recruitment and resourcing is laid down in the Bank's Resourcing Policy. During the course of employment, employees are also expected to abide with other policies and guidelines, primarily the Code of Conduct and Ethics Policy, the Conflict of Interest Policy, as well as other, role specific policies to ensure that staff members abide with regulatory requirements. Compliance is ensured through regular internal and external audits and audit trails. Non-compliance and breaches of the above, as well as other policies, may lead to sanctions as contemplated in the Discipline Section of the collective agreement.

STAFF COMPLEMENT BREAKDOWN



Directors' Report as at 31 December 2022 (continued)

The ratio of the average basic remuneration, by gender is €36,570 for the Male Workforce and €31,628 for the Female Workforce. The reason for this variance is due to the difference in tenure, with that of Males being higher than Females (on average 2.5 years). The ratio of the average basic remuneration by gender was worked out as a sum of female (or male) salary per capita/sum of all salaries per capita. Moreover, the difference in percentage terms of the total remuneration (salary) is -8.8%. The difference in total remuneration was worked out taking into consideration all levels of employment type.

The Bank is covered by two Collective Agreements which bind the relationship between the organisation and its employees. The new Collective Agreement negotiated by the Bank with the recognised union for the clerical & managerial categories was signed on the 23 March 2022 for the period 1 January 2022 to the 31 December 2024. The percentage of employees under this collective agreement is 92%. The employees under collective agreement for the clerical & managerial categories includes all employees from Category 1 up to Category 4 less those working on part-time basis and definite contract. The other Collective Agreement for support employees was signed on the 30 November 2022.

The prevailing Collective Agreements include several Family Friendly measures ensuring employee matters are taken care of, including but not limited to Reduced Hours Work Arrangements, Adoption/Fostering Leave, Bereavement Leave, Community Work Leave, Health Insurance, Employee Welfare, Employee Wellness Allowance and Child Care & Summer School Subsidies.

A major first for the Bank during FY2022 was the launch of the Bank's first Voluntary Occupation Pension Scheme (VOPS). All full-time employees are eligible to enroll in this scheme, which provides for direct contributions by the Bank into the employee's personal pension pot. Under this workplace pension (Pillar 2), the Bank is effectively committed to match every employee's contribution up to a maximum of €2,400 per calendar year, starting from 2022. This commitment is guaranteed for at least five years.

The new Collective Agreement restructured the salary grid and levels within the Bank, removed additional layers which were inhibiting career or salary progression whilst facilitated enhanced lines of communication and colleague empowerment. The Bank moved from an eight Salary Level Grid to four Categories resulting in a salary structure that has been broadened significantly. As a result, high performing employees will be able to progress their salary ahead of promotion opportunities. This will enable the Bank to be in a better position to reflect market salary levels for more specialised roles needed for the future.

Several other initiatives were introduced during the reporting year with the specific intent of supporting employees' wellbeing. These include incentives for employees who are members of a voluntary NGO and for those who carry out at least 80% of their work commute either walking, cycling, using public transport, electric vehicles, or carpooling. These benefits are consistent with the Bank's desire to support our colleagues, the community, and the environment as part of its wider ESG commitment.

The following tables depict the number of employees entitled to parental leave, the number of employees who have taken up this family friendly measure, the latter also being compared to the total labour hours. The parental leave taken is 2.03% of total labour hours.

	Male	Female	Total
Parental leave	800	83,048	83,848
Total labour hours	1,749,800	2,372,760	4,122,560
	0.046%	3.500%	2.034%

The Bank also has in place a number of policies ensuring respect for human rights including a Bullying Policy, a Sexual Harassment Policy, a Code of Ethics, an Employee Grievance Policy and an Equality Policy.

The Bank had been awarded with the Equality Mark by the National Commission for the Promotion of Equality (NCPE) in 2011, a reward that continues to be renewed to date. The Equality Mark recognises the Bank's efforts to provide a healthy work environment that is free from any type of discrimination. It also acknowledges the Bank's responsibility to provide equal access to opportunities and career development based on employees' skills, irrespective of their gender and caring responsibilities.

Indeed, Bank of Valletta employs over the requested quota for employees with different abilities. The different ability employment percentage at BOV is 1.4%.

Moreover, the Bank has an Employee Assistance Programme that assists employees in resolving personal or work-related problems that may impact their ability to carry out their work-duties. The Bank, in conjunction with the Richmond Foundation, also offers its staff members free Mental Health Care related services on a confidential basis. The Bank receives annual feedback from Richmond Foundation regarding the number of employees making use of these services, which information confirms that employees are well informed about these services and make use thereof when necessary. The Bank also holds a Mental Health Policy.

As part of its people strategy, the Bank gives significant importance to Human Rights matters in various ways, as follows:

Grievances

The Bank is highly committed in ensuring that all employees are given the opportunity to voice their personal and/or collective grievance without any fear, hesitation, or doubt that this will have a negative impact on their employment and career. To this effect, the Bank has a grievance policy in place to regulate and facilitate the process of addressing grievances. This involves the setup of an independent board, which is well versed in the Bank's Collective Agreement. The Board listens to and evaluates grievances received, before taking a decision on the remedy to the case. During FY2022, the Bank did not register any official claim under the Grievance Policy.

Directors' Report as at 31 December 2022 (continued)

Ad Hoc Boards

In those instances where People & Change is notified of any situation/s, either by employees of third parties, which might be adversely affected by one or more aspects of the Bank's daily operations, People & Change may also appoint an ad-hoc independent board to investigate the matter and its veracity and propose a suitable action and way forward. There were no such instances in FY2022.

Discipline

The Bank requires all its employees to comply to its Code of Conduct and Ethics as well as with the proper standards of performance and behaviour. These are intended to maintain the highest level of integrity both inside and outside the Bank. In the case of breaches of these standards, the Bank takes the appropriate disciplinary action regulated by its Discipline Policy. Cases which merited disciplinary action in FY2022 were of a minor nature and were addressed in line with the policy.

Bullying Policy

The Bank considers any unwelcome physical, verbal or non-verbal behaviour which denigrates, ridicules, or intimidates individuals as unacceptable. Through this policy, the Bank wants to ensure that its employees are treated with respect and dignity, and that their rights are safeguarded at all times. Moreover, the objective of this policy is to raise organisation-wide awareness on the impact of bullying on fellow colleagues as well as the implications and consequences of such inappropriate behaviour. There were no reported cases of bullying in FY2022.

Sexual Harassment Policy

The Bank is committed to provide a professional work environment for every individual that comes into contact with the organisation. The Bank does not tolerate, condone or allow sexual harassment (verbal or physical) whether engaged in by fellow employees, management, associates and partners or by outside clients or other non-employees who conduct business with the Bank. The Policy also acknowledges that the victim of sexual harassment may experience emotional stress, physical stress and/or a negative change in job performance. Therefore, necessary support through the Staff and Organisation Support Programme would be made available. There was one claim of sexual harassment in FY2022, and this case is being investigated.

Performance Management Program

The Bank has in place a holistic performance management framework designed and implemented. The performance management program builds on an updated policy, framework, and technology. The new Performance management program provides clear deadlines and detailed guidelines for employees and managers to abide by to maximise their contribution and reward.

Diversity, Inclusion and Equality

During FY2022, we set up a Diversity and Inclusion Committee to ensure that we drive our Diversity and Inclusion policies in our day-to-day actions and promoting various initiatives throughout the year.

During the reporting year, we launched the "Uniqueness Campaign", aimed at showcasing the many faces of BOV and the uniqueness of our people on our internal communication platforms. 2022 also saw the Bank extending its support to the LQBTIQ+ community during Pride Week, by holding a Casual Day for its people. Every team member was encouraged to wear different colours to celebrate their unique personalities.

We also organised four workshops to discuss burn-out and how we can fight it. Some ideas included taking stock of what's on our plate, finding time for ourselves, asking for help, learning to say "no" and "yes" more often, as well as exercising. The final message was that "You cannot pour from an empty cup. Take care of Yourself first."

The Bank is presently revising its existing Diversity, Equity, and Inclusion Policy aimed to be launched in 2023. We shall also be sharing techniques or approaches for leaders, in a bid to promote greater understanding, compassion, and support for diversity, whilst fostering teamwork across the Bank. Our main goal remains that of embedding respect for diversity, equality, and inclusion in the Bank's corporate culture.

5. Anti-Corruption and Bribery Matters

Bank of Valletta is committed to high standards of ethical behaviour and has zero tolerance towards bribery and corruption. A dedicated Anti-Bribery and Corruption Function is set up within the AFC Department to support the business and stakeholders, the economy and society, in general, to mitigate bribery and corruption risks through the Groups' Anti-Bribery and Corruption Policy and Procedures.

The Bank requires that all employees, including the Board of Directors and third-party providers to comply with the principles in the policy, in the performance of their duties for or on behalf of the Bank. The policy requires all Bank entities and individuals to apply controls in order to protect against bribery and corruption risks, particularly within activities such as the receiving and offering of gifts and hospitality, hiring, third-party management, speaker events, sponsorships, donations, charitable giving, joint ventures, mergers, and acquisitions. Specific procedures, systems, and controls to manage bribery and corruption risks covering these activities have

Directors' Report as at 31 December 2022 (continued)

been outlined within the Bank's procedures. Monthly controls are in place to review the position and escalate any issues as part of the governance committees' reporting.

During 2022, the Anti-Bribery and Corruption function worked closely with the business to implement and enhance group-wide systems and controls such as the Third-Party Risks Management system, the Gifts Register and Hiring control, to be in line with international standards. Further focus was on delivering specific role training on activities that are considered as high risk to bribery and corruption to employees who by the nature of their role, are exposed to such potential risks, while ensuring that all BOV employees undergo mandatory annual Anti-Bribery and Corruption training.

6. Identification and Management of Principal Risks

In conducting its day-to-day business activities, the Bank is exposed to different risk types. The sound management and control of such risks is important to ensure that the relative probability of risk event materialisation is minimised to the greatest extent possible in the interest of institutional stakeholders.

Risk management and control is practised under the following configuration:

i. Top-level corporate governance

Board of Directors, various Board Committees such as the Risk Committee, Executive Committee, and other management committees such as the Asset and Liability Management Committee (ALCO) and Internal Control and Risk Management Committee (ICRMC);

ii. First line

Revenue-generating business units – such ingrained frontline risk management internal control measures, with dedicated risk correspondents appointed to facilitate the implementation of the operational risk policies and the embedment of the Bank's risk culture across the network;

iii. Second line

This comprises various second-tier risk control and oversight functions such as Financial Risk Management, Risk Coordination and Quality, Environmental Social and Governance, Credit Risk Management, Operational Risk Management, Compliance, Anti-Financial Crime, Financial Control, and other back-office support functions (example: quality control);

iv. Third line

Independent assurance and constructive challenge by the Group Internal Audit.

The main risk types are outlined hereunder:

a. Credit Risk:

The risk of loss arising from default or credit quality deterioration of a customer or other counterparty to whom the Bank has either directly provided credit or in respect of whom it has assumed a contractual obligation.

This risk is managed and controlled in various ways, such as through the regular review of credit policies to reflect the Bank's Risk Appetite Framework, credit scoring systems, an internal risk rating system supplemented by an Early Warning System to enable proactive monitoring, a forward-looking expected credit loss model for quantifying provisions compliant with the IFRS 9 accounting regime, stress testing relating to credit risk, and various other measures. Regular reporting on asset quality and credit risk is made to the Risk Committee and the Board of Directors. The Bank's underwriting processes include a four-eye approach for business credit facilities and retail facilities of significant magnitude. The Bank has implemented more stringent policies relating to forbearance and non-performing loans and has included more granular credit risk-related Key Risk Indicators in the Bank's Risk Appetite Framework, internal limits relating to single-name and sectoral concentration risk, and various other mitigants. The Bank is also implementing a new credit rating model, making it more granular and intuitive. The outputs of the model will feed into the Bank's reporting database, the ECL model, as well as the Bank's underwriting tool.

b. Operational Risk:

The Group defines operational risk, in line with the Basel framework, as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. It covers execution errors, fraud, legal, regulatory and conduct risk amongst its sub-categories.

Operational risk spans across all departments, products and channels of the Group and encompasses the entire value chain, including outsourcing service providers. For this reason, all employees are responsible for managing and controlling the operational risks generated by their activities.

Directors' Report as at 31 December 2022 (continued)

The Group's goal in terms of operational risk management is timely identification, assessment, and mitigation of material operational risks. This is achieved via the use of core risk management tools such as Risk and Control Self-Assessments that are required to be undertaken by every functional area of the BOV Group as well as Risk Event management, which allows to record and analyse failures and losses and derive lessons learned.

The Group's overall operational risk appetite is low; and this aims to protect the BOV franchise, to support its strategic objectives, and ensure availability of services to support the local economy. Over the last year, the Bank has taken concrete measures to strengthen the Operational Risk Management Framework, enhance the core set of policies and implement robust governance arrangements and senior committees that are tasked to oversee the operational risk portfolio of the Group. Every area of the BOV Group has a dedicated Risk Correspondent, an essential role to support the embedding of operational risk management across the whole organisation. The Group continues to invest in its technical and human resources to meet and comply with the increased regulatory expectations and to ensure that it has solid foundations to facilitate timely, accurate and meaningful operational risk reporting which is required to monitor and take remedial action to address existing and emerging risks. A dedicated IT solution fully integrates the core elements of operational risk thus having one single repository containing an inventory of key risks and controls including the functionality of action management and risk event management.

c. Market Risk:

Market risk is the risk incurred as a result of changes in market factors such as interest rate, credit spreads, equity prices and foreign exchange rates that affect the value of positions mainly in the investment portfolio. A robust and prudent Treasury Management Policy ensures that responsible and well-informed risk-taking is practised by the Treasury function in line with the overall direction provided by ALCO and Risk Management Committee. Other important processes include the analysis of counterparty credit risk, credit valuation adjustment, and the development of a methodology to quantify credit spread risk and equity price risk on the part of the investment portfolio which is reported in the audited accounts at fair value (i.e. on a mark-to-market basis). The Bank has its own Interest Rate Risk in the Banking Book (IRRBB) model to quantify risk arising under different stressed scenarios as prescribed by applicable regulatory dicta and which is premised on two approaches: the Economic Value of Equity approach and the Earnings Based approach.

d. Liquidity Risk:

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due or can only obtain them at an unreasonably high cost.

A range of liquidity risk management tools are used to monitor liquidity risk such as maturity ladder gap analysis and the regular updating of key metrics Including: the Liquidity Coverage Ratio, the Net Stable Funding Ratio, the Loans-to-Deposit Ratio, the Maturity Transformation Metric and various others. Furthermore, over and above the Internal Liquidity Adequacy Assessment Process (ILAAP) which is thoroughly reviewed every year, the Bank conducts robust stress testing on liquidity in line with the stress testing programme which is reviewed and updated on an annual basis. Other important elements within the liquidity risk management toolkit include the Contingency Funding Plan which is regularly updated and tested by means of simulation exercise and a prudent Liquidity Risk Policy which is also updated periodically.

e. Solvency Risk:

The Group ensures that it is adequately capitalised to meet all regulatory requirements to achieve its strategic objectives in line with its risk appetite, and to be able to withstand unforeseen macroeconomic downturns. The Group insists that capital should be managed in a transparent and consistent manner to ensure the most efficient outcome for shareholders, whilst at the same time be compliant with all relevant regulatory conditions.

As part of the Internal Capital Adequacy Assessment Process (ICAAP) the Bank monitors the capital position on a regular basis and updates its Capital Plan to ensure that there is enough capital not only to meet Pillar 1 risks – credit, operational, and market – but also other Pillar 2 risks such as IRRBB, concentration risk, equity risk, and others.

Stress testing which is performed on a quarterly basis, aims to ensure that the Bank's capital position is able to withstand severe macroeconomic downturns and/or other adverse events in terms of important capital related ratios, including the Common Equity Tier 1 capital, total Capital Adequacy Ratio and Leverage ratio. This was successfully tested in May 2022 when, following the out-of-court settlement of the Deiulemar litigation case, the Bank still maintained a strong capital position continued to exhibit a reasonable surplus over the Overall Capital Requirements supplemented by Pillar 2 Guidance.

f. Regulatory Compliance Risk

The risk of non-compliance with regulatory obligations as well as supervisory expectations which may result in administrative or disciplinary sanctions, or of material financial loss, due to failure to comply with the provisions governing the Group's licensable activities. By ensuring that these rules are observed, the Group works to protect its customers, shareholders, counterparties, and employees.

This is conducted in alignment with the Group strategy as operating a business model based on prudence and sound governance, and to continue strengthening the corporate ethos based on integrity, fairness and transparency.

Directors' Report as at 31 December 2022 (continued)

i. Financial Crime Compliance

The BOV Group is committed to fight against financial crime and to set up and implement a programme to identify, understand and mitigate the financial crime risk. The financial crime risk encompasses:

a. money laundering and terrorist financing,
b. breaches of sanctions, and
c. bribery and corruption.

The Bank maintains a thorough anti-financial crime (AFC) risk assessment in order to identify, understand, manage and mitigate inherent AFC risks. Risk mitigations measures are designed and implemented to control adequately and effectively those inherent risks. Inherent and residual risks are managed in line with the Bank's risk appetite.

The Bank continues to invest heavily in a transformation programme and today is able to combat financial crime much more effectively and sustainably over the long-term.

BOV remains committed to implement a robust financial crime compliance programme.

ii. Regulatory Compliance

Complying with the regulatory obligations and internal codes is the responsibility of all Group employees who must demonstrate compliance and integrity in their daily tasks. The Bank operates a Three Lines of Defence governance model with the first line responsible for identifying and managing risk as part of its accountability for achieving objectives.

The Second Line provides the necessary guidance, support and training to enable compliance risks to be managed by the First Line. The Third Line of Defence provides independent assurance.

Group Compliance is an independent risk control function headed by the Group Chief Compliance Officer and constitutes the second line of defence for compliance risk. The Group Chief Compliance Officer reports to the Chief Executive Officer and to the Compliance and Anti Financial Crime Committee, which is a Board Committee. The Bank's Money Laundering Reporting Officer and a Group Data Protection Officer report to the Group Chief Compliance Officer.

g. Key Risk Indicators

The Group has in place a set of key performance indicators (KRI) that are quantifiable measures which ensure that material risks are kept within defined thresholds as formalised in the Risk Appetite Framework. A selection of key metrics is tabulated hereunder.

Solvency	CET1	21.79%
	CAR	25.39%
	LCR	426.03%
Liquidity	NSFR	217.23%
Profitability	ROE*	2.7%

*Post Tax

Various non-financial KRIs enable the Directors also to evaluate the risk profile exhibited on other risks such as reputational, compliance, anti-financial crime, operational, and risk culture.

The KRIs are reported on a regular basis in the Risk Appetite Framework Dashboard which includes targets set to facilitate comparison between progress achieved towards attainment of strategic objectives and the actual risk profile exhibited vis-a-vis: 'within target', 'within tolerance', 'limit'.

Other than as disclosed in note 43 to the financial statements, there were no subsequent events which would have otherwise warranted an adjustment to or disclosure in these financial statements.

Statement of Responsibility by the Directors pursuant to Capital Markets Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Bank's Board of Directors on 30 March 2023 by Gordon Cordina (Chairman) and Kenneth Farrugia (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2022.

Corporate Governance Statement of Compliance

A. INTRODUCTION

Pursuant to the Capital Markets Rules, Bank of Valletta p.l.c. (the Bank) as a company whose equity securities are listed on a regulated market, should endeavour to adopt the Code of Principles of Good Corporate Governance (the Code) contained in Appendix 5.1 to Chapter 5 of the Capital Markets Rules. In terms of Capital Markets Rule 5.94, the Bank is obliged to prepare a report explaining how it has complied with the Code. For the purposes of the Capital Markets Rules, the Bank is hereby reporting on the extent of its adoption of the Code.

The Board of Directors (the Board) is committed to the values of truth, transparency, honesty and integrity in all its actions. The Board strongly believes that the Bank benefits from having in place more transparent governance structures and from improved relations with the market which enhance market integrity and confidence. The Board acknowledges that the Code recommends principles for the Board and the Bank's management to pursue objectives that are in the interest of the Bank and its shareholders.

Good Corporate Governance is the responsibility of the Board, and in this regard the Board has adopted a corporate decision-making and supervisory structure that is tailored to suit the requirements of the Bank's constitutional documents as well as its size, nature and operational needs. In addition, while the structure provides flexibility and an efficient decentralisation of selective decision-making, it concurrently provides a system of checks and balances. The Board believes that any structure which is adopted must be geared to meet the necessary standards of accountability and probity, and considers that the structure which it has adopted does so.

As demonstrated by the information set out in this Statement, together with the information contained in the Remuneration Report, the Bank believes that it has, save as indicated herein, in the section entitled Non-Compliance with the Code, throughout the accounting period under review, applied the principles and complied with the provisions of the Code. In the Non-Compliance section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code.

B. COMPLIANCE WITH THE CODE

Principle 1: The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. The Board is composed of two Executive Directors and eleven Non-Executive Directors, including the Chairman. This mix of Executive and Non-Executive Directors on the Board enables the Non-Executive Directors to exercise their monitoring function over the management and the executive arm of the Board at the level of the Board. Moreover, the fact that the Chief Executive Officer (CEO) is also an Executive Director on the Board, enables the Board to be in receipt of timely and appropriate information in relation to the business of the Bank and Management's performance. As a result, the Board can contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls.

The Board delegates specific responsibilities to a number of Committees, notably the Audit Committee, the Risk Committee, the Compliance and Anti-Financial Crime Committee, the Nominations and Remuneration Committee and the Environmental, Social and Governance Committee (ESG Committee), each of which operates under formal Terms of Reference approved by the Board.

Further details in relation to the Committees and the responsibilities of the Board is found under Principles 4 and 5 of this Statement.

Principle 2: Chairman and Chief Executive Officer (CEO)

The Bank's organisational structure incorporates the position of a CEO. The position of the Chairman and that of the CEO are occupied by different individuals. Their respective positions have been defined with specific roles rendering these positions completely separate from one another. These specific roles are identified within the Board Terms of Reference and in their contract of engagement. This separation of roles of the Chairman and the CEO avoids concentration of authority and power in one individual.

The Chairman is responsible to lead the Board and to set its agenda. The Chairman ensures that the Board's discussions on any issue put before it goes into adequate depth, that the opinions of all the Directors are taken into account and that all the Board's decisions are supported by adequate and timely information. The Chairman ensures that the CEO develops a strategy which is agreed to by the Board.

On the other hand, the CEO, besides being an Executive Director, leads the Bank's Executive Committee, which is the highest executive decision-making body within the Bank.

More information on the Bank's Executive Committee can be found under the section entitled Executive Committees, within this Statement.

Principle 3: Composition of the Board

The Board considers that during the year under review the size of the Board, whilst not being too large as to be unwieldy, was appropriate, taking into account the size of the Bank and its operations. The combined and varied knowledge, experience and skills of the Board members provided a balance of competencies that are required and add value to the proper functioning of the Board.

Corporate Governance Statement of Compliance (continued)

Independence of Directors

During Financial Year 2022, the Board consisted of ten Independent Non-Executive Directors.

During the year under review, the Board included also one Non-Independent Non-Executive Director and two Executive Directors (as indicated on pages (xiii) to (xv) of the Annual Report). In determining the independence or otherwise of its Directors, the Board has considered, amongst others, the notion of independence as contained in the Code, the Bank's own practice as well as general good practice principles.

Moreover, the Non-Executive Directors have to prepare a written annual declaration of their independence to the Board in line with Code Provision 3.4 declaring that they undertake:

- to maintain in all circumstances his/her independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
- to clearly express his/her opposition in the event that s/he finds that a decision of the Board may harm the company.

The Board believes that, by definition, employment with the Bank rendered Director James Grech as Non-Independent from the Institution. However, this should not, in any manner, detract from the said Non-Independent Director's ability to maintain independence of analysis, decision and action at all times. Moreover, having considered Mr Grech's role and duties within the Bank as a Bank employee, the Bank deemed Mr Grech to be a Non-Executive Director.

Appointment of Executive Directors

The appointment of Executive Directors is regulated by article 24 of the Articles of Association. In accordance with the said article, the CEO of the Bank shall ex officio become an Executive Director by virtue of his office and shall remain in office until the tenure of office as CEO.

The Non-Executive Directors shall appoint at least one other Executive Director on the Board from amongst the Senior Management and may also appoint a third Executive Director if the Non-Executive Directors consider it in the best interest of the collective knowledge and competence of the Board to do so. To date, one additional Executive Director has been appointed and that position is held by the Chief Risk Officer, which is in line with the Bank's strategic initiatives to highlight risk management even at Board level.

Appointment of Non-Executive Directors

Article 23.3 of the Bank's Articles of Association specifies that the Board of Directors shall consist of a maximum of three (3) Executive Directors and a maximum of nine (9) Non-Executive Directors. In the event of the co-option to the Board, pursuant to article 27A, of a maximum two (2) additional Non-Executive Directors, the maximum number of Non-Executive Directors shall be eleven (11).

The appointment of the Non-Executive Directors is governed by articles 25 and 27A of the Articles of Association and appointments may be made as follows:

a. By Qualifying Shareholders – namely members holding at least 10% of the issued share capital of the Bank having voting rights, that are entitled to nominate, for the approval of the Nominations and Remuneration Committee, one person for each 10% voting shares held; and
b. By Non-Qualifying Shareholders not having a Qualifying Shareholding, but who individually or in aggregate hold not less than €50,000 in nominal value of shares having voting rights in the Bank and who are entitled to make recommendations for the approval of the Nominations and Remuneration Committee; or
c. By the Nominations and Remuneration Committee itself seeking the recruitment of fit and proper persons having the right attributes that can add value to the Board of Directors.
d. By the Non-Executive Directors pursuant to Article 27A of the Articles of Association as explained in further detail below.

Save for the provisions in paragraph (d) above, all Non-Executive Directors are appointed by the Bank's shareholders during the Annual General Meeting.

Appointment of Additional Non-Executive Directors by Co-Option

Article 27A of the Bank's Articles of Association provides for the additional appointment of Non-Executive Directors by Co-Option.

The objective of this article is to address situations where, notwithstanding the efforts that may be made by the Nominations and Remuneration Committee to ensure that the Board of Directors of the Bank has the necessary mix of skills and experience, there could arise situations where those efforts could not yield the appropriate mix and combination of skills, or where the regulator could require certain skills which may not be present on the Board. In these situations, the Board would need to react in a relatively short time to ensure that the composition of the Board fulfils its ultimate aim. Accordingly, this Article empowers the Board of Directors (specifically, the Non-Executive Directors) to co-opt up to a maximum of additional two Non-Executive Directors to sit on the Board of Directors of the Bank, only in those instances where the nine Non-Executive Director positions were already filled, but the then current Board complement did not have the composition required by regulation or in the opinion of the Nominations and Remuneration Committee, the Board still did not have the appropriate mix of collective skills, knowledge and experience. Such co-opted Non-Executive Directors would be appointed for a three (3) year term with eligibility for re-appointment.

The two (2) Non-Executive Directors who were co-opted to the Board pursuant to Article 27A are Alfred Mifsud and Diane Bugeja.

Corporate Governance Statement of Compliance (continued)

Nominations and Remuneration Committee

All Directors, irrespective of the manner in which they are proposed, can only take office following the approval of their nomination by the Nominations and Remuneration Committee. In this context, the Nominations and Remuneration Committee is the organ that, after having scrutinised the list of candidates to ensure that the Board will have the appropriate collective knowledge, experience and competence, will then place the list of approved candidates for Board recommendation for election at the Annual General Meeting. When discussing new appointments to the Board, the Nominations and Remuneration Committee ensures that the skills, knowledge and experience which already exist in current Board members, as well as those needed on the Board, are evaluated. In the light of such evaluation the Nominations and Remuneration Committee prepares a description of the role, skills, experience and knowledge needed from directors.

The Nominations and Remuneration Committee informs the Chairman, and the other Non-Executive Directors, about the expected time commitment in their roles on the Board of Directors of the Bank, and that they undertake to dedicate sufficient time for Board and Board Committee meetings, preparation ahead of such meetings, as well as training (both induction and ongoing training). The other significant commitments, including time involvement, of the Chairman and the Non-Executive Directors, are disclosed to the Nominations and Remuneration Committee before their appointment. All Directors may not take additional directorships on boards of other entities without the prior approval of the Nominations and Remuneration Committee.

No member of the Nominations and Remuneration Committee is present while his nomination as a director of the Bank is discussed by the Nominations and Remuneration Committee.

Rotation of Directors

The Bank has a system of rotation of Directors aimed at ensuring a certain level of continuity within the Board of Directors. The system of rotation of Directors contemplates the retirement of one-third of the Non-Executive Directors in each year, with the remaining two-thirds of the Board retaining office. This is aimed at providing stability of policy-making and implementation. Those Directors whose turn it is to retire from office, pursuant to the rotation system, will be eligible for reappointment, subject to approval by the Nominations and Remuneration Committee. The Directors to retire first shall be determined as follows:

a. Those Non-Executive Directors who wish to retire and who do not seek reappointment prior to the full term of their appointment; otherwise,
b. To the extent that there are no Non-Executive Directors who wish to retire and who do not seek reappointment prior to the full term of their appointment, those who retire first shall be the Non-Executive Directors who have been longest in office, including by virtue of re-election, since their first election, but as between persons who became Directors on the same day or in the event that the duration in office cannot be properly determined those to retire shall (unless they otherwise agree among themselves) be determined by lot.

A retiring Director shall only be eligible for re-election provided that such person did not occupy the office of Non-Executive Director for an aggregate period of more than twelve (12) years in any period of fifteen (15) years.

Pursuant to Article 28.2 of the Bank's Articles of Association, one-third of the Bank's Non-Executive Directors shall retire at the Annual General Meeting (AGM).

During the Bank's AGM held on the 2 June 2022, Article 28.3 of the Articles of Association was revised. The main changes which were proposed to Article 28.3 were intended to:

a. clarify that the Non-Executive Directors required to retire in any given year are those who have been in office longest since the date of their election or re-election; and
b. make clear that if, in any given year, the Non-Executive Directors who have been in office longest and are due to retire by rotation, have occupied office for less than two years, said directors shall not retire by rotation.

The practical impact of (b) is that if, in any given year, all the Non-Executive Directors due to retire by rotation - by virtue of their holding office longest – have occupied office for less than two years, no Non-Executive Directors will retire by rotation in that year.

Pursuant to Article 28, as revised during the last AGM held on 2 June 2022, one third of the directors who are due to retire by rotation – by virtue of their holding office longest – are those who have occupied office for more than 2 years including by re-election or re-appointment. The Chairman Dr Gordon Cordina is the director who has been longest in office (appointed in October 2020). The other most senior Directors who have been longest in office, including persons who became Directors on the same day, due to retire during the 2023 AGM are Kevin J. Borg, Elizabeth Camilleri and Godfrey Swain (appointed on the Board in May 2021) as well as Alfred Lupi and Antonio Piras (re-appointed on the Board in May 2021).

Directors Alfred Lupi and Antonio Piras have decided not to seek re-election/re-appointment for another term during the forthcoming AGM scheduled for the 25 May 2023.

The Chairman Dr Gordon Cordina has been re-appointed as Chairman of the Bank for another term. Dr Cordina has been re-appointed Chairman by the Government of Malta as one of the Qualifying Shareholders of the Bank.

Corporate Governance Statement of Compliance (continued)

Director Antonio Piras was appointed Director by UniCredit SpA, as one of the Qualifying Shareholders of the Bank. In view that Antonio Piras has decided not to seek re-appointment as Director during the forthcoming AGM, UniCredit SpA exercised their right to appoint a director of the Bank and in this respect have nominated Nicola Angeli for the role of Director on the Board.

Therefore, the Bank has one vacancy for Non-Executive Director to be filled during the 2023 AGM. On the 2 February 2023, the Bank issued a call for interested persons who would like to submit their nomination for appointment as Non-Executive Director on the Board pursuant to Article 25 of its Articles of Association. The Bank received a nomination from one (1) individual. An assessment of such nomination, as well as the nomination of Nicola Angeli by UniCredit SpA, has been carried out by the Nominations and Remuneration Committee.

Number of Directorships held by members of the Board of Directors as at end December 2022, including the appointment of the Board of Bank of Valletta p.l.c.:

Name of Director	Number of Directorships held: Executive Director (ED) & Non-Executive Director (NED)
Gordon Cordina (Chairman)*	3 NED and 1 ED
Kenneth Farrugia**	2 NED and 1 ED
Miguel Borg***	5 NED and 1 ED
Alfred Lupi***	4 NED
Alfred Mifsud	1 NED and 1 ED
Anita Mangion*	1 NED
Diane Bugeja	1 NED
Antonio Piras	2 NED
James Grech	3 NED
Deborah Schembri	1 NED
Kevin J Borg	1 NED
Godfrey Swain**	7 NED
Elizabeth Camilleri	1 NED

* Gordon Cordina and Anita Mangion are not subject to the provisions of Article 91 of the CRD IV (Capital Requirements Directive) and Article 14 (3) (a) of the Banking Act, 1994 Chapter 371, Laws of Malta) as regards the number of directorships held by them in view of their appointment in a national representative capacity.

** Two of the directorships held by Kenneth Farrugia and five of the directorships held by Godfrey Swain refer to directorships of companies in the same groups, namely MAPFRE MSV Life p.l.c (50% owned by Bank of Valletta p.l.c.) and Vallcara Limited, Solvanova Limied and Eight Points Limited (all 3 companies owned by the same shareholders), and therefore count as a single directorship pursuant to Article 14 2A (c) (1) of the Banking Act.

*** Two of the directorships held by Alfred Lupi and Miguel Borg refer to direct directorships of companies in the same group (BOV Group) and therefore count as a single directorship pursuant to Article 14 2A (c) (1) of the Banking Act. Pursuant to Article 14 (3) of the Banking Act, two other directorships held by Miguel Borg are deemed to be directorships where the director is directly or indirectly appointed to represent the interests of the Government, and hence are not considered for the purposes of Article 14 2A (b) of the Banking Act.

Principles 4 and 5: The Responsibilities of the Board and Board Meetings

The Board meets approximately once a month, unless further meetings are required for the Board to discharge its duties effectively. The Board discusses and decides upon matters relating to the Bank's business. During the financial year under review, the Board met twenty-two (22) times.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policies, performance objectives which are benchmarked against industry norms and business alternatives. The strategy, processes and policies adopted for implementation are regularly reviewed by the Board so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the enterprise. The Board also monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board has a formal schedule of matters reserved for its decision and also delegates specific responsibilities to Board Committees.

The Board ensures that it has the appropriate policies and procedures in place which guarantee that the Bank and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards.

Corporate Governance Statement of Compliance (continued)

Notice of the dates of upcoming meetings, together with supporting material, are circulated well in advance to Directors to allow ample time to appropriately consider the information prior to the next board meeting. Furthermore, advance notice is also provided of ad hoc meetings to allow sufficient time to re-arrange commitments.

After each Board meeting, minutes that faithfully record attendance, matters discussed and decisions taken, are prepared and circulated to all Directors as soon as practicable after the meeting.

Members of Senior Management attend Board Meetings by invitation on a regular basis.

Directors' attendance for Board Meetings during FY 2022 was as follows:

Directors' Name	Independent Directors/ Non-Independent Directors/ Executive Directors (ED)/ Non-Executive Directors (NED)	Number of Meetings held: 22 Meetings attended by Directors:	
Gordon Cordina (Chairman)	Independent NED	22	
Stephen Agius*	Independent NED	8	(out of 10)
Kevin J. Borg	Independent NED	21	
Miguel Borg****	ED	20	(out of 20)
Diane Bugeja	Independent NED	18	
Elizabeth Camilleri	Independent NED	21	
Kenneth Farrugia**	ED	5	(out of 5)
James Grech	Non-Independent NED	19	
Rick Hunkin****	ED	14	(out of 15)
Alfred Lupi	Independent NED	22	
Anita Mangion	Independent NED	22	
Alfred Mifsud	Independent NED	20	
Antonio Piras	Independent NED	19	
Deborah Schembri***	Independent NED	12	(out of 12)
Godfrey Swain	Independent NED	19	

* Stephen Agius resigned during the Annual General Meeting held on 2 June 2022.

** Kenneth Farrugia replaced Rick Hunkin and was appointed as CEO and Executive Director on the 12 October 2022 upon receipt of Regulatory Approval.

*** Deborah Schembri was appointed to the Board during the Annual General Meeting held on 2 June 2022. Her appointment was subject to Regulatory Approval which was duly received on 20 October 2022. Pending receipt of Regulatory Approval, Ms Schembri attended Board meetings as part of her induction process.

**** Both the ex-Chief Executive Officer (Rick Hunkin) and the Chief Risk Officer (Miguel Borg) were excused from attending two Board Meetings which were convened solely for Non-Executive Directors.

Board Committees

The Board also delegates specific responsibilities to Committees, which operate under their respective formal Terms of Reference. In this respect, the Board has established the following Committees:

The Audit Committee

The Audit Committee's Terms of Reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems and the audit of the Bank's annual and consolidated accounts. The Audit Committee is also responsible to oversee the establishment of accounting policies by the Bank. The primary purpose of the Audit Committee is to protect the interests of the Bank's shareholders and assist the Directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at high level at all times. The Audit Committee has established internal procedures and monitors these on a regular basis. The Audit Committee also scrutinizes and approves related party transactions in line with the Related Party Transaction Policy. The Audit Committee considers the materiality and the nature of the related party transactions carried out by the Bank to ensure that the arms' length principle is adhered to at all times. The Audit Committee, in line with the Capital Markets Rules, is involved in and monitors the external audit processes, performs oversight on the internal audit function and facilitates communication between the two.

During the period under review, the Committee has conducted its annual self-assessment, confirming its effectiveness in adding significant value to the oversight function of the Board.

Corporate Governance Statement of Compliance (continued)

In terms of Capital Markets Rules 5.117, 5.118 and 5.118A, the Audit Committee is composed of the following three Non-Executive Directors, all of whom are considered as independent of the Bank, since they are free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair their judgement. The Non-Executive Directors appointed on the Audit Committee whom the Bank deems to be competent in accounting by virtue of them being professional accountants, are Alfred Lupi and Deborah Schembri.

1. Alfred Lupi FCCA, FIA, BSc Econ is a professional accountant with an economics degree and is currently engaged in consultancy services. He is appointed Chairman of the Audit Committee by the Board and is the Director whom the Bank considers as competent in accounting. Alfred Lupi is independent of the Bank. More detail on his brief resume is found on pages (xiii) to (xv) of the Annual Report.
2. Deborah Schembri is a Certified Public Accountant. She holds a Masters in Business Administration from Henley Management College (UK) and she holds an Advanced Diploma in Retirement Provision pursued with the UK Pensions Management Institute. Ms Schembri possesses successful experience in strategy formulation, corporate governance, business and product development, customer relationships and employee engagement. She has over twenty years' experience in the financial services and various other local industries. Currently, Ms Schembri holds the role of Group Chief Financial Officer of a major local diversified group of companies operating locally and internationally and also sits on committees within the Malta Chamber of Commerce and the Institute of Financial Services Practitioners. She also worked with one of the Big Four audit firms. More detail on her brief resume is found on pages (xiii) to (xv) of the Annual Report.
3. Alfred Mifsud has occupied various senior positions during his career. Mr Mifsud was the Deputy Governor of the Central Bank of Malta, Chairman of Crystal Finance Investments Limited, Governor on the Board of Malta Financial Services Centre (which is now the MFSA) and Chairman of Mid-Med Bank. More detail on his brief resume is found on pages (xiii) to (xv) of the Annual Report. Mr Mifsud is independent of the Bank and is considered as competent to be a member of the Audit Committee.

In view of the diverse skills and professional experience of each of the Audit Committee Members, the Bank considers the Audit Committee as a whole to have the adequate competence and to meet the independence criteria as required by the Capital Markets Rules 5.118.

Audit Committee Members' Attendance during FY2022 was as follows:

Members	**Meetings Held: 10** **Meetings attended by member:**
Alfred Lupi (Chair)	10
Anita Mangion (Member until end September 2022)	8 (out of 8)
Alfred Mifsud	9
Deborah Schembri (Appointed on 20 October 2022)	2 (out of 2)

The Chief Executive Officer, the Chief Risk Officer and the Group Chief Internal Auditor attend Audit Committee meetings. The Chief Financial Officer, the Executive Risk Management and a representative of the External Auditors attend the Audit Committee meetings by invitation. KPMG are the Group's statutory auditors. A designated person from the Office of the Company Secretary acts as Secretary to the Audit Committee.

The Nominations and Remuneration Committee – This is considered under the Remuneration Report.

The Risk Committee

The Risk Committee assists the Board in assessing the different types of risks to which the organisation is exposed. This Committee is responsible for the proper implementation and review of the Group's risk policies related mainly, but not restricted to, Credit, Market and Operational Risks. It reports to the Board on the adequacy, or otherwise, of such policies. The Committee is also responsible to review delegated limits, together with an oversight of the Group's monitoring and reporting systems, to ensure regular and appropriate monitoring and reporting on the Group's risk positions.

Risk Committee Members' attendance during FY2022 was as follows:

Members	**Meetings Held: 13** **Meetings attended by member:**
Alfred Mifsud (Chair)	13
Antonio Piras	12
Godfrey Swain	13

The Chief Executive Officer, the Chief Risk Officer and the Group Chief Compliance Officer attend Risk Committee meetings. A designated person from the Office of the Company Secretary acts as Secretary to the Risk Management Committee.

The above information on the Risk Committee, together with the information contained in the Pillar 3 disclosures which are available on the Bank's website, is also to be considered as a disclosure for the purposes of Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Corporate Governance Statement of Compliance (continued)

The Compliance and Anti-Financial Crime Committee

The primary objective of the Compliance and Anti-Financial Crime Committee is to assist and guide the Board of Directors in the discharge of their obligations imposed from time to time by regulation in the area of financial services and in light of the Bank acting as a credit and financial institution licensed to provide services under different laws and within the framework of the Compliance Function as defined in the Compliance Charter and as approved by the Board of Directors. The Committee is also responsible to assist the Bank in combating financial crime and money laundering activities.

Compliance and Anti Financial Crime Committee Members' attendance during FY2022 was as follows:

Members	Meetings Held: 5 Meetings attended by member
Diane Bugeja (Chairperson)	4
Kevin J. Borg (Member until end March 2022)	2 (out of 2)
Gordon Cordina	5
Anita Mangion (appointed Member in April 2022)	3 (out of 3)

The Chief Executive Officer, the Chief Risk Officer, the Group Chief Compliance Officer and the Money Laundering Reporting Officer attend the Compliance and Anti-Financial Crime Committee meetings. A designated person from the Office of the Company Secretary acts as Secretary to the Compliance and Anti-Financial Crime Committee.

The ESG Committee

In late 2021, the Board discussed the importance of prioritising ESG, noting that ESG is a key theme for the coming years, to be placed at the same level as second line of defence functions. Hence, it was decided to set up a Board ESG Committee effective from 1 January 2022.

The primary purpose of the ESG Committee is to secure board-level oversight of strategic climate and environmental-related risks and opportunity management, as well as strengthening the governance structure in relation to ESG factors. The Committee acts as the approval Board body for the decisions in relation to the Sustainability strategy and its implementation, and senior line management for points of escalation for decisions relating to climate work underway across the business line of the Bank. The ESG Committee is chaired by the Bank's Chairman and is composed of three other Non-Executive Directors, one of whom is also a member of the Risk Committee. Representatives from relevant business functions are invited to attend ESG Committee meetings.

The ESG Committee Members' attendance during FY2022 was as follows:

Members	Meetings Held: 7 Meetings attended by member
Gordon Cordina (Chair)	7
Anita Mangion	7
Elizabeth Camilleri	6
Godfrey Swain	7

Suitability Policy

The Bank's Suitability Policy is applicable to all Directors, Executive Committee Members and Key Function Holders within the BOV Group (collectively termed as "Subject Persons"). The aim of the Suitability Policy is to ensure the suitability of Board of Directors and the Executive Committee), as well as other Key Function Holders, not just at the inception of their appointment but also throughout the duration of their appointment. In this context, suitability refers to the ability of all Subject Persons to ensure, at all times, a sound and prudent management of the financial institution, viewing, in particular, the safeguarding of the financial system and the interests of respective clients, depositors, investors and other creditors. Subject Persons must comply with requirements of fitness and appropriateness, professional qualification, independence of mind and time-commitment (availability).

Board Diversity Policy

The Board Diversity Policy (the Policy) has been drafted in line with European Securities and Markets Authority (ESMA) and European Banking Authority (EBA) guidelines on the assessment of suitability of members of the management body and key function holders, as well as in line with the requirements of Article 88 of the CRD V (Capital Requirements Directive).

Corporate Governance Statement of Compliance (continued)

The Policy provides that the Board aspires to maintain the following diversity objectives:

i. Gender:

The Board is committed to maintain at least three (3) female Board members and aims to achieve a minimum of 33% female representation on the Board by end of 2023. During the 2022 AGM held on the 2 June 2022, the Board increased its female participation from three (3) Board members to four (4) Board members. As a result, as at end of Financial Year 2022, the Bank had 31% female representation on the Board.

ii. Age:

Pursuant to the Bank's Articles of Association, the age limit for all Non-Executive Directors shall be 75 years. In addition, the Board shall endeavour to ensure that not all directors are in the same decade of their lives.

iii. Professional Experience:

Directors should preferably have at least five (5) years professional experience in at least one of the following sectors: financial, banking, accounting and auditing, risk management, governance, compliance and anti-financial crime and information technology.

iv. Educational background:

Directors should have a sound educational background with a qualification in any of the areas of banking, business administration, economics, risk management, accountancy and auditing, and law.

v. Geographical provenance:

Given the size of Malta as a jurisdiction, coupled with the fact that BOV's level of international activity is very limited, for BOV, geographical provenance is not a relevant diversity factor. This notwithstanding, the Bank shall where possible, endeavour to bring international experience to the Board table, which can be achieved by having directors on the Board with prior relevant international professional background.

For FY2022, the Nominations and Remuneration Committee prepared a report for the Board outlining the process implemented in relation to appointment of Board members on the Board. Such report also included the measurable objectives set for implementing the Policy, as well as the progress made towards achieving those targets. The BOV Diversity Report for FY 2022 detailed the process relating to the:

i. Appointment of the Non-Executive Directors during the 2022 AGM, whereby Director James Grech was re-appointed on the Board and Deborah Schembri was appointed Director on the Board.

ii. Appointment process of CEO and Executive Director: Following the previous CEO's decision not to seek re-appointment for another term, the Nominations and Remuneration Committee embarked on a recruitment exercise for a new CEO which was carried out over a period of nine months and led to the appointment of Kenneth Farrugia as the new CEO of the Bank.

iii. Appointment process of Non-Executive Directors Co-Opted on the Board whereby pursuant to Article 27A of the Bank's Article of Association, Directors Alfred Mifsud and Dr Diane Bugeja were re-appointed on the Board.

The BOV Diversity Report also included the progress made by the Bank during 2022 to maintain or improve its Board diversity objectives and targets as defined in the Policy. For FY2022, the Bank has met its Board diversity objectives and targets in all areas.

Learning and Self-Development Policy

In line with the Bank's strategic intent, Learning and Development Centre acts as a key enabler of continuous capability-building for a future-proof Bank. Our mantra is 'Learn, Grow, and Empower Others', and we focus on building people resource liquidity through skilling, shaping the future talent pipeline through continuous upskilling, and nurturing great leaders through robust leadership development programmes.

The Bank as a licensed Further and Higher Education Institution (License Number: 2018-003) by the Malta Further and Higher Education Authority (MFHEA), offers a wide range of accredited courses as well as blended learning solutions and bespoke development programmes tailored to our employees' needs and career aspirations.

The Learning and Development team provides bespoke and specialised training programmes through its Onboarding and Customer Centricity, Personal Development, Leadership Development & Executive and Advisory pillars. The Bank also has an e-learning platform, intended to give its employees the opportunity to develop themselves further, both at the workplace and in the comfort of their home. The easing of COVID-19 restrictions has led to a return to daily classroom-based training at the Bank's Training Centre in Gżira for employees from across all the functions within the Bank. Apart from allowing for greater interaction among participants, this return to the classroom has been an opportunity for new colleagues to meet face-to-face for the first time, as well as an ideal opportunity for old friends to simply catch up. The following table depicts the average hours of training undertaken by all employees during FY2022.

Corporate Governance Statement of Compliance (continued)

	Hours
Average number of hours of training (per person) that the Group's employees have undertaken during FY2022	28
Total number of hours of training during FY2022	57,939

In the last quarter of 2022, a Learning Needs Analysis has been conducted to ensure effective learning provision and skills across the Bank and to keep the business agile and responsive to future changes. Its main goal is to develop employees' skills, improve employee retention and address business and regulatory exigencies in an increasingly demanding and rigorous regulatory landscape. Internally developed training programs are blended with available external training opportunities to broaden employees' existing skill sets, whilst bringing in new ways of thinking and problem-solving.

The Bank remains committed to keep supporting its employees both professionally and academically, thus it commits the necessary resources and time to ensure continuous development through the Learning and Self-Development Policy. This Policy encourages all Group employees, both those on indefinite and definite employment, to continuously seek self-development. It offers assistance by way of grants, study loans and study/dissertation leave in line with the Bank's present business needs.

Performance Management Process

The Bank has a performance management process which is aligned and consistent with the Bank's structure and objectives. The performance management system guides all employees to work towards the same goals, so that everyone is able to deliver, both in terms of numbers and behaviours.

The Bank's performance management process aims to deliver open and continuous communication through various channels for both appraisers and appraisees, provide improved templates, hands-on training, and clearly defined timelines. In fact, it features quarterly and mid-year reviews for every appraisee, followed by a calibration exercise by December 2022, with the final review being concluded by March 2023.

During December 2022, employees were requested to complete their self-appraisal and reflect on their respective achieved targets, agree on a performance rating with their appraiser, as well as take this opportunity to discuss areas of future focus and objectives for 2023.

Percentage of Employees Eligible for the Performance Management Programme in 2022 organised by Category

CATEGORY	FEMALE	MALE
5	38%	62%
4	60%	40%
3	66%	34%
2	41%	59%
1	54%	46%

The table above displays the percentage female to male ratios for employees that are eligible under the Group's performance management programme for financial year 2022. The information presents aggregates for both definite and indefinite employment contracts organised by category.

Starting off from financial year 2022, employees on probation are now included as part of the performance management programme subject to successful completion of their respective probationary term.

The total number of employees participating in the Achieve performance framework is 2029 equivalent to 96% of the total workforce.

Suitability of Board of Directors, Executive Committee Members and Key Function Holders

The Nominations and Remuneration Committee undertakes a suitability assessment of members proposed to be appointed on the Board of Directors or on the Executive Committee, as well as individuals proposed to be appointed for Key Function Holder positions. This comprehensive assessment is based on the individual's knowledge, skills and expertise. Due consideration is also given to criteria of reputation, conflicts of interest, independence of mind and time commitment.

During Financial Year 2022, the Nominations and Remuneration Committee, considered the suitability assessment exercise which was carried by an independent third party which was engaged to assess the fitness and properness of members of the Board of Directors, Executive Committee and Key Function Holders (the Subject Persons) for FY 2021. The objective of this suitability assessment was to:

i. Perform an individual suitability assessment for the Board of Directors, Executive Committee and Key Function Holders in relation to: their reputation, knowledge, skills, and experience to perform their duties; acting with honesty, integrity and independence of mind; and time commitment to their role;

Corporate Governance Statement of Compliance (continued)

ii. Perform a collective suitability assessment of the Board of Directors and Executive Committee to assess the collective skillset, expertise and diversity of the Board of Directors and the Executive Committee.

The assessment exercise was based on the detailed guidelines issued by the European Securities and Markets Authority ("ESMA") and the European Banking Authority ("EBA"), specifically Directives 2013/36/EU and 2014/65/EU (ESMA 35-36-23) and EBA/GL/2021/06 both issued on 2 July 2021 (hereinafter referred to as "the Guidelines").

From this assessment exercise it emerged that all Subject Persons were deemed to be individually and collectively suitable.

Executive Committee

The Executive Committee is entrusted with the overall responsibility for monitoring and managing the Bank's financial and operational performance, overseeing the execution of the Bank's strategy, monitoring customer experience and taking the necessary decisions so as to ensure that the Bank is operating with the applicable rules and regulations.

During FY2022, the Bank has reviewed its organisation structure and reviewed the composition of the Executive Committee by amalgamating roles and removing others, which will enable the Executive Committee to deliver the Bank's strategy. With expertise in accountancy, risk, economics, business, risk & compliance, IT, digitization, the Members of the Executive Committee are deemed to have the necessary collective knowledge, skills and competence to manage the business of the Group, exert oversight of the Group's operations, recommend and follow a strategic plan for the Bank, oversee the Group's financial, business and operational performance, establish and maintain a risk appetite framework, organised the allocation and adequacy of the Group's human resources and ensure that the Bank has a reliable and sustainable IT infrastructure, amongst other functions.

The Bank's Executive Committee meets at least on a monthly basis. It is chaired by the Chief Executive Officer and the Chief Risk Officer acts as Deputy Chair. The other members of the Committee are:

- Chief Financial Officer
- Chief Operations Officer
- Chief Business Banking Officer
- Chief Wealth Management Officer
- Group Chief Compliance Officer
- Chief Technology Officer
- Chief Digital, Strategy and Transformation Officer

Apart from the above Members, in 2022, the Executive Committee also included the position of Chief Marketing & Customer Intelligence Officer, who later during the year, voluntarily relinquished his position and duties. Moreover, in 2022 the Chief People and Change Officer resigned from the role and left the Bank. A vacancy was issued in February 2023 to fill this position. Meanwhile, an Acting Chief People and Change Officer was appointed to fill in the role. He attends Executive Committee meetings as an observer.

Later in the year, following the appointment of Kenneth Farrugia as the new Chief Executive Officer for BOV, the roles of the Chief Retail Banking Officer, previously occupied by Mr Farrugia and the role of Chief Wealth Management Officer, were amalgamated.

The Group Chief Internal Auditor has an open invitation to attend Executive Committee meetings at her discretion. Other Chief Officers and Bank Executives attend Executive Committee Meetings by invitation.

More detail on the Executive Committee members and their experience is found in their brief CV on page (xvi) of this Annual Report.

Besides the Executive Committee, the Bank also has the following seven (7) Executive Committees:

- Asset and Liability Management Committee
- Internal Control and Risk Management Committee
- Credit Committee
- Credit Sanctioning Committee
- Product Governance and Pricing Committee
- Change Management Committee
- Data Council

More detail on each of these Executive Committees is found below.

The **Asset Liability Management Committee** (ALCO) is an integral part of the Bank. The Committee takes an integrated view in managing the Group's assets and liabilities to achieve an optimal balance between risk and return. ALCO evaluates the asset and liability cash flows, and the management of integrated exposures at a consolidated level, to enable it to give strategic direction to the business. Consideration is given, inter alia, to the funding and investment strategy, solvency, liquidity and interest rate risks. ALCO monitors the liquidity and capital position of the Group on a continuous basis by evaluating and approving the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) respectively on an annual basis and making use of forecasts to ensure that business and regulatory requirements are met. Additionally, the Committee ensures that the investment of the Bank's funds is conducted in accordance with the approved investment strategy and exercises executive authority in the area of interest rate management by setting the

Corporate Governance Statement of Compliance (continued)

interest rates payable on deposit products. The Committee further serves as a Steering Committee for the Bank's Recovery and Resolution Plan. ALCO meets at least once a month to analyse financial information and to ensure cautious management of balance sheet and market risks. The Committee is chaired by the Chief Financial Officer and is composed of members of Senior Management.

The **Internal Control and Risk Management Committee** (ICRMC) was set up with the responsibility for the oversight and coordination of risk management, internal controls, compliance, and AML/CFT across the BOV Group. The ICRMC was originally constituted in February 2020 as an amalgamation of the Group Risk Compliance Committee and the Anti-Money Laundering Committee. It continued to meet regularly during 2021 and in 2022. In November 2021, an ICRMC effectiveness review exercise was conducted wherein the Committee's structure and modus operandi were revisited to determine the best way forward. Such led to the revision of the ICRMC terms of reference in February 2022 which, inter alia, included the institution of five ICRMC subcommittees relating to:

a. Operational Risk Management Forum;
b. Outsourcing Risk Management Forum;
c. Environmental, Social, and Governance (ESG) Risk Management Forum;
d. Financial Crime Compliance Management Forum; and
e. Compliance Management Forum.

The abovementioned exercise streamlined the ICRMC to render it more effective. This was achieved mainly through rationalised membership, devolving the approval of policies categorized as 'Level 2' under the Group's 'Governance Framework Policy' to a sub-committee (save for well-defined exceptions), inducing more concise reporting, and the possibility of allocating more time to specific items on the redacted agenda.

The ICRMC is responsible for the proper implementation and review of the Group's risk and internal control policies. It reports to the Board on the adequacy, or otherwise, of such policies. The ICRMC is also responsible to advise and support the Executive Committee in the formulation of the Bank's risk appetite and to advise and support in the monitoring of the Group's actual and future risks. The ICRMC meets at least once a month to advise and support the Board in assessing the different types of risks to which the Group is exposed, whilst also taking a forward-looking perspective in respect of emerging risks. The Committee is also responsible to review and discuss issues raised by the control functions on the effectiveness of the internal control systems. The Committee provides effective management oversight over the Group's main risks, AML and Compliance initiatives as well as the progress on any remediation action required by the supervisory authorities. The ICRMC is chaired by the Chief Risk Officer, whilst the Chief Compliance Officer serves as the Deputy Chairperson. All other Executive Committee members (except the Chief Digital, Strategy and Transformation Officer and the Chief People and Change Officer) are members of the ICRMC.

The **Credit Committee** is responsible for assisting the Executive Committee in implementing and monitoring the credit strategy, Non-Performing Loan (NPL) strategy, level of credit provisioning and debt management. It advises and supports the Executive Committee in the formulation of the Bank's risk appetite and strategy on credit and also approves policies in relation to credit in line with the Policy Governance Framework. The Credit Committee is chaired by the Chief Risk Officer whilst the Chief Executive Officer acts as Deputy Chair. The other members of the Committee are the Chief Business Banking Officer, Chief Retail Banking Officer, Chief Financial Officer, Head Credit Underwriting and Head – Business Banking – Reporting and Control. The Group Chief Internal Auditor Officer is in attendance, whilst other members of Senior Management are invited to attend the Committee as and when required.

The **Credit Sanctioning Committee** (CSC) was established to sanction/decide on credit facilities both in the performing and non-performing categories. The CSC is a management committee reporting to the Executive Committee with escalation to Board of Directors in line with the terms of reference. The Credit Underwriting Session, for assets within the performing category handles connected exposures above €10,000,000 whilst the Non-Performing Loans session, decides on Non-Performing exposures above €5,000,000. Both sessions of the CSC are chaired by the Chief Risk Officer. Non-voting representatives from Corporate Business and Risk may attend the Committee meetings by invitation.

The **Product Governance and Pricing Committee** is entrusted with ensuring that the Bank has in place a product governance and pricing framework:

- a product approval matrix inclusive of delegated authority outline;
- a periodic review program of all products and services; and
- assessment of product/service pricing and approval of changes in fees and charges.

In discharging its responsibilities, the Committee will ensure that both existing and new products are analysed in terms of target market, appropriateness, testing validation of methodologies have been considered, appropriateness of distribution channels for the target market, that any potential conflicts of interest are managed and that pricing adequately covers the risk and costs involved.

The Committee is composed of the Chief Executive Officer, Chief Financial Officer, Chief Retail Banking Officer, Chief Risk Officer, Group Chief Compliance Officer and the Chief Business Banking Officer, Chief Wealth Management Officer, Chief Operations Officer and Chief Digital, Strategy and Transformation Officer.

The **Change Management Committee's** (CMC) primary role is to develop, oversee and direct the Bank's major change programmes in order to fulfil the strategic objectives. This includes reviewing, prioritising, establishing, resourcing, allocating capital investment and monitoring all the Bank's major strategic initiatives.

Corporate Governance Statement of Compliance (continued)

The above responsibilities are achieved by ensuring alignment and support of all selected prioritised initiatives with the major goals, strategy and overall direction of the Bank. In addition to this, the CMC ensures that all initiatives currently in execution are well-optimised and provide good value and return on investment. Apart from maintaining continual oversight of in-flight programmes, the Change Management Committee resolves resource conflicts as well as redundancies between or among potential new investment and continuing initiatives.

The Committee, which meets on a monthly basis, is chaired by the Chief Digital, Strategy and Transformation Officer and is composed of members of the Executive Committee and other Senior Management.

The **Data Council** was established in early 2022 by the Executive Committee and was entrusted with overseeing all aspects of data management controls and governance within the Bank, including the development oversight, and implementation of data strategy, data systems, data Confidentiality, Integrity, Availability (CIA), data ownership and governance, and data plans and initiatives while managing the upstream and downstream impacts of data changes.

The Council meets on a monthly basis and is composed of Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Digital, Strategy and Transformation Officer, Chief Risk Officer, Chief Retail Banking Officer, Chief Wealth Management Officer, Chief Business Banking Officer, Chief Operations Officer, Information Security Officer, Data Protection Officer, Chief People & Change Officer, Group Chief Compliance Officer, Head of Data Governance, Head of Enterprise Architecture and Transformation.

Succession Policy

During the first quarter of 2022, the Bank established a Succession Policy for the BOV Board of Directors. The objectives of this Succession Policy are primarily to:

- establish guidelines and processes for a planned, orderly succession of Directors (both Executive and Non-Executive Directors) and filling any unplanned vacancy on the Board;
- enable new Board members to effectively succeed the Board's departing members and to contribute to governing the organization as quickly as possible;
- ensure that collectively the members of the Board have the knowledge and skills necessary to performance the governance role effectively whilst taking into account the objectives and targets defined in the Bank's Diversity Policy;
- effectively prepare Board members for leadership positions on the Board and prevent the risk of key people dependencies at the governing level.

The Nominations and Remuneration Committee is responsible for the Succession Policy for the BOV Board of Directors and the Succession Policy for Executive Committee members and Key Function Holders. Alignment with Code Provision 4.2.7 of the Capital Markets Rules is achieved given that the Chairman of the Board of Directors is also co-chairman of the Nominations and Remuneration Committee. Moreover, the Succession Policy for the BOV Board of Directors is approved by the Board of Directors, upon the recommendations of the Nominations and Remuneration Committee.

The Bank has also established a Succession Policy for Executive Committee members and Key Function Holders. This policy aims to define and sustain the Bank's management and governance profiles through time, lessen any emerging gaps, identify and develop new talent in order to mitigate any risks that may arise from the change in the executive function and leadership whilst securing a sound and cautious management of the Bank during planned or inadvertent transitional periods.

Given that Succession Planning is a vital organisational practice aimed at ensuring that a succession plan is established to provide continuity across the Bank, the Bank is presently in the final stages of completing the review process in relation to succession across all tiers. To address such a requirement, the need was felt for the Group to establish a framework for succession planning across Categories 1 to 5. Such a plan is important for the Group as it helps preserve its corporate memory and knowledge that would otherwise be lost because of key individuals retiring, getting promoted to a different role or in cases of attrition. The succession planning process is the main driver in identifying the best profile candidates that will form part of an in-house talent pool that cuts across the whole organisation.

Principle 6: Information and Professional Development

The CEO is appointed by the Board and is inter alia responsible for the recruitment and selection of Senior Management and consults with the Nominations and Remuneration Committee and with the Board on the appointment of Senior Management. Training of management and employees is a priority and internal and external training is provided by the Bank's Training Centre specifically set up for this purpose. The Bank also has a system in place which monitors management and staff morale.

On joining the Board, a Non-Executive Director is provided with briefings by the CEO and Chief Officers on the activities of the Bank. All Directors are provided with appropriate induction training and a dossier that, apart from incorporating relevant information on the Bank, also includes the Bank's Policy documents.

The Bank has a Board Governance Manual which provides a clear overview of the governance arrangements in place for the BOV Board of Directors. It also has the objective of showing how various key elements of governance, oversight, risk management and control link together and serves as a useful reference point for existing Directors and an induction manual for Directors newly appointed to the Board.

Corporate Governance Statement of Compliance (continued)

Directors may, where they judge it necessary to discharge their duties as Directors, take independent professional advice on any matter at the Bank's expense. Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring adherence to Board procedures as well as good information flows within the Board and its Committees.

In addition, the Company Secretary directs members of the Board to seminars or conferences which serve as professional development for Directors in the discharge of their functions on the Board and on the Committees.

During the reporting year, Directors attended training relating to the following:

- Personal, business and wealth management banking
- Risk management
- Anti-Financial Crime, Anti-Money Laundering and Combating Financial Terrorism
- Non-Executive Directors operations
- IFRS 17
- Asset quality and expected credit losses
- Emerging technologies and climate change
- Compliance
- Environmental, Social and Governance (ESG)

Directors are also required to attend mandatory e-learning modules on a number of subjects including Anti-Financial Crime (AFC), Information Security Awareness, conflicts of interest, market abuse and GDPR.

Principle 7: Evaluation of the Board's Performance

During the period under review, the Nominations and Remuneration Committee undertook an evaluation of the performance of the Board, the Chairman and the Board Committees. The evaluation exercise was conducted through a Board Effectiveness Questionnaire (the "Questionnaire") prepared by the Nominations and Remuneration Committee. Directors, including the Executive Directors, were required to complete this Questionnaire.

The outcome result of the Board Effectiveness Questionnaire was a positive one. The Board's main strengths are in the following areas, where improvement was noted when compared to previous year:

i. Board Committees
ii. Conflicts of Interests
iii. Induction and Training
iv. Corporate responsibility
v. Quality and timeliness of information

From the Questionnaire, the need for improvement in the following areas was noted:

i. Succession planning - Some progress in this respect was made in 2022 with the implementation of the Board Succession Policy.
ii. Managing the Board relationship with others
iii. Reaction to events

The result of the Board Effectiveness Questionnaire was analysed by the Nominations and Remuneration Committee and discussed at Board level.

Furthermore, in accordance with the Board Diversity Policy, as part of the annual evaluation of the Board and its' Committees effectiveness, the Board members are required to take into consideration the balance of all diversity aspects mentioned in the Board Diversity Policy and the level of their diversification as a whole. In order to assess the Board's effectiveness during FY2022 with respect to the diversity aspects in the Board Diversity Policy, relating to gender, age, professional experience, educational background and geographical provenance, the Directors were required to complete a brief questionnaire. The Board scored very well with respect to all diversity aspects.

Principle 8: Committees

The Nominations and Remuneration Committee is dealt with under the Remuneration Report which also includes the Remuneration Statement of Compliance in terms of Code Provisions 8.A.3 and 8.A.4, as well as in line with 8.B.7.

Principles 9 and 10: Relations with Shareholders and with the Market and Institutional Shareholders

The Bank recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood.

The Board is of the view that during the year under review, the Bank has communicated effectively with the market through a number of company announcements and press releases.

Corporate Governance Statement of Compliance (continued)

The Bank also communicates with its shareholders through the Bank's Annual General Meeting (AGM) (further detail is provided under the section entitled General Meetings). During 2022, the AGM held on 2 June 2022 was held remotely and was streamed live on the Bank's website. Albeit the shareholders could not physically attend the AGM, shareholders could participate during the AGM by appointing the Chairman as their proxy and indicating their voting preferences. Moreover, shareholders had the right to ask questions, ahead of the AGM and to have such questions answered by the Directors during the AGM. A full report of the meeting, including answers to shareholders questions, was uploaded on the Company's website within 48 hours from termination of the meeting.

On the 15 June 2022, the Bank held an information session for its shareholders at the Hilton Hotel St. Julian's. Several topics related to the operations of the Bank were discussed during the session, which was attended by a substantial number of shareholders. The Board of Directors, headed by the Chairman, answered all questions put forward by shareholders, with particular questions related to the agreement reached in the Deiulemar case. Information was also provided on the Bank's business plans for the short and long term, as well as how the Bank assisted the country's economy during the pandemic.

The Chairman and the CEO also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns. During these meetings no market sensitive information is disclosed.

The Chairman also ensures that arrangements are made for all Directors to attend the AGM and for the Chairman of the Audit Committee, Nomination and Remuneration Committee to be available to answer questions at the AGM.

Apart from the AGM, the Bank communicates with its shareholders by way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis and through an annual newsletter to shareholders. The Bank also issues the Interim Directors' Statement for Quarter 1 and Quarter 3 of its financial year. In addition, the Bank's website (www.bov.com) contains information about the Bank and its business, including an Investor Relations Section.

Furthermore, the Bank holds a meeting for stockbrokers and financial intermediaries, usually on a quarterly basis, to coincide with the publication of its Financial Statements and the Interim Directors' Statement. Other meetings with stockbrokers and financial intermediaries are held as necessary. From time to time, the Bank also holds meetings with the Malta Association of Small Shareholders.

The Office of the Company Secretary maintains two-way communication between the Bank and its investors. Individual shareholders can raise matters relating to their shareholding and the business of the Group, at any time throughout the financial year and are given the opportunity to ask questions at the AGM or submit written questions in advance. In terms of Article 18.3 of the Articles of Association of the Bank and Article 129 of the Companies Act, 1995 (Chapter 386, Laws of Malta), the Directors may call an Extraordinary General Meeting on the requisition of shareholders holding not less than one-tenth of the paid-up share capital of the Company.

Principle 11: Conflicts of Interest

Should an actual or potential conflict arise during the tenure of a directorship, a Director must disclose and record the conflict in full and in time to the Board and subsequent reporting to the Compliance department is required. A Director shall not participate in a discussion concerning matters in which s/he has a conflict of interest unless the Board finds no objection to the presence of such Director. In any event, the Director shall refrain from voting on the matter.

A director having a continuing material interest that conflicts with the interests of the Group, should take effective steps to eliminate the grounds of conflict. Each director should declare to the Group his or her interest in the share capital of the Group and should only deal in such shares as allowed by law and in accordance with internal policies.

Directors' interest in the share capital of the Bank as at 31 December 2022 was as follows:

	Beneficial Interest*
Miguel Borg	7,635 shares
Diane Bugeja	29,310 shares
Alfred Lupi	34,204 shares
Kenneth Farrugia	94,054 shares

*Includes any shares held by spouses or partners

No Director has any other benefit or non-beneficial interest in the share capital of the Bank.

Principle 12: Corporate Social Responsibility

Bank of Valletta prides itself as being an instrumental player in Malta's sustainable development - responsible and caring towards the communities it operates in.

The Corporate Social Responsibility (CSR) and Sustainability Strategy adopted by BOV is focused on delivering long-term benefits to the community in which we operate, creating a positive impact on society covering areas such as the Arts and Culture, Heritage, the Environment, Philanthropy, Sports and Education.

Corporate Governance Statement of Compliance (continued)

Our present CSR programme is based on the following pillars:

Pillar 1 - Environmental, Resource and Climate Sustainability
Pillar 2 - Education and Financial Literacy
Pillar 3 - Support Vulnerable Members of Society
Pillar 4 - Cultural Heritage and Environmental capital of the Maltese Islands
Pillar 5 - Ethical and Responsible Behaviour

Pillar 1 - Environmental, Resource and Climate Sustainability

Humans have been carbonising our planet for millennia, which undeniably has seen us impact the planet negatively, resulting in the warming of the atmosphere, ocean, and land. The Bank is a strong advocate in embracing and promoting environmental stability, both in its operations and its people, and its impact on the economy as the largest Bank on the islands, partaking in various initiatives to greatly reduce our carbon footprint and waste, while helping maintain a stable environment for future generations.

Pillar 2 - Education and Financial Literacy

Academic Education and Financial Literacy play a very important role throughout a person's lifetime. Education provides stability in life and is a precursor to financial security that tends to lead to better employment with the required skills for constant improvement.

Rising life expectancies increase strains on pension and social welfare systems, placing more responsibility on individuals in planning their savings and investments to ensure a comfortable level of living both before and after retirement.

The Bank supports various projects and initiatives aimed at promoting literacy and education from a very young age and using all its available channels to educate people about the importance of financial literacy and security.

Pillar 3 - Supporting vulnerable members of society

A society is only as strong as its most vulnerable members. The number of vulnerable people is on the increase, and it is our duty as an active and responsible player within the community.

Assisting the vulnerable is a priority for Bank of Valletta, through partnerships and collaborations with local organisations as well as promoting philanthropy and solidarity with our extensive workforce.

Pillar 4 - Cultural heritage & environmental capital of the Maltese Islands

Cultural heritage does not consist of money or property, but of culture, values and traditions. It represents our history and our identity - our bond to the past, to our present, and the future. With thousands of years of history, this heritage is a result of the influence of different societies that have come into contact with our Islands and adaptation over time.

The Bank is at the forefront in helping to protect this unique heritage for future generations, helping improve accessibility and at the same time promoting creativity.

Pillar 5 - Ethical and Responsible Behaviour

Ethical behaviour is essential for a society to function properly. Acting ethically promotes other people's confidence both in personal and work relationships.

Besides the firmly established, Business and Sport follow a number of unwritten rules driven by key virtues such as fairness, integrity, respect and responsibility.

Bank of Valletta partners with various Business Organisations and Sporting Associations to help promote these virtues, promoting a healthy lifestyle and a positive work-life balance while building trust, respecting dignity and treating others equally.

Further details about how the Bank is continuing to play a leading role in the communities in which it operates and the actions taken to bring about real change in our society can be found in the Corporate Social Responsibility section of this publication.

C. NON-COMPLIANCE WITH THE CODE

Principle 6 (Code Provision 6.4.4)

A Succession Policy for Executive Committee Members and Key Function Holders was established in Q1 2022. The implementation of such policy commenced during the last quarter of 2022 and is ongoing. The Bank is presently in the final stages of completing the review process in relation to succession planning across all tiers of the organisation.

Corporate Governance Statement of Compliance (continued)

Principle 9 (Code Provision 9.2, 9.3 and 9.4)

Code Provision 9.2 provides that minority shareholders should be able to call special meetings on matters of importance to the company. However, a minimum threshold of share ownership, as established in the Memorandum or Articles of Association of the company, should be set up before a Group or an individual may call a special meeting. The Bank does not have such a threshold included in its Memorandum or Articles. Nevertheless, as required in terms of the Capital Markets Rules, shareholders holding not less than 5% of the voting issued share capital of the Bank may request the Bank to include items on the agenda of a general meeting, of the Bank and to table draft resolutions for items included in the agenda of such general meeting.

Code Provision 9.3 requires the Bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. Despite the fact that the Bank does not have such a mechanism in place, the Bank maintains an open dialogue with all its Qualifying and Non-Qualifying shareholders to ensure no such conflicts arise.

Code Provision 9.4 requires that minority shareholders should be allowed to formally present an issue to the Board of Directors. Although the Bank does not have a policy in terms of this Code Provision, the Bank maintains an open dialogue with the Malta Association of Small Shareholders.

These Code Provisions were not applicable to the Bank during the financial year.

D. INTERNAL CONTROL

Authority to manage the activities of the Bank is delegated to the CEO within the limits set by the Board.

The Board is ultimately responsible for the Bank's systems of internal control and for reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable as opposed to absolute assurance against material misstatement or loss. Through the Audit Committee, the Risk Committee and the Compliance and Anti Financial Crime Committee, the Board reviews the process and procedures to ensure the effectiveness of the Group's systems of internal control, which are monitored by the Group Internal Audit Department.

The key features of the Group's systems of internal control are as follows:

Organisation

The Group operates through the Board of Directors of subsidiary companies and equity-accounted investee companies with clear reporting lines and delegation of powers.

Control Environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

Risk Identification

The Management of each of the Group members is responsible for the identification and evaluation of key risks applicable to their areas of business. The risk management model adopted by BOV is the classic "three lines of defence model", wherein, the first line of defence is constituted by the functions that own and manage risks, namely the business units; the second line is constituted by the functions that oversee risks, namely Risk Management, Compliance and Anti-Financial Crime; and the third line is constituted by Internal Audit, which is the function that provides independent assurance. The Risk Management function, within the second line of defence, falls under the responsibility of the Chief Risk Officer, and operates within a wider Bank structure that reflects the risk appetite and risk management philosophy articulated by the Board of Directors.

Reporting

Functional, operating and financial reporting standards are applicable to all entities of the Group. These are supplemented by operating standards set, as required, by the Bank's Board and the Executive Committee. Systems and procedures are in place to identify, control and to report on the major risks including credit risk, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by ALCO and by the Risk Committee. The Board receives periodic management information giving comprehensive analysis of financial and business performance including variances against budgets.

E. CAPITAL MARKETS RULE 5.97.5

Whilst Capital Markets Rule 5.97.5 is not applicable, the information relating to the shareholder register required by this Capital Markets Rule is found in the Directors' Report.

Corporate Governance Statement of Compliance (continued)

F. GENERAL MEETINGS

The general meeting is the highest decision-making body of the Bank. A general meeting is called by twenty-one days' notice and it is conducted in accordance with the Articles of Association of the Bank.

The AGM deals with what is termed as "ordinary business", namely, the receiving or adoption of the annual financial statements, the declaration of a dividend, if any, the appointment of the auditors, Board authorisation to fix the auditors' emoluments and the election of Directors. Other business which may be transacted at a general meeting (including at the AGM) will be dealt with as special business.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Capital Markets Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Bank to include items on the agenda of a general meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Bank at least forty-six days before the date set for the relative general meeting.

A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Bank. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the Directors or by such persons as the Directors may delegate for that purpose. Pursuant to Legal Notice 288 of 2020, during the 2022 AGM, shareholders could not attend physically for the AGM and shareholders could only participate during the AGM by appointing the Chairman of the Meeting as their proxy.

Annual General Meeting 2022

Pursuant to Legal Notice 288 of 2020, the Annual General Meeting was held remotely on 2 June 2022. Notwithstanding that shareholders could not attend physically for the AGM, shareholders could participate during the AGM by appointing the Chairman of the Meeting as their proxy and indicating their voting preferences. Shareholders were also granted the right to submit any questions they might have in writing to the Company Secretary, ahead of the Meeting. These questions were subsequently responded to by the Chairman during the AGM itself, which was also streamed live on the Bank's website. The questions and answers of questions submitted by shareholders prior to the AGM, were uploaded on the Bank's website.

The Annual General Meeting held during 2 June 2022 discussed and approved three ordinary resolutions – special business. These related to the following matters:

1. Renewal of Authority to issue shares:

Article 3.2 of the Articles of Association provided that the Company may, pursuant to and in accordance with the Companies Act (Cap.386 of the Laws of Malta) generally and unconditionally authorise the directors, during the prescribed period (five years) to exercise all the powers of the Company to issue and allot Equity Securities under such terms and conditions including (but not limited to) with such preferred, deferred, or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, up to the prescribed amount. Provided that such an authorisation shall be valid for a period of five (5) years renewable for further periods of five years each.

The authority of the Board was granted during the Extraordinary General Meeting of the Company held on the 27 July 2017 for a period of five (5) years and expired on the 26 July 2022. Thus, the resolution discussed and approved at the AGM held on 2 June 2022 approved the renewal of this authority for a further five (5) year period, with effect from the 2 June 2022 to expire on the 1 June 2027.

The purpose of this authority was to grant flexibility to the Board of Directors to act in accordance with this authority without the need to convene a general meeting of the Company.

2. Revised Remuneration Policy for Directors:

Pursuant to Chapter 12 of the Capital Markets Rules, the Shareholders of the Company are granted the right to vote on the Remuneration Policy for Directors and any material change thereof. The Remuneration Policy for Directors was approved by the Shareholders of the company during the Annual General Meeting held on 26 November 2020. The Remuneration Policy for Directors (the "Policy") was revised and thus submitted for the Shareholders Approval. The main changes to the Policy were as follows:

a. The annual remuneration of Non-Executive Directors (NEDs) and the Chairman is increased by €2,000, and thus from the current €20,500 to €22,500 for NEDs, and from the current €80,000 to €82,000 for the Chairman.
b. The Executive Directors on the Bank's Board of Directors will not receive Board honoraria in addition to their executive role package.
c. The Nominations and Governance Committee and the Remunerations Committee have merged into one committee, namely the Nominations and Remuneration Committee. This change in the name of the Committee was also reflected in the revised Policy.

Corporate Governance Statement of Compliance (continued)

3. Directors Remuneration Report (Advisory Vote):

Pursuant to Chapter 12 of the Capital Markets Rules, the Shareholders of the Company were granted the right to hold an advisory vote on the Remuneration Report

The Annual General Meeting held on 2 June 2022, also discussed and approved an extraordinary resolution – special business relating to changes in the Bank's Memorandum and Articles of Association. The main changes thereto related to the introduction of a new article 28 which related to the Rotation of Directors. A detailed explanation thereon, is found further above, under the section entitled "Rotation of Directors".

All resolutions submitted for the approval of the Annual General Meeting of 2022 were approved accordingly.

Remuneration report as at 31 December 2022

Report of the Nominations and Remuneration Committee as at 31 December 2022

1. Terms of Reference and Membership of the Nominations and Remuneration Committee

As from 1 January 2022 the Remuneration Committee and the Nominations and Governance Committee were amalgamated into a single committee namely the Nominations and Remuneration Committee, with the functions served by each committee to continue being carried out by the new committee.

The Nominations and Remuneration Committee (the Committee) works under the guidance of its Terms of Reference as approved by the Board of Directors. The Committee is responsible to propose Board candidates and assess Board performance, recommend changes where necessary, and assess adequacy of individual Board Members periodically. It is also responsible to ensure that succession is in place for the ExCo and key functions of the Group, reviews periodically the Board policy for selection and appointment of ExCo members and Key Function Holders and to nominate suitable candidates for these positions and those of senior management.

The Committee is also charged with overseeing the development and implementation of the remuneration and related policies of the Group. It makes recommendations to the Board of Directors on the Remuneration Policy of the Group, supports the Board of Directors in overseeing the remuneration system's design and operation and ensure that remuneration is appropriate and consistent with the Bank's culture, long term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. The role of the Committee is to devise the appropriate remuneration packages needed to attract, retain and motivate Directors, as well as Key Function Holders required for the proper governance of the Group.

During FY2022 the Committee was co-chaired by Gordon Cordina and Antonio Piras. Steve Agius (until 2 June 2022) and Kevin J Borg (as from 2 June 2022) were members of the Committee. All Committee members are Independent Non-Executive Directors. The Chief Executive Officer attends meetings of the Committee. The Chief People and Change Officer attends meetings of the Committee by invitation. None of the Executives participated in the discussion regarding their remuneration. The Company Secretary acts as secretary to the Committee.

2. Meetings

The Committee held ten (10) meetings during the period under review. Gordon Cordina and Antonio Piras attended all ten (10) meetings. Steve Agius attended 4 (out of 4) meetings and Kevin J. Borg attended 6 (out of 6) meetings.

3. Remuneration Statement

3.1 Bank of Valletta p.l.c. Remuneration Policy – Executive Management

The Board of Directors determines the framework of the overall remuneration policy for Executive Management based on recommendations from the Committee. The Committee, on the recommendations of the Chief Executive Officer, then establishes the individual remuneration arrangements of the Group's Executive Management, namely the members of the Executive Committee.

The Remuneration Policy applies consistently to all employees within the Group. Its objective is to align employees' remuneration with the Group's performance, business strategy and business models, risk appetite framework, values and long-term goals. The overriding principle of the Remuneration Policy is that individual performance is evaluated according to both quantitative/financial and qualitative/behavioural measures.

During 2022, the Bank reviewed its Remuneration Policy primarily to ensure that it is compliant with applicable regulations and to set out a comprehensive approach towards variable remuneration.

Further details about the Bank's Remuneration Policy are found in the Pillar 3 disclosures which are published on the Bank's website.
The Committee considers that the current Executive Management remuneration packages are based upon the appropriate local market equivalents and are adequate for the responsibilities involved. The Committee is of the opinion that the remuneration packages are such, as to enable the Bank to attract, retain and motivate executives having the appropriate skills and qualities, in order to ensure the proper management of the organisation. Such packages should therefore be kept under constant review.

Hereinafter, for the purposes of this Remuneration Statement, references to "Senior Executives" shall mean the Chief Executive Officer and the other members of the Executive Committee.

Senior Executives enjoy the health insurance arrangements and death in service benefits as all Bank employees. Senior Executives are also entitled to the use of a company car. Certain members of the Executive Committee have a clause in their contract, wherein should their contract be terminated without due reason, they may be eligible for monetary compensation.

The Chief Executive Officer's remuneration is reviewed and approved by the Committee and by the Board of Directors. The Chief Executive Officer is eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives and targets as laid down in the Chief Executive Officer's contract of engagement or as may be determined by the Committee.

The Members of the Executive Committee are eligible for an annual bonus entitlement. The Members of the Executive Committee are also eligible for an annual salary increase which is approved by the Committee.

Remuneration report as at 31 December 2022 (continued)

No supplementary pension or other pension benefits are payable to the Senior Executives. Insofar as early retirement schemes are concerned, the Senior Executives are subject to the schemes which are set out and defined in the Collective Agreement (for Managerial and Clerical Grades) as may be applicable to employees from time to time.

The Bank officially launched its first workplace pension - BOV VOPS in October 2022, a Voluntary Occupational Pension Scheme that falls under the second pillar. It is one of the initiatives spearheaded by the People and Change function to strengthen employee retention and engagement.

The salient features and benefits of BOV VOPS are the following:

- The Bank will match every employee's contribution up to €2,400 in a given calendar year. This commitment is guaranteed for at least the next five years;
- The employee will be eligible for 25% tax rebate on his/her contributions (max €750 on €3,000), under Pillar 2 (Work Place Pensions);
- Fringe Benefit Tax does not apply on BOV VOPS;
- Employees who have a workplace pension in place through their previous employer(s), are eligible to transfer their pot under BOV VOPS.

The BOV VOPS is classified as a Defined Contribution Pension Scheme. To date over 700 employees have enrolled in the scheme and the total amount of defined contribution plan benefits paid by the Bank during 2022 in relation to the BOV VOPS is included in Note 7 (Employee Compensation and Benefits) of the Financial Statements.

The Committee is of the view that the amount of performance bonus paid out at all staff levels is not significant.

Non-Executive Directors (excluding any Non-Executive Directors who are also employees of the Bank) are not eligible to participate in and to benefit from the BOV VOPS.

Total emoluments received by Senior Executives during FY2022 are reported under Section 3.3 within this Report, in terms of Code Provisions 8.A.5.

Variable Remuneration of Senior Executives (Executive Committee)

The Variable Remuneration of Senior Executives is determined by the Nominations and Remuneration Committee. Early in 2022, all Senior Executives were given targets for the year. Risk set out the performance metrics against which each Senior Executive was individually assessed. There are 4 core elements to each performance assessment as follows:

1. Personal Performance against Targets
2. Risk Management Performance
3. Customer and Employee
4. Leadership Behavioural Assessment

During Q1 2023, an assessment of the performance of the Senior Executives was carried out by the Chief Executive Officer and approved by the Nominations and Remuneration Committee. All reviews were conducted by the Chief Executive Officer. However, in the case of the Chief Risk Officer, Group Chief Internal Auditor and Group Chief Compliance Officer, further discussions were held with the respective Committee Chairs.

Variable Remuneration of Chief Executive Officer

Information on the performance assessment and the variable remuneration of the Chief Executive Officer is reported in the Directors' Remuneration Report, within this Annual Report in terms of Chapter 12 of the Capital Markets Rules.

3.2 Remuneration Policy – Directors

The Remuneration Policy for Directors was drawn up in accordance with Capital Markets Rules 12.26 and was approved during the Bank's Annual General Meeting. The maximum annual aggregate emoluments that may be paid to the Directors is approved by shareholders at the General Meeting in terms of Article 33.1 of the Bank's Articles of Association. The aggregate emoluments of all Directors of €450,000 per annum, was fixed at an Extraordinary General Meeting held on 27 July 2017. This amount excludes the salaries of Directors in the Bank's employment.

During FY2022, a base annual fee of €22,500 was paid to each Non-Executive Director and €82,000 was paid to the Chairman of the Board. In addition to the base fee, Non-Executive Directors who are also appointed as members of one of the Board Committees receive additional compensation. The additional remuneration paid depends on whether the Non-Executive Director is Chair or a member of such Board Committee. During 2022, Non-Executive Directors who were appointed Chair of a Board Committee were granted an annual €8,000 Committee fee whilst Non-Executive Directors who were appointed Members of a Board Committee were granted an annual €5,000 Committee fee. During the Annual General Meeting held on the 2 June 2022, a revised Remuneration Policy for Directors was approved which inter alia provides that Executive Directors shall not be entitled to any fees for sitting on the Bank's Board of Directors. The total remuneration paid to Non-Executive Directors during FY2022 complies with the Remuneration Policy for Directors. The remuneration granted to Non-Executive Directors contributes to the long-term performance of the Bank in view that Non-Executive Directors contribute actively during Board and Board Committee discussions, and prepare themselves well ahead of meetings. There is positive engagement and interaction amongst Non-Executive Directors, as well as with the Bank's management and employees, which is consistently observed also during training sessions which are organised from time to time by the Bank specifically for Directors.

Remuneration report as at 31 December 2022 (continued)

Service Contracts for Directors

Non-Executive Directors

The Non-Executive Directors have service contracts with the Bank, none of which provide for severance payments upon termination of their respective directorship. In terms of the said service contracts as well as pursuant to the Remuneration Policy for Directors, the Non-Executive Directors are entitled to certain benefits after the termination of their directorship, including discounts on products and services offered by the Group. Service contracts regulate the term of office of Non-Executive Directors, referring specifically to the concept of Rotation of Directors provided within the Memorandum and Articles of Association (as further explained under Principle 3 of the Corporate Governance Statement of Compliance). Non-Executive Directors are not paid any benefits linked to the termination of their office and they do not benefit from any pension or early retirement schemes by virtue of their office.

Executive Directors

The Chief Executive Officer is appointed as Executive Director, on an ex officio basis, by virtue of his role of Chief Executive Officer. By virtue of his contract of engagement, the current Chief Executive Officer is not entitled to any pension, retirement scheme or other entitlements upon termination of contract.

The second Executive Director on the Board is currently the Chief Risk Officer, who has a term of office of three (3) years and shall thereafter be eligible for reappointment. On a non-contractual basis, the Chief Risk Officer may be eligible to a retirement gratuity of up to a 3 times salary, subject to a prescribed level of service, by virtue of his being an employee of the Bank.

Vacation of office of Directors shall be served in writing. Service contracts also provide for the Directors' powers and duties vis-à-vis the Bank and their obligation to dedicate sufficient time to carry out their responsibilities. Directors are obliged to avoid conflicts of interest and shall take reasonable steps to keep the Bank's matters confidential. Directors' emoluments are designed to reflect the time committed by Directors to the Bank's affairs, including the different Board Committees of which Directors are members, and their responsibilities on such Committees.

Share Options and Share-Incentive Schemes

None of the Non-Executive Directors, in the capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits.

Pursuant to the Remuneration Policy for Directors, in the case of Executive Directors, subject to the de minimis rule, in order to align the interests of Executive Directors with the long-term interests of shareholders, at least 50% of the annual bonus outcome will normally be paid out in ordinary shares of the Bank, with the balance normally be paid out in cash. For Financial Year 2022, given that the de minimis exceptions permitted by relevant banking regulations applies for the variable pay granted to Rick Hunkin, the bonus awarded to Rick Hunkin shall be paid fully in cash and no part thereof will be deferred to a later year/s. On the otherhand, in the case of Miguel Borg, 50% of his bonus shall be awarded in cash, whereas the remaining 50% shall be awarded in BOV shares and deferred for five (5) years. In the case of Kenneth Farrugia, given that he was appointed Chief Executive Officer of the Bank in Q4 of 2022, his variable remuneration for 2022 was paid for his role of Chief Retail and Banking Officer. In 2024, Mr Farrugia will be granted a variable remuneration as Chief Executive Officer, covering the period 12 October 2022 till 31 December 2023.

In terms of non-cash benefits, Directors are entitled to health insurance. They are also entitled to a refund of out-of-pocket expenses. In addition, the Executive Directors only are entitled to the use of a company car.

One of the Non-Executive Directors, as well as both the Executive Directors, are employees of the Bank and therefore also receive remuneration by virtue of their employment.

3.3 Code Provision 8.A.5

Senior Executives' Emoluments (Executive Committee)

Fixed Remuneration	Group Directors' Fees	Variable Remuneration	Share Options	VOPS	Fringe Benefits
€1,937,811*	€54,675**	€352,279	None	€12,250***	Non-cash benefits: health insurance and refund of out-of-pocket expenses: €11,238

**This amount includes €54,739 and €16,860 compensation paid to two (2) former Senior Executives in connection with the termination of their activities during FY2022.*

***This amount represents emoluments received by Senior Executives in relation to their directorships on the Bank's subsidiary companies.*

**** This amount represents contribution made by the Bank under the BOV Voluntary Occupation Pensions Scheme (VOPS) with respect to those Senior Executives who have registered under the BOV VOPS.*

Remuneration report as at 31 December 2022 (continued)

Directors' Fees (Non-Executive Directors and Executive Directors)*

Fixed Remuneration	Group Directors Fees	Variable Remuneration	Share Options	Fringe Benefits
€417,735	€22,834	None	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses: €25,135

**In addition to the fees paid to Non-Executive Directors, this table also includes fees earned by Executive Directors in relation to their directorships on the Bank's subsidiary companies and their membership on Board Committees of the Bank's subsidiary companies.*

Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules

During the Annual General Meeting of the Bank which was held on the 2 June 2022, the general meeting approved the revised Remuneration Policy for Directors. The votes obtained with respect to the resolution relating to the Remuneration Policy for Directors were as follows:

Votes in favour: 317,346,892
Votes against: 5,184,911
Votes abstained: 22,747,668

The Remuneration Policy for Directors (the "Policy") regulates the remuneration of the Non-Executive Directors as well as that of the Executive Directors. The Nominations and Remuneration Committee is tasked with keeping the Policy under review and considers whether it requires revision or updating in line with market demands in order to ensure that the Bank's Board of Directors attracts and retains, suitable members that provide the collective skills and experience required for the proper functioning of the Board. The Policy shall be reviewed and any material amendments to the Policy shall be submitted to a vote by the general meeting before adoption, and in any case at least every four years.

The Remuneration Policy for Directors is available on the Bank's website on *https://www.bov.com/content/remuneration-policy-for-directors* and on *https://www.bov.com/content/financial-reports*.

There were no deviations from the procedure for the implementation of the Remuneration Policy for Directors.

Information in terms on Appendix 12.1 of the Capital Markets Rules

Executive Directors

The Executive Directors' total remuneration as salaried employees is regulated pursuant to the Remuneration Policy for Directors, the Bank's Remuneration Policy and the Executive Director's respective contract of engagement. The Bank's policy is that the remuneration of Executive Directors ought to reflect mainly their executive positions within the Bank. Such remuneration consists of a fixed salary, variable remuneration and benefits as may be provided for in their employment contract with the Bank.

The Bank believes that a combination of fixed and variable remuneration aims to attract and retain suitable executives who have the necessary competence, skills, qualities and experience to enable them to discharge their duties according to the highest standards.

The fixed remuneration component gives due consideration to the level of responsibility which such position entails, whereas the variable component is subject to the performance assessment by the Nominations and Remuneration Committee. This assessment may include risk adjusted performance indicators and shall be aligned with the strategic objectives and delivery value to shareholders. Any variable component of Executive Director remuneration is subject to malus and clawback provisions which allow a reduction or reversal of any variable remuneration. The Nominations and Remuneration Committee may enforce such provisions up to 7 years from the date of the performance assessment (which may be increased to 10 years if there is an on-going investigation) in case of:

- (Malus only) material misstatement of the Bank's financial results
- (Malus only) material error
- (Malus and clawback) circumstances warranting summary dismissal
- (Malus and clawback) material failure of risk management
- (Malus only) material downturn in economic activity

During the period under review no malus and clawback provisions were exercised.

Non-Independent Non-Executive Director by virtue of being salaried employee of the Bank

Besides being a Non-Executive Director on the Bank's Board of Directors, James Grech holds an indefinite salaried office with the Bank. However, James Grech is not considered to be an Executive Director because his position is not one of executive decision making with the Bank, and he is appointed to the Board by shareholders in general meeting.

Remuneration report as at 31 December 2022 (continued)

	Rick Hunkin* €	Kenneth Farrugia** €	Miguel Borg €	James Grech €
Fixed pay	301,702	39,780	164,182	60,370
Fringe Benefits	42,529	2,044	16,579	5,104
VOPS	N/A	532	2,400	N/A
Allowance	17,563	N/A	20,500	N/A
BOV directors' fees	N/A	N/A	N/A	25,000****
Other Group Companies directors' fees	N/A	3,884	9,000	N/A
Total Fixed Remuneration	**361,794**	**46,240**	**212,661**	**90,474**
Variable pay				
-Cash	22,530	30,625	29,553	2,944
-Value of Shares	N/A	N/A	29,553***	N/A
Aggregate	**384,324**	**76,865**	**271,767**	**93,418**
Fixed vs Variable Pay Ratio (%)	**94-6**	**60-40**	**78-22**	**97-3**

**The remuneration of Rick Hunkin is pro rata, in line with his termination date pursuant to his contract of engagement. The €22,530 bonus follows a final assessment undertaken by the Nominations and Remuneration Committee. The Chief Executive Officer contract provides for the possibility of a final bonus at the conclusion of the contract.*

*** The fixed remuneration of Kenneth Farrugia is pro rata in line with his date of appointment as Chief Executive Officer of the Bank, this being the 12 October 2022. The variable remuneration of Kenneth Farrugia is for his role of Chief Retail Banking Officer for the period 1 January to 11 October 2022. Mr Farrugia was appointed Chief Executive Officer on the 12 October 2022. In 2024, Mr Farrugia will be granted a variable remuneration as Chief Executive Officer covering the period 12 October 2022 till 31 December 2023.*

**** The shares component of the variable remuneration will be acquired from the secondary market following the publication of the Bank's financial statements on the 30 March 2023. These shares shall be retained for a period of at least 12 months from the date they are vested.*

***** Includes remuneration as member of the Digitalisation, Strategy and Transformation Group (previously Strategy Advisory Group), a temporary group set up to advise the Board on the Bank's strategic implementation plan.*

During FY2022, the Bank acquired 23,502 Bank of Valletta p.l.c. shares off-exchange, at a market price of €0.885 on behalf of the Bank's ex-Chief Executive Officer Mr Rick Hunkin, in fulfilment of the shares component of his variable remuneration for FY2020.

Shares and Share Options awarded in 2022

	Share Value €	Performance Period
Miguel Borg		
Vested Shares	29,553	1 January to 31 December 2022

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the table hereunder represents the percentage annual change of remuneration of the executive directors and non-independent non-executive director by virtue of his being a salaried employee of the Bank, of the Bank's performance, and of average remuneration on a full-time equivalent basis of the Bank's and Group's employees (excluding directors) over the previous three financial years.

Performance Indicators	% Difference 2020 vs 2021	% Difference 2021 vs 2022
Annual Change of the Bank's Performance based on Cost to Income Ratio	8 percentage points	(17) percentage points*
Annual Change of the Bank's Performance based on Profit Before Tax	2698%	(18)%**
Annual Change of Remuneration for ***Rick Hunkin***	2%	(18)%
Annual Change of Remuneration for ***Kenneth Farrugia***	n/a	n/a
Annual Change of Remuneration for ***Miguel Borg***	6%	19%
Annual Change of Remuneration for ***James Grech***	7%	(6)%
Annual Change of the Average Remuneration of the Bank's employees, on a full-time equivalent basis	3.2%	5.31%***
Annual Change of the Average Remuneration of the Group's employees, on a full-time equivalent basis	2.7%	4.89%***

** The drop in the total Cost to Income ratio for FY2022 was driven by a slower pace in transformation investment to prioritise projects of regulatory requirement.*

Remuneration report as at 31 December 2022 (continued)

*** The Bank's Profit Before Tax for FY2022 of €50.9m includes net litigation settlement charge of €103m. This year's profit is driven by a more positive interest rate environment and lower transformational investment postponed to future periods to prioritise projects of regulatory requirement. The Bank's Profit before Tax for FY2021 was €61.9m.*

**** The increase in average remuneration was computed after considering the total remuneration to employees (excluding Directors) divided by full-time equivalent employees for Bank and Group for 2021 and 2022. For the purposes of this computation, total remuneration paid to employees excluded Early Retirement Scheme lump sum payments and Voluntary Occupational Pension Scheme payments to allow for a meaningful comparison.*

Determining the Performance of the Executive Directors and of the Non-Independent Non-Executive Director by virtue of being salaried employee of the Bank

The performance assessment of Rick Hunkin was based on the evaluation of the targets achieved against the objectives laid down in his contract of engagement. These objectives are in line with the Bank's overall targets, strategy, risk appetite framework and long-term goals. These objectives together with their respective weighting are listed below:

Regulatory Compliance:	33%
Transformation Business Plan:	33%
Leadership Team Composition:	33%

The performance bonuses paid to Rick Hunkin in 2020 and 2021 were the following:

Jun 2020	€41,600	(50% in shares, 50% in cash)
Dec 2021	€46,500	(cash)
Total	€88,100	

In agreement with Rick Hunkin, these payments, were to serve as part-contributions towards a final total bonus to be determined at the end of the contract. The assessment of Rick Hunkin's performance was carried out by means of scores which each Non-Executive Director of the Board was invited to allocated to each of the KPIs specified in Rick Hunkin's contract. Upon the recommendation of the Nominations and Remuneration Committee, a final bonus payment of €22,530 was approved by the Board.

In accordance with the Remuneration Policy for Directors, the percentage of variable remuneration received by Rick Hunkin for the period January to November 2022, was approximately 8% of his fixed salary (excluding benefits) and is therefore lower than 100% of fixed remuneration threshold.

In accordance with the Remuneration Policy for Directors, given that the percentage of variable remuneration received by Rick Hunkin is lower than the 100% of fixed remuneration threshold, no deferral principle applies for Rick Hunkin's bonus.

The performance and the variable remuneration of Rick Hunkin were reviewed and approved by the Nominations and Remuneration Committee and by the Board of Directors.

An assessment of the performance of Kenneth Farrugia was carried out by the Chairman, and approved by the Nominations and Remuneration Committee. The performance assessment of Kenneth Farrugia was undertaken for his role of Chief Retail Banking Officer, given that until 11 October 2022 (and prior to his appointment of Chief Executive Officer of the Bank) Mr Farrugia occupied the role of Chief Retail Banking Officer. The performance assessment of the role of the Chief Retail Banking Offcer was based on a Profit Before Tax Target and four core elements to each performance assessment, namely personal performance against targets, risk management performance, customer and employee and leadership behavioural assessment.

Given that the de minimis exceptions permitted by relevant banking regulations apply for the variable pay granted to Kenneth Farrugia for Financial Year 2022, the bonus awarded to him shall be paid fully in cash and no part thereof will be deferred to a later year/s.

An assessment of the performance of Miguel Borg was carried out by the Chief Executive Officer, following discussions with the Chairman of the Risk Committee, and approved by the Nominations and Remuneration Committee. The performance assessment of the role of the Chief Risk Officer, was based on a Profit Before Tax Target and four core elements to each performance assessment, namely personal performance against targets, risk management performance, customer and employee and leadership behavioural assessment.

The variable pay granted to Miguel Borg for Financial Year 2022 shall be paid 50% in cash 50% in BOV shares, deferred for 5 years in accordance with the Remuneration Policy for Directors. The amount of variable pay to be received by Miguel Borg amounts to approximately 36% of his fixed salary and is lower than the 100% of fixed pay threshold.

In the case of James Grech, his variable remuneration as a salaried employee of the Bank, is governed by the Remuneration Policy of the Group. The Key Performance Indicators of Mr James Grech consisted of both corporate and individual objectives that in turn reflect performance and behavioural competencies. The performance assessment of James Grech was carried out by the Chief Officer Treasury to whom James Grech reports. The amount of variable pay to be received by James Grech amounts to approximately 4% of his fixed salary and is lower than the 95% of fixed pay threshold. No deferral requirements applied to James Grech during performance year 2022.

Remuneration report as at 31 December 2022 (continued)

Non-Executive Directors

The maximum annual aggregate emoluments that may be paid to the Directors is approved by shareholders at the General Meeting in terms of Article 33.1 of the Bank's Articles of Association. The aggregate emoluments of all directors of €450,000 per annum, was fixed at an Extraordinary General Meeting held on 27 July 2017. This amount excludes the salaries of Directors in the Bank's employment.

Information on annual emoluments paid to Non-Executive Directors is outlined in section 3.2 above.

Non-Executive Directors may receive various benefits as approved by the Nominations and Remuneration Committee. Currently, all Non-Executive Directors are entitled to health insurance and to a reimbursement of out-of-pocket expenses incurred by them. As per Bank's Remuneration Policy for Directors, Non-Executive Directors are not eligible to participate in the annual bonus plan or pension arrangement. In this regard, the ratio of Fixed vs Variable Pay for the Bank's Non-Executive Directors is 100% - 0%.

Non-Executive Directors' fees and benefits	FY2021 Fees	FY 2021 Fringe Benefits	Total 2021	FY2022 Fees	FY2022 Fringe Benefits	Total 2022	Percentage Annual Change of Aggregate Emoluments (2020 – 2021)	Percentage Annual Change of Aggregate Emoluments (2021 - 2022)
	€	€	€	€	€	€	%	%
Gordon Cordina (Chairman)	88,833	1,444	90,277	101,501	1,444	102,945	-2%	14%
Stephen Agius*	27,083	2,063	29,146	12,692	1,480	14,172	4%	16%
Diane Bugeja	30,000	2,302	32,302	30,500	2,264	32,764	-2%	1%
James Grech	22,583	1,534	24,117	25,000	1,611	26,611	10%	10%
Alfred Lupi	31,500	3,185	34,685	35,500	3,191	38,691	-38%	12%
Alfred Mifsud	30,000	4,004	34,004	35,500	4,072	39,572	-3%	16%
Anita Mangion	25,583	2,366	27,949	36,523	2,352	38,875	13%	39%
Antonio Piras	28,500	-	28,500	34,000	-	34,000	-3%	19%
Elizabeth Camilleri**	16,140	-	16,140	32,500	-	32,500	n/a	20%
Godfrey Swain**	14,890	441	15,331	32,500	2,029	34,529	n/a	35%
Kevin J. Borg**	14,890	588	15,478	27,500	2,571	30,071	n/a	16%
*Deborah Schembri****	n/a	n/a	n/a	14,018	1,274	15,292	n/a	n/a
Total	**330,002**	**17,927**	**347,929**	**417,734**	**22,288**	**440,022**		

**Percentage annual change of aggregate emoluments (2021-2022) was based on annualised remuneration for 2022. Stephen Agius resigned from Director of the Bank on 2 June 2022. Therefore, directors' remuneration for 2022 was paid pro rata until date of resignation.*

*** Percentage annual change of aggregate emoluments (2021-2022) was based on annualised remuneration for 2022. Elizabeth Camilleri, Godfrey Swain and Kevin J. Borg were appointed on the Board on 20 May 2021. Therefore, Directors' remuneration for 2021 was paid pro rata as from date of appointment.*

****Deborah Schembri was appointed Director on the Board of Directors during the Bank's Annual General Meeting held on the 2 June 2022. Her appointment was subject to regulatory approval which was subsequently received in October 2022.*

The directors' remuneration takes into consideration the Board members' required competencies, skills, effort and scope of the board work. It is intended to ensure that the Bank can attract and retain high-quality people, enabling the Bank to execute its business strategy and serve its long-term interests, including its sustainability goals.

The Bank has complied in full with the procedure for the implementation of the Remuneration Policy for Directors as defined in Chapter 12 of the Capital Markets Rules.

The Directors' Remuneration Report for 2021 was approved at the Annual General Meeting held on 2 June 2022, with 317,921,768 votes in favour, 4,351,427 votes against and 23,006,276 abstentions. There were no issues raised on the Report during the said Annual General Meeting.

The Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules is being put forward to an advisory vote during the 2023 Annual General Meeting pursuant to the requirements of Capital Markets Rule 12.26L.

In accordance with Capital Markets Rule 12.26N, the External Auditors have checked that all information, as required in terms of Appendix 12.1 of Chapter 12 of the Capital Markets Rules, has been included in the Directors' Remuneration Report within this Remuneration Report.

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Independent Assurance Report

To the Shareholders of Bank of Valletta p.l.c

Report required by Capital Markets Rules 5.98 and 12.26N issued by the Malta Financial Services Authority (the "MFSA")

We were engaged by the Directors of Bank of Valletta p.l.c (the "Bank") to report on the disclosures of specific elements in the Corporate Governance Statement and the Remuneration Report (the "Disclosures") as at 31 December 2022, in the form of an independent reasonable assurance conclusion, as to whether they are, in all material respects, in compliance with the corporate governance regulations and information to be provided in the Remuneration Report set out in the Capital Markets Rules issued by the MFSA (the "Capital Market Rules"). More specifically, we are required to report on the Disclosures in the form of an independent reasonable assurance conclusion about whether:

(a) in light of our knowledge and understanding of the Bank and its environment obtained in the course of the statutory audit, we have identified material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 (dealing with the Bank's internal control and risk management systems in relation to the financial reporting process) and 5.97.5 (where a takeover bid applies). Where material misstatements are identified in relation to those requirements, we shall, in addition to our conclusion, provide an indication of the nature of such misstatements;

(b) the Disclosures include the other information required by Capital Markets Rule 5.97, insofar as it is applicable to the Bank; and

(c) the Disclosures include the information required by Appendix 12.1, '*Information to be provided in the Remuneration Report*', to Chapter 12 of the Capital Markets Rules (as applicable).

Responsibilities of the Directors

The Directors are responsible for preparing and presenting the Disclosures that are free from material misstatement in accordance with the requirements of the Capital Market Rules and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control as they determine is necessary to enable the preparation and presentation of the Disclosures that are free from misstatement, whether due to fraud or error.

The Directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities. The Directors are responsible for ensuring that personnel involved in the preparation and presentation of the Disclosures are properly trained, systems are properly updated and that any changes in reporting relevant to the Disclosures encompass all significant business units.

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Independent Assurance Report (continued)

To the Shareholders of Bank of Valletta p.l.c

Our Responsibilities

Our responsibility is to examine the Disclosures prepared by the Bank and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("ISAE 3000") issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Capital Markets Rules.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our assurance engagement in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. The IESBA Code is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected and our determination of the nature, timing and extent of those procedures, will depend on our judgment, including the assessment of the risks of material misstatement of the preparation and presentation of the Disclosures whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

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Independent Assurance Report (continued)

To the Shareholders of Bank of Valletta p.l.c

Our Responsibilities (continued)

We are not required to, and we do not, consider whether the Directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence. Our opinion in relation to the disclosures pursuant to Capital Markets Rules 5.97.4 and 5.97.5 (as appropriate) is based solely on our knowledge and understanding of the Bank and its environment obtained in forming our opinion on the audit of the financial statements.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Disclosures nor of the underlying records or other sources from which the Disclosures were extracted.

Other Information

We also read the other information included in the Annual Report that contains the Disclosures, and our report thereon, in order to identify material inconsistencies, if any, with the Disclosures. We have nothing to report in this regard.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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The firm is registered as a partnership of Certified Public Accountants in terms of the Accountancy Profession Act.

A list of partners and directors of the firm is available at 92, Marina Street, Pietà, PTA9044, Malta.

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Independent Assurance Report (continued)

To the Shareholders of Bank of Valletta p.l.c

Conclusion (continued)

In our opinion:

(a) in light of our knowledge and understanding of the Bank and its environment obtained in the course of the statutory audit, we have not identified material misstatements with respect to the information requirements referred to in Capital Markets Rules 5.97.4 and 5.97.5;

(b) the Disclosures include the other information required by Capital Markets Rule 5.97; and,

(c) the Disclosures include the information required by Appendix 12.1 to Chapter 12 of the Capital Markets Rules.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Claude Ellul.

KPMG
Registered Auditors

30 March 2023

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Environmental Social and Governance (ESG) Risk Management and Disclosures

1.1 ESG Strategy

In 2022, Bank of Valletta p.l.c. ('BOV'), defined its ESG strategy that outlines the Bank's vision, values, and beliefs, in working towards enhancing its commitment to the environmental, resource and climate sustainability in its business activities. Underpinning the strategy is the Bank's commitment to ensure that it acts ethically and responsibly in dealing with its clients, stakeholders, and wider society, to make a meaningful contribution to the attainment of the Paris Agreement and the UN sustainable Development Goals.

The Bank's core beliefs across Environmental, Social and Governance remain to:

Environment: to strive towards net zero impact and climate resilience, instil a meaningful shift towards green loans and induce environmentally friendly behaviour towards its customers; and refocus investments towards ethical and green opportunities to redefine the balance sheet.

Social: to take responsibility for the empowerment of financial literacy and support vulnerable members of society; and sustain the appreciation of the uniqueness of the cultural heritage and environmental capital of the Maltese Islands.

Governance: to enhance awareness and positive action at all levels of the organisation with respect to ethical and fair behaviour; and enhance the pace of simplification, accessibility, and digitalisation of all the Bank's activities towards positive ESG outcomes.

1.2 Sustainability and Climate Change

Our focus on sustainability is core to the Bank's ESG strategy. We are focused on building an inclusive society and supporting the transition to a low-carbon economy as this is where we can make the biggest difference, while creating new avenues for our future growth. It is only by doing right for our colleagues, customers, and communities that we can achieve higher, more sustainable returns for investors, whilst meeting the needs of broader stakeholders and interests of our shareholders.

The Bank is reinforcing its prior commitments by working with its customers, the market, and the relevant authorities to tap to new fast-growing areas linked to environmental sustainability. We support clients in all sectors and recognise that the challenges ahead and the trajectory to transit to greener practices is different for each sector, with certain sectors facing more significant challenges to decarbonise than others. We also believe that a divestment strategy can be one of the levers used to incentivise action, however, focusing solely on divestment is not in line with our purpose and we want to finance the changes needed to live and do business more sustainably, in line with a just transition. For this reason, the Bank will be monitoring its top emitting clients.

1.3 The strengthening of an ESG Department

The Bank founded its ESG Department with the aim of enhancing and integrating sustainability into its strategic and operational processes. The department is responsible to develop and implement strategies that are steering a change in the organisation's operations and awareness on ESG. Furthermore, the department is pushing for the incorporation of ESG factors, especially climate and environmental risks process across the entire ecosystem of the Bank. The Department is steering the Bank's sustainability vision while ensuring the execution of the Bank's environmental and social goals and targets. The department is earmarked to be a powerful resource for clients looking to deliver resilient growth and build strong balance sheets, while allowing them to withstand future shocks and make the changes needed to mitigate climate change and physical and transition risk, thereby cushioning the impact from a business risk perspective.

1.3.1 Building our expertise

The Bank continues to invest in its resources and capabilities to support the execution of its climate strategy and sustainability ambition. In this regard, the Bank rolled Board training on climate change, climate-related risks, sustainability and ESG. This training was developed and delivered in conjunction with third party consultants through the ESG department. Concurrently, during 2022, the Bank provided sustainability & ESG training to its employees through a Group-wide e-learning course on ESG which was launched to introduce the topic of climate change and ESG. The ESG department provided training to risk correspondents in relation to Climate and Environmental related risks covering different C&E risk scenarios. As part of this training, risk correspondents were provided with a list of Climate and Environmental risks under physical and transition risks.

1.4 Sustainability and Climate and Environmental related risk governance

Oversight and management of climate-related issues are embedded within our governance structure. The Board and Senior Management are cognisant of the climate and environmental related risks and monitors the frameworks and their accompanying implementation. Bank of Valletta's governance structure consists of the Board, Executive and Management Committees across both business and compliance entity lines. The Bank's Board sets the strategic direction and risk appetite of the Group and is the ultimate decision-making body for matters of Group-wide strategic, financial, regulatory, and reputational significance.

Oversight and management of climate and environmental related risks has become part of the business-as-usual management structures, including the channelling of the information to a number of executive and management committees. These committees are mandated and form part of the Bank's formal governance architecture and covers not just the technical part of climate and environmental related risks, but also regulations. The Committees are convened to oversee and to contribute to the Bank's control framework. Each committee is itself governed by terms of reference that lay out the duties, decision-making authority, and escalation route of any material issues.

Environmental Social and Governance (ESG) Risk Management and Disclosures (continued)

During 2022, the Board received regular updates on ESG matters placing greater emphasis on climate and environmental related risks from the ESG Committee and the ESG Management Forum both of which help shape key decisions on the Group's approach towards sustainability.

1.4.1 ESG Committee

The **ESG Committee** became effective during 2022 and saw the board-level oversight to monitor strategic climate and environmental related risks, while strengthening the governance structure in relation to the other elements of the ESG factors. This committee is chaired by the Bank's Chairman and is composed of three Non-Executive Directors and includes stakeholders from across the Organisation. During 2022, the **ESG Committee** discussed and reported on various topics namely a) a materiality assessment which integrates a climate risk taxonomy, with different transmission channels and which encompasses credit, operational, reputational, strategic, market and liquidity risks analysis, b) the development of an internal climate stress test model to assess C&E ('climate and environmental') scenarios for physical and transition risks, taking three different scenarios under an orderly transition, disorderly transition or hothouse world, thereby aligning with the ECB's wide climate stress testing methodology, c) preliminary results relating to the assessment of the Bank's internal climate risk stress testing integrating different scenarios to measure the probability of default and loss given default of its clients capturing a longer time horizon, d) the Bank's ECB Thematic review on the implementation and integration of climate and environmental related risks and, e) monitored and provided oversight of the Bank's climate strategy and policies and discussed its setting, progress, and evolution.

1.4.2 ESG Forum

The role of the **ESG Management Forum** which was established during 2022 is to foster collaboration across the Bank's business departments and divisions, principally focusing on climate and environmental related risks. The forum carries out initial discussions on matters to be decided by the ESG Committee and the Board, especially on the implementation of the Bank's ESG strategy, as well as the decarbonisation roadmap encompassing a new process to design a strict environmental programme, while strengthening the governance structure in relation to the other elements of the ESG factors. This committee is chaired by the Bank's Head of the ESG department and sees the participation of various stakeholders covering different departments within the Bank.

During 2022, the **ESG Management Forum** discussed and reported to the ESG Committee and the Risk Committee priorities, within the realm of Climate & Environmental risks, which included

a. a data gap analysis including the Energy Performance Certification as a major stumbling block,
b. the Bank's green financing product portfolio,
c. launched an energy audit and a carbon footprint calculation covering Scope1, Scope 2 and Scope 3 emissions, with the latter identifying the top emitting sectors and clients financed by the Bank,
d. the creation of a scientific geographical heatmap for a granular concentration analysis covering physical and transition risks, and
e. the imposition of limits in the Bank's Risk Appetite Framework to exclude sectors that are harmful for the environment and that contribute to the acceleration of climate change that include coke and petroleum extraction and mining and quarrying.

Furthermore, the Bank reinforced its strategic climate leadership and alliance ambition by also becoming a founding member of the Malta ESG Alliance; a platform for Maltese businesses to work together to achieve national ESG goals.

1.5 Business Model and Strategy

1.5.1 Our climate strategy

Addressing climate change is an urgent and complex challenge not just for Malta but also globally. It requires a fundamental transformation, so that society refrains from adding to the total amount of greenhouse gases in the atmosphere. The financial sector has a critical role to play in supporting the economy to reach this goal. Our strategy is underpinned by the way we assess and manage our exposure to climate and environmental related risks, as explained in the preceding chapters. For this reason, the Bank's climate strategy is aligned and outlined in the ESG Strategy. The main pillars oblige the Bank to a) strive towards net zero operations and this is the reason why the Bank calculated its carbon footprint, to reduce its financed emissions, b) financing the transition and c) refocus investments towards ethical and green opportunities.

Over the coming years, our strategy will continue to evolve, and it would require us to adapt to reflect market, technological, regulatory, and geopolitical developments affecting the shape and timing of the transition to a low-carbon economy. We will retain our policies, targets, and progress under review considering the rapidly changing external environment and the need to support our clients in delivering an orderly transition thereby supporting the Maltese economy. Progress may vary and we need to be able to adapt our approach to optimise the effectiveness and impact of our support for the transition.

1.5.2 Understanding our Green House Gases ('GHG') emissions in 2022

The GHG Protocol Corporate Accounting and Reporting Standard provides requirements and guidance for companies and other organizations preparing a corporate-level GHG emissions inventory. GHG Protocol categorizes all corporate emissions under three scopes, as follows:

- **Scope 1:** Direct emissions related to an organization's operation, activities and processes (e.g. gas and transport fuels).
- **Scope 2:** Indirect emissions derived from electricity used for a company's operation (lighting, appliances and equipment, cooling).
- **Scope 3:** Indirect emissions from company's value chain, upstream and downstream, including specifically Category 15 "Investment" or "financed emissions", GHG emitted by entities that receive financial services, loans, or investments from the Bank.

Environmental Social and Governance (ESG) Risk Management and Disclosures (continued)

During 2022, the Bank pushed through its green transition plans to build a more responsible finance industry with the execution of a carbon footprint calculation to gauge its impact on the environment and transform its business with sustainability-based decision-making. In 2022, the Bank engaged a third-party expert and made significant progress in the collection of information to calculate its carbon emissions, including Scope 1, Scope 2, and Scope 3 emissions. The calculations were performed leveraging the GHG Protocol and the Partnership for Carbon Accounting Financials ('PCAF') methodology for financed emissions. In tandem the Bank commissioned an **Energy Audit** to understand the energy performance of its buildings including the head office, based on a scientific measurement estimating the emissions primarily observing the use of energy, efficiency, and consumption. In summary, the report provided performance improvement opportunities and a decarbonization roadmap for the Bank taking a three-phased approach scenario primarily focusing on the largest and least efficient buildings. Furthermore, Bank of Valletta is committed to aligning its financing portfolios in every sector with the goals and timelines set in the Paris Agreement.

The Bank continues to work on setting targets consistent with its commitments to reduced financed emissions and has preliminary identified its **high emitting customers**. In 2023, the Bank will be engaging with these customers to understand and support their transition to a low-carbon economy. The transition to a low-carbon economy is today's defining opportunity for innovation and growth. There is a significant opportunity for Bank of Valletta to play a leading role in helping to meet the demand for climate change related financing and commits to support the transition. The Bank foresees to readjust its investments, including capital to steer it toward projects that contribute to new green technologies and infrastructure projects that contribute to a low-carbon economy.

BOV's GHG emissions Scope 1 & 2

Carbon footprint calculations for Scope 1 and 2 focuses exclusively on the vehicle fleet owned by the Bank, plus 66 BOV operated buildings and 33 ATMs scattered across Malta. This represents 100% of the Bank's facilities located in Malta. The emitting activities covered in this carbon footprint report for 2022 includes direct emissions resulting from the Bank's owned or controlled equipment and assets and emissions from purchased electricity. It is important to highlight that under the GHG Protocol, the reporting of both direct emissions and indirect emissions, resulting from purchased electricity, are compulsory.

Listed in the table below are the main activities contributing to the Bank's 2022 Carbon Footprint classified according to the relevant scope.

Table 1. Emission scopes and sources identified for BOV's 2022 carbon footprint calculations.

Greenhouse Gas Emissions		
Indicator	**2022**	**Units**
Total GHG Emissions (Scope 1 + Scope 2)	**2,137.22**	**t CO2e**
Scope 1	**107.89**	**t CO2e**
Stationary fuel combustion in BOV's owned or operated generators	1.61	t CO2e
Fugitive emissions	2.30	t CO2e
Mobile fuel combustion in BOV's owned or operated vehicles	103.98	t CO2e
Scope 2	**2,029.33**	**t CO2e**
Electricity used in buildings	1,981.84	t CO2e
Electricity used by ATMs.	47.79	t CO2e

[1] Reporting period: Due to data availability limitations the reporting period covers 30 September 2021 to 30 September 2022..

1.5.3 Climate & Environmental Risks in Research Reports

In 2022, the Bank engaged with different external stakeholders to create awareness on climate and environmental related risks. The Bank participated in different workshops, and conferences organised by the Maltese authorities, including Malta Enterprise, the Malta Business Bureau, the Chamber of Commerce, and the Chamber of Engineers to primarily foster awareness on climate and environmental risks, especially on the upcoming reporting requirements for non-financial institutions in line with the EU Directives and regulations. However, in 2023 the Bank will be engaging in research related to climate and environmental related risks encompassing different sectors of the Maltese economy by financing reports that contribute to the mitigation of climate change and C&E risks. A market sector analysis is planned for 2023 to mainly shed light on the dissection of climate and environmental related risks within the local economy.

1.5.4 Risk Management

During 2022, the Bank added Climate and Environmental risk as a 'key risk' within its risk management framework, and therefore became part of the Bank's standard procedures for assessing and reporting material risks.

Environmental Social and Governance (ESG) Risk Management and Disclosures (continued)

Risk Appetite Framework (RAF) KRIs of C&E

The Bank defined RAF KRIs in relation to sustainable finance targets in the retail and business loan issuance including reduction in exposure of manufacture of coke and refined petroleum, which is monitored and reported bi-monthly. Reduction in manufacture of coke and refined petroleum products by 2031 within the proprietary portfolio was articulated in the Bank's in the investment policy – the Treasury Management Policy (TMP) in 2022.

1.5.5 Our approach to the Materiality Assessment

In the first quarter of 2022, the Bank has carried out a **Materiality Assessment** with the development of a climate risk taxonomy. The exercise assessed the physical and transition risks for credit, operational, liquidity, market, and reputational risks. Further details on the climate and environmental related risks potentially arising in the short, medium, and long term, that could potentially have a material financial impact on the Bank, were identified including the processes and methodologies used to determine these risks. The materiality assessment is now part of the business-as-usual processes of the Bank, and the ESG department is responsible to monitor C&E risks and other newly emerging risks in the realm of ESG.

Materiality Assessment: In Q1 2022, the Bank performed its first Materiality Assessment exercise to assess the materiality of Climate and Environmental risks on its portfolio by calculating both physical and transition risk for the sectors. The materiality assessment covered 3 steps:

I. Development of an exhaustive taxonomy of C&E risk drivers both for physical risks (acute and chronic) and transition risks. The risk drivers included in the taxonomy cover both climate and environmental risks. To do so, the Bank combined the existing C&E risk drivers from multiple reference industry taxonomies (sources included ECB, EBA and EU taxonomies for physical risks, and the World Economic Forum, TCFD1, Institute for Climate Economics for instance for transition risk). It then tailored the taxonomy to properly account for the specificities of its business model (e.g., high relevance of temperature related hazards, such as heatwaves, droughts, and soil erosion, specifically for Malta where the activities of the Bank are concentrated). The Bank also mapped the risk drivers of the ECB thematic review (in the materiality assessment tab) to its internal risk taxonomy to ensure a proper integration of the exercise in its risk processes.

II. Analysis of transmission channels. The Bank performed an exhaustive literature review and leveraged insights from climate experts to identify 23 transmission channels through which C&E risk drivers would impact the Bank's various risk types. The transmission channels for physical risk and transition risk include **Credit risk**: Change in corporate credit worthiness due to damages to assets (means of production), Change in retail credit worthiness due to unemployment, Change in government credit worthiness, Change in LGD due to damages to collateral; **Operational risk**: Damage to branches / headquarters, Staffing issues, Damages to power facilities, Payment services disruption, Cloud services disruption; **Reputational risk**: Exposure to sectors with a high negative environmental impact, Accusation of greenwashing, Failure to announce / meet net-zero targets, Failure to comply with C&E regulation; **Strategic risk**: Revenue at risk across business units and client segments; **Liquidity risk**: Reduction of liquidity buffer due to value reduction of HQLA caused by shifting market sentiment towards bonds in sectors with a negative environmental impact, Increased cost of funding for the Bank caused by misalignment of activities with low carbon economy.

Each transmission channel has also been assessed in terms of the time-horizon in which the risks would likely materialise within 2 years (Short Term), 2 to 5 years (Medium Term), or beyond 5 years (Long Term).

III. Assessment of the materiality. Specifically, for each one of the transmission channels, a tailored qualitative (concentration analysis, sensitivity analysis and / or quantitative approach (qualitative scorecard) has been developed to assess the materiality of the climate related and environmental risk impact on each business unit of the Bank.

As already mentioned, the materiality assessment methodology was designed for the specificities of Malta. Indeed, the Bank went a step further than the ECB on the designation of the geographical areas, and used Malta's seventh communication to the UN, as well as the River Basin Directive Reports, and the IPCC reports for the Maltese islands. The Bank identified key risk geographical areas in Malta that are subject to climate physical risks. The ESG department designed and made use of the Local Administrative Unit statistics rather than the NUTS3 statistics to get a better insight and a granular analysis of the areas that might be affected by climate change in Malta, and which are flood risk prone areas. This gave the ESG department, and the Management, a better understanding on the future financed investments and projects that the Bank should consider taking on board.

IV. In order to assess the potential impact of climate physical risk on the capital adequacy, the Bank has leveraged the results of the materiality assessment, as well as data from historical events to recreate a scenario where one of the branches located in a flooding- prone area is impacted by a physical event. The results of such exercise and the quantification of the overall losses, were included in the Internal Capital Adequacy Assessment Process (ICAAP

Environmental Social and Governance (ESG) Risk Management and Disclosures (continued)

1.5.6 ECB Wide Stress test and the Bank's internal Climate Stress Testing Model

During 2022, the Bank participated in the ECB's wide climate stress testing and successfully completed the process. Furthermore, in 2022 the Bank designed its own Climate Stress Testing Model, to primarily induce an element of C&E risk culture within the Risk Management Department. The internal climate stress test model is based on an econometric model deemed as a good practice by the ECB in their reports. The CST model cover different climate scenarios both for the physical and the transition risks. The scenarios are aligned with the ECB's methodologies and takes three different scenarios under transition risk that include an orderly transition, disorderly transition, or hothouse world. The 2022 Climate Stress Test results will be published in the ensuing ICAAP reports and publications.

1.5.7 Credit Underwriting

To strengthen its climate and environmental related risks monitoring in 2022 the Bank embedded climate risk assessments in its credit risk management framework. For instance, for commercial banking the Bank managed to set up an in-house pilot approach to assess broader climate and environmental risks in the Bank's Corporate Lending portfolio. A specific sector questionnaire was launched with the Bank's clients covering six high-risk sectors that have strategic relevance for the Bank, namely accommodation, power, real estate, transport, warehousing, and wholesale trade. Questionnaires will be triggered during the credit annual review process for high-risk sectors and will be included in the credit underwriting tool for eventual record keeping.

The Bank continued to embed climate and environmental related risk assessment into its credit risk management framework. In this regard, the Bank established a RAF sectorial constraint to further manage the Bank's exposure to very high-risk sectors namely the manufacturing of coke and petroleum and the manufacturing of basic metals, as well as mining and quarrying. Furthermore, the Bank updated its Level 3 Credit Lending policy to reflect the changes in the RAF. For the transition risks, the ESG department in collaboration with the Treasury designed the process for the screening of the purchasing of corporate bonds and equities of the automotive manufacturing industry, by utilising the European Commission Transition Pathway to invest in those automotive companies that are reaching the regulatory targets as specified by the EU.

1.5.8 Treasury Management Policy (TMP) /Corporate Credit Lending Policy (CMP)

The C&E risks management is integrated in the TMP and the Corporate Credit Lending Policy. Both policies were updated with a framework to monitor the transition and physical risks of high and very high-risk sectors, following the conclusion of C&E risk ratings. In total, the Bank has four risk categories, ranging from low to very high risk. During 2022, the Bank has set a €1 million limit for each of the following sectors: a) manufacture of basic metals and b) mining & quarrying. The policies also include minimum requirements for the automotive manufacturing sector. Also, the Bank's target is to increase the financing to corporates issuing green bonds that intensify climate change mitigation and/or climate change adaptation joining the global climate ambition of reaching the Paris Agreement goal and European Green targets. The Bank has 4% of green bond holdings in the total bond portfolio which are all aligned with the EU Taxonomy criteria and not issued under standards other than the EU standards. The 4% holding as of December 2022 represents an exceeded target of 2% holdings by year 2023. In the eventuality of a policy limit breach, the Bank has defined an internal escalation process requiring a further investigation and ratification.

ESG disclosures

Our approach to environmental and social issues is becoming increasingly integrated in the work we do across our business and is subject to the governance and oversight of our management and Board structures. Reflecting this trend, we have taken the decision to integrate our ESG reporting into this year's Annual Report. The ESG report section sets out more information on our approach to ESG, including how we think about, and measure, our environmental and social impact. Our approach is informed by our engagement with our stakeholders, customers, colleagues, investors, regulators, and the wider society.

EU Taxonomy economic performance indicators

Environmental and Climate change risk mitigation and adaptation objectives.

The European Commission ('EC') has set out the EU Taxonomy classification system[2] that gives companies, investors, and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In 2021, the European Commission adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act')[3]. Under these regulations, the bank is required to provide information to investors about the environmental performance of our assets and economic activities. The Disclosures Delegated Act applied to BOV as of 1 January 2022. The approach is a phased one and in the first year of reporting, the bank has provided below, its reporting related to Taxonomy-eligibility of economic activities.

[2] *Taxonomy Regulation EU 2020/852*
[3] *Commission Delegated Regulation (EU) 2021/2178*

Environmental Social and Governance (ESG) Risk Management and Disclosures (continued)

The table of information below contains the information specified in the Disclosures Delegated Act and is based on the methodology.

Performance Indicators of Taxonomy-eligibility of economic activities	As at 31 Dec 2022 Proportion of total assets
The proportion in BOV's total assets of exposures to Taxonomy-eligible economic activities	27.6%
The proportion in BOV's total assets of exposures to Taxonomy non-eligible economic activities	19.0%
The proportion in BOV's total assets of exposures to central governments, central banks and supranational issuers and derivatives	48.6%
Other Assets	4.8%
Total	**100%**

Scope of BOV entities included

The percentages in the above table, represent exposures and balances as a proportion of total assets for the principal operating entity within the BOV group as of 31 December 2022

Assets in scope

The percentages for taxonomy-eligible economic activities and taxonomy non-eligible activities for on-balance exposures covering loans and advances, including home loans, business loans, consumer loans and treasury. This also includes exposures to undertakings such as large EU banks, asset managers, insurance companies and issuers that are subject to Non-Financial Reporting Directive obligation.

Eco loans have been included and accounted for as part of both home and business loans. To prevent double counting, they have not been analysed separately.

The second phase of reporting relates to Taxonomy-alignment of economic activities. The above information will assist the bank in preparing for the second phase of EU disclosures related to Taxonomy-alignment of economic activities (i.e., disclosure of the key performance indicators) from 1 January 2024 when Taxonomy 'eligible' economic activities will be assessed to determine whether they are environmentally sustainable (i.e., Taxonomy 'aligned').

Other assets

Cash, tangible, and intangible assets, are excluded from the taxonomy framework and therefore cannot be assessed for taxonomy eligibility. On this basis, these assets are excluded from the eligibility assessment. However, these assets are included in the total assets used in the denominator for the calculation of the ratios.

Taxonomy Eligible Economic Activities

These are those activities which can be assessed in future disclosures as environmentally sustainable. Eligibility related disclosures shall be based on actual information provided by the financial or non-financial undertakings. An eligible economic activity is defined in the Delegated Acts and in some instances corresponds to one or more specific Nomenclature of Economic Activities ('NACE') code. The assessment of taxonomy eligibility for mandatory disclosures is made using the specific description of the activity provided in the Delegated Acts.

Since this is the second year of reporting under the EU taxonomy, financial and non-financial undertakings have not yet reported on their taxonomy eligibility related disclosures. As a result, to determine the eligibility of exposures, we have relied on the NACE code of the principal activity of the immediate counterparty and have not needed to rely on data from the counterparty. Given the Lack of data from such counterparties, we have relied on the NACE code of the principal activity to determine the counterparty's eligibility. In addition, loans collateralised by commercial property to undertakings not subject to NFRD have been included as taxonomy eligible.

Taxonomy non-eligible economic activities

Taxonomy non-eligible economic activities are those activities which cannot be assessed as environmentally sustainable or not. Included in taxonomy non-eligible are those assets in scope that cannot be assessed for taxonomy eligibility, either due to activities not covered by the taxonomy framework, limited data availability from our counterparties or lack of required information.

Environmental Social and Governance (ESG) Risk Management and Disclosures (continued)

Data Limitations

Non-Financial Reporting Directive[4]

Data limitations made it difficult to determine which undertakings are not obliged to publish under the Non-Financial Reporting Directive. Therefore, regardless of the reporting requirements for such exposures we have included them as part of the total assessment of taxonomy-eligible economic activities. Given the bank's work on improving its data and reporting, it expects that availability of data and improvements in data quality over time, will happen. Also, as its counterparts adopt the Taxonomy requirements for their own disclosures, reporting such exposures as a single indicator could lead to differences in the data reported in future years as compared to the current year. The bank will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as we develop our capabilities to assess the Taxonomy alignment of our portfolios in preparation for future Taxonomy reporting requirements from 1 January 2024.

Central Governments, central banks, supranational issuers, interbank loans, and Derivatives

Exposures to central governments, central banks, supranational issuers, held for trading derivatives and on-demand interbank loans are disclosed separately and are included as a separate indicator on the same basis and methodology.

[4] *NFRD as per Article 19a or Article 29a of Directive 2013/34/EU*

Statements for profit or loss

for the year ended 31 December 2022

	Note	The Group 2022	The Group 2021	The Bank 2022	The Bank 2021
		€000	€000	€000	€000
Interest and similar income					
- on loans and advances	2	196,277	172,429	196,277	172,429
- on debt and other fixed income instruments	2	23,933	22,384	23,933	22,384
Interest expense	3	(18,311)	(38,503)	(18,311)	(38,503)
Net interest income		**201,899**	**156,310**	**201,899**	**156,310**
Fee and commission income		89,114	84,273	79,995	74,462
Fee and commission expense		(12,546)	(9,678)	(12,546)	(9,678)
Net fee and commission income	4	**76,568**	**74,595**	**67,449**	**64,784**
Dividend income		641	1,447	9,386	2,946
Trading profits	5	14,163	10,511	14,206	10,470
Net gain on investment securities and hedging instruments	6	86	45	86	45
Operating income		**293,357**	**242,908**	**293,026**	**234,555**
Employee compensation and benefits	7	(100,033)	(81,568)	(97,659)	(79,067)
General administrative expenses		(72,945)	(93,897)	(71,075)	(92,546)
Amortisation of intangible assets	20	(11,861)	(11,708)	(11,772)	(11,708)
Depreciation	21	(7,777)	(8,430)	(7,716)	(8,244)
Net impairment reversal	8	49,075	18,856	49,075	18,856
Operating profit before litigation settlement charge		**149,816**	**66,161**	**153,879**	**61,846**
Net litigation settlement charge	33	(102,958)	-	(102,958)	-
Operating income		**46,858**	**66,161**	**50,921**	**61,846**
Share of results of equity-accounted investees, net of tax	18	1,860	14,498	-	-
Profit before tax	9	**48,718**	**80,659**	**50,921**	**61,846**
Income tax expense	10	(17,547)	(24,468)	(18,514)	(22,947)
Profit for the year		**31,171**	**56,191**	**32,407**	**38,899**
Earnings per share	11	**5.3c**	**9.6c**	**5.6c**	**6.7c**

Statements for profit or loss and other comprehensive income

for the year ended 31 December 2022

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Profit for the year	31,171	56,191	32,407	38,899
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Debt investments at FVOCI				
- change in fair value	(4,823)	(151)	(4,823)	(151)
tax thereon	1,688	53	1,688	53
	(3,135)	(98)	(3,135)	(98)
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	(1,723)	(2,640)	(1,723)	(2,640)
tax thereon	603	924	603	924
Property revaluation	3,366	5,306	3,366	5,306
tax thereon	(337)	(531)	(337)	(531)
Remeasurement of actuarial losses on defined benefit plans	2,485	42	2,485	42
tax thereon	(870)	(15)	(870)	(15)
Other comprehensive income for the year, net of tax	389	2,988	389	2,988
Total comprehensive income	31,560	59,179	32,796	41,887

The notes are an integral part of these financial statements.

Statements of financial position

as at 31 December 2022

	Note	The Group 2022 €000	The Group 2021 €000	The Bank 2022 €000	The Bank 2021 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	3,389,261	4,626,066	3,389,261	4,626,066
Financial assets at fair value through profit or loss	14	146,363	138,986	146,211	138,823
Investments	15	4,567,064	3,568,669	4,567,064	3,568,669
Loans and advances to banks	16	394,546	452,469	394,546	452,469
Loans and advances to customers at amortised cost	17	5,560,076	5,097,598	5,560,076	5,097,598
Investments in equity-accounted investees	18	145,615	145,501	72,870	72,870
Investments in subsidiary companies	19	-	-	6,230	6,230
Intangible assets	20	56,047	56,074	55,836	56,074
Property and equipment	21	132,691	130,622	132,605	130,484
Current tax		20,706	28,640	21,017	29,205
Deferred tax	23	67,898	84,563	67,872	84,563
Assets held for realisation	40	12,138	11,740	12,138	11,740
Other assets	24	7,227	5,423	7,227	5,423
Prepayments		18,521	12,091	16,112	10,165
Total Assets		**14,518,153**	**14,358,442**	**14,449,065**	**14,290,379**
LIABILITIES					
Derivative liabilities held for risk management	14	4,535	5,485	4,535	5,485
Amounts owed to banks	25	77,074	560,117	77,074	560,117
Amounts owed to customers	26	12,547,911	12,176,854	12,554,584	12,185,989
Deferred tax	23	7,054	6,717	7,054	6,717
Other liabilities	27	191,552	203,141	191,284	202,522
Provisions	33	16,518	104,449	16,368	104,449
Derivatives designated for hedge accounting	29	2,167	12,157	2,167	12,157
Debt securities in issue	30	350,260	-	350,260	-
Subordinated liabilities	30	163,237	163,237	163,237	163,237
Total Liabilities		**13,360,308**	**13,232,157**	**13,366,563**	**13,240,673**
EQUITY					
Called up share capital	31	583,849	583,849	583,849	583,849
Share premium account		49,277	49,277	49,277	49,277
Revaluation reserves	32	57,212	58,438	57,100	58,326
Retained earnings	32	467,507	434,721	392,276	358,254
Total Equity		**1,157,845**	**1,126,285**	**1,082,502**	**1,049,706**
Total Liabilities and Equity		**14,518,153**	**14,358,442**	**14,449,065**	**14,290,379**
MEMORANDUM ITEMS					
Contingent liabilities	33	374,109	351,362	374,109	351,362
Commitments	34	1,918,119	1,898,310	1,918,119	1,898,310

The notes are an integral part of these financial statements.

These financial statements on pages 49 to 153 were approved by the Board of Directors and authorised for issue on 30 March 2023 and signed on its behalf by Dr Gordon Cordina (Chairman), Alfred Lupi (Director) and Kenneth Farrugia (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2022.

Statements in changes of equity

for the year ended 31 December 2022

The Group	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
At 1 January 2021	**583,849**	**49,277**	**55,477**	**388,522**	**1,077,125**
Profit for the year	-	-	-	56,191	**56,191**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(98)	-	**(98)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,716)	-	**(1,716)**
Property revaluation, net of tax	-	-	4,775	-	**4,775**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	27	**27**
Total other comprehensive income	-	-	2,961	27	**2,988**
Total comprehensive income for the year	-	-	2,961	56,218	**59,179**
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(10,019)	**(10,019)**
At 1 January 2022	**583,849**	**49,277**	**58,438**	**434,721**	**1,126,285**
Profit for the year	-	-	-	31,171	**31,171**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(3,135)	-	**(3,135)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,120)	-	**(1,120)**
Property revaluation, net of tax	-	-	3,029	-	**3,029**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	1,615	**1,615**
Total other comprehensive income	-	-	(1,226)	1,615	**389**
Total comprehensive income for the year	-	-	(1,226)	32,786	**31,560**
At 31 December 2022	**583,849**	**49,277**	**57,212**	**467,507**	**1,157,845**

The notes are an integral part of these financial statement

Statements in changes of equity

for the year ended 31 December 2022

The Bank	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
At 1 January 2021	**583,849**	**49,277**	**55,365**	**329,347**	**1,017,838**
Profit for the year	-	-	-	38,899	**38,899**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(98)	-	**(98)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,716)	-	**(1,716)**
Property revaluation, net of tax	-	-	4,775	-	**4,775**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	27	**27**
Total other comprehensive income	-	-	2,961	27	**2,988**
Total comprehensive income for the year	-	-	2,961	38,926	**41,887**
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(10,019)	**(10,019)**
At 1 January 2022	**583,849**	**49,277**	**58,326**	**358,254**	**1,049,706**
Profit for the year	-	-	-	32,407	**32,407**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(3,135)	-	**(3,135)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,120)	-	**(1,120)**
Property revaluation, net of tax	-	-	3,029	-	**3,029**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	1,615	**1,615**
Total other comprehensive income	-	-	(1,226)	1,615	**389**
Total comprehensive income for the year	-	-	(1,226)	34,022	**32,796**
At 31 December 2022	**583,849**	**49,277**	**57,100**	**392,276**	**1,082,502**

The notes are an integral part of these financial statements.

Statements of cashflows

for the year ended 31 December 2022

	Note	The Group 2022 €000	The Group 2021 €000	The Bank 2022 €000	The Bank 2021 €000
Cash flows from operating activities					
Interest and commission receipts		292,044	269,028	282,958	259,179
Interest, commission and compensation payments		(22,542)	(42,405)	(22,542)	(42,405)
Payments to employees and suppliers		(171,472)	(168,867)	(166,474)	(163,920)
Operating profit before changes in operating assets and liabilities		98,030	57,756	93,942	52,854
(Increase)/decrease in operating assets:					
Loans and advances		(391,817)	(329,153)	(391,817)	(329,234)
Reserve deposit with Central Bank of Malta		(8,866)	(7,059)	(8,866)	(7,059)
Fair value through profit or loss financial assets		(24,765)	(12,732)	(24,765)	(12,732)
Fair value through profit or loss equity instruments		(63)	1,668	(63)	1,668
Treasury bills with original maturity of more than 3 months		50,125	69,600	50,125	69,600
Other assets		(1,771)	(1,580)	(1,772)	(1,568)
Increase/(decrease) in operating liabilities:					
Amounts owed to banks and to customers		(89,253)	1,384,221	(91,715)	1,387,953
Other liabilities		(199,433)	13,071	(199,515)	13,225
Net cash from operating activities before tax		(567,813)	1,175,792	(574,446)	1,174,707
Tax refunded/(paid)		6,440	(18,691)	5,753	(17,704)
Net cash (used in)/from operating activities		(561,373)	1,157,101	(568,693)	1,157,003
Cash flows from investing activities					
Dividends received		2,387	2,443	9,386	2,251
Interest received from amortised and other fixed income instruments		30,940	36,575	30,940	36,575
Injection of capital in associate (note 18)		-	(20,000)	-	(20,000)
Purchase of debt instruments		(1,535,766)	(812,470)	(1,535,766)	(812,470)
Proceeds from sale or maturity of debt instruments		511,350	523,367	511,350	523,367
Purchase of property and equipment and intangible assets		(16,567)	(11,849)	(16,259)	(11,789)
Net cash used in investing activities		(1,007,656)	(281,934)	(1,000,349)	(282,066)
Cash flows from financing activities					
Interest paid on long-term liabilities		(5,781)	(5,776)	(5,781)	(5,776)
Proceeds from issue of senior non-preferred notes		350,000	-	350,000	-
Outflows from issue of senior non-preferred notes		(2,274)	-	(2,274)	-
Payment of lease liabilities		(1,739)	(1,919)	(1,726)	(1,689)
Dividends paid to equity holders		(10,019)	-	(10,019)	-
Net cash from/(used in) financing activities		330,187	(7,695)	330,200	(7,465)
Net change in cash and cash equivalents before fx changes		(1,238,842)	867,472	(1,238,842)	867,472
Effect of exchange rate changes on cash and cash equivalents		433	(250)	433	(250)
Net change in cash and cash equivalents after effect of exchange rate changes		(1,239,275)	867,722	(1,239,275)	867,722
Net change in cash and cash equivalents		(1,238,842)	867,472	(1,238,842)	867,472
Cash and cash equivalents at 1 January		4,818,144	3,950,672	4,818,144	3,950,672
Cash and cash equivalents at 31 December	36	**3,579,302**	**4,818,144**	**3,579,302**	**4,818,144**

The notes are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

Legal Notice 19 of 2009 as amended by Legal Notice 233 of 2016, Accountancy Profession (Accounting and Auditing Standards) (Amendments) Regulations, 2016, defines compliance with generally accepted accounting principles and practice as adherence to International Financial Reporting Standards (IFRS) as adopted by the EU for financial periods starting on or after 1 January 2008. These Regulations have come into force on 17 June 2016.

Article 4 of Regulation 1606/2002/EC requires that, for each financial period starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. This Regulation prevails over the provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) to the extent that the said provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) are incompatible with the provisions of the Regulation. Consequently, the separate and the consolidated financial statements are prepared in conformity with IFRS as adopted by the EU. These financial statements have also been prepared in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

The financial statements have been prepared on the historical cost basis. Assets and liabilities are measured at historical cost except for the following that are measured at fair value: financial assets measured at fair value through other comprehensive income (FVOCI), financial instruments classified at fair value through profit or loss (FVTPL), derivatives and land and buildings. Additionally, assets held for realisation are measured at fair value less costs to sell if it is lower than their cost.

References to the 'Group' applies also to the 'Bank'.

1.1.1 Going concern

Stress testing scenarios were carried out to evaluate the appropriateness of the going concern basis in preparing the financial statements for 2022.

In making this assessment as at 31 December 2022, which is at least, but not limited to, twelve months from the end of the reporting period, the Directors considered the Group's business, profitability projections, funding and capital plans, together with a range of other factors such as the uncertainty that the Russia/Ukraine conflict brought about and the outlook for the Maltese and European economy, as well as external factors on the Banking sector triggered by contagion risk. The matters of primary consideration by the Directors are set out below:

Capital: The Group has developed capital plans under base and stress scenarios and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment. Stress tests used (both for capital and liquidity) were based upon an assessment of reasonably possible downside that the Bank may experience. The capital ratios will only be materially impacted under an improbable extreme scenario amalgamating the escalation of the Ukraine/Russian conflict whilst concurrently, the government in Malta will no longer be able to sustain the energy subsidies. However, under such extreme scenario, the Bank is expected to be able to meet the Total SREP (the supervisory review and evaluation process) Capital requirement.

Funding and Liquidity: The Directors have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. This statement is based on the development of different stress testing scenarios.

In order to meet regulatory requirements pertaining to MREL, the Bank has obtained approval from the Central Bank of Ireland for a base prospectus towards the establishment of a Euro Medium Note Programme of a maximum amount of €500 million. On 6 December 2022, the Bank issued €350 million Senior non-preferred notes (Refer to Note 30).

Based on the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

1.1.2 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020)
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)

The above amendments did not have a significant impact on the Group and the Bank's annual report as at 31 December 2022.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1 Basis of preparation (continued)

1.1.3 Standards issued but not yet effective

A number of new standards and amendments were endorsed by the EU but effective for periods after 1 January 2022 and earlier application is permitted as disclosed hereunder. However, the Group has not early adopted the new standards in preparing these consolidation financial statements.

These standards and amendments include the following:

Effective date	Title	Key Requirements
1 January 2023	*Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)*	The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.
1 January 2023	*Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)*	The amendments were issued in response to a recommendation from the IFRS Interpretations Committee. Views differed on whether the recognition exemption applied to transactions, such as leases, that lead to the recognition of an asset and liability. It is expected that the amendments will reduce diversity in the reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognizing deferred tax for temporary differences.
1 January 2023	*Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)*	The amendments to IAS 1 require entities to disclose their material accounting policies rather than their significant accounting policies. The amendments are applied prospectively.
1 January 2023	*Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)*	IASB has published 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates.
1 January 2023	*IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)*	The amendments are aimed at helping companies implement the Standard and making it easier for them to explain their financial performance.

The impact that the adoption of the above standards and amendments will have on the financial statements of the Group and the Bank in the period of initial application is currently being assessed by the Directors. The assessment on IFRS 17 and IFRS 9 is disclosed in Note 1.1.4.

1.1.4 The adoption of IFRS 17 and IFRS 9 by associate entities

The associates (refer to Note 18) of the Group will apply IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have a material impact on the associates consolidated financial statements in the period of initial application.

IFRS 17, published on 18 May 2017, and amended on 25 June 2020, supersedes IFRS 4 *Insurance Contracts* and is applicable for annual periods beginning on or after 1 January 2023, with early adoption permitted. IFRS 17 was adopted by the European Union ('EU') on 19 November 2021, with an exemption regarding the annual cohort requirement. The current standard on insurance contracts, IFRS 4, has been amended accordingly, extending to 2023 the temporary exemption for qualifying insurers to apply IFRS 9. The associates have not early adopted IFRS 17.

IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the associates have met the relevant criteria and have applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1 Basis of preparation (continued)

1.1.4 The adoption of IFRS 17 and IFRS 9 by associate entities (continued)

The associates have elected to apply the optional temporary relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The associates have continued to apply IAS 39 until the financial reporting period ending 31 December 2022. Consequently, the associates will apply IFRS 9 for the first time on 1 January 2023.

The new expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The associates are considering the implications of the standard and its impact on the financial results and position once adopted. For those assets which are not measured at fair value through profit or loss, the Group is assessing the impact of the new impairment model introduced by the standard. As at the time of issue of these financial statements, the impact is not yet known or reasonably estimable.

The associates are not able to disclose known or reasonably estimable information relevant to assessing the possible financial impact that the application of IFRS 17 and IFRS 9 will have on the associates' financial statements and consequently on the Group's consolidated financial statements in the period of initial application when the 2022 financial statements were authorised for issue.

IFRS 17 must be applied retrospectively and consequently, the associates will need to restate the opening Statement of financial position at transition date (i.e. at 1 January 2022), the Statement of profit or loss for 2022 as well as the Statement of financial position as at 31 December 2022. The associates expect that two of the largest differences will pertain to the value of in-force business and the measurement of its in-scope contracts in accordance with the requirements of IFRS 17. On the other hand, the impact of the measurement of in-scope contracts in accordance with IFRS 17 is still to be determined. This will impact the Share of profit at Group level.

1.1.5 Standards and amendments not yet endorsed by the EU

The following new standards and amendments have not yet been endorsed by the EU:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022)

1.2 Basis of consolidation

The Group financial statements comprise the financial statements of Bank of Valletta p.l.c., (the Bank), a public liability company domiciled and incorporated in Malta, and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g., those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances, transactions, income and expenses are eliminated on consolidation. Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at their present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. After initial recognition, non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

The excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities is recognised as goodwill and is included within the carrying amount of the investment and assessed for impairment as part of the investment. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable assets and liabilities, the difference is included as income in the determination of the Group's share of the profit or loss in the period in which the investment is acquired. Equity-accounted investees comprise interests in associates. The results and assets and liabilities of equity-accounted investees are incorporated in the consolidated financial statements using the equity method of accounting from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Equity-accounted investees are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies.

The significant accounting policies adopted are set out in the following pages.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 Financial instruments

1.3.1 Amortised cost and effective interest rate

Interest income and expense is recognised using the effective interest method, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's gross carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums upon initial recognition.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets adjusted for any expected credit loss allowance.

1.3.2 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that are not purchased or originated credit-impaired (POCI) but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision), or
- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

1.3.3 Initial Recognition

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. All loans and advances to customers and to banks are recognised when cash is advanced to borrowers. All purchases and sales of securities are recognised and derecognised on settlement date, which is the date that an asset is delivered to or by the Group.

1.3.4 Measurement at initial recognition

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

An expected credit loss allowance (ECL) is also recognised immediately after initial recognition for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in Note 39.2.1.2, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

1.4 Financial Assets

1.4.1 Classification and measurement of financial assets

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.1 Classification and measurement of financial assets (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) on specified dates, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 39.2.1.1. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses on specified dates, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gain on investment securities and hedging instruments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss within 'Trading profits' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net gain on investment securities and hedging instruments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Financial assets and liabilities are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Business Model Assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Cash flows that represent solely payments of principal and interest

'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.1 Classification and measurement of financial assets (continued)

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:
- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis and is irrevocable. Other equity instruments are classified as measured at FVTPL.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised. Dividends are recognised in profit or loss (see Note 1.25) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Gains and losses on equity investments at FVTPL are included in the 'Trading profits' line in the statement of profit or loss.

1.4.2 Modification of terms

When modification of a loan agreement occurs as a result of commercial restructuring activity rather than due to the credit risk of the borrower, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see 1.4.4) and a new financial asset is recognised at fair value. If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Additionally, in the case of loans and advances which encountered actual or apparent financial difficulties, the Group may grant a concession where a customer's financial difficulty indicates that with the original terms and conditions of the contract satisfactory repayment may not be possible. Such concessions are recognised as revisions to the expected credit loss on the associated loan.
A concession refers to either of the following:
- a change in the previous terms and conditions of a contract the customer is considered unable to comply with due to its financial difficulties to allow for sufficient debt service ability, that would not have been granted had the customer not been in financial difficulties; or
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the customer not been in financial difficulties.

1.4.3 Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.3 Impairment (continued)

Note 39.2.1.2 provides more detail of how the expected credit loss allowance is measured.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision;
- where a financial instrument includes both a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Modification of financial assets

When there is a modification of financial assets' terms (Note 1.4.2), the date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes including for the purpose of determining whether a significant increase in credit risk has occurred.

1.4.4 Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset and the transfer qualifies for derecognition.

1.4.5 Fair valuation of financial assets

Where possible, fair value is based on quoted bid prices in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

1.5 Financial liabilities

1.5.1 Classification and measurement of financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial liabilities are initially measured at fair value less, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.5 Financial liabilities (continued)

1.5.1 Classification and measurement of financial liabilities (continued)

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current and the previous year, the Group did not designate any financial liabilities as at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading, unless they are designated and effective hedging instruments.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to banks, amounts owed to customers, senior non-preferred liabilities and subordinated liabilities.

The gain or loss on financial liabilities at fair value through profit or loss is recognised in profit or loss. For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process whereby any difference between the proceeds net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

Financial liabilities are classified in separate captions of the Statement of Financial Position based on the nature of the instrument and the counterparty. Financial liabilities where the creditor has a lower priority than others are classified as subordinated liabilities whilst Senior non-preferred liabilities that fulfil the minimum requirements for own funds and eligible liabilities (MREL) are presented in a separate caption.

1.5.2 Derecognition of financial liabilities

A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

1.6 Interest rate benchmark reform

The amendments to various standards as a result of the interest rate reform – phase 2 were applied for the first time in 2021.

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The Phase 2 amendments provide practical relief from certain requirements in the standards to ease adoption of alternative interest rate benchmarks. These reliefs relate to modifications of financial instruments, lease contracts or hedge relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The Phase 2 amendments also require disclosure of the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021. The Group has early adopted the Phase 2 amendments. As a result of the limited exposure to IBOR related financial instruments, these amendments had an insignificant effect on the Group's financial statements.

IBOR Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.7 Financial guarantee contracts and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.
For financial guarantees issued or commitments the Group recognises a loss allowance.

Impairment allowances and provisions on loan commitments that comprise both a drawn and undrawn commitment are presented in accordance with the policy set out in the Note 1.4.3 Impairment.

1.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.9 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

These hedging relationships are discussed below.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty Clearing (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Other non-trading derivatives

Other non-trading derivatives are recognised on balance sheet at fair value on initial recognition. If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of trading profits and net income from other financial instruments at FVTPL (refer to Note 5).

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.9. Derivatives held for risk management purposes and hedge accounting (continued)

1.9.1 Hedges directly affected by interest rate benchmark reform

As yet, none of the Group's hedging relationships has been impacted by the benchmark reform.

1.10 Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement (repos) are retained in the financial statements as financial assets at fair value through profit or loss or as investment securities as appropriate, and the counterparty liability is included in amounts owed to banks. Securities purchased under agreements to resell (reverse repos) are not recognised but the amounts paid are recorded as loans and advances to banks. The difference between sale and repurchase price or purchase and subsequent sale price is recognised over the life of the repo/reverse repo agreements using the effective interest method and is treated as interest.

1.11 Investments in subsidiaries and equity-accounted investees

Investments in subsidiaries and equity-accounted investees are initially included in the Bank's statement of financial position at cost and subsequently at cost less any impairment loss which may have arisen. Interest in equity-accounted investees are accounted for using the equity method at Group level. They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases. Dividends from the investments are recognised in the Bank's profit or loss when its right to receive dividend is established.

Impairment
At the end of each reporting period, the Bank reviews the carrying amount of its investments in subsidiaries and equity-accounted investees to determine whether there is any indication of impairment and if any such indication exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses and reversals are recognised immediately in profit or loss.

1.12 Property and equipment

Property and equipment are classified into the following classes – land and buildings, IT infrastructure and equipment and other (primarily furniture and fittings).

Property and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property and equipment is recognised as an expense when incurred.

Subsequent to initial recognition, freehold and long-term leasehold properties are stated in the statement of financial position at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Any surpluses arising on such revaluation are recognised in other comprehensive income and accumulated in equity as a revaluation reserve unless they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any deficiencies resulting from decreases in value are deducted from this revaluation reserve to the extent that the balance held in this reserve relating to a previous revaluation of that asset is sufficient to absorb these, and charged to profit or loss thereafter.

Other tangible assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.13 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1.13.1 Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises, the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using its incremental borrowing rate. This rate was based on the swap rate curves as proxies for the risk-free rate, the MGS yield to include the local context and applying a risk margin.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

1.13.2 Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (below €5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.14 Intangible assets

Intangible assets comprise computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property and equipment and accounted for in accordance with the Group's accounting policy on property and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset. Computer software is externally generated.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software is initially measured at cost. It is subsequently carried at cost less accumulated amortisation and any accumulated impairment losses.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.15 Depreciation and amortisation

Depreciation on property and equipment commence when these assets are available for use and are charged to profit or loss so as to write off the cost or revalued amount of assets, other than land, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Property and equipment		
Freehold and long-term leasehold buildings	2%	per annum
IT infrastructure and equipment	10% - 25%	per annum
Other (primarily furniture and fittings)	5% - 33%	per annum
Right-of-use assets	Over the life of the lease	

The depreciation method applied, the residual value and the useful life are reviewed at the end of each reporting period and adjusted if appropriate.

Amortisation on intangible assets commence when these assets are available for use and are charged to profit or loss so as to write off the cost or revalued amount of assets, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Intangible assets		
Computer software	10% - 20%	per annum

The amortisation method applied, the residual value and the useful life are reviewed at the end of each reporting period and adjusted if appropriate.

1.16 Impairment of property and equipment and intangible assets

At the end of each reporting period the Group reviews the carrying amount of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for that asset.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised in other comprehensive income, unless an impairment loss on the same asset was previously recognised in profit or loss.

1.17 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. In such case, the unwinding of the discount is recognised as finance cost.

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised. Contingent assets are disclosed where an inflow of economic benefits is probable.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.18 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within a reasonable period from the date of classification. Non-current assets are not depreciated (or amortised) while they are classified as held for sale or while they are part of a disposal group classified as held for sale.

1.19 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 3 months; advances to banks repayable within 3 months from the date of the advance; balances with the Central Bank of Malta, excluding reserve deposit requirements, and treasury bills with an original maturity of less than 3 months. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 3 months and which form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flow.

1.20 Dividends payable

Interim dividends and special dividends approved by the Directors are recognised when paid. Final dividends are recognised as liability upon approval by the shareholders at the Annual General Meeting. Special dividends may be declared separately from the typical dividend cycle (interim and final) and are usually a one-off payment distributed to shareholders from the profit of the period and/or from retained earnings.

1.21 Operating segments

An operating segment is a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. Unallocated items comprise mainly head office expenses and tax assets and liabilities.

1.22 Operating Income

Operating income includes net interest income and net fee and commission income together with the dividend income, trading profits and net gain on investment securities and hedging instruments components of the statement of profit or loss.

1.23 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 in the principal or in, its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

Fair value reflects conditions, including but not limited to liquidity in the market, at a specific date and may therefore differ significantly from the amounts which will actually be received on the maturity or settlement date. The Bank's portfolio remains deployed across a wide spread of holdings of moderate duration debt securities issued by quality, credit rated, sovereign, supranational, corporate and financial institutions, as further disclosed in Notes 14 and 15 to the financial statements.

The best evidence of fair value of an instrument is a quoted price in an actively traded market for that instrument. The determination of what constitutes an active market is subjective and requires the collation of data and the exercise of judgement.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Bank determines whether active market conditions exist by taking into consideration various characteristics, including:

- a significant decline in volume and level of trading activity;
- significant variations in available prices either over time or among market participants;
- the absence of or stale prices;
- unusually wide bid/offer spreads; and
- exceptionally minimal transactions when compared with the quantum of the issue in question.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.23 Fair value (continued)

Where it is concluded that an active market does not exist a valuation technique is used. The latter gives consideration to transaction prices in inactive markets, however it makes use of other observable market data which include a combination of the following:

- the risk premium of more active instruments of the same issuer, the same type of debt, the same currency and with the same or similar maturity;
- the spreads payable on Credit Default Swaps of the issuer;
- the risk premium over and above the risk free bonds for similarly rated issuers in the same industry sector;
- yield curve or Discounted Cash Flow (DCF) calculations to maturity using appropriate interest rate/discount factors;
- liquidity adjustments to reflect ability to sell asset over a reasonable timeframe; and
- other overall reasonableness tests.

The main assumptions and estimates which management considers when using valuation techniques are the likelihood and expected timing of future cash flows on the instrument, selecting an appropriate discount rate for the instrument and a risk premium. The valuation techniques used by the Group incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments.

1.24 Taxation

Income tax expense comprises current and deferred tax and is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is dealt with in other comprehensive income or in equity, as appropriate.

Current tax
Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. Current tax also includes any tax arising from dividends. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustments in relation to the prior periods.

Deferred tax
Deferred tax is determined under the liability method in respect of all temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base. Deferred tax liabilities are generally recognised for all taxable temporary differences subject to certain exceptions and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is not recognised for temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

1.25 Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised.

Dividend income from investments is recognised when the right to receive payment has been established.

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Generally, fee and commission income, is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses are expensed as the services are received.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.26 Foreign currency translation

For the purpose of the consolidated and separate financial statements, the presentation currency is the Euro. The functional currency of the Bank and of all its subsidiaries is the Euro.

In preparing the financial statements of the individual group entities, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the rates of exchange ruling at the end of the reporting period. Gains and losses arising from such translation are dealt with in profit or loss and presented with trading income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are not retranslated.

1.27 Employee benefits

The Group and the Bank contribute towards the state pension in accordance with local legislation. The only obligation of the Group and the Bank is to make the required contribution. Costs are expensed in the period in which they are incurred in profit or loss.

1.27.1 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.27.2 Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised in Employee compensation and benefits in the Statement of Profit or Loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

1.27.3 Defined benefit plans

For the Group's and the Bank's defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at each reporting date. Past service cost is recognised as an expense at the earlier of the following dates (a) when the plan amendment or curtailment occurs and (b) when the entity recognises related restructuring costs or termination benefits. The amount recognised in the Statement of Financial Position represents the present value of the expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Remeasurements of the net defined benefit liability, comprising actuarial gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period. Such remeasurements are recognised immediately in retained earnings. Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from experience adjustments and the effects of changes in actuarial assumptions. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Due to the nature of the actuarial assumptions, in accordance with the provisions of IAS 19, Employee Benefits, the Group and the Bank did not involve a qualified actuary in the measurement of their post-employment benefit obligations.

1.27.4 Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

1.28 Judgements in applying accounting policies and key sources of estimation uncertainty

The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements. The judgements made by management in applying the Group's and the Bank's accounting policies that have the most significant effect on the amounts recognised in the financial statements, together with information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period have been disclosed in the financial statements.

1.28.1 Credit Impairment

Estimates and underlying assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are either disclosed below or in Note 39.2.1.2.5. This discloses the determination of inputs in the IFRS 9 ECL measurement model, including key assumptions used in incorporation of forward-looking information.

Notes to the financial statements

for the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.28 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

1.28.2 Fair value of financial instruments not quoted in active markets

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Periodically, the Group calibrates these valuation techniques and tests them for validity. Where possible the valuation techniques used by the Group make use of observable data and incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Management is required to make certain assumptions and estimates in arriving at an appropriate fair value, based on available observable market data. A change in assumptions could affect the reported fair value of these financial instruments. Further disclosures are provided in Note 39.

1.28.3 Fair value of land and buildings

The fair value of the Group's and the Bank's land and buildings is determined by using valuation techniques as further disclosed in Note 21. In arriving at an estimate of fair value at the end of the reporting period, the Group and the Bank make use of significant unobservable inputs. A change in such inputs could affect the reported fair value of these land and buildings.

1.28.4 Classification of facilities as forborne

Management follows the European Banking Authority technical standard in identifying performing/non-performing exposures and in determining forborne exposures. Judgement is exercised in determining whether the modification of the original terms of a facility are granted, because of financial difficulties, which would result in the exposure being classified as forborne.

1.28.5 Provisions and contingent liabilities

In the ordinary course of operations, the Group faces loss contingencies that may result in the recognition of a liability. Management periodically assesses these issues based on information available and assessments from internal and/or external legal counsel.

The Group is currently involved in various claims and legal proceedings arising out of it normal business operations. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, a liability for the estimated loss is provided for. Due to the uncertainties inherent in such matters, provisions are based on the best information available at the reporting date. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in the estimates of the potential liabilities could have a material impact on results of operations and the financial position of the Group. Where an individual provision is material, the fact that a provision has been quantified would not constitute any admission of wrongdoing or legal liability.

2. INTEREST AND SIMILAR INCOME

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
On loans and advances to banks	946	-	946	-
On loans and advances to customers	191,602	172,429	191,602	172,429
On balances with Central Bank of Malta	3,638	-	3,638	-
On treasury bills	91	-	91	-
	196,277	172,429	196,277	172,429
On debt and other fixed income instruments				
- fair value through other comprehensive income	5,328	5,405	5,328	5,405
- amortised cost	29,855	31,286	29,855	31,286
- fair value through profit or loss	3,139	4,163	3,139	4,163
	38,322	40,854	38,322	40,854
Amortisation of discounts and premiums				
- fair value through other comprehensive income	(1,192)	(1,409)	(1,192)	(1,409)
- amortised cost	(13,197)	(17,061)	(13,197)	(17,061)
	(14,389)	(18,470)	(14,389)	(18,470)
Net interest income on debt and other fixed income instruments using the effective interest rate method	23,933	22,384	23,933	22,384
	220,210	194,813	220,210	194,813

Notes to the financial statements

for the year ended 31 December 2022

3. INTEREST EXPENSE

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
On amounts owed to banks	599	31	599	31
On interest rate swaps	2,811	4,256	2,811	4,256
On amounts owed to customers	6,140	10,229	6,140	10,229
On debt securities in issue	2,534	-	2,534	-
On subordinated liabilities	5,781	5,776	5,781	5,776
Negative interest on loans to banks, treasury bills and balances with Central Bank of Malta	446	18,211	446	18,211
	18,311	38,503	18,311	38,503

4. NET FEE AND COMMISSION INCOME

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
On loans and advances, similar activities and local business	44,035	39,375	44,096	39,419
On life assurance, fund management and similar activities	22,692	25,877	13,512	16,022
On other activities	9,841	9,343	9,841	9,343
	76,568	74,595	67,449	64,784

The fees and commission presented in this note include income of €30.0 million (2021: €26.6 million) relating to financial assets and financial liabilities not measured at FVTPL.

A significant portion of the fees and commissions earned by the Group are recognised at the point in time when the transaction takes place. These include service charges, processing fees and card related income.

The other fee and commission income earned from contracts with customers is measured based on the consideration specified in the contract with a customer. The Group recognises revenue over time as the services are provided.

5. TRADING PROFITS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Net income on foreign exchange activities	8,630	9,036	8,663	8,998
Fair value movements and net gains on sale of financial instruments designated at fair value through profit or loss	5,530	1,471	5,540	1,468
Fair value movements and net gains on sale of financial instruments mandatorily measured at fair value through profit or loss	3	4	3	4
	14,163	10,511	14,206	10,470

6. NET GAIN ON INVESTMENTS AND HEDGING INSTRUMENTS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Amortised cost instruments				
- net (loss)/gain on disposal	(4)	51	(4)	51
	(4)	51	(4)	51
Financial assets at FVOCI - debt instruments				
- net revaluation loss attributable to hedged risk	(10,451)	(5,005)	(10,451)	(5,005)
	(10,451)	(5,005)	(10,451)	(5,005)
Derivative financial instruments				
- net gain on derivative financial instruments held for hedging	10,541	4,999	10,541	4,999
	86	45	86	45

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for the year ended 31 December 2022

7. EMPLOYEE COMPENSATION AND BENEFITS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Employee compensation and benefits				
- wages and salaries	78,037	69,632	75,839	67,230
- social security costs	5,010	3,996	4,869	3,897
- retirement benefits	7,380	2,141	7,380	2,141
- contribution plan benefits	860	-	841	-
- other staff costs	8,746	5,799	8,730	5,799
	100,033	81,568	97,659	79,067
The average number of employees are analysed as follows:				
Managerial	873	737	851	715
Supervisory and clerical	1,137	1,119	1,108	1,084
Others	72	66	61	57
	2,082	1,922	2,020	1,856

8. NET IMPAIRMENT REVERSAL

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Loans and advances to customers				
- increase in expected credit losses	(41,002)	(62,824)	(41,002)	(62,824)
- bad debts written off	(11,383)	(10,260)	(11,383)	(10,260)
	(52,385)	(73,084)	(52,385)	(73,084)
Loans and advances to customers				
- decrease in expected credit losses	85,658	81,859	85,658	81,859
- recoveries of amounts previously written off	15,149	10,728	15,149	10,728
	100,807	92,587	100,807	92,587
Investments				
- increase/(decrease) in expected credit losses	653	(647)	653	(647)
Net impairment reversal	49,075	18,856	49,075	18,856

Net impairment reversal for the year includes post-model adjustment reversal of €38.2 million (2021: Net impairment charge €19.3 million) (Note 39.2.1.2.5)

9. PROFIT BEFORE TAX

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Profit before tax is stated after charging:				
Total remuneration payable to the external auditors of the parent company				
- the audit of financial statements	878	844	836	804
- other assurance services	404	104	388	91
- tax advisory services	14	4	8	-
- other non-audit services	73	98	73	96
	1,369	1,050	1,305	991
Directors' emoluments:				
- fees	474	406	443	389
- directors' salaries as full-time bank employees	880	683	880	683
	1,354	1,089	1,323	1,072
Compensation to other key management personnel is analysed as follows				
- other fees	106	156	-	-
- short term employee benefits	1,647	1,456	1,619	1,456
- post-employment benefits	12	-	12	-
	1,765	1,612	1,631	1,456
Total remuneration of directors and other key management personnel	3,119	2,701	2,954	2,528

Notes to the financial statements

for the year ended 31 December 2022

10. INCOME TAX EXPENSE

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Through profit and loss				
Current	(539)	17,787	402	16,266
Deferred	18,086	6,681	18,112	6,681
	17,547	24,468	18,514	22,947

The charge for income tax is based on the taxable profit for the period at a rate of 35%. The income tax expense and the product of accounting profit multiplied by the statutory domestic income tax rate are reconciled as follows:

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Profit before tax	48,718	80,659	50,921	61,846
Tax at the applicable rate of 35%	17,051	28,231	17,822	21,646
Tax effect of:				
Exempt and untaxed dividends	(112)	(40)	(505)	(40)
Share of results of equity-accounted investees	(651)	(5,074)	-	-
Withholding tax on property sales	(101)	(224)	(101)	(224)
Depreciation on premises	906	1,031	906	1,031
Non-deductible expenses	13	918	13	918
Other differences	441	(374)	379	(384)
Income tax expense	17,547	24,468	18,514	22,947
Other comprehensive income				
- current	-	(977)	-	(977)
- deferred	(1,084)	546	(1,084)	546
	(1,084)	(431)	(1,084)	(431)

The credit in the current tax through other comprehensive Income is offset by the current tax expense in profit or loss.

11. EARNINGS PER SHARE

	The Group		The Bank	
	2022	2021	2022	2021
	cents per share	cents per share	cents per share	cents per share
Earnings per share	5.3c	9.6c	5.6c	6.7c

The earnings per share for the Group and Bank have been calculated on the profits of the Group and the Bank, as shown in the statements of profit or loss, divided by number of shares in issue.

Earnings per share was calculated on profit attributable to shareholders of the Group €31,171,000 (2021: €56,191,000) and the Bank €32,407,000 (2021: €38,899,000) divided by 583,849,270 shares outstanding as at 31 December 2022.

Notes to the financial statements

for the year ended 31 December 2022

12. DIVIDENDS

The amounts of dividends recognised as distributions to equity holders during the period, and the related amount per qualifying share, are as follows:

	The Bank			
	2022 cents per share	2021 cents per share	2022 €000	2021 €000
Gross of income tax				
- interim dividend	-	2.64	-	15,414
	-	2.64	-	15,414
Net of income tax				
- interim dividend	-	1.72	-	10,019
	-	1.72	-	10,019

During the comparative year, the Directors authorised a gross ordinary dividend of €0.0264 per share amounting to €15.4 million (net ordinary dividend of €0.0172 per share amounting to €10.0 million) to be paid to shareholders. Payment was affected in the current period on 28 January 2022. Dividend was paid out of profits taxed at 35%.

In respect of the current period, the Directors did not declare any dividends.

13. BALANCES WITH CENTRAL BANK OF MALTA, TREASURY BILLS AND CASH

		The Group		The Bank	
	Note	2022 €000	2021 €000	2022 €000	2021 €000
Balances with Central Bank of Malta		3,065,473	4,351,884	3,065,473	4,351,884
Malta Government Treasury Bills		238,028	188,671	238,028	188,671
Cash	**36**	85,760	85,511	85,760	85,511
		3,389,261	4,626,066	3,389,261	4,626,066

Balances with Central Bank of Malta include Reserve Deposit, in terms of Regulation (EC) No. 1745/2003 of the European Central Bank amounting to €124.5 million (2021: €115.7 million) in respect of both the Group and the Bank. During the second half of 2022, Balances with Central Bank of Malta and Malta Government Treasury Bills were no longer subject to a negative interest following the increase in interest rates.

Notes to the financial statements

for the year ended 31 December 2022

14. DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT

Financial assets at fair value through profit or loss

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
Financial assets mandatorily measured at FVTPL:				
Debt and other fixed income instruments (Note 14.1)	26	29	26	29
Derivative financial instruments (Note 14.3)	28,866	1,204	28,866	1,204
	28,892	1,233	28,892	1,233
Financial assets designated at FVTPL:				
Debt and other fixed income instruments (Note 14.1)	1,046	1,119	1,046	1,119
Equity and other non-fixed income instruments (Note 14.2)	37,700	31,784	37,548	31,621
Loans and advances to customers (Note 17)	78,725	104,850	78,725	104,850
	117,471	137,753	117,319	137,590
	146,363	138,986	146,211	138,823

Financial liabilities at fair value through profit or loss

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
Financial liabilities classified as held for trading:				
Derivative financial instruments (Note 14.3)	4,535	5,485	4,535	5,485

14.1 Debt and other fixed income instruments

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
Issued by public bodies				
- local general government	1,040	1,114	1,040	1,114
- foreign general government	10	6	10	6
	1,050	1,120	1,050	1,120
Issued by other issuers				
- foreign banks	22	28	22	28
	22	28	22	28
	1,072	1,148	1,072	1,148
Listing status				
- listed on Malta Stock Exchange	1,040	1,114	1,040	1,114
- listed elsewhere	32	34	32	34
	1,072	1,148	1,072	1,148
Summary of movements during the year:				
At the beginning of the year	1,148	9,430	1,148	9,430
Movement in accrued interest receivable	1	(155)	1	(155)
Disposals at carrying amount	-	(58)	-	(58)
Redemptions	-	(7,814)	-	(7,814)
Movement in fair value	(77)	(308)	(77)	(308)
Exchange adjustment	-	53	-	53
At the end of the year	1,072	1,148	1,072	1,148

Notes to the financial statements

for the year ended 31 December 2022

14. DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT (continued)

14.2 Equity and other non-fixed income instruments

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Issued by other issuers				
- local banks	183	326	183	326
- foreign other	37,147	31,075	37,147	31,075
- local other	370	383	218	220
	37,700	31,784	37,548	31,621
Listing status				
- listed on Malta Stock Exchange	554	709	402	546
- foreign unlisted	37,146	31,075	37,146	31,075
	37,700	31,784	37,548	31,621
Summary of movements during the year:				
At the beginning of the year	31,784	31,369	31,621	31,209
Acquisitions	63	307	63	307
Disposals at carrying amount	-	(1,832)	-	(1,835)
Movement in fair value	4,605	1,479	4,616	1,479
Exchange adjustment	1,248	461	1,248	461
At the end of the year	37,700	31,784	37,548	31,621

14.3 Derivative financial instruments

Fair value of assets	28,866	1,204	28,866	1,204
Fair value of liabilities	4,535	5,485	4,535	5,485

The above comprise over-the-counter forward exchange contracts and interest rate swaps that have not been designated as hedging instruments stated at fair value, with notional amounts analysed with remaining life as follows:

- less than 3 months	126,317	212,088	126,317	212,088
- between 3 months and 1 year	452,615	14,120	452,615	14,120
- more than 1 year	194,429	85,466	194,429	85,466
	773,361	311,674	773,361	311,674

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15. INVESTMENTS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Debt and other fixed income instruments				
- measured at FVOCI (note 15.1)	82,210	106,327	82,210	106,327
- measured at amortised cost (note 15.2)	4,467,433	3,443,199	4,467,433	3,443,199
Equity and other non-fixed income instruments (note 15.3)				
- measured at FVOCI	17,421	19,143	17,421	19,143
	4,567,064	3,568,669	4,567,064	3,568,669

Investments with a nominal value of €640.1 million (2021: €640.1 million) have been pledged against the provision of credit lines by the Central Bank of Malta.

Investments with a nominal value of €40.0 million (2021: €40.0 million) have been pledged in favour of Depositor Compensation Scheme as at 31 December 2022.

In the comparative year, investments with a nominal value of €293 million were pledged in favour of the Italian bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar case. Following the settlement of the case in the first half of 2022, these investments were released and are now free from any encumbrance (notes 16 and 33).

15.1 Debt and other fixed income instruments measured at FVOCI

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Issued by public bodies				
- local general government	15,926	32,839	15,926	32,839
- local public sector	66,284	73,488	66,284	73,488
	82,210	106,327	82,210	106,327
Listing status				
- listed on Malta Stock Exchange	82,210	106,327	82,210	106,327
	82,210	106,327	82,210	106,327
Summary of movements during the year:				
At the beginning of the year	106,327	124,279	106,327	124,279
Movement in interest receivable accrued	(81)	(299)	(81)	(299)
Redemptions and disposals	(13,141)	(17,156)	(13,141)	(17,156)
Amortisation	(1,192)	(1,549)	(1,192)	(1,549)
Movement in fair value	(14,102)	(4,928)	(14,102)	(4,928)
Expected credit losses	14	12	14	12
Exchange adjustment	4,385	5,968	4,385	5,968
At the end of the year	82,210	106,327	82,210	106,327

As at 31 December 2022 the loss allowance on Debt Instruments at FVOCI amounts to €21,367 (2021: €18,828).

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for the year ended 31 December 2022

15. INVESTMENTS (continued)

15.2 Debt and other fixed income instruments measured at amortised cost

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Issued by public bodies				
- local general government	1,175,138	1,043,285	1,175,138	1,043,285
- foreign general government	2,418,976	1,334,643	2,418,976	1,334,643
	3,594,114	2,377,928	3,594,114	2,377,928
Issued by other issuers				
- foreign banks	743,253	880,785	743,253	880,785
- foreign other	127,628	182,051	127,628	182,051
- other local	2,438	2,435	2,438	2,435
	873,319	1,065,271	873,319	1,065,271
	4,467,433	3,443,199	4,467,433	3,443,199
Listing status				
- listed on Malta Stock Exchange	1,177,576	1,045,720	1,177,576	1,045,720
- listed elsewhere	3,090,750	2,136,330	3,090,750	2,136,330
- foreign unlisted	199,107	261,149	199,107	261,149
	4,467,433	3,443,199	4,467,433	3,443,199

At 31 December 2022, the fair value of debt and other fixed income instruments measured at amortised cost, without deducting transaction costs, amounted to €4,094.4 million (2021: €3,464.7 million).

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Summary of movements during the year:				
At the beginning of the year	3,443,199	3,133,350	3,443,199	3,133,350
Movement in interest receivable accrued	4,324	570	4,324	570
Acquisitions	1,535,766	812,470	1,535,766	812,470
Redemptions	(498,205)	(506,262)	(498,205)	(506,262)
Amortisation	(13,197)	(17,061)	(13,197)	(17,061)
Realised (loss)/profit on disposals	(4)	51	(4)	51
Impairment reversal/(loss)	64	(81)	64	(81)
Exchange adjustment	(4,514)	20,162	(4,514)	20,162
At the end of the year	4,467,433	3,443,199	4,467,433	3,443,199

15.3 Equity and other non-fixed income instruments measured at FVOCI

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Issued by other issuers				
- local other	16,096	17,632	16,096	17,632
- local Banks	91	100	91	100
- local Public	1,234	1,411	1,234	1,411
	17,421	19,143	17,421	19,143
Listing status				
- listed on Malta Stock Exchange	17,421	19,143	17,421	19,143
	17,421	19,143	17,421	19,143
Summary of movements during the year:				
At the beginning of the year	19,143	21,783	19,143	21,783
Movement in fair value	(1,722)	(2,640)	(1,722)	(2,640)
At the end of the year	17,421	19,143	17,421	19,143

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16. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Repayable on call and at short notice	308,922	334,848	308,922	334,848
Term placements with other banks	83,657	112,945	83,657	112,945
Cheques in course of collection	1,967	4,676	1,967	4,676
	394,546	452,469	394,546	452,469

Balances with a carrying amount of €2.0 million (2021: €16.4 million) were held as collateral against derivative contracts.

In the comparative year, an amount of €70.5 million had been pledged in favour of the Italian bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar case (notes 15 and 33). Following the settlement of the case in the first half of 2022, this amount was released and are now free from any encumbrance.

17. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Repayable on call and at short notice	475,245	404,216	475,245	404,216
Term loans and advances	5,217,748	4,857,167	5,217,748	4,857,167
	5,692,993	5,261,383	5,692,993	5,261,383
Less impairment losses	(132,917)	(163,785)	(132,917)	(163,785)
Net loans and advances at amortised cost	5,560,076	5,097,598	5,560,076	5,097,598
Loans and advances designated at fair value through profit or loss (note 14)	78,725	104,850	78,725	104,850
Total loans and advances	5,638,801	5,202,448	5,638,801	5,202,448
Expected credit loss allowances	132,917	163,785	132,917	163,785
	132,917	163,785	132,917	163,785

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
At the beginning of the year	145,501	111,999	72,870	52,870
Additions	-	20,000	-	20,000
Share of results, net of tax	1,860	14,498	-	-
Dividend received	(1,746)	(996)	-	-
At the end of the year	145,615	145,501	72,870	72,870
Amounts include:				
Local listed	34,467	34,568	22,304	22,304
Local unlisted	111,148	110,933	50,566	50,566
	145,615	145,501	72,870	72,870

On the historical cost basis, shares in equity-accounted investees of the Group, would have been included at a cost of €72.9 million (2021: €72.9 million).

On the 25 March 2021, the Bank made a capital injection of €20 million in its associate company MAPFRE MSV Life p.l.c (MMSV). MMSV had approached its two shareholders, Bank of Valletta p.l.c. and MAPFRE International S.A, as parent of MAPFRE MIDDLESEA p.l.c for a capital injection of a total €40 million (€20 million from MAPFRE MIDDLESEA p.l.c and €20 million from the Bank). Following this capital injection, the Bank continues retaining its 50% shareholding in MMSV and therefore, the Bank retains the same influence within MMSV.

The fair value of the equity-accounted investees that is publicly quoted amounted to €45.7 million (2021: €65.8 million) at 31 December 2022. The cost of this investment is €22.3 million (2021: €22.3 million).

The fair value of the publicly quoted investee is calculated using observable inputs and is regarded as Level 1 under the fair value hierarchy of IFRS 13.

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18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES (continued)

Details of the associates held by the Group and the Bank are as follows:

	Equity Interest		Class	Incorporated in	Nature of Business
	2022	2021			
Name of company	%	%			
MAPFRE Middlesea p.l.c.	31.08	31.08	Ordinary	Malta	Insurance
MAPFRE MSV Life p.l.c.*	50.00	50.00	Ordinary	Malta	Life Assurance

	Group's share of results	
	2022	2021
Name of company	€000	€000
MAPFRE Middlesea p.l.c.	644	4,261
MAPFRE MSV Life p.l.c.	1,216	10,237
	1,860	14,498

*A further 15.54% (2021:15.54%) is held indirectly via another equity-accounted investee. Although the Bank has an effective participating interest of 65.54% (2021: 65.54%), it does not exercise control over the financial and operating decisions of the associate as it only has the right for equal representation on the Board of Directors of the associate together with the other shareholders. Furthermore, as from 1 October 2011 the Bank is deemed to exercise significant influence on MAPFRE MSV Life p.l.c. as opposed to joint control as a result of a shareholders' agreement which gives the other shareholder control and as from the financial year 30 September 2012 it is being treated as an equity-accounted investee.

The financial statements of the equity-accounted investees are prepared to 31 December. The registered addresses of the associates are as follows:

MAPFRE Middlesea p.l.c.	Middlesea House, Floriana FRN 1442, Malta
MAPFRE MSV Life p.l.c.	The Mall, Mall Street, Floriana FRN 1470, Malta

Summarised financial information extracted from the published preliminary statement of annual results of the associates as at 31 December 2022 in respect of the equity-accounted investees:

	2022	2021
	€000	€000
Total assets	2,470,186	2,831,750
Total liabilities	2,244,952	2,609,779
Revenues	343,163	454,047
Profit for the year	14,643	12,923
Other Comprehensive Income	(7,979)	10,947

	The Group	
	2022	2021
	€000	€000
Share of net assets of equity-accounted investees	145,615	145,501
Share of results of equity-accounted investees	1,860	14,498

The share of results of equity-accounting investees, net of tax in the Statement of Profit or Loss includes both the profit and other comprehensive income components of the associates.

The carrying amount of the equity-accounted investees is equal to the equity interest of the Bank in the net assets of the respective investees.

IFRS 9 is generally effective for years beginning on or after 1 January 2018. However, in September 2016, the IASB issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9. The option permits entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4, a temporary exemption to defer the implementation of IFRS 9.

Entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2023 which aligns with the new effective date of IFRS 17 (refer to Note 1.1.4).

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18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES (continued)

The Group is permitted to retain the relevant accounting policies applied by the equity-accounted investees for consolidation purposes when the Group applies IFRS 9 but the associates apply the temporary exemption from IFRS 9.

The equity-accounted investees evaluated its liabilities at 31 December 2015, the prescribed date of assessment under the optional temporary relief provisions and concluded that all of the liabilities are predominantly connected with insurance. More than 90% of the equity-accounted Investees' liabilities as at 31 December 2015 are liabilities arising from contracts within the scope of IFRS 4. As at the same date the equity-accounted Investees' predominant activities were also established to be insurance related as evidenced through revenues reported in the Annual Report of that year.

The fair value of the financial assets held by the equity-accounted investees which would otherwise fall under the relevant IFRS 9 classification as at 31 December 2022 and the amount of change in the fair value during the year will be disclosed in the associates' financial statements. These financial statements are available on the respective companies' websites.

The judgements made by the equity-accounted investees and the key sources of estimation uncertainties are disclosed below:

Estimate of in-force business

Assumptions

The value of in-force business is determined by the directors of the equity-accounted investee based on the advice of the entity's consulting actuaries. The valuation represents a projection of the equity-accounted investee cash flows expected from contracts in force at the year end, appropriately adjusted for taxation and discounted by a risk adjusted discount rate. In assessing the projected cash flows, the directors of the equity-accounted investee assume a long-term view of a maintainable level of investment return and fund size. This valuation requires the use of a number of assumptions relating to future mortality, persistency, levels of expenses, investment returns and asset allocations over the longer term.

Gross investment returns assumed vary depending upon the mix of investments held by the associates and expected market conditions. The value depends on assumptions made regarding future economic and demographic experience. The impact of the change of the present value of in-force (PVIF) accounts was 62% of the result of the year. The PVIF represents 55% of the carrying value of the investments in equity-accounted investees.

This valuation assumes a spread of 1.4% (2021: 1.0%) between the weighted average projected investment return and the risk adjusted discount factor applied of 4.5% (2021: 4.0%). Expenses are assumed to inflate at 2.1% (2021: 2.0%).

Changes in assumptions

Assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process.

Ultimate liability arising from claims made under insurance contracts

There are several sources of uncertainty that need to be considered in the estimate of the liability that the equity-accounted investees will ultimately pay for such claims. In particular insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

In calculating the estimated cost of unpaid claims, the equity-accounted investees use a combination of estimation techniques, based partly on known information at year end, partly on statistical analysis of historical experience and on actuarial valuations carried out by an independent external actuary.

Further information can be found in the public release of financial results as issued by the associates.

Notes to the financial statements

for the year ended 31 December 2022

19. INVESTMENTS IN SUBSIDIARY COMPANIES

Name of company	Equity interest 2022 %	Equity interest 2021 %	Class	Incorporated in	Nature of Business
BOV Asset Management Limited	100	100	Ordinary	Malta	Fund Management
BOV Fund Services Limited	100	100	Ordinary	Malta	Fund Administration

Name of company	The Bank 2022 €000	The Bank 2021 €000
BOV Asset Management Limited	5,481	5,481
BOV Fund Services Limited	749	749
Cost/Carrying amount	6,230	6,230

The registered address of the above unlisted undertakings is as follows:

BOV Asset Management Limited	58, Triq San Zakkarija, Il-Belt Valletta VLT1130
BOV Fund Services Limited	58, Triq San Zakkarija, Il-Belt Valletta VLT1130

All subsidiaries prepared their financial statements to the same date, 31 December.

20. INTANGIBLE ASSETS

	The Group 2022 €000	The Group 2021 €000	The Bank 2022 €000	The Bank 2021 €000
Software				
Cost				
1 January	105,467	101,706	105,467	101,706
Additions	11,834	8,116	11,534	8,116
Assets retired from active use	(4,377)	(4,355)	(4,377)	(4,355)
31 December	112,924	105,467	112,624	105,467
Accumulated amortisation				
1 January	49,393	42,040	49,393	42,040
Charge for the year	11,861	11,708	11,772	11,708
Accumulated amortisation on assets retired from active use	(4,377)	(4,355)	(4,377)	(4,355)
31 December	56,877	49,393	56,788	49,393
Carrying amount at 31 December	56,047	56,074	55,836	56,074
Future capital expenditure:				
- contracted but not provided for in the financial statements	329	1,136	329	1,136
- authorised by the directors but not contracted	34,190	42,304	34,190	42,304

Notes to the financial statements

for the year ended 31 December 2022

21. PROPERTY AND EQUIPMENT

Reconciliation of Carrying Amount

The Group	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
Cost or valuation				
Balance at 1 January 2021	125,079	33,593	29,163	187,835
Adjustment	368	-	(16)	352
Adjusted balance at 1 January 2021	125,447	33,593	29,147	188,187
Additions	3,960	1,248	261	5,469
Assets retired from active use	(416)	(1,885)	(3,804)	(6,105)
Disposals	(1,106)	-	(65)	(1,171)
Revaluation	5,306	-	-	5,306
Balance at 31 December 2021	133,191	32,956	25,539	191,686
Balance at 1 January 2022	133,191	32,956	25,539	191,686
Additions	3,718	1,312	1,660	6,690
Assets retired from active use	(68)	(2,278)	(481)	(2,827)
Disposals	(1)	-	(89)	(90)
Revaluation	3,365	-	-	3,365
Balance at 31 December 2022	140,205	31,990	26,629	198,824
Accumulated depreciation				
Balance at 1 January 2021	18,840	19,563	20,786	59,189
Adjustment	(246)	-	13	(233)
Depreciation for the year	2,864	4,002	1,564	8,430
Accumulated depreciation on assets retired from active use	(416)	(1,886)	(3,787)	(6,089)
Disposals	(233)	-	-	(233)
Balance at 31 December 2021	20,809	21,679	18,576	61,064
Balance at 1 January 2022	20,809	21,679	18,576	61,064
Depreciation for the year	2,721	3,481	1,575	7,777
Accumulated depreciation on assets retired from active use	(68)	(2,159)	(481)	(2,708)
Balance at 31 December 2022	23,462	23,001	19,670	66,133
Carrying amount at:				
Balance at 31 December 2021	**112,382**	**11,277**	**6,963**	**130,622**
Balance at 31 December 2022	**116,743**	**8,989**	**6,959**	**132,691**

As at 31 December 2022, Property and Equipment includes right-of-use assets of €8.6 million (2021: €7.2 million) related to office premises and motor vehicles (note 22).

Adjustments represent IFRS 16 related movement emanating from updates to the subsidiaries opening balances.

Notes to the financial statements

for the year ended 31 December 2022

21. PROPERTY AND EQUIPMENT (continued)

	Land and buildings	IT infrastructure and equipment	Other	Total
The Bank	**€000**	**€000**	**€000**	**€000**
Cost or valuation				
Balance at 1 January 2021	124,378	32,942	27,278	184,598
Additions	3,961	1,194	253	5,408
Assets retired from active use	(416)	(1,886)	(3,787)	(6,089)
Disposals	(76)	-	(65)	(141)
Revaluation	5,306	-	-	5,306
Balance at 31 December 2021	133,153	32,250	23,679	189,082
Balance at 1 January 2022	133,153	32,250	23,679	189,082
Additions	3,718	1,302	1,660	6,680
Assets retired from active use	(68)	(2,278)	(435)	(2,781)
Disposals	(1)	-	(89)	(90)
Revaluation	3,365	-	-	3,365
Balance at 31 December 2022	140,167	31,274	24,815	196,256
Accumulated depreciation				
Balance at 1 January 2021	18,415	18,692	19,336	56,443
Depreciation for the year	2,743	3,957	1,544	8,244
Accumulated depreciation on assets retired from active use	(416)	(1,886)	(3,787)	(6,089)
Balance at 31 December 2021	20,742	20,763	17,093	58,598
Balance at 1 January 2022	20,742	20,763	17,093	58,598
Depreciation for the year	2,722	3,432	1,562	7,716
Accumulated depreciation on assets retired from active use	(68)	(2,160)	(435)	(2,663)
Balance at 31 December 2022	23,396	22,035	18,220	63,651
Carrying amount at:				
Balance at 31 December 2021	**112,411**	**11,487**	**6,586**	**130,484**
Balance at 31 December 2022	**116,771**	**9,239**	**6,595**	**132,605**

As at 31 December 2022 Property and Equipment includes right-of-use assets of €8.6 million (2021: €8.5 million) related to office premises and motor vehicles (see note 22).

21.1 Reconciliation of carrying amount

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
Carrying amount of land and buildings occupied for own use	116,743	112,382	116,772	112,410
Future capital expenditure:				
- contracted but not provided for in the financial statements	1,492	1,328	1,492	1,328
- authorised by the directors but not contracted for	22,746	25,863	22,738	25,863

Land and buildings are revalued by professionally qualified architects in accordance with the policy documented in Note 1. The carrying amounts of land and buildings that would have been included in the financial statements had these assets been carried at cost less accumulated depreciation are:

2022: Group and Bank €49.8 million (2021: Group and Bank €49.0 million).

Property valuations are mainly valued using the 'comparative investment approach' whereby market value is arrived at by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of estate agent listings for comparative properties and determining a mean rental value rate. The valuation techniques were consistent with those applied for the year ended 31 December 2021. Revaluations are carried out on a regular basis in accordance with the Group's accounting policies.

Notes to the financial statements

for the year ended 31 December 2022

21. PROPERTY AND EQUIPMENT (continued)

Property fair value measurement is classified as Level 3. Significant unobservable inputs used in the valuation of these properties is the rental income for office space and the percentage capitalisation rate which indicates the multiplier relationship between Net Rental Income and Property Value. Further details about these significant inputs are summarised in the table below:

	Significant unobservable input	Narrative sensitivity
Buildings in Commercial Area	Price per square metre, ranging from €55/sqm to €1,050/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5.79% to 8.10%	The higher the capitalisation rate the lower the fair value
Buildings in Residential Area	Price per square metre, ranging from €117/sqm to €529/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5.82% to 8.10%	The higher the capitalisation rate the lower the fair value

22. LEASES

The Group's lease arrangements comprise long-term leasehold properties, other immovable property leaseholds, equipment leases and property space for ATMs. The Group does not recognise low value items (below €5,000) or short-term arrangements of one year or less.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to office premises and motor vehicles that are presented within property and equipment (see note 21)

		The Group	
	Land and Buildings	Other	Total
	€000	€000	€000
Balance at 1 January 2021	8,111	1,110	9,221
Net adjustment	622	(11)	611
Additions	1,217	51	1,268
Depreciation charge for the year	(1,388)	(271)	(1,659)
Disposals	(883)	(65)	(948)
Balance at 31 December 2021	7,679	814	8,493
Balance at 1 January 2022	7,679	814	8,493
Additions	1,504	332	1,836
Depreciation charge for the year	(1,356)	(263)	(1,619)
Disposals	-	(89)	(89)
Balance at 31 December 2022	7,827	794	8,621

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for the year ended 31 December 2022

22. LEASES (continued)

i. Right-of-use assets (continued)

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Balance at 1 January 2021	7,779	1,066	8,845
Additions	1,217	50	1,267
Depreciation charge for the year	(1,241)	(258)	(1,499)
Disposals	(76)	(65)	(141)
Balance at 31 December 2021	7,679	793	8,472
Balance at 1 January 2022	7,679	793	8,472
Additions	1,503	333	1,836
Depreciation charge for the year	(1,356)	(250)	(1,606)
Disposals	-	(89)	(89)
Balance at 31 December 2022	7,826	787	8,613

See note 28 for maturity analysis of lease liabilities as at 31 December 2022.

ii. Amounts recognised in profit or loss

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Interest on lease liabilities 2021	240	18	258
Expenses relating to short-term leases 2021	356	18	374
	596	36	632
Interest on lease liabilities 2022	194	14	208
Expenses relating to short-term leases 2022	88	-	88
	282	14	296

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Interest on lease liabilities 2021	197	16	213
Expenses relating to short-term leases 2021	356	18	374
	553	34	587
Interest on lease liabilities 2022	194	13	207
Expenses relating to short-term leases 2022	88	-	88
	282	13	295

Notes to the financial statements

for the year ended 31 December 2022

22. LEASES (continued)

iii. Amounts recognised in statement of cash flows

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Total cash outflow for leases 2021	1,640	287	1,927
Total cash outflow for leases 2022	1,460	279	1,739

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Total cash outflow for leases 2021	1,417	272	1,689
Total cash outflow for leases 2022	1,460	266	1,726

iv. Extension options

Some property leases contain extension options exercisable by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options, and if it is reasonably certain to exercise the extension option, the Group includes this period in the lease term and the potential future lease payments in the lease liability.

23. DEFERRED TAX

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Deferred taxation is analysed as follows:				
Net deferred tax asset arising on:				
Fair value movement of financial instruments	281	281	281	281
Net gain on financial instruments through OCI	2,291	-	2,291	-
Impairment allowances	52,250	65,669	52,250	65,669
Allowance for employee benefits	3,548	2,943	3,548	2,943
Excess of capital allowances over depreciation	(16,218)	(15,669)	(16,218)	(15,669)
Defined benefit plans	2,469	3,339	2,469	3,339
Provisions and other temporary differences	310	28,000	284	28,000
Unabsorbed tax losses	22,967	-	22,967	-
	67,898	84,563	67,872	84,563
Deferred tax liability arising on:				
Property revaluation	7,054	6,717	7,054	6,717

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for the year ended 31 December 2022

23. DEFERRED TAX (continued)

The Group	At 31 December 2021 €000	Recognised in profit or loss €000	Recognised in OCI €000	At 31 December 2022 €000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	281	-	-	281
Net gain on financial instruments through OCI	-	-	2,291	2,291
Impairment allowances	65,669	(13,419)	-	52,250
Allowance for employee benefits	2,943	605	-	3,548
Excess of capital allowances over depreciation	(15,669)	(549)	-	(16,218)
Defined benefit plans	3,339	-	(870)	2,469
Property revaluation	(6,717)	-	(337)	(7,054)
Provisions and other temporary differences	28,000	(27,690)	-	310
Unabsorbed tax losses	-	22,967	-	22,967
	77,846	(18,086)	1,084	60,844

The Group	At 31 December 2020 €000	Recognised in profit or loss €000	Recognised in OCI €000	At 31 December 2021 €000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	281	-	-	281
Impairment allowances	69,992	(4,323)	-	65,669
Allowance for employee benefits	4,046	(1,103)	-	2,943
Excess of capital allowances over depreciation	(14,414)	(1,255)	-	(15,669)
Defined benefit plans	3,354	-	(15)	3,339
Property revaluation	(6,186)	-	(531)	(6,717)
Provisions and other temporary differences	28,000	-	-	28,000
	85,073	(6,681)	(546)	77,846

The Bank	At 31 December 2021 €000	Recognised in profit or loss €000	Recognised in OCI €000	At 31 December 2022 €000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	281	-	-	281
Net gain on financial instruments through OCI	-	-	2,291	2,291
Impairment allowances	65,669	(13,419)	-	52,250
Allowance for employee benefits	2,943	605	-	3,548
Excess of capital allowances over depreciation	(15,669)	(549)	-	(16,218)
Defined benefit plans	3,339	-	(870)	2,469
Property revaluation	(6,717)	-	(337)	(7,054)
Provisions and other temporary differences	28,000	(27,716)	-	284
Unabsorbed tax losses	-	22,967	-	22,967
	77,846	(18,112)	1,084	60,818

Notes to the financial statements

for the year ended 31 December 2022

23. DEFERRED TAX (continued)

	The Bank			
	At 31 December 2020	Recognised in profit or loss	Recognised in OCI	At 31 December 2021
	€000	€000	€000	€000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	281	-	-	281
Impairment allowances	69,992	(4,323)	-	65,669
Allowance for employee benefits	4,046	(1,103)	-	2,943
Excess of capital allowances over depreciation	(14,414)	(1,255)	-	(15,669)
Defined benefit plans	3,354	-	(15)	3,339
Property revaluation	(6,186)	-	(531)	(6,717)
Provisions and other temporary differences	28,000	-	-	28,000
	85,073	(6,681)	(546)	77,846

The Group's deferred tax assets and liabilities on the statement of financial position have not been off-set to the extent that there is no legally enforceable right of set-off with the tax authorities.

The Bank is expected to have sufficient profits in the future to absorb the deferred tax asset recognised.

24. OTHER ASSETS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Settlement account	5,963	4,388	5,963	4,388
Deferred expenditure	281	1,035	281	1,035
Other assets	983	-	983	-
	7,227	5,423	7,227	5,423

Settlement account consists of card settlements.

25. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Term deposits	55,878	515,790	55,878	515,790
Repayable on demand	21,196	44,327	21,196	44,327
	77,074	560,117	77,074	560,117

Balances with a carrying amount of €25.7 million (2021: Nil) were held as collateral against derivative contracts.

During the first quarter of 2021, the Bank participated in the third targeted longer-term refinancing operations (TLTRO III) Euro system funding. A negative borrowing rate was applied on this loan which depended on the lending patterns of the Bank. The reduced interest rate was subject to the achievement of predefined lending performance thresholds and interest to be settled in arrears on the maturity of the TLTRO III operation or on early repayment. This funding has contributed to the mitigation of costs of funding liabilities through which the Bank continues to sustain its position as a key player in the provision of finance to local businesses and households.

In October 2022, the European Central Bank (ECB) added three additional early repayment dates with the first one being on the 23 November 2022. The Bank has chosen to use this repayment option to early repay.

Euro system funding was a financial liability at amortised cost in accordance with the requirements of IFRS 9 *Financial Instruments*. Negative interest on this loan was calculated using the effective interest rate with interest amount disclosed in the Statements of Cash flows.

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26. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Term deposits	430,195	1,341,761	430,195	1,341,761
Repayable on demand	12,117,716	10,835,093	12,124,389	10,844,228
	12,547,911	12,176,854	12,554,584	12,185,989

27. OTHER LIABILITIES

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
Post-employment and termination liabilities (see note 35)	17,282	18,042	17,282	18,042
Cash collateral for commitments	68,361	70,351	68,361	70,351
Deposits from companies in formation	4,235	3,428	4,235	3,428
Bills payable	40,633	46,299	40,633	46,299
Accruals and deferred income	24,096	25,780	23,875	25,288
Payment orders outwards	4,910	3,184	4,910	3,184
Lease liability (see note 28)	8,918	8,703	8,910	8,682
Taxation payable	4,368	3,898	4,368	3,898
Dividend payable	-	10,019	-	10,019
Other	18,749	13,437	18,710	13,331
	191,552	203,141	191,284	202,522

28. LEASE LIABILITY

At 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,416	244	1,660
Between one and five years	4,261	524	4,785
More than five years	4,246	68	4,314
Total undiscounted lease liabilities at 31 December 2022	9,923	836	10,759
Lease liabilities included in statement of financial position at 31 December 2022:			
Current	1,239	234	1,473
Non-current	6,870	575	7,445
	8,109	809	8,918

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,416	244	1,660
Between one and five years	4,261	515	4,776
More than five years	4,246	68	4,314
Total undiscounted lease liabilities at 31 December 2022	9,923	827	10,750

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for the year ended 31 December 2022

28. LEASE LIABILITY (continued)

	The Bank		
	Land and Buildings €000	Other €000	Total €000
Lease liabilities included in statement of financial position at 31 December 2022:			
Current	1,239	233	1,472
Non-current	6,870	568	7,438
	8,109	801	8,910

At 31 December 2021, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		
	Land and Buildings €000	Other €000	Total €000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,277	279	1,556
Between one and five years	4,623	593	5,216
More than five years	3,985	-	3,985
Total undiscounted lease liabilities at 31 December 2021	9,885	872	10,757
Lease liabilities included in statement of financial position at 31 December 2021:			
Current	1,071	265	1,336
Non-current	6,801	566	7,367
	7,872	831	8,703

	The Bank		
	Land and Buildings €000	Other €000	Total €000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,277	264	1,541
Between one and five years	4,623	569	5,192
More than five years	3,985	-	3,985
Total undiscounted lease liabilities at 31 December 2021	9,885	833	10,718
Lease liabilities included in statement of financial position at 31 December 2021:			
Current	1,071	253	1,324
Non-current	6,802	556	7,358
	7,873	809	8,682

29. DERIVATIVES DESIGNATED FOR HEDGE ACCOUNTING

	The Group		The Bank	
	2022 €000	2021 €000	2022 €000	2021 €000
Derivative financial instruments designated as fair value hedges	2,167	12,157	2,167	12,157

Refer to note 6: Net gain on Investments and hedging instruments for the net gain/loss on the bond and hedging instrument. The impact on hedging relationships as a consequence of the interest rate benchmark reform has been disclosed in note 39.9.

The above comprise over-the-counter interest rate swaps, stated at fair value with notional amounts analysed by the remaining life as follows:

-more than 1 year	60,879	57,375	60,879	57,375
	60,879	57,375	60,879	57,375

Notes to the financial statements

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30. DEBT SECURITIES IN ISSUE AND SUBORDINATED LIABILITIES

	Note	The Group		The Bank	
		2022	2021	2022	2021
		€000	€000	€000	€000
Debt securities in issue					
Senior non-preferred notes	**30.1**	350,260	-	350,260	-
		350,260	-	350,260	-
Subordinated liabilities					
3.50% Euro subordinated unsecured bonds	**30.2**	113,130	113,130	113,130	113,130
3.75% Euro subordinated unsecured bonds	**30.2**	50,107	50,107	50,107	50,107
		163,237	163,237	163,237	163,237

30.1 Senior non-preferred notes

On 6 December 2022, the Bank has issued €350 million Callable Senior Non-Preferred Notes (traded on the Irish Stock Exchange) with a final maturity date of 6 December 2027 and a fixed coupon of 10% per annum. The Bank has the right (subject to regulatory approval) to call the Notes in whole, but not in part, on maturity date. The fair value as of 31 December 2022 is €358.1m. The Senior Non-Preferred Notes constitute direct, unconditional, unsecured, and unsubordinated obligations of the Bank and rank in priority to all subordinated claims but are junior in right of payment to all preferred claims and all ordinary unsecured claims. The Notes were rated by Fitch as BBB-.

30.2 Subordinated liabilities

The 3.5% Euro subordinated bonds are redeemable at par on 8 August 2030 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as of 31 December 2022 is €94.2 million (2021: €116.1 million).

The 3.75% Euro subordinated bonds are redeemable at par on 15 June 2031 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as of 31 December 2022 is €45.0 million (2021: 52.0 million).

The bonds are unsecured and subordinated to the claims of all holders of senior indebtedness.

31. SHARE CAPITAL AND SHARE PREMIUM

	The Bank	
	2022	2021
	€000	€000
Share Capital		
Authorised:		
1,000,000,000 Ordinary shares of €1.00 each	1,000,000	1,000,000
(2021: 1,000,000,000 Ordinary shares of €1.00 each)		
Issued and paid up:		
583,849,000 Ordinary shares of €1.00 each fully paid	583,849	583,849
(2021: 583,849,000 Ordinary shares of €1.00 each)		

32. OTHER RESERVES

Retained Earnings
Retained earnings represent the profits retained over the years and primarily comprise the profit attributable to equity holders and transfers to share capital in respect of the bonus issue. This reserve includes the amount held in respect of General Banking Reserves.

General Banking Reserves
The revised Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is deductible from distributable funds. As at the reporting date this reserve amounts to €3.6 million (2021: €3.3million).

Revaluation Reserves
Revaluation reserves represent fair value movements on land and buildings and financial assets at FVOCI net of tax, which are recognised in Other Comprehensive Income.

Notes to the financial statements

for the year ended 31 December 2022

32. OTHER RESERVES (continued)

	The Group €000	The Bank €000
On land and buildings:		
Balance at 31 December 2020	44,247	44,247
Property revaluation	5,306	5,306
Deferred tax and effect of changes in property tax rates	(531)	(531)
Balance at 31 December 2021	**49,022**	**49,022**
Property revaluation	3,366	3,366
Deferred tax and effect of changes in property tax rates	(337)	(337)
Balance at 31 December 2022	**52,051**	**52,051**
On fair-value-through-other comprehensive income:		
Balance at 31 December 2020	11,230	11,118
Fair value adjustments	(2,791)	(2,791)
Tax thereon	977	977
Balance at 31 December 2021	**9,416**	**9,304**
Fair value adjustments	(6,546)	(6,546)
Tax thereon	2,291	2,291
Balance at 31 December 2022	**5,161**	**5,049**
Total	**57,212**	**57,100**

Notes to the financial statements

for the year ended 31 December 2022

33. PROVISIONS AND CONTINGENCIES

33.1 Provisions

The Bank considers the provisions recognised to be the best estimate of the amounts likely required to settle its claims and are presented as follows:

	The Group			
	Financial guarantees and loan commitments provisions	Custody and trust litigation provision	Other litigation provision	Total
Provisions	**€000**	**€000**	**€000**	**€000**
Carrying amount at 1 January 2022	22,949	80,945	555	104,449
Movement	(7,393)	(80,945)	407	(87,931)
Carrying amount at 31 December 2022	**15,556**	**-**	**962**	**16,518**

	The Bank			
	Financial guarantees and loan commitments provisions	Custody and trust litigation provision	Other litigation provision	Total
Provisions	**€000**	**€000**	**€000**	**€000**
Carrying amount at 1 January 2022	22,949	80,945	555	104,449
Movement	(7,393)	(80,945)	257	(88,081)
Carrying amount at 31 December 2022	**15,556**	**-**	**812**	**16,368**

	The Group and the Bank			
	Financial guarantees and loan commitments provisions	Custody and trust litigation provision	Other litigation provision	Total
Provisions	**€000**	**€000**	**€000**	**€000**
Carrying amount at 1 January 2021	32,380	80,000	1,500	113,880
Movement	(9,431)	945	(945)	(9,431)
Carrying amount at 31 December 2021	**22,949**	**80,945**	**555**	**104,449**

The amount in respect of financial guarantees contracts and loan commitments issued represent the expected credit loss as of 31 December 2022. The custody and trust litigation provision consists of movement relating to the Deiulemar case whilst other litigation provision movement represents the increase/(decrease) in liabilities or the release of liability following settlement of other litigation claims.

There have been significant developments during 2022 in relation to the principal legal case of the Group and Bank, that relating to custody and trusts. In November 2014, court action was instituted against the Bank by the curators of Deiulemar group which was declared insolvent when the shares in the ultimate holding company were held in trust by the Bank with a claim of €363 million. In February 2022, the first court in Torre Annunziata decided against the Bank and in favour of the Deiulemar bankruptcy and ordered the Bank to pay a sum equivalent to around €370 million. The Bank proceeded to immediately appeal this judgement on the strong merits of its legal case. However, subsequently in May 2022, the Bank reached an out-of-court settlement agreement of €182.5 million, without any admission of fault, bringing all legal claims surrounding the issue to an end. The Bank shall not have any further ongoing contingent or actual liability relating to this claim. This resulted in the reversal of €80.9 million provision as disclosed in Note 33 and a resultant impact of €103.0 million including legal fees in 2022 statement of profit or loss.

A total of €363 million in pledged assets held with an Italian bank following a garnishee order were released and are now free from any encumbrance.

Notes to the financial statements

for the year ended 31 December 2022

33. PROVISIONS AND CONTINGENCIES (continued)

33.2 Contingent liabilities

In its ordinary course of business, the Group and the Bank is subject to complaints or legal proceedings by third parties, as well as legal and regulatory reviews, enquiries and examinations concerning legal, operational and compliance risks in relation to but not limited to compliance with legislation and regulations. Such legal and regulatory matters are reassessed on an ongoing basis whilst the Group and the Bank collaborates continuously with the relevant authorities as appropriate. The assistance of external professional consultants is obtained where appropriate, to determine the likelihood of the Group and the Bank incurring a liability.

Contingent liabilities are backed by corresponding obligations from third parties. The recognition of provisions and the disclosure of contingent liabilities in relation to such matters involves critical accounting estimates and judgements and is determined in accordance with the relevant accounting policies described in Note 1 (1.28.5). Except as disclosed hereunder, it is not practicable to provide an aggregate estimate of other potential liability for the Group's and the Bank's legal proceedings, legal and regulatory reviews as a class of contingent liabilities.

Contingencies

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
Acceptances and endorsements	19	32	19	32
Guarantees	354,907	333,564	354,907	333,564
Other contingent liabilities	19,183	17,766	19,183	17,766
	374,109	**351,362**	**374,109**	**351,362**

34. COMMITMENTS

	The Group		The Bank	
	2022	**2021**	**2022**	**2021**
	€000	**€000**	**€000**	**€000**
Documentary credits	28,849	27,710	28,849	27,710
Undrawn formal standby facilities, credit facilities and other commitments to lend	1,887,449	1,867,939	1,887,449	1,867,939
Capital expenditure contracted but not provided for in the financial statements	1,821	2,463	1,821	2,463
Commitments to financial institutions	-	198	-	198
	1,918,119	**1,898,310**	**1,918,119**	**1,898,310**

35. EMPLOYEE BENEFITS

35.1 Post-employment benefits

35.1.1 Defined benefit plan – Pension Top-up

The Group and the Bank contributes to a post-employment benefit plan ("the plan") which is applicable to eligible individuals. The benefits provided to the individuals in terms of the plan are computed on a specified formula which takes into consideration, amongst other things, the employees' salary on retirement and the pension entitlement in terms of Maltese law.

The provision is computed in accordance with the accounting policy for post-employment benefit plans and represents the Group's and the Bank's obligation:

i. discounted to the net present value at the rate which has been determined by reference to market yields at the end of the reporting period on high-quality corporate bonds;
ii. after considering the life expectancy of such employees based on the latest publicly available mortality tables;
iii. the expected terminal salaries; and
iv. the Bank's expectations of the employees' retirement date.

The year-end obligation in relation to the plan is mainly in relation to retired employees.

i. The plan exposes the Group and the Bank to the following main risks:
ii. interest risk, since a decrease in market yields will increase the plan liability; and
iii. longevity risk, since an increase in the life expectancy of the plan participants will increase the plan liability.

Notes to the financial statements

for the year ended 31 December 2022

35. EMPLOYEE BENEFITS (continued)

35.1 Post-employment benefits (continued)

35.1.1 Defined benefit plan – Pension Top-up (continued)

The significant actuarial assumptions applied by the Group and the Bank in respect of the plan are as follows:

	The Group and the Bank	
	2022	**2021**
Weighted discount rates - Euro corporate yield per Bloomberg	3.55%	0.24%
Life expectancy (years):		
Males	81	81
Females	85	85

The Group and the Bank are providing sensitivity analysis in connection with each significant actuarial assumption applied in respect of the plan. These analyses are prepared as of the end of the reporting period, showing how the liability would have been affected by hypothetical changes in the relevant actuarial assumptions that were reasonably possible at that date, while holding all other assumptions constant. The analysis presented below are for illustrative purposes only and may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. In presenting the sensitivity analysis, the present value of the obligation has been calculated using the projected unit credit method at the end of the reporting period. The amounts generated from the analysis represent forward-looking estimates and hence, actual results in the future may differ materially from those projected results. In accordance with the transitional provisions in the revised IAS 19, the Group and the Bank have not disclosed comparative information in this respect.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the defined benefit obligation decreases by €0.6 million (increases by €0.7 million).

- If the life expectancy increases (decreases) by two years for both men and women with all other assumptions held constant, the defined benefit obligation increases by €2.2 million (decreases by €2.4 million).

The weighted average duration of the liability in respect of the plan at 31 December 2022 is 7 years (2021: 8 years).

The Bank does not fund these pensions by assigning specific assets as there is sufficient liquidity to meet the required payments as these arise. In view of the non-complexity of the inputs involved, no actuary was deemed necessary in estimating this obligation.

Furthermore, the Group and the Bank make payments to certain eligible employees in consideration of the liquidation of a defunct pension scheme.

35.1.2 Defined contribution plan – Voluntary Occupational Pensions Scheme

The Voluntary Occupational Pension Scheme was introduced in 2022 in which the Group and the Bank assists eligible employees that opt for the scheme in saving for their retirement (Note 7).

35.2 Termination benefits

The Group and the Bank had during the financial year 2019 launched three Voluntary Retirement Schemes, a Gradual Retirement Scheme, and a Retirement Gratuity Scheme, all of which were valid up to the end of the comparative period, 31 December 2021.

During financial year 2022, the Bank has retained the Gradual Retirement and Retirement Gratuity Schemes similar to prior years. The Gradual retirement consists of reduced number of hours worked whilst applicants eligible for the Retirement Gratuity Scheme shall be given a lump sum payment of one time their terminal salary and a proportion of the terminal annual salary depending on the aggregate years of service.

Furthermore, the Group and Bank have introduced a new Voluntary Retirement Scheme for eligible employees as of 1 April 2022 in which formal notice is required within a stipulated period. The scheme shall remain open indefinitely whilst remaining at the Group and Bank's discretion. Accepted applicants under the respective scheme shall be given a lump sum payment of three times their terminal salary reduced pro-rata up to the age of 61.

Notes to the financial statements

for the year ended 31 December 2022

35. EMPLOYEE BENEFITS (continued)

35.3 Summary of movements in post-employment and termination benefits

	The Group and the Bank	
	2022	2021
	€000	€000
Present value at 1 January	18,042	21,239
Payments effected	(5,650)	(5,297)
Recognised in profit or loss:		
- Interest expense	(67)	(133)
- Terminal benefits	7,447	2,275
Remeasurement of actuarial (losses)/gains recognised in other comprehensive income resulting from:		
- Experience adjustments	(229)	(272)
- Changes in financial assumptions	(2,574)	(116)
- Changes in demographic assumptions	313	346
Present value at 31 December	**17,282**	**18,042**

36. NOTES TO THE STATEMENTS OF CASH FLOWS

	Note	The Group		The Bank	
		2022	2021	2022	2021
		€000	€000	€000	€000
Cash	13	85,760	85,511	85,760	85,511
Balances with Central Bank of Malta (excluding Reserve Deposit)		2,940,953	4,236,230	2,940,953	4,236,230
Treasury bills (with original maturity of less than 3 months)		235,064	135,582	235,064	135,582
Money at call and short notice		392,596	447,811	392,596	447,811
Amounts owed to banks		(75,071)	(86,990)	(75,071)	(86,990)
Cash and cash equivalents included in the statements of cash flows		**3,579,302**	**4,818,144**	**3,579,302**	**4,818,144**
Balances with contractual maturity of more than 3 months		2,911	(415,380)	2,911	(415,380)
		3,582,213	4,402,764	3,582,213	4,402,764
Equivalent items reported in the statements of financial position:					
Balances with Central Bank of Malta, Treasury bills and cash (excluding Reserve Deposit)		3,264,741	4,510,412	3,264,741	4,510,412
Loans and advances to banks		394,546	452,469	394,546	452,469
Amounts owed to banks		(77,074)	(560,117)	(77,074)	(560,117)
		3,582,213	4,402,764	3,582,213	4,402,764

37. RELATED PARTY TRANSACTIONS

During the current and prior year, the Group and the Bank entered into transactions during the course of their normal business, with equity-accounted investees, subsidiaries, the Government of Malta ("The Government") (which has a 25% holding in the Bank), Government related entities, key management personnel, and other related parties. Government related entities are those where, in the opinion of the Bank, the Government is either deemed to exercise control, that is, it has the power to govern the financial and operating policies of the entity or linked to the Government but not controlled by the Government.

Key management personnel includes the Chairman, Directors, the members of the Management Board and their respective spouses, spousal equivalent and dependants. Other related parties are those companies over which the key management personnel hold control or significant influence (directorship).

Notes to the financial statements

for the year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties are made on an arm's length basis.

The Bank also entered into related party transactions on an arm's length basis with its subsidiaries and equity-accounted investees. Transactions between the Bank and its subsidiaries have been eliminated on consolidation.

The amounts due to or from related parties are settled in cash and the amount of related party transactions and outstanding balances at the reporting date are disclosed below:

The Group	2022 Related party balances	Total activity/ balance	% of total	2021 Related party balances	Total activity/ balance	% of total
	€000	€000		€000	€000	
Interest and similar income:						
- on loans and advances						
Equity-accounted investees	-			21		
The Government	4,609			1,198		
Government related entities	13,905			14,207		
Key management personnel	29			24		
Other related parties	335			426		
	18,878	196,277	10%	15,876	172,429	9%
Interest and similar income:						
- on debt and other fixed income instruments						
The Government	9,184	23,933	38%	6,693	22,384	30%
Interest expense						
Equity-accounted investees	958			1,587		
The Government	105			17,282		
Government related entities	42			92		
Key management personnel	2			2		
	1,107	18,311	6%	18,963	38,503	49%
Fee and commission income						
Equity-accounted investees	4,877			6,078		
The Government	3,654			2,762		
Government related entities	1,957			1,530		
Key management personnel	2			2		
Other related parties	25			19		
	10,515	89,114	12%	10,391	84,273	12%
Short term employee compensation and benefits including post-employment benefits						
Key management personnel	3,119	100,033	3%	2,701	81,568	3%
General administrative expenses						
Equity-accounted investees	311			156		
Key management personnel	51			27		
Other related parties	62			21		
	424	72,945	1%	204	93,897	0%

Notes to the financial statements

for the year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (continued)

The Group	2022 Related party balances €000	Total activity/ balance €000	% of total	2021 Related party balances €000	Total activity/ balance €000	% of total
Movement in impairment allowances						
The Government	(59)			(808)		
Government related entities	3,082			1,001		
Key management personnel	(15)			5		
Other related parties	(23)			(18)		
	2,985	49,075	6%	180	18,856	1%
Balances with Central Bank of Malta treasury bills and cash						
The Government	3,303,501	3,389,261	97%	4,541,065	4,626,066	98%
Financial assets at fair value through profit or loss						
The Government	1,040	146,363	1%	1,114	138,986	1%
Investments						
The Government	1,191,064	4,567,064	26%	1,076,124	3,568,669	30%
Loans and advances to customers (net)						
The Government	35,954			32,452		
Government related entities	381,306			441,603		
Key management personnel	3,967			3,969		
Other related parties	10,094			11,914		
	431,321	5,560,076	8%	489,938	5,097,598	10%
Impairment allowances						
The Government	(109)			(50)		
Government related entities	(138)			(3,220)		
Key management personnel	(23)			(8)		
Other related parties	(24)			1		
	(294)	(132,917)	0%	(3,277)	(163,785)	2%
Amounts owed to customers						
Equity-accounted investees	164,344			189,161		
The Government	441,086			373,436		
Government related entities	236,340			193,576		
Key management personnel	6,876			4,482		
Other related parties	3,224			3,379		
	851,870	12,547,911	7%	764,034	12,176,854	6%
Total Assets less Liabilities						
Equity-accounted investees	(164,344)			(189,161)		
The Government	4,090,364			5,277,269		
Government related entities	144,828			244,807		
Key management personnel	(2,932)			(521)		
Other related parties	6,846			8,536		
	4,074,762			5,340,930		
Commitments						
Equity-accounted investees	317			317		
The Government	72,958			76,817		
Government related entities	105,909			79,567		
Key management personnel	181			331		
Other related parties	1,086			566		
	180,451	1,918,119	9%	157,598	1,898,310	8%

Notes to the financial statements

for the year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (continued)

The Bank	2022 Related party balances €000	Total activity/ balance €000	% of total	2021 Related party balances €000	Total activity/ balance €000	% of total
Interest and similar income:						
- on loans and advances						
The Government	4,609			1,198		
Government related entities	13,905			14,207		
Key management personnel	14			13		
Other related parties	335			423		
	18,863	196,277	10%	15,841	172,429	9%
Interest and similar income:						
- on debt and other fixed income instruments						
The Government	9,184	23,933	38%	6,693	22,384	30%
Interest expense						
Equity-accounted investees	958			1,587		
The Government	105			17,282		
Government related entities	42			92		
Key management personnel	1			1		
	1,106	18,311	6%	18,962	38,503	49%
Fee and commission income						
Equity-accounted investees	4,877			6,078		
Subsidiaries	1,682			2,275		
The Government	3,654			2,762		
Government related entities	1,957			1,530		
Key management personnel	2			2		
Other related parties	25			19		
	12,197	79,995	15%	12,666	74,462	17%
Dividend income						
Equity-accounted investees	2,046			1,499		
Subsidiaries	6,700			-		
	8,746	9,386	93%	1,499	2,946	51%
Short term employee compensation and benefits including post-employment benefits						
Key management personnel	2,954	97,659	3%	2,528	79,067	3%
General administrative expenses						
Equity-accounted investees	311			156		
Key management personnel	26			26		
Other related parties	21			21		
	358	71,075	1%	203	92,546	0%
Movement in impairment allowances						
The Government	(59)			(808)		
Government related entities	3,082			1,001		
Key management personnel	-			1		
Other related parties	(25)			(1)		
	2,998	49,075	6%	193	18,856	1%

Notes to the financial statements

for the year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (continued)

The Bank	2022 Related party balances €000	Total activity/ balance €000	% of total	2021 Related party balances €000	Total activity/ balance €000	% of total
Balances with Central Bank of Malta treasury bills and cash						
The Government	3,303,501	3,389,261	97%	4,541,065	4,626,066	98%
Financial assets at fair value through profit or loss						
The Government	1,040	146,211	1%	1,114	138,823	1%
Investments						
The Government	1,191,064	4,567,064	26%	1,076,124	3,568,669	30%
Loans and advances to customers (net)						
The Government	35,954			32,452		
Government related entities	381,306			441,603		
Key management personnel	2,733			2,915		
Other related parties	10,094			11,914		
	430,087	5,560,076	8%	488,884	5,097,598	10%
Impairment allowances						
The Government	(109)			(50)		
Government related entities	(138)			(3,220)		
Key management personnel	(4)			(4)		
Other related parties	(24)			1		
	(275)	(132,917)	0%	(3,273)	(163,785)	2%
Other assets						
Subsidiaries	78	124,366	0%	866	141,096	1%
Amounts owed to customers						
Equity-accounted investees	164,344			189,161		
Subsidiaries	6,673			9,135		
The Government	441,086			373,436		
Government related entities	236,340			193,576		
Key management personnel	6,143			3,850		
Other related parties	3,224			3,379		
	857,810	12,554,584	7%	772,537	12,185,989	6%
Total Assets less Liabilities						
Equity-accounted investees	(164,344)			(189,161)		
Subsidiaries	(6,595)			(7,776)		
The Government	4,090,364			5,277,269		
Government related entities	144,828			244,807		
Key management personnel	(3,414)			(939)		
Other related parties	6,846			8,536		
	4,067,685			5,332,736		
Commitments						
Equity-accounted investees	317			317		
The Government	72,958			76,817		
Government related entities	105,909			79,567		
Key management personnel	160			301		
Other related parties	1,086			566		
	180,430	1,918,119	9%	157,568	1,898,310	8%

Notes to the financial statements

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37. RELATED PARTY TRANSACTIONS (continued)

	The Group		The Bank	
	2022	2021	2022	2021
	€000	€000	€000	€000
All outstanding balances are secured except for the following:				
Loans and advances to customers:				
- Key management personnel	66	678	60	361
	66	678	60	361
Details of guarantees received are disclosed below:				
Loans and advances to customers:				
- Amounts guaranteed by The Government	323,246	350,699	323,246	350,699

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

Loans to and commitments on behalf of directors and other key management personnel (including connected persons):

	The Group		The Bank	
	Loans and advances	Commitments	Loans and advances	Commitments
	€000	€000	€000	€000
Directors				
At 31 December 2020	1,156	130	576	99
Additions	1,528	51	475	31
	2,684	181	1,051	130
Less reductions/repayments	(715)	(67)	(136)	(45)
At 31 December 2021	1,969	114	915	85
Additions	282	32	39	24
	2,251	146	954	109
Less reductions/repayments	(99)	(18)	(36)	(10)
At 31 December 2022	**2,152**	**128**	**918**	**99**
Other key management personnel				
At 31 December 2020	1,951	215	1,951	215
Additions	241	18	241	18
	2,192	233	2,192	233
Less reductions/repayments	(192)	(17)	(192)	(17)
At 31 December 2021	2,000	216	2,000	216
Additions	163	7	163	7
	2,163	223	2,163	223
Less reductions/repayments	(349)	(169)	(349)	(169)
At 31 December 2022	**1,814**	**54**	**1,814**	**54**

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS

38.1 Changes in reportable segments

Effective 1 January 2022, a change in the determination of reportable segments was required to better reflect the structure by which the Chief Operating Decision Maker now reviews the internal organisational information. This is in line with the new internal organisational structure. This revision to reporting segments has been reflected retrospectively with the restatement in comparative information representing the new segments as per note 38.2.

Notes to the financial statements

for the year ended 31 December 2022

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS (continued)

38.1 Changes in reportable segments (continued)

The Group's reportable segments in the comparative year were as follows:

Reportable segments	Operations
Personal Banking & Wealth Management	Loans and other transactions and balances with retail customers, including wealth and asset management related activities
Corporate Banking	Loans and other transactions and balances with corporate customers
Proprietary Investments	Funding and centralised risk management activities through borrowings and issues of debt securities
Liquidity Management	Investments in liquid assets such as short-term placements and corporate and government debt securities

The Group's revised reportable segments effective 1 January 2022 and as at 31 December 2022 are as follows:

Reportable segments	Operations
Retail Banking	Loan products, cards, payment and other transactions for all client segments of the Bank. It also includes all deposit products for non-corporate and non-institutional client segments, internet/mobile banking activities, ATM activities and all Bank retail branches operations.
Wealth Management	Discretionary advisory and wealth management services, insurance and stock broking services, asset and fund management, prestige and private banking.
Business Banking	Financing and business deposit products for all business client segments including business and corporate centres.
Treasury	Proprietary investments, derivatives, and other investment related revenues. It also includes custody services and investment operations.
Associates and Others	Share of profits from associates, custody services, and other non-client specific investments. This includes the management of the Bank's property, plant and equipment, investments, other assets, long-term liabilities and other liabilities.

38.2 Information by segment

Interest income is the main revenue generating activity for all segments. The customer-oriented segments also have income derived from fees and commissions and earnings arising on foreign exchange transactions.

	Retail Banking		Wealth Management		Business Banking		Treasury		Associates, Investments & Others		Total Reportable Segments	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Interest income	95,976	81,895	-	-	99,262	88,999	24,972	23,919	-	-	220,210	194,813
Interest expense	(4,625)	(7,616)	-	-	(2,277)	(10,095)	(3,094)	(20,792)	(8,315)	-	(18,311)	(38,503)
Fee and commission income	43,222	33,473	21,651	24,092	21,799	20,022	447	5,327	1,995	1,359	89,114	84,273
Fee and commission expense	(10,530)	(8,020)	(23)	(224)	(161)	(99)	(1,140)	(1,028)	(692)	(307)	(12,546)	(9,678)
Trading income	-	-	(40)	53	-	-	8,670	8,983	-	-	8,630	9,036
Gains from financial assets	-	-	(1,157)	3	-	-	3,377	1,517	3,399	-	5,619	1,520
Dividend income	-	-	-	-	-	-	641	1,447	-	-	641	1,447
Depreciation/ amortisation	(12,239)	(13,846)	(2,476)	(1,934)	(3,736)	(3,348)	(630)	(389)	(557)	(621)	(19,638)	(20,138)
Other costs	(95,504)	(95,103)	(24,497)	(25,244)	(40,309)	(43,908)	(6,155)	(6,224)	(6,513)	(4,986)	(172,978)	(175,465)
Impairment reversal/ (charge)	1,288	(1,673)	-	-	47,708	20,632	79	(103)	-	-	49,075	18,856
Operating profit/(loss) before litigation provision	17,588	(10,890)	(6,542)	(3,254)	122,286	72,203	27,167	12,657	(10,683)	(4,555)	149,816	66,161
Net Deiulemar litigation settlement	-	-	-	-	-	-	-	-	(102,958)	-	(102,958)	-
Operating profit/(loss) before share of results of equity-accounted investees	17,588	(10,890)	(6,542)	(3,254)	122,286	72,203	27,167	12,657	(113,641)	(4,555)	46,858	66,161
Group share results after tax of equity-accounted investees	-	-	-	-	-	-	-	-	1,860	14,498	1,860	14,498
Group profit before taxation for the year											48,718	80,659

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38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS (continued)

38.2 Information by segment (continued)

	Retail Banking		Wealth Management		Business Banking		Treasury		Associates, Investments & Others		Total Reportable Segments	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
ASSETS	2,963,486	2,719,598	1,316	264	2,697,029	2,500,823	8,409,882	8,676,643	112,087	128,917	14,183,800	14,026,245
Property and equipment and intangible assets	236	284	289	128	13,337	13,705	-	-	156,471	159,056	170,333	173,173
Additions to property and equipment and intangible assets	26	22	8	10	1,443	1,075	-	-	16,928	12,416	18,405	13,523
Carrying value of equity-accounted investees	-	-	-	-	-	-	-	-	145,615	145,501	145,615	145,501
Total Assets	2,963,748	2,719,904	1,613	402	2,711,809	2,515,603	8,409,882	8,676,643	431,101	445,890	14,518,153	14,358,442
LIABILITIES												
Total Liabilities	8,405,729	8,165,839	1,719	981	4,289,969	4,248,665	250,321	744,075	412,570	72,597	13,360,308	13,232,157

The revenue which is reported above represents revenue generated from external customers. There was no inter-segment revenue during the year and comparative year.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment's operating profit represents the profit earned by each segment.

There are no material activities which are carried out outside Malta

39. FINANCIAL RISK MANAGEMENT

39.1 Use of financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to increase its interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve both on-balance sheet loans and advances, as well as guarantees and other commitments such as performance and other bonds and letters of credit.

The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange and interest rate exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Given that the difference between the Group and the Bank balances in respect of financial instruments, and the corresponding effect on the statement of profit or loss and other comprehensive income and reserves in respect thereof, are not material, references in this note to the Group are to be construed as references to the Bank, unless otherwise stated.

The principal areas of financial risk are detailed below:

39.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Financial assets which could potentially expose the Group to credit risk, mainly include balances with Central Bank of Malta, treasury bills, derivative financial assets, debt and other fixed income instruments, and loans and advances to banks and customers.

39.2.1 Credit risk management and exposure

i. Loans and advances

The purpose of credit risk management is to keep credit risk exposure to a permissible level relative to capital, to maintain the soundness of assets, and to ensure returns commensurate with risk. This leads to a loan portfolio that achieves high returns on capital and assets.

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for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

Credit risk is managed and controlled throughout the Bank on the basis of established credit processes, and within a framework of credit policy and delegated authorities based on responsibility, skill and experience.

Credit grading and monitoring systems are in place to accommodate the early identification and management of deterioration in loan quality. In addition, the credit management process is underpinned by an independent system of credit review.

Credit risk analysis is carried out on two levels: the single name; and the Bank's lending portfolio review. The Bank uses a number of tools to limit its exposure to undue credit risk. These include the application of:

- High-level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk;
- Lending guidelines defining the responsibilities of lending officers that seek to provide a disciplined and focused benchmark for credit decisions;
- Independent reviews of credit exposures;
- Sector caps, encompassing both industry and specific product types, to communicate the Board's risk appetite for specific types of business;
- Establishment and maintenance of large exposures and provisioning policies in accordance with regulatory reporting requirements; and
- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes to promote consistent and best practice throughout the Bank.

Where possible the Bank aims to reduce and control risk concentrations. Broadly stated, concentration results when the Bank has a high level of exposure to a single or related group of borrowers, credit exposures secured by a single security, or credit exposures with common characteristics within an industry, such that adverse developments in this exposure would be damaging to the Bank.

Given the size and nature of the domestic financial sector and the local economy, the Bank is exposed to concentration risk in its credit business. The Bank has systems in place to identify material concentrations in the loan portfolio, and to ensure adherence to prudential limits set by the Board of Directors and/or the regulator to single borrowers or groups of related borrowers and other significant risk concentrations. The CEO and the Board of Directors are regularly informed on the concentration of the Bank's portfolio.

	The Group	
	2022	**2021**
	€000	**€000**
Households and Individuals	2,964,559	2,719,877
Wholesale and retail trade	376,063	374,139
Accommodation and food service activities	354,506	302,155
Financial and insurance activities	438,467	456,171
Real estate activities	225,030	402,974
Transportation and storage	413,326	176,354
Construction	285,021	273,135
Electricity, Gas, Steam and Air Conditioning Supply	127,360	112,147
Human health and Social work activities	46,134	42,732
Manufacturing	53,401	128,525
Arts, Entertainment and Recreation	141,000	38,974
Professional, Scientific and Technical activities	139,371	122,848
Administrative and Support service activities	76,238	127,890
Agriculture, Forestry and Fishing	27,631	5,051
Information and communication	39,135	23,592
Education	35,134	25,552
Other services activities	9,837	16,772
Public administration and Defence, Compulsory social security	13,528	15,376
Mining and quarrying	1,884	76
Water supply, Sewerage waste management and remediation activities	4,093	1,890
Activities of extraterritorial organisations and bodies	-	3
Loans and advances to customers	5,771,718	5,366,233
Loans and advances to banks	394,546	452,469
	6,166,264	**5,818,702**

Loans and advances to customers comprise gross loans and advances at amortised cost and loans and advances designated at fair value through profit and loss as per Note 17.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

ii. Other financial assets

The credit risk in respect of other financial assets is mitigated through limits set in the Treasury Management Policy. The Bank assigns limits on the level of credit risk undertaken in relation to any single counterparty or sovereign exposure in accordance with external ratings based on Fitch's ratings or on those of other major rating agencies.

Changes in credit ratings are monitored on a daily basis and are subject to frequent review, when considered necessary. The limits on the level of credit risk are reviewed consistently and approved by the Board of Directors at regular intervals. Actual exposures are monitored against limits on an on-going basis. The Bank enters into security transactions only with such authorised counterparties and it invests only in securities or paper with credit quality within specific parameters stated in the Treasury Management Policy.

The level of concentration in respect of other significant financial assets is disclosed in the remaining notes to the financial statements.

Collateral and other credit enhancements

Credit risk mitigation is one of the key elements of the Group's credit policy. This includes the requirement to obtain collateral, depending on the nature of the proposal, as set out in the Bank's policies and procedures. The nature and level of collateral required depends on a number of factors, including, but not limited to the amount of the exposure, the type of facility provided, the term of the facility, the amount of the counterparty's contribution and an evaluation of the level of the credit risk or probability of default involved (see note 39.2.1.5).

Settlement Risk

The Group's activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement risk in respect of security transactions is mitigated through settlement limits assigned to counterparties based on external credit ratings or by effecting payment on a delivery versus payment (DVP) basis.

Sovereign Debt

Sovereign risk refers to the risk that a government may default on its obligations and includes refinancing risk related to the inability to raise capital to repay maturing bonds. The Group monitors sovereign risks through sovereign credit ratings issued by credit rating agencies which include Fitch, Moody's, and Standard & Poor's. The Treasury Management Policy seeks to mitigate sovereign risk, whether directly or indirectly through exposures to corporate and financial institutions domiciled therein, through investment limits assigned on the basis of the long-term credit rating of such sovereigns. This is further supplemented by in depth economic reviews undertaken periodically and assessments of the fiscal, economic and socio-political aspects upon which such limits are accordingly aligned.

39.2.1.1 Credit Quality

iii. Financial Assets by external rating agency designation

	Balances with CBM and Treasury Bills	Debt Securities	Loans and Advances to Banks	Derivatives	Total
The Group	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2022					
AAA	3,065,473	1,221,231	3,943	4,062	4,294,709
AA- to AA+	-	820,064	46,845	-	866,909
A- to A+	238,028	2,104,631	184,882	19,000	2,546,541
BBB- to BBB+	-	383,553	68,682	5,363	457,598
Lower than BBB-	-	21,228	9,435	-	30,663
Unrated	-	8	80,759	441	81,208
	3,303,501	**4,550,715**	**394,546**	**28,866**	**8,277,628**
As at 31 December 2021					
AAA	4,351,884	510,476	42,747	9	4,905,116
AA- to AA+	-	596,324	89,780	-	686,104
A- to A+	188,671	2,154,469	152,288	153	2,495,581
BBB- to BBB+	-	282,861	106,924	-	389,785
Lower than BBB-	-	6,535	17,687	-	24,222
Unrated	-	9	43,043	1,042	44,094
	4,540,555	**3,550,674**	**452,469**	**1,204**	**8,544,902**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.1 Credit Quality (continued)

The tables below analyse debt securities by sector, classification and residency.

Sector

	The Group		
	Amortised cost	**FVOCI**	**FVTPL**
2022	**€000**	**€000**	**€000**
Banks	743,253	-	22
Government	3,594,113	15,926	1,050
Public	-	66,284	-
Others	130,067	-	-
	4,467,433	82,210	1,072

	The Group		
	Amortised cost	**FVOCI**	**FVTPL**
2021	**€000**	**€000**	**€000**
Banks	880,785	-	28
Government	2,377,928	32,839	1,120
Public	-	73,488	-
Others	184,486	-	-
	3,443,199	106,327	1,148

Residency

	The Group		
	Amortised cost	**FVOCI**	**FVTPL**
2022	**€000**	**€000**	**€000**
Malta	1,177,576	82,210	1,040
Monetary Union member states	1,932,275	-	10
Rest of the world	1,357,582	-	22
	4,467,433	82,210	1,072

	The Group		
	Amortised cost	**FVOCI**	**FVTPL**
2021	**€000**	**€000**	**€000**
Malta	1,045,720	106,327	1,114
Monetary Union member states	1,421,997	-	6
Rest of the world	975,482	-	28
	3,443,199	106,327	1,148

Notes to the financial statements

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.1 Credit Quality (continued)

Loans and advances to customers analysed into performing and non-performing exposures.

	The Group		The Group	
Total Gross/Forborne Exposures	**Total**	**Of which Forborne**	**Total**	**Of which Forborne**
	2022	**2022**	**2021**	**2021**
	€000	**€000**	**€000**	**€000**
Performing				
Stage 1	4,998,276	-	4,506,916	-
Stage 2	569,137	172,474	637,392	164,047
	5,567,413	172,474	5,144,308	164,047
Non-performing				
Stage 3	204,305	93,135	221,925	115,118
	204,305	93,135	221,925	115,118
Total Gross/Forborne Exposures	**5,771,718**	**265,609**	**5,366,233**	**279,165**

Gross Forborne Exposures are analysed as follows:

	Modification in Terms	**Refinancing**	**Modification in Terms**	**Refinancing**
	2022	**2022**	**2021**	**2021**
Performing	**€000**	**€000**	**€000**	**€000**
Personal	15,372	219	18,321	191
Business	155,632	1,251	144,027	1,508
	171,004	1,470	162,348	1,699
Non-performing				
Personal	19,941	469	23,025	219
Business	65,623	7,102	87,510	4,364
	85,564	7,571	110,535	4,583

The movement in forbearance activity during the period is as follows:

	Loans & Advances	
	2022	**2021**
	€000	**€000**
1 January	279,165	115,875
Additions	46,558	183,103
Retired from forborne	(60,114)	(19,813)
31 December	265,609	279,165

(iii) Analysis of past due balances

Past due up to 29 days	63,193	50,428
Past due 30 - 59 days	5,845	15,251
Past due 60 - 89 days	2,139	4,763
	71,177	70,442

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.1 Credit Quality (continued)

Analysis of past due balances comprise all loan exposures (including forborne exposures).

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

	2022	2021
	€000	€000
Defaulted gross loans by segment:		
Business	155,105	167,523
Personal	49,200	54,402
	204,305	**221,925**

Defaulted facilities are those credit facilities with payments of interest and/or capital overdue by 90 days or more or where the Group has reasons to doubt the eventual recoverability of funds. A variety of types of collateral are accepted including property, securities, cash, guarantees and insurance, as disclosed in note 39.2.1.5.

Information about impairment allowances is disclosed in note 39.2.1.2 in respect of the Group's exposures as at 31 December 2022 and 31 December 2021.

39.2.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Refer to note 39.2.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Refer to note 39.2.1.2.2 for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected losses on a lifetime bases. Refer to note 39.2.1.2.4 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 39.2.1.2.5 includes an explanation of how the Group has incorporated this in its ECL models.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis (refer to note 39.2.1.2.8).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

39.2.1.2.1 Significant increase in credit risk

With the exception of instruments measured at FVTPL, exposures with low credit risk at the reporting date and any originated credit-impaired financial assets (note 39.2.1.2.2), the Group assesses whether financial instruments have experienced a significant increase in credit risk since initial recognition.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.1 Significant increase in credit risk (continued)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. A quantitative backstop trigger (30 days in arrears) shift exposures from stage 1 to stage 2 as significant increase in credit risk is deemed to have occurred.

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

During the year the Bank implemented a new more robust Internal Credit Rating System ('ICRS') for the business portfolio which enhanced granularity and differentiates credit risk through more gradings avoiding concentration in a few grades. The business portfolio was segmented into five groups of exposures sharing similar credit risk characteristics: Corporate, Business Centre, Business Branches, Sole Traders and Specialised Lending. Corporate and Business Centre segments make use of both a behavioural and a financial scorecard with the results of these two different scorecards combined through a weight to get to a credit grading. The other three segments only make use of a behavioural scorecard to determine the credit grading.

Stage Allocation

Business Portfolio: At the origination of a loan, all business exposures, irrelevant of the credit grading, are allocated to stage 1 as the bank accepts the credit risk profile at an agreed price. It follows that 12 months of expected credit losses are held against newly originated loans as long as the credit risk at origination does not increase significantly. A transfer to stage 2 is only triggered when SICR, compared to the credit risk at origination, occurs. Assessment of SICR has been enhanced to include a comparative assessment between the PD at a point in time and that at origination to determine whether credit risk has increased over time. A second backstop trigger for SICR was also introduced. The latter pushes exposures to underperforming whenever the PD is found to have doubled that at origination. Similar to previous model, the new internal credit rating system maps performing and non-performing exposures to ratings 1 to 5 and 6 to 11 respectively.

Retail Portfolio: A new internal credit grading for the retail portfolio will be developed during 2023. In the interim, the legacy model is still in use for the Retail portfolio. Retail exposures are allocated to stages on the basis of the credit grading at the point in time with internal ratings 1 to 3 allocated to stage 1, grades 4 and 5 in stage 2 and grades, 6 to 11 in stage 3. Exposures are subject to ongoing qualitative monitoring, which may also result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Commercial exposures	Personal exposures	All exposures
• Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour -e.g. utilisation of credit card facilities • Affordability metrics	• Payment record - this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business • Financial and economic conditions

The Group applies the low credit risk simplification for all investments which are of an investment grade, which comprises the vast majority of its treasury portfolio. The Group accordingly only assesses SICR for investments in those debt securities which are rated as sub-investment grade. For sub-investment grade securities, the Group considers a security to have experienced a significant increase in credit risk if the security has been the subject to a credit rating downgrade since initial recognition.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.1 Significant increase in credit risk (continued)

COVID-19 impact on credit quality

In line with the European Banking Authority (EBA) guidance 'Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures' dated 25th March 2020, the application of moratoria or deferral of payments, aimed at addressing the adverse systematic economic impact of the COVID-19 pandemic, was not by itself taken as a trigger to conclude that significant increase in credit risk occurred. However, this did not remove the obligations of a credit institution to assess the credit quality of the exposures benefiting from these measures and identifying any situation of unlikeliness to pay.

The moratoria period was considered a suitable measure to give relief to borrowers who were temporarily unable to serve their loan obligations due to COVID-19 disruptions. Specific customer information available, coupled with expert judgement was applied to identify whether a significant increase in credit risk exists by distinguishing between borrowers taking up payment deferrals for temporary liquidity issues related to Government imposed restrictions and other borrowers taking up payment deferrals that shall lead to long-term financial difficulties over the life of the exposure.

Over the past 3 years ongoing monitoring has been undertaken on customers and related facilities impacted by COVID market disruptions. This resulted in adjustments being made on the affected portfolios both in terms of credit grading and related ECL levels. One of the most material actions taken included downgrading a very high percentage of the Accommodation sector to stage 2/3 thus moving to a lifetime PD calculation and increasing the provisioning coverage. Nearly all moratoria extended have now expired, and customers have started repaying their facilities.

A review of the COVID impacted portfolio reveals that 98% of total moratoria have now expired and repayments have initiated. 2.7% of balances benefiting from a moratorium have not started repaying upon expiry. A high number of facilities have now been repaying for number of months. As at reporting date no major deterioration has been noticed and the absolute majority of COVID-19 loans are being repaid according to the established schedule. The number of balances with days in arrears over 90 days on this mostly impacted portfolio is 0.2% of total balances.

The table below presents the Bank's credit portfolio grouped by type of COVID-19 assistance availed of and industry risk.

		2022			2021
		COVID-19 Assistance			
Industry Risk	**Balance**	**Malta Development Bank Covid Assist**	**Moratoria granted**	**of which expired moratoria**	**Balance**
	€000	**€000**	**€000**	**€000**	**€000**
High	841,991	116,178	233,903	227,473	811,179
Medium	892,218	52,556	133,366	130,704	878,704
Other	4,037,509	56,695	305,590	303,728	3,676,350
Total	5,771,718	225,429	672,859	661,905	5,366,233

The total balance comprises gross loans and advances at amortised cost and loans and advances designated at fair value through profit and loss as per Note 17.

The majority of exposures with expired moratoria are now following the agreed repayment program. In those instances where loan repayments were not following the agreed repayment schedule following the expired moratoria, such exposures were deemed to have incurred a significant increase in credit risk. Consequently, such loans have been downgraded accordingly.

Other economic uncertainties and their impact on credit quality

Impact of the Russian/Ukrainian Crisis on Expected Credit Losses

An extensive exercise was carried out by the Bank's Business and Risk units to identify the areas of risk emanating from the Russian/Ukrainian conflict and the possible impacts to the Bank's business. Three potential areas of increased risk were identified:

- Directly impacted exposures who are directly impacted by the sanctions and measures put in place due to this conflict. The Bank has undergone an exercise to identify these, and the outcome was that no customers are directly impacted by the conflict as the Bank does not have a large amount of Russian or Ukrainian nationals and all of them are based in Malta.
- Secondary-impacted sectors are those sectors deemed as exposed to a high or medium risk given the industry in which they operate in and how the prices and availability of materials might have been impacted by this conflict.
- Macro-economic impact namely due to Inflationary pressures.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.1 Significant increase in credit risk (continued)

By virtue of this analysis, it was concluded that there are no indicators to substantiate an increase in specific risk emanating from the Russia/Ukraine war. The Bank will continue monitoring any developments within this area.

From a more macro-outlook, the share of Malta's import of goods from Russia and Ukraine is minimal at less than 1% of imports originating from these countries. Most imports from Russia and Ukraine are of an agriculture and fuel nature. The rise in fuel prices has not been felt by the general consumer as fuel prices are currently being fixed by the Government.

Likewise, Malta's share of exports to these countries also stands at less than 1% and hence, is negligible.

39.2.1.2.2 Definition of default and credit-impaired

The Group considers financial assets in the advances portfolio to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit lower than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default aligns with that applied by the Group for regulatory capital purposes.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In the case of the treasury portfolio, the Group considers investments in debt instruments to be in default when a payment, including a coupon payment, is missed.

39.2.1.2.3 Cure rate

An instrument in the Group's advances portfolio is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

A forborne instrument is considered to no longer be in default when it no longer meets any of the criteria for a consecutive period of twelve months.

The Group's experience is that defaulted debt investments within the treasury portfolio do not cure given that a security's default mechanism is triggered when a security's issuer misses a coupon payment. Any new instruments which the Group receives as part of an eventual debt restructuring exercise is considered to be a new instrument altogether.

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for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.4 Measuring ECL

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving overdraft, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12 month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described in note 39.2.1.2.5.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The Group estimates LGD parameters on its advances portfolio based on historical data sets of property contractual prices and recovered claims against defaulted counterparties. From this data, future property prices are estimated, which are then discounted to allow for costs to sell and time to sell. Net realisable values are discounted using the individual exposure's interest rate. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. In the case of the Group's treasury portfolio, the Group lacks historical experience of defaults, and accordingly makes use of the LGD parameters set out by the Bank for International Settlements.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

39.2.1.2.5 Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.5 Forward-looking information (continued)

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Quarterly Central Bank of Malta (CBM) forecasts for those macro-economic factors, that are found to be statistically significant for the bank's credit portfolio, are used. On an annual basis, as part of the model recalibration exercise an assessment is carried out to ensure that the selected macro-economic model is still adequate and statistically significant.

The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact, changes in these variables have had historically on default rates, and on the components of LGD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

As at 31 December 2022, the IFRS 9 model was updated with the Central Bank of Malta, (CBM) Quarter 4, 2022 baseline macro-economic projections for the period 2022 to 2025 for GDP growth, inflation and unemployment.

The PD model has changed from the Vector Auto regressive, ('VAR') model, sourcing data from Trading Economics to be able to generate its own forecasts to the direct use of official publicly available forecasts. This ensures that the IFRS 9 model is always updated with the latest forecasts issued by the official authorities.

The calibrated model still includes three scenarios (base/optimistic/pessimistic) whereby the baseline scenarios are mapped to the economic forecasts published quarterly by the Central Bank of Malta for Unemployment rate and Inflation rate, and bi-annually in the Budgetary Plan and the Update of Stability Program for GDP growth rate issued by the Ministry for Finance and Employment.

The upside and downside scenarios are then derived as follows:
- The Budgetary Plan and the Update of Stability Program publish upside and downside scenarios for real GDP growth (GDP fan chart);
- Okun's law is used to derive the upside and downside scenarios for Unemployment rate. Okun's law prescribes a presumably stable economic relationship between the Unemployment rate and GDP growth rate;
- The Phillips Curve is used to derive the upside and downside scenarios for Inflation rate. The Phillips Curve prescribes a presumably stable economic relationship between the Inflation rate and Unemployment rate.

The following table compares the three key forecasts as per CBM issue Quarter 4: 2021 to those issued by the CBM in Quarter 4: 2022.

	December 21 CBM Forecasts				December 22 CBM Forecasts			
	2021	2022	2023	2024	2022	2023	2024	2025
Macrovariable	%	%	%	%	%	%	%	%
GDP	6.0	6.5	5.3	3.8	6.8	3.7	3.6	3.5
Inflation	0.7	2.1	1.9	1.8	6.1	4.5	2.3	2.0
Unemployment	3.4	3.4	3.6	3.6	3.0	3.0	3.2	3.3

Management adjustments to models for impairment

Management adjustments to impairment models are applied in order to factor in certain conditions or changes in policy that are not fully incorporated into the impairment models, or to include additional facts and circumstances at the period end. Management adjustments are reviewed and incorporated into future model development where applicable.

Post-model adjustments including those predominantly due to long-outstanding non-performing exposures

COVID-19 impacted the global economy throughout 2020 and 2021, however recent macro-economic forecasts do indicate a decline in the impact from the COVID-19 pandemic as Malta shifts back to normality. In fact, by June 2022 practically all restrictions in Malta and across the EU had been removed which is a positive sign towards economic activity going forward. The easing of the restrictions previously put in place helped kick-start Malta's economic activity.

From an analysis done internally, it was noted that most industries have recovered to the average economic activity observed in 2019 with some having also surpassed this point. Considering all external and internal factors, the management of the bank had concluded that all post model adjustments triggered by COVID, a total of €24.9 million, were to be reversed. This decision was effectively taken as at June 2022.

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for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.5 Forward-looking information (continued)

A total of €37.8 million (2021: €51.1 million), are held as post-model adjustments related to non-performing exposures, thereby releasing €13.3 million. This adjustment was determined on the basis of the possible recovery over an extended period of time and factoring in costs to dispose and additional haircuts to the underlying collateral held. The assessment also took into consideration that, during the year, a new LGD model was implemented providing more granularity as it differentiates by type of property and relationship. This led the management to conclude that no post-model adjustments were necessary against non-performing loans which have been less than four years in this category as the ECL model was deemed robust enough and thus provision levels adequate. The latter resulted in a release in provisions of €4.7 million. The remaining movement of €8.6 million reflects changes in the portfolio

The long-outstanding/legacy non-performing exposures are considered as very high-risk exposures with a high degree of uncertainty associated with the realisation of their collateral. For this group of exposures time to sell is longer than normally expected resulting in additional costs to maintain the assets in a good and saleable condition. For these types of exposures, it is also highly probable that the debt is realised through court proceedings and hence, further legal costs would be incurred. Taking all these factors into consideration, the Bank is of the view that an additional independent analysis, from the LGD model is necessary to estimate the adequate ECL coverage for this group of exposures with an intention to improve the coverage.

39.2.1.2.6 Critical estimates

The most significant key macro-economic variables used for the ECL estimate as at 31 December 2022 are set out below.

As part of the annual calibration exercise, the IFRS 9 model has been updated to include a revised mix of macro-economic variables (Gross domestic product, inflation rate and unemployment rate) to make the model more intuitive and reflective of the current economic conditions. The forecast for housing index was excluded from the PD model.

The macro-economic model includes GDP growth rate, HICP inflation rate and year on year difference in Unemployment rate for both retail and business portfolio. The credit cycle coefficients together with their relative weights in the credit cycle are summarized in the table below:

Macro-economic credit-cycle for Retail and Business portfolio:

	2022				2021
Variable	**Retail**	**Weights**	**Business**	**Weights**	**Total portfolio**
GDP Growth	-0.0043	44.19%	-0.0157	41.01%	-0.0222
Unemployment Rate	0.0535	54.29%	0.1450	37.09%	0.1819
Inflation Rate	0.0008	1.52%	0.0441	21.90%	0.1538

As part of the model calibration exercise carried out during 2022, the ECL model was enhanced to cater for separate macro-economic models ('MEV') for the business and the retail portfolios rather than a common MEV model. The GDP is proven to be a universal variable capturing the overall state of the economy and as such it has an important role in both Retail and Business segments. The unemployment rate has a higher impact on Retail (in fact it is the most important variable in this segment) than on Business, which is in line with expectations. Inflation impacts businesses mainly through input cost increases, while individuals are, to a large extent, shielded from these effects by government measures.

Three scenarios "baseline", "downside" and "upside" were used for all loan portfolios.

Macro-economic forecasts (2022-2025)	**Downside**	**Baseline**	**Upside**
	%	%	%
GDP Growth rate	0.4	4.4	8.8
Inflation rate	3.5	3.7	3.9
Unemployment rate	3.8	3.1	2.4
Probability (%)	25.0	50.0	25.0

Other forward-looking considerations not incorporated within the above scenarios, such as the impact of any regulatory, legislative, or political changes, have also been considered, but are not deemed to have a material impact. This is reviewed and monitored for appropriateness on a quarterly basis.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.7 Sensitivity of ECL to future economic conditions

ECL is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations.

A sensitivity analysis is performed on the ECL requirement for the credit portfolio, assuming the upside and downside forward-looking scenarios as the baseline and weighted at 100% instead of applying an unbiased set of probability weights.

	2022 €000
Gross performing exposures	5,567,413
ECL variance	
- Upside	(3,624)
- Downside	4,207

Applying a baseline scenario would approximate the probability weighted scenario.

The Group performed additional ECL runs to sensitise expected credit loss requirements to changes in the impact of macro-variable inputs and their impact on projected PD curves. The most significant change in ECL resulting from shifts in macro variable inputs is coming from unemployment since, over the past 10 years unemployment has been gradually decreasing and applying an abrupt shift upwards would cause a shock to the model. A higher unemployment rate would result in a significant impact on the purchasing power and hence on the borrowers' ability to meet its contractual obligations.

Set out below are the changes to ECL as at 31 December 2022 that would result from changes in parameters from the actual observations. The most significant sensitivity tests affecting the ECL allowance are as follows:

Macrovariable	Shift in basis points	Increase in ECL €000
Inflation rate	+150	682
Unemployment	+100	2,741
Gross Domestic Product	-300	740

A further sensitivity scenario is that which assumes an economic downturn, assuming a 1% shift of exposures from Stage 1 moving to Stage 2. Applying the difference in Stage 2 and Stage 1 average impairment coverage ratios to the movement in gross exposure, it is estimated that ECL will increase by €1.3 million (2021: €1.4 million), mostly arising on loans and advances to customers.

39.2.1.2.8 Grouping by shared risk characteristics

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.8 Grouping by shared risk characteristics (continued)

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

As at December 2022	Exposure	External benchmarks used LGD
Investments in debt securities within the treasury portfolio	€ 4,550,212	14% - 59% Bank for International Settlements parameters

As at December 2021	Exposure	External benchmarks used LGD
Investments in debt securities within the treasury portfolio	€ 3,550,159	8% - 55% Bank for International Settlements parameters

All instruments are of an investment grade and as such the Bank has applied simplification rules as permitted by IFRS 9.

39.2.1.3 Gross carrying amount and exposure to credit risk

The following table sets out information about the credit quality of financial assets measured at amortised cost, and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 39.2.1.1.

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not Credit-Impaired €000	Stage 3 Lifetime ECL Credit-Impaired €000	Total €000
Loans and advances to banks at amortised cost				
As at 31 December 2022				
AAA	3,069,417	-	-	3,069,417
AA- to AA+	46,845	-	-	46,845
A- to A+	422,918	-	-	422,918
BBB- to BBB+	68,683	-	-	68,683
Lower than BBB-	-	9,454	-	9,454
Unrated	80,759	-	-	80,759
	3,688,622	9,454	-	3,698,076
Loss allowance	(10)	(19)	-	(29)
Carrying amount	3,688,612	9,435	-	3,698,047
Loans and advances to banks at amortised cost				
As at 31 December 2021				
AAA	4,394,631	-	-	4,394,631
AA- to AA+	8,007	-	-	8,007
A- to A+	222,482	-	-	222,482
BBB- to BBB+	10,755	-	-	10,755
Lower than BBB-	-	17,671	-	17,671
	4,635,875	17,671	-	4,653,546
Loss allowance	(11)	(35)	-	(46)
Carrying amount	4,635,864	17,636	-	4,653,500

The Group makes use of external ratings based on major rating agencies.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.3 Gross carrying amount and exposure to credit risk (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not Credit-Impaired €000	Stage 3 Lifetime ECL Credit-Impaired €000	Total €000
Loans and advances to customers at amortised cost				
As at 31 December 2022				
Grades 1-3	4,811,994	18,462	60	4,830,516
Grades 4-5	107,557	550,675	31	658,263
Grades 6-11	-	-	204,214	204,214
	4,919,551	569,137	204,305	5,692,993
Loss allowance	(16,486)	(13,495)	(102,936)	(132,917)
Carrying amount	4,903,065	555,642	101,369	5,560,076
Loans and advances to customers at amortised cost				
As at 31 December 2021				
Grades 1-3	4,402,066	3,918	290	4,406,274
Grades 4-5	-	633,474	61	633,535
Grades 6-11	-	-	221,574	221,574
	4,402,066	637,392	221,925	5,261,383
Loss allowance	(23,940)	(19,789)	(120,056)	(163,785)
Carrying amount	4,378,126	617,603	101,869	5,097,598

Exposures under probation or which experienced a deterioration in stage subject to the doubling of the PD result in an ECL stage which is worse than the stage related to their internal grading.

Exposures graded 4 and 5 and allocated in Stage 1 comprise of newly originated business exposures. (Refer to 39.2.1.2.1 – Stage Allocation)

The following table represents the average 12-month PD corresponding to the internal credit grading.

Grading	**12-month average PD**
Grades 1 - 3	0.017
Grades 4 - 5	0.327
Grades 6 - 11	1.000

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not credit-Impaired €000	Stage 3 Lifetime ECL credit-Impaired €000	Total €000
Investments in debt securities				
As at 31 December 2022				
AAA	1,221,249	-	-	1,221,249
AA- to AA+	820,073	-	-	820,073
A- to A+	2,103,870	-	-	2,103,870
BBB- to BBB+	383,683	-	-	383,683
Lower than BBB-	-	21,337	-	21,337
	4,528,875	21,337	-	4,550,212
Loss allowance	(450)	(119)	-	(569)
Carrying amount	4,528,425	21,218	-	4,549,643

Notes to the financial statements

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.3 Gross carrying amount and exposure to credit risk (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not Credit-Impaired €000	Stage 3 Lifetime ECL Credit- Impaired €000	Total €000
Investments in debt securities				
As at 31 December 2021				
AAA	510,508	-	-	510,508
AA- to AA+	596,336	-	-	596,336
A- to A+	2,143,847	9,882	-	2,153,729
BBB- to BBB+	282,994	-	-	282,994
Lower than BBB-	-	6,592	-	6,592
	3,533,685	16,474	-	3,550,159
Loss allowance	(570)	(63)	-	(633)
Carrying amount	3,533,115	16,411	-	3,549,526

The treasury portfolio is made up primarily of investment grade securities.

39.2.1.4 Maximum exposure to credit risk on FVTPL securities, Financial guarantees and loan commitments

Maximum exposure
The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk without taking account of the value of any collateral obtained, except as disclosed below.

Financial guarantees
The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon (note 33).

Loan commitments
The maximum exposure to credit risk arising on loan commitments and other credit related commitments that are irrecoverable over the life of the respective facilities is the full amount of the committed facilities (note 34).

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	Maximum exposure to credit risk 2022 €000	2021 €000
Financial assets mandatorily measured at FVTPL:		
- Debt securities	26	29
	26	**29**
Financial assets designated at fair value:		
- Debt securities	1,046	1,119
- Loans and advances to customers	78,725	104,850
	79,771	**105,969**
	79,797	**105,998**
Derivatives financial instruments	**28,866**	**1,204**

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.5 Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Margin agreement for derivatives, for which the Group has master netting agreements imposed by way of law.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

A portion of the Group's financial assets originated by the mortgage business has sufficiently low 'loan to value' (LTV) ratios, which results in no loss allowance being recognised in accordance with the Group's expected credit loss model. The carrying amount of such financial assets is €398.5 million as at 31 December 2022 (2021: €305.6 million).

Security values are reviewed on a regular basis and are also re-assessed at time of default if it is found that the carrying value of the collateral item could have materially changed since last valuation. The Bank calculates the value of collateral as the market value less a haircut, with the latter representing a conservative estimate of the costs to sell and the potential loss of value in a forced sale scenario. For financial instruments, haircuts are calculated according to the risk profile of each individual security and depend on a number of variables including price volatility and liquidity/marketability of the instrument.

The table below shows the financial effect and main types of collateral held against the Group's customer loan exposures:

The Group
As at 31 December 2022

	Loans and advances to customers	Undrawn credit facilities and other commitments to lend
	€000	€000
Loans collateralised by:		
Prime bank guarantees	438	143
Cash or quasi cash	84,449	27,616
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or Public agencies	541,494	116,397
Residential property	2,652,625	867,453
Commercial property	1,228,490	401,737
Personal guarantees and others	257,623	144,927
	4,765,119	**1,558,273**

Notes to the financial statements

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.5 Collateral (continued)

The Group
As at 31 December 2021

	Loans and advances to customers €000	Undrawn credit facilities and other commitments to lend €000
Loans collateralised by:		
Prime bank guarantees	30	10
Cash or quasi cash	81,861	28,495
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or Public agencies	629,708	219,195
Residential property	2,351,848	818,658
Commercial property	1,168,211	406,644
Personal guarantees and others	184,620	64,264
	4,416,278	**1,537,266**

In 2021, an extensive collateral valuation exercise was carried out by the Bank during the reporting period resulting in an increase in collateral of €24.8 million. Following the exercise, regular updates of collateral valuations were maintained.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

The Group
As at 31 December 2022

	Gross carrying amount €000	Impairment allowance €000	Net carrying amount €000	Fair value of collateral held post haircut as per model €000
Credit-impaired assets				
Loans to individuals:				
- Personal Loans	6,033	(4,586)	1,447	2,362
- Home Loans	42,405	(24,223)	18,182	35,379
- Personal Overdrafts	510	(473)	37	156
- Credit Cards	253	(168)	85	-
Loans to corporate entities:				
- Business Loans	126,552	(56,941)	69,611	103,738
- Business Overdrafts	27,431	(15,432)	11,999	40,070
- Encroachments	1,121	(1,113)	8	-
Total credit-impaired assets	**204,305**	**(102,936)**	**101,369**	**181,705**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.5 Collateral (continued)

The Group
As at 31 December 2021

	Gross carrying amount €000	Impairment allowance €000	Net carrying amount €000	Fair value of collateral held post haircut as per model €000
Credit-impaired assets				
Loans to individuals:				
- Personal Loans	5,942	(4,569)	1,373	2,015
- Home Loans	47,160	(26,116)	21,044	37,582
- Personal Overdrafts	679	(594)	85	157
- Credit Cards	621	(469)	152	-
Loans to corporate entities:				
- Business Loans	137,614	(68,131)	69,483	99,381
- Business Overdrafts	28,760	(19,036)	9,724	16,962
- Encroachments	1,149	(1,141)	8	-
Total credit-impaired assets	**221,925**	**(120,056)**	**101,869**	**156,097**

On specific exposures, the fair value of the collateral exceeds the carrying amount of the loan.

The impairment allowances on the credit-impaired assets comprises model driven expected credit loss amounting to €65.1 million (2021: €66.7 million) and post model adjustments €37.8 million (2021: €51.1 million). Refer to note 39.2.1.2.5.

Fair value of collateral refers to architect's valuation less applicable haircuts.

Collateral valuations vary from full valuations by external independent appraisers to desktop valuations according to the Bank's collateral policy. The frequency of collateral valuations range between 1 and 3 years depending on the type of property, exposure status (i.e. whether performing or non-performing) as well as exposure range in line with the Bank's collateral policy.

Lending and Commitments covered by Residential Property

The table below stratifies credit exposures, covered by residential property, to customers by ranges of loan-to-value ('LTV'). LTV is calculated as the ratio of the gross amount of loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for these loans is based on the collateral value at origination updated based on changes in house price indices.

Lending and commitments covered by residential lending	2022 €000	2021 €000
Less than 25%	364,125	347,928
25% to 50%	1,217,317	1,204,872
51% to 75%	1,011,173	841,772
76% to 90%	755,132	460,540
91% to 100%	10,964	-
	3,358,711	**2,855,112**

The following table classifies the Group's mortgage credit-impaired exposures which are covered by residential property by ranges of loan-to-value (LTV). The value of collateral for these loans is calculated by taking into consideration the eligibility of collateral pursuant to Article 208 of the Capital Requirement Regulation.

Mortgage portfolio - LTV distribution	2022 Credit-Impaired (Gross carrying amount) €000	2021 Credit-Impaired (Gross carrying amount) €000
Lower than 25%	4,084	3,450
25% to 50%	12,299	15,685
51% to 75%	4,060	3,597
76% to 90%	711	1,305
Total	**21,154**	**24,037**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures

39.2.2.1 Reconciliation of ECL

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to the following factors:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. Changes in the staging allocation of balances existing at 1 January 2022 (and associated ECL changes) are presented in "transfers to/(from)", whereas subsequent changes in the staging allocation of new assets originated during the year are presented in "new financial assets originated";
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 39.2.2.4)

Allowances on On-Balance Sheet Exposures	**Stage 1 12-month ECL €000**	**Stage 2 Lifetime ECL €000**	**Stage 3 Lifetime ECL €000**	**Total €000**
Total allowances at 1 January 2022	23,940	19,789	120,056	**163,785**
Home Loans				
Allowances at 1 January 2022	1,349	536	26,116	**28,001**
Transfer to/(from):				
Stage 1	(1)	126	678	**803**
Stage 2	9	(154)	181	**36**
Stage 3	-	30	(511)	**(481)**
New financial assets originated*	718	371	-	**1,089**
Financial assets that have been derecognised	(77)	(84)	(1,492)	**(1,653)**
Write-offs	-	-	(917)	**(917)**
Changes to model assumptions and methodologies	203	378	(298)	**283**
Post-Model Adjustments	-	-	(3,139)	**(3,139)**
Other movements**	(1,073)	(589)	3,604	**1,942**
Allowances on home loans at 31 December 2022	1,128	614	24,222	**25,964**
Personal				
Allowances at 1 January 2022	608	829	5,163	**6,600**
Transfer to/(from):				
Stage 1	(3)	51	148	**196**
Stage 2	23	(670)	121	**(526)**
Stage 3	1	14	(176)	**(161)**
New financial assets originated*	302	83	589	**974**
Financial assets that have been derecognised	(54)	(34)	(701)	**(789)**
Write-offs	-	-	(86)	**(86)**
Changes to model assumptions and methodologies	(206)	(11)	13	**(204)**
Post-Model Adjustments	-	-	(111)	**(111)**
Other movements**	232	20	100	**352**
Allowances on personal at 31 December 2022	903	282	5,060	**6,245**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

Allowances on On-Balance Sheet Exposures	**Stage 1 12-month ECL €000**	**Stage 2 Lifetime ECL €000**	**Stage 3 Lifetime ECL €000**	**Total €000**
Credit Cards				
Allowances at 1 January 2022	1,331	404	469	**2,204**
Transfer to/(from):				
Stage 1	(60)	157	19	**116**
Stage 2	96	(227)	45	**(86)**
Stage 3	5	15	(159)	**(139)**
New financial assets originated*	74	13	16	**103**
Financial assets that have been derecognised	(40)	(34)	(189)	**(263)**
Changes to model assumptions and methodologies	(822)	(70)	-	**(892)**
Other movements**	918	76	(34)	**960**
Allowances on credit cards at 31 December 2022	1,502	334	167	**2,003**
Business				
Allowances at 1 January 2022	20,652	18,020	88,308	**126,980**
Transfer to/(from):				
Stage 1	(2,501)	5,856	6,580	**9,935**
Stage 2	530	(7,729)	4,437	**(2,762)**
Stage 3	7	365	(2,860)	**(2,488)**
New financial assets originated*	6,891	917	1,746	**9,554**
Financial assets that have been derecognised	(285)	(552)	(13,692)	**(14,529)**
Write-offs	-	-	(6,915)	**(6,915)**
Changes to model assumptions and methodologies	422	1,586	2,729	**4,737**
Post-Model Adjustments	(16,664)	(695)	(10,679)	**(28,038)**
Other movements**	3,901	(5,503)	3,833	**2,231**
Allowances on business at 31 December 2022	12,953	12,265	73,487	**98,705**
Total allowances at 31 December 2022	**16,486**	**13,495**	**102,936**	**132,917**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total allowances at 1 January 2021	**17,362**	**30,558**	**118,755**	**166,675**
Home Loans				
Allowances at 1 January 2021	2,224	1,383	21,844	**25,451**
Transfer to/(from):				
Stage 1	(8)	129	219	**340**
Stage 2	5	(498)	287	**(206)**
Stage 3	-	5	(363)	**(358)**
New financial assets originated*	954	246	54	**1,254**
Financial assets that have been derecognised	(125)	(205)	(870)	**(1,200)**
Write-offs	-	-	(1,316)	**(1,316)**
Changes to model assumptions and methodologies	(465)	(25)	-	**(490)**
Post-Model Adjustments	-	-	7,365	**7,365**
Other movements**	(1,236)	(499)	(1,104)	**(2,839)**
Allowances on home loans at 31 December 2021	1,349	536	26,116	**28,001**
Personal				
Allowances at 1 January 2021	833	588	4,803	**6,224**
Transfer to/(from):				
Stage 1	(35)	633	382	**980**
Stage 2	4	(223)	118	**(101)**
Stage 3	1	9	(205)	**(195)**
New financial assets originated*	210	78	466	**754**
Financial assets that have been derecognised	(87)	(31)	-	**(118)**
Write-offs	-	-	(1,209)	**(1,209)**
Changes to model assumptions and methodologies	(163)	(16)	-	**(179)**
Post-Model Adjustments	-	-	250	**250**
Other movements**	(155)	(209)	558	**194**
Allowances on personal at 31 December 2021	608	829	5,163	**6,600**
Credit Cards				
Allowances at 1 January 2021	1,475	761	1,345	**3,581**
Transfer to/(from):				
Stage 1	(86)	180	93	**187**
Stage 2	102	(367)	166	**(99)**
Stage 3	7	39	(322)	**(276)**
New financial assets originated*	67	11	8	**86**
Financial assets that have been derecognised	(86)	(104)	(324)	**(514)**
Changes to model assumptions and methodologies	(271)	16	-	**(255)**
Other movements**	123	(132)	(497)	**(506)**
Allowances on credit cards at 31 December 2021	1,331	404	469	**2,204**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

Allowances on On-Balance Sheet Exposures	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Business				
Allowances at 1 January 2021	12,830	27,826	90,763	**131,419**
Transfer to/(from):				
Stage 1	(985)	1,327	579	**921**
Stage 2	96	(7,406)	10,034	**2,724**
Stage 3	4	599	(17,626)	**(17,023)**
New financial assets originated*	8,227	2,997	1,513	**12,737**
Financial assets that have been derecognised	(377)	(1,050)	(1,185)	**(2,612)**
Write-offs	-	-	(7,528)	**(7,528)**
Changes to model assumptions and methodologies	(1,157)	(1,177)	-	**(2,334)**
Post-Model Adjustments	7,113	-	5,059	**12,172**
Other movements**	(5,099)	(5,096)	6,699	**(3,496)**
Allowances on business at 31 December 2021	20,652	18,020	88,308	**126,980**
Total allowances at 31 December 2021	**23,940**	**19,789**	**120,056**	**163,785**

Provisions on Off-Balance Sheet Exposures	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Provisions at 1 January 2022	**9,676**	**5,560**	**7,061**	**22,297**
Home Loans				
Provisions at 1 January 2022	617	54	764	**1,435**
Transfer to/(from):				
Stage 1	-	-	-	**-**
Stage 2	-	(11)	1	**(10)**
Stage 3	-	-	(1)	**(1)**
New financial assets originated*	426	312	403	**1,141**
Financial assets that have been derecognised	(69)	-	(400)	**(469)**
Write-offs	-	-	(54)	**(54)**
Changes to model assumptions and methodologies	(731)	(105)	(82)	**(918)**
Post-Model Adjustments	-	-	(265)	**(265)**
Other movements**	213	70	127	**410**
Provisions on home loans at 31 December 2022	456	320	493	**1,269**
Personal				
Provisions at 1 January 2022	62	20	222	**304**
Transfer to/(from):				
Stage 1	-	4	6	**10**
Stage 2	-	(1)	-	**(1)**
Stage 3	-	-	-	**-**
New financial assets originated*	77	9	43	**129**
Financial assets that have been derecognised	(15)	(1)	(196)	**(212)**
Write-offs	-	-	(1)	**(1)**
Changes to model assumptions and methodologies	40	(47)	7	**-**
Post-Model Adjustments	-	-	(123)	**(123)**
Other movements**	(72)	46	126	**100**
Provisions on personal at 31 December 2022	92	30	84	**206**

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for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

Allowances on On-Balance Sheet Exposures	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Credit Cards				
Provisions at 1 January 2022	342	15	20	**377**
Transfer to/(from):				
Stage 1	(7)	7	1	**1**
Stage 2	11	(10)	1	**2**
Stage 3	1	-	(12)	**(11)**
New financial assets originated*	19	-	-	**19**
Financial assets that have been derecognised	(17)	(2)	(6)	**(25)**
Changes to model assumptions and methodologies	925	106	-	**1,031**
Post-Model Adjustments	-	-	(4)	**(4)**
Other movements**	(931)	(105)	4	**(1,032)**
Provisions on credit cards at 31 December 2022	343	11	4	**358**
Business				
Provisions at 1 January 2022	8,655	5,471	6,055	**20,181**
Transfer to/(from):				
Stage 1	(197)	653	242	**698**
Stage 2	467	(3,011)	877	**(1,667)**
Stage 3	7	1	(559)	**(551)**
New financial assets originated*	4,009	839	909	**5,757**
Financial assets that have been derecognised	(1,604)	(1,083)	(402)	**(3,089)**
Write-offs	-	-	(90)	**(90)**
Changes to model assumptions and methodologies	708	(2,322)	86	**(1,528)**
Post-Model Adjustments	(6,667)	(101)	275	**(6,493)**
Other movements**	300	1,527	(1,400)	**427**
Provisions on business at 31 December 2022	5,678	1,974	5,993	**13,645**
Total Provisions at 31 December 2022	**6,569**	**2,335**	**6,574**	**15,478**

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Provisions at 1 January 2021	9,024	9,427	13,820	**32,271**
Home Loans				
Provisions at 1 January 2021	718	740	414	**1,872**
Transfer to/(from):				
Stage 1	(1)	-	70	**69**
Stage 2	-	(529)	42	**(487)**
Stage 3	-	-	(210)	**(210)**
New financial assets originated*	554	37	305	**896**
Financial assets that have been derecognised	(65)	(115)	(18)	**(198)**
Write-offs	-	-	(15)	**(15)**
Changes to model assumptions and methodologies	(251)	(6)	-	**(257)**
Post-Model Adjustments	-	-	258	**258**
Other movements**	(338)	(73)	(82)	**(493)**
Provisions on home loans at 31 December 2021	617	54	764	**1,435**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision

Allowances on On-Balance Sheet Exposures	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Personal				
Provisions at 1 January 2021	59	25	79	**163**
Transfer to/(from):				
Stage 1	-	-	8	**8**
Stage 2	-	(1)	1	**-**
Stage 3	-	-	(5)	**(5)**
New financial assets originated*	49	9	2	**60**
Financial assets that have been derecognised	(12)	(15)	-	**(27)**
Changes to model assumptions and methodologies	(17)	(1)	-	**(18)**
Post-Model Adjustments	-	-	122	**122**
Other movements**	(17)	3	15	**1**
Provisions on personal at 31 December 2021	62	20	222	**304**
Credit Cards				
Provisions at 1 January 2021	413	27	49	**489**
Transfer to/(from):				
Stage 1	(13)	9	5	**1**
Stage 2	12	(14)	3	**1**
Stage 3	3	2	(27)	**(22)**
New financial assets originated*	17	-	-	**17**
Financial assets that have been derecognised	(36)	(5)	(13)	**(54)**
Changes to model assumptions and methodologies	(82)	(2)	-	**(84)**
Post-Model Adjustments	-	-	4	**4**
Other movements**	28	(2)	(1)	**25**
Provisions on credit cards at 31 December 2021	342	15	20	**377**
Business				
Provisions at 1 January 2021	7,834	8,635	13,278	**29,747**
Transfer to/(from):				
Stage 1	(115)	343	378	**606**
Stage 2	1	(844)	329	**(514)**
Stage 3	2	1,402	(6,717)	**(5,313)**
New financial assets originated*	5,630	477	199	**6,306**
Financial assets that have been derecognised	(885)	(181)	(2,258)	**(3,324)**
Changes to model assumptions and methodologies	(527)	(517)	-	**(1,044)**
Post-Model Adjustments	196	-	(1,747)	**(1,551)**
Other movements**	(3,481)	(3,844)	2,593	**(4,732)**
Provisions on business at 31 December 2021	8,655	5,471	6,055	**20,181**
Total Provisions at 31 December 2021	9,676	5,560	7,061	**22,297**

** Other movements comprise changes in impairment against accounts which have not been upgraded nor downgraded

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision (continued)

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- Gross loans and advances increased by 8% during the year (2021: increase by 7%). The high volume of new loans originated during the period, aligned with the Group's organic growth objective, increased the gross carrying amount of the loan book by 16% (2021: 15%), with a corresponding €11.7 million increase in loss allowance (2021: increase of €14.8 million).
- There were no significant changes to the modification of facility contracts following renegotiation with customers facing financial difficulties.
- The write-off of loans with a total gross carrying amount of €11.4 million (2021: €10.3 million) resulted in the reduction of the Stage 3 expected credit losses by €7.9 million (2021: €10.1 million).

The following tables further explain changes in the gross carrying amount of the loan portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Gross Carrying Amount at 1 January 2022	**4,506,916**	**637,392**	**221,925**	**5,366,233**
Home Loans				
Gross carrying amount at 1 January 2022	2,442,514	50,198	47,160	**2,539,872**
Transfer to/(from):				
Stage 1	(11,844)	9,036	2,762	**(46)**
Stage 2	10,220	(12,336)	1,717	**(399)**
Stage 3	1,650	2,035	(3,939)	**(254)**
New financial assets originated*	447,996	2,357	-	**450,353**
Financial assets that have been derecognised	(121,855)	(2,790)	(4,839)	**(129,484)**
Write-offs	-	-	(237)	**(237)**
Repayment on existing assets**	(94,858)	(2,639)	(219)	**(97,716)**
Home loans gross carrying amount at 31 December 2022	**2,673,823**	**45,861**	**42,405**	**2,762,089**
Personal				
Gross carrying amount at 1 January 2022	147,898	8,550	6,621	**163,069**
Transfer to/(from):				
Stage 1	(912)	561	168	**(183)**
Stage 2	2,969	(4,546)	437	**(1,140)**
Stage 3	66	109	(265)	**(90)**
New financial assets originated*	44,510	402	598	**45,510**
Financial assets that have been derecognised	(14,513)	(1,079)	(805)	**(16,397)**
Write-offs	-	-	(165)	**(165)**
Repayment on existing assets**	(18,181)	(409)	(46)	**(18,636)**
Personal gross carrying amount at 31 December 2022	**161,837**	**3,588**	**6,543**	**171,968**
Credit Cards				
Gross carrying amount at 1 January 2022	39,186	5,929	621	**45,736**
Transfer to/(from):				
Stage 1	(1,935)	2,300	35	**400**
Stage 2	3,117	(3,538)	90	**(331)**
Stage 3	176	133	(286)	**23**
New financial assets originated*	2,035	192	21	**2,248**
Financial assets that have been derecognised	(1,199)	(370)	(209)	**(1,778)**
Drawdown/(repayment) on existing assets**	2,118	25	(19)	**2,124**
Credit cards gross carrying amount at 31 December 2022	**43,498**	**4,671**	**253**	**48,422**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Business				
Gross carrying amount at 1 January 2022	1,877,318	572,715	167,523	**2,617,556**
Transfer to/(from):				
Stage 1	(145,652)	111,900	24,683	**(9,069)**
Stage 2	117,904	(158,624)	18,299	**(22,421)**
Stage 3	235	4,336	(5,448)	**(877)**
New financial assets originated*	327,410	13,912	7,448	**348,770**
Financial assets that have been derecognised	(91,122)	(12,122)	(45,256)	**(148,500)**
Write-offs	-	-	(10,982)	**(10,982)**
Drawdown/(repayment) on existing assets**	33,025	(17,100)	(1,163)	**14,762**
Business gross carrying amount at 31 December 2022	**2,119,118**	**515,017**	**155,104**	**2,789,239**
Total Gross carrying amount at 31 December 2022	4,998,276	569,137	204,305	**5,771,718**
Less Allowances	(16,486)	(13,495)	(102,936)	**(132,917)**
Net Loans and Advances to customers	**4,981,790**	**555,642**	**101,369**	**5,638,801**

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Gross Carrying Amount at 1 January 2021	**4,216,884**	**579,430**	**237,489**	**5,033,803**
Home Loans				
Gross carrying amount at 1 January 2021	2,205,875	51,635	47,523	**2,305,033**
Transfer to/(from):				
Stage 1	(21,116)	14,317	6,263	**(536)**
Stage 2	12,984	(15,079)	2,952	**857**
Stage 3	2,389	1,485	(4,125)	**(251)**
New financial assets originated *	450,989	1,462	53	**452,504**
Financial assets that have been derecognised	(114,722)	(2,148)	(4,783)	**(121,653)**
Write-offs	-	-	(241)	**(241)**
Repayment on existing assets**	(93,885)	(1,474)	(482)	**(95,841)**
Home loans gross carrying amount at 31 December 2021	**2,442,514**	**50,198**	**47,160**	**2,539,872**
Personal				
Gross carrying amount at 1 January 2021	144,906	7,752	7,222	**159,880**
Transfer to/(from):				
Stage 1	(5,735)	4,267	1,139	**(329)**
Stage 2	1,673	(2,243)	200	**(370)**
Stage 3	814	69	(1,017)	**(134)**
New financial assets originated *	39,306	476	594	**40,376**
Financial assets that have been derecognised	(16,195)	(871)	-	**(17,066)**
Write-offs	-	-	(2,524)	**(2,524)**
Repayment on existing assets**	(16,871)	(900)	1,007	**(16,764)**
Personal gross carrying amount at 31 December 2021	**147,898**	**8,550**	**6,621**	**163,069**

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39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Credit Cards				
Gross carrying amount at 1 January 2021	36,415	7,404	1,398	**45,217**
Transfer to/(from):				
Stage 1	(2,374)	2,848	131	**605**
Stage 2	3,391	(4,080)	226	**(463)**
Stage 3	214	427	(673)	**(32)**
New financial assets originated *	2,000	153	8	**2,161**
Financial assets that have been derecognised	(2,324)	(813)	(409)	**(3,546)**
Drawdown/(repayment) on existing assets**	1,864	(10)	(60)	**1,794**
Credit cards gross carrying amount at 31 December 2021	**39,186**	**5,929**	**621**	**45,736**
Business				
Gross carrying amount at 1 January 2021	1,829,688	512,639	181,346	**2,523,673**
Transfer to/(from):				
Stage 1	(118,408)	113,627	6,394	**1,613**
Stage 2	22,121	(59,311)	37,204	**14**
Stage 3	935	32,226	(38,328)	**(5,167)**
New financial assets originated *	228,556	33,571	2,340	**264,467**
Financial assets that have been derecognised	(74,864)	(23,624)	(6,172)	**(104,660)**
Write-offs	-	-	(7,495)	**(7,495)**
Repayment on existing assets**	(10,710)	(36,413)	(7,766)	**(54,889)**
Business gross carrying amount at 31 December 2021	**1,877,318**	**572,715**	**167,523**	**2,617,556**
Total Gross carrying amount at 31 December 2021	4,506,916	637,392	221,925	**5,366,233**
Less Allowances	(23,940)	(19,789)	(120,056)	**(163,785)**
Net Loans and Advances to customers	**4,482,976**	**617,603**	**101,869**	**5,202,448**

Gross carrying amount comprises of loans and advances to customers at amortised cost and loans and advances to customers designated as fair value through profit or loss.

* Newly originated financial assets during the period comprises of:

- In stage 2 - business loans originate in stage 1 and deteriorate to stage 2 if they experience a significant increase in credit risk. An exception to this arises when new accounts are opened as part of a restructuring agreement in replacement of exposures which would have already experienced significant increase in credit risk. Retail exposures are allocated to stage 2 at origination if granted to counterparties in stage 2 that are still subject to the Bank's cure/probation criteria.,
- In stage 3 - include €6.9 million (2021: €2.6 million) of originated credit-impaired assets which relate to new facilities granted to counterparties in default as part of existing commitments.

** Drawdown/(repayment) on existing assets is comprised of changes in carrying amount balance of accounts which have not been upgraded nor downgraded

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.3 Impairment Allowances on Total/Forborne Exposures

	The Group		The Group	
	Total	Of which Forborne	Total	Of which Forborne
	2022	2022	2021	2021
	€000	€000	€000	€000
Performing				
Stage 1	16,486	-	23,940	-
Stage 2	13,495	5,053	19,789	6,044
	29,981	5,053	43,729	6,044
Non-performing				
Stage 3	102,936	49,102	120,056	58,005
	102,936	49,102	120,056	58,005
Total Impairment Allowances	**132,917**	**54,155**	**163,785**	**64,049**

The movement in allowance accounts for loans and advances to customers are as follows:

	The Group	
	Allowances 2022	Allowances 2021
	€000	€000
Change in allowances for uncollectability:		
At 1 January	163,785	166,675
Additions	24,558	59,852
Reversals	(55,426)	(62,742)
At 31 December	**132,917**	**163,785**

Interest income recognised during the year ended 31 December 2022 in respect of forborne assets amounted to €12.5 million (2021: €12.6 million).

39.2.2.4 Write-off policy

Loans and debt securities are written off in full when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

39.2.2.5 Contractual amounts outstanding on assets that were written off

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2022 and that are still subject to enforcement activity is €11.4 million (2021: €10.3 million).

39.2.3 Modification of financial assets' terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 1.4.2.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on date at initial recognition and the original contractual terms.

For financial assets modified as part of the Group's policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.3 Modification of financial assets' terms (continued)

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 39.2.1.1 (ii)). A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer in default or a period of 3 months before the exposure's PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

During the current financial year there were no significant modification of financial assets.

39.2.4 Equity instruments designated as at FVOCI

The fair value of equity instruments designated at FVOCI and the dividend income recognised is detailed below.

	Fair value	Dividend income recognised	Fair value	Dividend income recognised
	2022	2022	2021	2021
	€000	€000	€000	€000
Local Other	16,096	287	17,632	119
Local Banks	91	3	100	2
Local Public	1,234	62	1,411	62
	17,421	**352**	**19,143**	**183**

39.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group monitors and manages this risk by maintaining sufficient cash and, where possible, financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives.

In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. In addition, the Group manages its risk to a shortage of funds by monitoring forecast and actual cashflows, by monitoring the availability of raising funds to meet commitments associated with financial instruments and by holding financial assets which are expected to generate cash inflows that will be available to meet cash outflows on liabilities.

The following table analyses Group financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date. The balances in this table do not agree directly to the balances in the statement of financial position as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments. Furthermore, loan commitments do not meet the criteria for recognition in the statement of financial position.

Derivative liabilities held for risk management and derivatives designated for hedge accounting, disclosed represent amounts for which net cash flows are exchanged..

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group

At 31 December 2022	Due within 3 months €000	Due between 3 and 12 months €000	Due between 1 and 5 years €000	Due after 5 years €000	Gross Nominal outflow €000	Carrying amount €000
Derivative liabilities held for risk management	2,756	1,471	308	-	4,535	4,535
Amounts owed to banks	75,168	8	2,075	-	77,251	77,074
Amounts owed to customers	12,182,394	225,847	140,456	6,786	12,555,483	12,547,911
Debt securities in issue	-	35,000	490,000	-	525,000	350,260
Subordinated liabilities	1,953	3,828	22,623	180,308	208,712	163,237
Derivatives designated for hedge accounting	41	-	2,884	-	2,925	2,167
Other financial liabilities	189,721	5,503	11,976	13,031	220,231	215,124
	12,452,033	**271,657**	**670,322**	**200,125**	**13,594,137**	**13,360,308**
Loan commitments	1,887,449					
Financial Guarantees	354,907					
At 31 December 2021						
Derivative liablities held for risk management	210	1,784	4,350	1,179	7,523	5,485
Amounts owed to banks	61,118	891	496,459	-	558,468	560,117
Amounts owed to customers	11,144,050	755,574	279,315	6,572	12,185,511	12,176,854
Subordinated liabilities	1,953	3,828	22,623	185,964	214,368	163,237
Derivatives designated for hedge accounting	140	2,349	8,964	824	12,277	12,157
Other financial liabilities	207,809	82,080	12,346	13,308	315,543	314,307
	11,415,280	**846,506**	**824,057**	**207,847**	**13,293,690**	**13,232,157**
Loan commitments	1,867,939					
Financial Guarantees	333,564					

Assets available to meet these liabilities, and to cover outstanding commitments, include balances with Central Bank of Malta, treasury bills and cash, cheques in course of collection, loans to banks and to customers and marketable securities and undrawn credit lines.

The following table analyses the assets and liabilities that are recognised in the statement of financial position into relevant maturity groupings, based on the remaining period at the reporting date to their contractual maturity date.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group

At 31 December 2022	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,300,537	2,964	-	-	85,760	3,389,261
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	1,040	-	32	-	1,072
- Equity and other non-fixed income instruments	-	-	-	-	37,700	37,700
- Loans and advances	475	72	29,626	48,552	-	78,725
- Derivative financial instruments	1,167	18,138	5,238	4,323	-	28,866
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	3,099	-	79,111	-	82,210
- Amortised cost	121,214	923,890	2,045,296	1,377,033	-	4,467,433
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	17,421	17,421
Loans and advances to banks	394,546	-	-	-	-	394,546
Loans and advances to customers	536,261	91,695	635,298	4,296,822	-	5,560,076
Investments in equity-accounted investees	-	-	-	-	145,615	145,615
Other assets	-	-	-	-	315,228	315,228
	4,354,200	**1,040,898**	**2,715,458**	**5,805,873**	**601,724**	**14,518,153**
Liabilities and Equity						
Derivative liabilities held for risk management	2,756	1,471	308	-	-	4,535
Amounts owed to banks	75,063	8	2,003	-	-	77,074
Amounts owed to customers	12,181,880	224,491	135,085	6,455	-	12,547,911
Other liabilities	-	-	-	-	215,124	215,124
Derivatives designated for hedging accounting	-	-	-	2,167	-	2,167
Debt securities in issue	-	2,493	347,767	-	-	350,260
Subordinated liabilities	1,540	107	-	161,590	-	163,237
Equity holders of the Bank	-	-	-	-	1,157,845	1,157,845
	12,261,239	**228,570**	**485,163**	**170,212**	**1,372,969**	**14,518,153**

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group

	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
At 31 December 2021						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	4,487,468	53,087	-	-	85,511	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	-	1,114	34	-	1,148
- Equity and other non-fixed income instruments	-	-	-	-	31,784	31,784
- Loans and advances	-	2,152	23,812	78,886	-	104,850
- Derivative financial instruments	1,144	60	-	-	-	1,204
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	13,441	3,277	89,609	-	106,327
- Amortised cost	160,878	314,460	1,573,843	1,394,018	-	3,443,199
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	19,143	19,143
Loans and advances to banks	452,469	-	-	-	-	452,469
Loans and advances to customers	435,497	34,800	628,082	3,999,219	-	5,097,598
Investments in equity-accounted investees	-	-	-	-	145,501	145,501
Other assets	-	-	-	-	329,153	329,153
	5,537,456	**418,000**	**2,230,128**	**5,561,766**	**611,092**	**14,358,442**
Liabilities and Equity						
Derivative liabilities held for risk management	886	100	568	3,931	-	5,485
Amounts owed to banks	61,111	889	498,117	-	-	560,117
Amounts owed to customers	11,143,414	751,654	275,570	6,216	-	12,176,854
Other liabilities	-	-	-	-	314,307	314,307
Derivatives designated for hedging accounting	-	-	-	12,157	-	12,157
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,126,285	1,126,285
	11,205,411	**752,643**	**774,255**	**185,541**	**1,440,592**	**14,358,442**

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 31 December 2022	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,300,537	2,964	-	-	85,760	3,389,261
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	1,040	-	32	-	1,072
- Equity and other non-fixed income instruments	-	-	-	-	37,548	37,548
- Loans and advances	475	72	29,626	48,552	-	78,725
- Derivative financial instruments	1,167	18,138	5,238	4,323	-	28,866
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	3,099	-	79,111	-	82,210
- Amortised cost	121,214	923,890	2,045,296	1,377,033	-	4,467,433
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	17,421	17,421
Loans and advances to banks	394,546	-	-	-	-	394,546
Loans and advances to customers	536,261	91,695	635,298	4,296,822	-	5,560,076
Investments in equity-accounted investees and subsidiaries	-	-	-	-	79,100	79,100
Other assets	-	-	-	-	312,807	312,807
	4,354,200	**1,040,898**	**2,715,458**	**5,805,873**	**532,636**	**14,449,065**
Liabilities and Equity						
Derivative liabilities held for risk management	2,756	1,471	308	-	-	4,535
Amounts owed to banks	75,063	8	2,003	-	-	77,074
Amounts owed to customers	12,188,553	224,491	135,085	6,455	-	12,554,584
Other liabilities	-	-	-	-	214,706	214,706
Derivatives designated for hedge accounting	-	-	-	2,167	-	2,167
Debt securities in issue	-	2,493	347,767	-	-	350,260
Subordinated liabilities	1,540	107	-	161,590	-	163,237
Equity holders of the Bank	-	-	-	-	1,082,502	1,082,502
	12,267,912	**228,570**	**485,163**	**170,212**	**1,297,208**	**14,449,065**

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 31 December 2021	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	4,487,468	53,087	-	-	85,511	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	-	1,114	34	-	1,148
- Equity and other non-fixed income instruments	-	-	-	-	31,621	31,621
- Loans and advances	-	2,152	23,812	78,886	-	104,850
- Derivative financial instruments	1,144	60	-	-	-	1,204
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	13,441	3,277	89,609	-	106,327
- Amortised cost	160,878	314,460	1,573,843	1,394,018	-	3,443,199
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	19,143	19,143
Loans and advances to banks	452,469	-	-	-	-	452,469
Loans and advances to customers	435,497	34,800	628,082	3,999,219	-	5,097,598
Investments in equity-accounted investees and subsidiaries	-	-	-	-	79,100	79,100
Other assets	-	-	-	-	327,654	327,654
	5,537,456	**418,000**	**2,230,128**	**5,561,766**	**543,029**	**14,290,379**
Liabilities and Equity						
Derivative liabilities held for risk management	886	100	568	3,931	-	5,485
Amounts owed to banks	61,111	889	498,117	-	-	560,117
Amounts owed to customers	11,152,549	751,654	275,570	6,216	-	12,185,989
Other liabilities	-	-	-	-	313,688	313,688
Derivatives designated for hedge accounting	-	-	-	12,157	-	12,157
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,049,706	1,049,706
	11,214,546	**752,643**	**774,255**	**185,541**	**1,363,394**	**14,290,379**

The ratio of net liquid assets to deposits from customers and short-term funding is used by the Group for managing liquidity risk. For this purpose, 'net liquid assets' includes cash and cash equivalents and high-quality liquid assets for which there is an active and liquid market. 'Deposits from customers and short-term funding' includes deposits from banks, customers, debt securities issued, other borrowings and commitments due within 30 days from reference date. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

	2022	2021
At 31 December	46.48%	47.62%
Average for the period	45.88%	45.92%
Maximum for the period	47.35%	47.62%
Minimum for the period	40.00%	44.55%

Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosures of Encumbered and Unencumbered Assets (EBA/GL/2014/03) requires disclosure on asset encumbrance. The Group is in compliance with the contents thereof.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

This disclosure provides details of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is considered as encumbered when it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

This disclosure is limited to assets available for central bank refinancing and securities that are transferable and 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.

Asset Encumbrance

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€000	€000	€000	€000
The Group				
As at 31 December 2022				
Equity instruments	-	-	55,121	55,121
Debt securities	72,782	66,198	4,715,961	4,349,525
Loans and advances	-	-	9,098,819	-
Other assets	-	-	575,470	-
	72,782	**66,198**	**14,445,371**	**4,404,646**
The Group				
As at 31 December 2021				
Equity instruments	-	-	50,927	50,927
Debt securities	892,086	902,124	2,847,260	2.859,080
Loans and advances	71,000	-	9,935,801	-
Other assets	-	-	561,368	-
	963,086	**902,124**	**13,395,356**	**2,910,007**
The Bank				
As at 31 December 2022				
Equity instruments	-	-	54,969	54,969
Debt securities	72,782	66,198	4,715,961	4,349,525
Loans and advances	-	-	9,098,819	-
Other assets	-	-	506,534	-
	72,782	**66,198**	**14,376,283**	**4,404,494**
The Bank				
As at 31 December 2021				
Equity instruments	-	-	50,764	50,764
Debt securities	892,086	902,124	2,847,260	2,859,080
Loans and advances	71,000	-	9,935,801	-
Other assets	-	-	493,468	-
	963,086	**902,124**	**13,327,293**	**2,909,844**

The Group does not encumber any of the collateral received or any of its debt securities issued.

For the financial years ended 31 December 2022 and 31 December 2021, the Bank has an outstanding liability with regards to significant claims associated with encumbered assets.

The Group and the Bank undertake the following:

i. Pledging of debt securities against the provision of credit lines by the Central Bank of Malta. Such pledged assets are free from any encumbrance as from December 2022.
ii. Pledging of debt securities in favour of the Depositor Compensation Scheme.
iii. Pledging of assets in favour the Italian bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar Trust. In view that in May 2022 the Bank reached an out-of court settlement agreement in relation to the Deiulemar litigation, a total of €363 million in assets pledged with the Italian bank were released and are now free from any encumbrance (Note 15 and 16)

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39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. It arises in all areas of the Group's activities and is managed by a variety of different techniques as detailed below.

The objective of the Group is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Bank's status as a leading Bank in providing financial products and services.

The market risk appetite is articulated in the Treasury Management Policy. It is defined as the quantum and composition of market risk that the Bank is currently exposed to and the direction in which the Bank desires to manage this risk. Market risk is managed through limits set in the Treasury Management Policy. The Policy is reviewed by Treasury department in co-ordination with Risk Management department and is approved by the Asset and Liability Management Committee (ALCO) and the Board of Directors.

39.4.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk arising from financial assets and liabilities with fixed interest rates and to cash flow interest rate risk arising from financial assets and liabilities with floating interest rates. The Group is not directly exposed to interest rate risk on investment in equity instruments. The Group uses interest rate swaps to hedge the interest rate risk of certain financial instruments.

The analysis of interest rate risk has evolved from assessing the sensitivity of the treasury portfolio, using a modified duration method, to a more comprehensive methodology. The latter approach covers all interest sensitive assets and liabilities, as well as off-balance sheet items; this effectively widens the analysis and enables the stressing of various movements in the yield curve. The tables below depict the movement of stressed yield curves and the changes in the Report Equity and Net Interest Income to such movement. For further unaudited information related to the measurement of interest rate risk can be found in the Pillar 3 Disclosures Report as included in the Bank's website.

	Bps	Direction
Parallel Shock Up	200	Up
Parallel Shock Down	200	Down
Short Rates Up	250	Up
Short Rates Down	250	Down
Steepener	250	Short Rates Down
	100	Long Rates Up
Flattener	250	Short Rates Up
	100	Long Rates Down

The below table applies both the Group and the Bank.

	Parallel Shock Up € millions	Parallel Shock Down € millions	Short Rates Up € millions	Short Rates Down € millions	Steepener € millions	Flattener € millions
Sensitivity of reported equity to interest rate movements						
2022						
At 31 December	85	(87)	48	(50)	(11)	26
Average for the year	78	(62)	50	(50)	(20)	37
Most favourable for the year	85	(8)	67	(26)	(11)	48
Least favourable for the year	68	(87)	28	(65)	(32)	26
2021						
At 31 December	13	56	21	-	(23)	31
Average for the year	3	42	19	10	(23)	31
Most favourable for the year	13	56	23	16	(20)	37
Least favourable for the year	(7)	29	13	-	(26)	25

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

	Parallel Shock Up € millions	Parallel Shock Down € millions
Sensitivity of projected net interest income to interest rate movements		
2022		
At 31 December	(8)	(127)
Average for the year	4	(94)
Most favourable for the year	11	(67)
Least favourable for the year	(8)	(127)
2021		
At 31 December	20	(65)
Average for the year	21	(64)
Most favourable for the year	25	(63)
Least favourable for the year	19	(65)

Interest rate repricing gap

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

The Group's assets and liabilities are set to reprice as follows:

	Up to 1 Month €000	3 months or less but over 1 month €000	1 year or less but over 3 months €000	Over 1 year €000	Others €000	Total €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,070,972	214,091	18,438	-	85,760	**3,389,261**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	14	1,043	15	-	**1,072**
- Equity and other non-fixed income instruments	-	-	-	-	37,700	**37,700**
- Loans and advances	78,725	-	-	-	-	**78,725**
- Derivative financial instruments	541	12	529	-	27,784	**28,866**
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	-	3,099	-	79,111	**82,210**
- Amortised cost	67,223	151,494	915,321	3,333,395	-	**4,467,433**
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	17,421	**17,421**
Loans and advances to banks	75,254	9,367	-	-	309,925	**394,546**
Loans and advances to customers	4,138,202	876,831	352,763	192,280	-	**5,560,076**
Investments in equity-accounted investees	-	-	-	-	145,615	**145,615**
Other assets	-	-	-	-	315,228	**315,228**
Total 2022	**7,430,917**	**1,251,809**	**1,291,193**	**3,525,690**	**1,018,544**	**14,518,153**
Total 2021	8,273,731	1,068,941	971,507	3,093,530	950,733	14,358,442

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

	Up to 1 Month €000	3 months or less but over 1 month €000	1 year or less but over 3 months €000	Over 1 year €000	Others €000	Total €000
Liabilities and Equity						
Derivative liabilities held for risk management	1,714	522	1,653	646	-	**4,535**
Amounts owed to banks	-	53,875	-	2,003	21,196	**77,074**
Amounts owed to customers	12,151,503	46,143	215,403	115,606	19,256	**12,547,911**
Other liabilities	-	-	-	-	215,124	**215,124**
Derivatives designated for hedge accounting	-	-	-	2,167	-	**2,167**
Debt securities in issue	-	-	-	350,260	-	**350,260**
Subordinated liabilities	-	-	-	163,237	-	**163,237**
Equity holders of the Bank	-	-	-	-	1,157,845	**1,157,845**
Total 2022	**12,153,217**	**100,540**	**217,056**	**633,919**	**1,413,421**	**14,518,153**
Total 2021	10,967,659	198,422	741,574	935,087	1,515,700	14,358,442
Interest rate swaps - 2022	**(17,780)**	**(32,468)**	**(82,733)**	**132,981**	**-**	
Interest rate swaps - 2021	(21,845)	(39,240)	(81,756)	142,841	-	
Gap - 2022	**(4,740,080)**	**1,118,801**	**991,404**	**3,024,752**	**-**	
Gap - 2021	(2,715,773)	831,279	148,177	2,301,284	-	
Cumulative Gap - 2022	**(4,740,080)**	**(3,621,279)**	**(2,629,875)**	**394,877**	**-**	
Cumulative Gap - 2021	(2,715,773)	(1,884,494)	(1,736,317)	564,967	-	

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for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total, which levels are monitored daily.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's assets and liabilities at carrying amounts, analysed into relevant currency groupings.

The Group	**EUR**	**USD**	**GBP**	**AUD**	**Other Currencies**	**Total**
2022	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets						
Balances with Central Bank of Malta						
treasury bills and cash	3,386,511	1,575	489	209	477	3,389,261
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments income instruments	1,072	-	-	-	-	1,072
- Equity and other non-fixed income instruments	19,053	18,647	-	-	-	37,700
- Loans and advances	78,725	-	-	-	-	78,725
- Derivative financial instruments	28,865	1	-	-	-	28,866
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	15,926	66,284	-	-	-	82,210
- Amortised Cost	3,795,198	367,992	266,162	38,081	-	4,467,433
- Equity and other non-fixed income instruments						
- measured at FVOCI	17,421	-	-	-	-	17,421
Loans and advances to banks	30,461	114,986	47,352	3,665	198,082	394,546
Loans and advances to customers	5,514,781	29,127	16,168	-	-	5,560,076
Other assets	461,585	(751)	(1)	-	10	460,843
	13,349,598	**597,861**	**330,170**	**41,955**	**198,569**	**14,518,153**
Liabilities and Equity						
Derivative liabilities held for risk management	4,535	(87)	64	23	-	4,535
Amounts owed to banks	61,921	9,519	4,662	3	969	77,074
Amounts owed to customers	11,830,982	294,126	184,321	40,160	198,322	12,547,911
Other liabilities	194,619	3,812	576	222	(623)	198,606
Provision	16,518	-	-	-	-	16,518
Derivatives designated for hedge accounting	-	2,167	-	-	-	2,167
Debt securities in issue	350,260	-	-	-	-	350,260
Subordinated liabilities	163,237	-	-	-	-	163,237
Equity	1,157,831	-	14	-	-	1,157,845
	13,779,903	**309,537**	**189,637**	**40,408**	**198,668**	**14,518,153**
Net on balance sheet financial position		288,324	140,533	1,547	(99)	
Notional amount of derivative instruments		(302,336)	(143,026)	(700)	(540)	
Net open position		(14,012)	(2,493)	847	(639)	

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk (continued)

The Group 2021	EUR €000	USD €000	GBP €000	AUD €000	Other Currencies €000	Total €000
Assets						
Balances with Central Bank of Malta treasury bills and cash	4,621,318	2,055	1,913	231	549	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	1,148	-	-	-	-	1,148
- Equity and other non-fixed income instruments	15,729	16,055	-	-	-	31,784
-Loans and advances	104,850	-	-	-	-	104,850
- Derivative financial instruments	1,204	-	-	-	-	1,204
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	32,839	73,488	-	-	-	106,327
- Amortised cost	3,099,357	90,486	184,569	68,787	-	3,443,199
- Equity and other non-fixed income instruments						
- measured at FVOCI	19,143	-	-	-	-	19,143
Loans and advances to banks	138,808	90,335	24,458	3,950	194,918	452,469
Loans and advances to customers	5,057,476	23,702	16,360	-	60	5,097,598
Other assets	475,084	(717)	277	-	10	474,654
	13,566,955	**295,404**	**227,577**	**72,968**	**195,537**	**14,358,442**
Liabilities and Equity						
Derivative liabilities held for risk management	5,487	(93)	68	23	-	5,485
Amounts owed to banks	529,522	18,350	3,526	50	8,669	560,117
Amounts owed to customers	11,413,493	275,046	251,697	53,105	183,513	12,176,854
Debt securities in issue	-	-	-	-	-	-
Other liabilities	205,288	4,045	(1,619)	18	2,126	209,858
Provision	104,449	-	-	-	-	104,449
Derivatives designated for hedge accounting	-	12,157	-	-	-	12,157
Subordinated liabilities	163,237	-	-	-	-	163,237
Equity	1,121,102	5,169	14	-	-	1,126,285
	13,542,578	**314,674**	**253,686**	**53,196**	**194,308**	**14,358,442**
Net on balance sheet financial position		(19,270)	(26,109)	19,772	1,229	
Notional amount of derivative instruments		15,229	31,829	(19,374)	(2,363)	
Net open position		(4,041)	5,720	398	(1,134)	

Currency risk, commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another where a possibility of losing money due to unfavourable moves in exchange rates can arise. The following table shows how a 1% change in the exchange rate of the Group's main three foreign currencies would impact the institution. The sensitivity analysis performed shows that the impact on the balance sheet is minimal. No other currency other than the domestic currency, exceeded the 5% aggregate amount of liabilities to total liabilities, thus only the euro-denominated currency is considered significant. In fact, 94.5% of total liabilities are euro-denominated and in principle, BOV does not finance its assets in a currency different from that in which the assets are denominated.

Currency Risk Sensitivity Analysis impact on Net Open position

	USD €000	GBP €000	AUD €000	Total €000
+1% change in foreign exchange	1,280	949	476	2,705
-1% change in foreign exchange	(1,306)	(968)	(486)	(2,760)

Notes to the financial statements

for the year ended 31 December 2022

39 FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risks arising from the holding of equity instruments classified either as FVOCI or at fair value through profit or loss.

The carrying amounts of financial instruments at the reporting date which could potentially subject the Group to equity price risk are disclosed in the notes to the financial statements.

This risk is monitored and managed by the Risk management function of the Bank, as disclosed in more detail above.

39.5 Transferred financial assets that are not derecognised in their entirety

	The Group and the Bank	
	2022	2021
	€000	€000
Debt securities classified as amortised cost	30,883	17,664
Amounts owed to banks	30,883	17,664

These transactions are covered by the TBMA/ISMA Global Repurchase Master Agreement ("the Agreement") and involve the sale of financial assets with a simultaneous agreement to repurchase them at a pre-determined price at a future date. The securities sold comprise investment securities. The counterparty's liability is included in amounts owed to banks. The Group and the Bank continue to recognise the transferred assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the transferred assets being derecognised for accounting purposes.

Each party to a transaction is subject to the events of default listed in the Agreement. In the event that any of the events of default is/are triggered, transactions are immediately terminated. Consequently, performance of the respective obligations of the parties with respect to the delivery of securities, the payment of the repurchase prices for any equivalent securities and the repayment of any cash margin shall become due and payable.

39.6 Fair value of financial instruments

The Group's accounting policy for determining the fair value of financial instruments is described in note 1.3, 1.23 and 1.28 to these Financial Statements.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 inputs are unobservable inputs for the asset or liability. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group and the Bank determine when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period. There were no material transfers between the levels during the year.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Bases of valuing financial assets and liabilities measured at fair value

	Fair value measurement			
	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
The Group				
At 31 December 2022				
Assets				
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	1,055	17	-	1,072
- equity and other non-fixed income instruments	553	30,327	6,820	37,700
- loans and advances	-	78,725	-	78,725
- derivative financial instruments	-	28,866	-	28,866
Investments				
Debt and other fixed income instruments				
- FVOCI	15,926	-	66,284	82,210
Equity and other non-fixed income instruments				
- FVOCI	9,503	7,918	-	17,421
	27,037	**145,853**	**73,104**	**245,994**
Liabilities				
Financial liabilities at fair value through profit or loss	-	4,535	-	4,535
Derivatives designated for hedge accounting	-	2,167	-	2,167
	-	**6,702**	**-**	**6,702**

	Fair value measurement			
	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
The Group				
At 31 December 2021				
Assets				
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	1,133	15	-	1,148
- equity and other non-fixed income instruments	710	21,185	9,889	31,784
- loans and advances	-	104,850	-	104,850
- derivative financial instruments	-	1,204	-	1,204
Investments				
Debt and other fixed income instruments				
- FVOCI	32,839	-	73,488	106,327
Equity and other non-fixed income instruments				
- FVOCI	12,073	7,070	-	19,143
	46,755	**134,324**	**83,377**	**264,456**
Liabilities				
Financial liabilities at fair value through profit or loss	-	5,485	-	5,485
Derivatives designated for hedge accounting	-	12,157	-	12,157
	-	**17,642**	**-**	**17,642**

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Control Framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker and that they are appropriately performed and reviewed by competent personnel. To this end, the determination of fair values is a process which is performed by Financial Markets and Investments and reviewed by Finance. Finance establishes the accounting policies and, in conjunction with Financial Markets and Investments, it establishes the procedures governing valuation, and is responsible for ensuring that they comply with all relevant accounting standards. The valuation techniques and procedures applied are subject to a process of due diligence, which process was duly approved by the Board and the Audit Committee and documented accordingly.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to valuation techniques, independent price determination or validation is utilised, to the extent practicable. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Bank sources alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors which are mainly considered are the following:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the end of the reporting period; and
- the manner in which the data was sourced.

In determining the fair values for financial instruments measured at fair value the credit risk adjustment for the counterparty, the Bank or both, as the case may be, is deemed to be immaterial and hence no adjustment to the fair value of financial instruments at fair value through profit or loss was effected.

The Group calculates the credit risk adjustment by applying the probability of default of the counterparty to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. The calculation is performed over the life of the potential exposure.

Financial instruments at fair value through profit or loss and financial assets which are held for investment purposes as FVOCI are carried at their fair value.

The Treasury Bills captioned with Balances with Central Bank of Malta and cash are held as FVOCI.

Financial instruments not measured at fair value:

i. Investments - Debt and other fixed income instruments held to collect
This category of asset is carried at amortised cost. Their fair value is disclosed separately in the respective note to the financial statements.

ii. Loans and advances to customers
Loans and advances to customers are the largest financial asset held by the Group and are reported net of allowances to reflect the estimated recoverable amounts. The carrying amount of loans and advances to customers is a reasonable approximation of fair value because these are re-priced to consider changes in both benchmark rate and credit spreads. Their fair value measurement is a Level 2 input.

iii. Loans and advances to banks, balances with Central Bank and Treasury bills
The majority of these assets reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

iv. Amounts owed to banks and customers
These liabilities are carried at amortised cost. The majority of these liabilities reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates. Their fair value measurement is a Level 2 input.

v. Debt securities in issue
These liabilities are carried at amortised cost. Their fair value is disclosed separately in the respective notes to the financial statements.

vi. Subordinated liabilities
These liabilities are carried at amortised cost. Their fair value is disclosed separately in the respective notes to the financial statements.

vii. Other financial liabilities
The fair value of other financial liabilities is not deemed to differ materially from their carrying amount at the respective reporting dates.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Basis of valuing financial assets and liabilities not measured at fair value

The following table provides an analysis of financial instruments that are not measured at fair value subsequent to initial recognition:

	Fair value measurement				
	Level 1	Level 2	Level 3	Total	Carrying Amount
	€000	€000	€000	€000	€000
2022					
Financial assets					
Investments					
Debt and other fixed income instruments					
-Amortised	3,912,356	182,066	-	4,094,422	4,467,433
Financial liabilities					
Debt securities in issue	358,120	-	-	358,120	350,260
Subordinated liabilities	139,181	-	-	139,181	163,237
	497,301	-	-	497,301	513,497

	Fair value measurement				
	Level 1	Level 2	Level 3	Total	Carrying Amount
	€000	€000	€000	€000	€000
2021					
Financial assets					
Investments					
Debt and other fixed income instruments					
-Amortised	3,201,300	263,440	-	3,464,740	3,443,199
Financial liabilities					
Subordinated liabilities	168,055	-	-	168,055	163,237
	168,055	-	-	168,055	163,237

The reconciliation of Level 3 fair value measurements of financial instruments is disclosed below:

	2022		2021	
	FVTPL	FVOCI	FVTPL	FVOCI
	Equity and other non-fixed income instruments	Debt and other fixed income instruments	Equity and other income instruments	Debt and other fixed income instruments
	€000	€000	€000	€000
Opening balance	9,889	73,488	10,227	72,115
Total gains or losses				
- in profit or loss	(3,133)	-	2,339	-
- in other comprehensive income	-	(7,204)	-	1,373
Purchases	63	-	-	-
Sales	-	-	(2,677)	-
Closing balance	6,819	66,284	9,889	73,488

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39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

The instruments classified within Level 3 comprise:
- an externally managed fund: the Bank has determined that the reported net asset value of the fund represents its fair value at the end of the reporting period;
- shares in a global payments technology company; the shares held in the technology company are valued using the intrinsic value of the conversion shares less a discount for liquidity and litigation risk; and
- debt placed with the institutional investors: the Bank values its holding in the bond on the basis of MGS yields to maturity on the premises that the bond is guaranteed by the Government of Malta. A haircut is also included in the pricing of the bond to factor in differences between the bond and the MGSs used as a comparable in relation to the price of other risks, including illiquidity premium, guarantee enforcement risk, currency risk and make whole call prepayment risk,

Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at 31 December 2022 and 2021 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instruments	Fair value as at 31 December 2022 €000	Valuation technique	Significant unobservable input		Fair value measurement sensitivity to unobservable input
FVTPL Equity (unlisted fund)	3,981 (2021: 4,661)	Based on reported NAV	Reported share of assets representing the fair value at year-end		Significant increase in NAV would result in a higher fair value.
FVTPL Equity	2,838 (2021: 5,228)	Price-based adjusted with a discount	Discount for liquidity and litigation risk	50% (2021: 50%)	Significant increase in discount would result in a lower fair value.
FVOCI Debt	66,284 (2021: 73,488)	Price-based adjusted with a haircut	Haircut representative of the related risks	6% (2021: 6%)	Significant increase in haircut would result in a lower fair value.

39.7 Capital risk management

The Group's capital management approach ensures a sufficient level of capitalisation to manage the risk exposures whilst supporting business growth and providing adequate returns to the shareholders. Risk capital management does not in any way substitute risk mitigation measures. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Group's capital resources.

On 1 January 2014, the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Group has made the necessary changes in order to ensure that it is compliant with the Pillar I capital requirements set by the CRR and its subsequent revisions. Other material risks are also allocated capital as part of the Internal Capital Adequacy Process (ICAAP) embedded in the Pillar II process. This process helps to measure with greater risk sensitivity the amount of regulatory capital which the Group requires to cover risks assumed in the course of its business, including risks not covered in Pillar I. The Board submitted the latest ICAAP capital document to the JST in April 2022.

Capital management is under the direct control of the Asset and Liability Committee (ALCO). During the financial period, ALCO has monitored the adequacy of the Group's capital and gave strategic direction on the most efficient use of capital.

During the period under review and during the comparative period, there were no reported breaches in respect of the externally imposed capital requirements. The Group uses the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Standardised Approach with respect to the Group's foreign exchange risk in line with CRR requirements.

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39 FINANCIAL RISK MANAGEMENT (continued)

39.7 Capital risk management (continued)

The following table shows the components and basis of calculation of the Group's and the Bank's own funds.

2022	**The Group €000**	**The Bank €000**
Own funds		
Tier 1		
-Paid up capital instruments	583,849	583,849
-Share premium	49,277	49,277
-Retained earnings*	391,234	388,690
-Accumulated other comprehensive income	5,162	5,050
-Other reserves	52,051	52,051
-Funds for general banking risk	3,586	3,586
-Deductions:		
Prudential Valuation fair valued assets and liabilities	(626)	(560)
Other intangible assets	(41,843)	(41,843)
Depositor Compensation Scheme	(24,780)	(24,780)
Deferred Tax Assets related to unutilised tax losses	(22,967)	(22,967)
Regulatory coverage on non-performing exposures	(7,142)	(7,142)
Total Tier 1 Capital	987,801	985,211
*Retained earnings includes current period's profit which is subject to regulatory approval.		
Tier 2		
-Capital instruments and subordinated loans	163,237	163,237
Total Tier 2 Capital	163,237	163,237
Total Own Funds	1,151,038	1,148,448

2021	**The Group €000**	**The Bank €000**
Own funds		
Tier 1		
-Paid up capital instruments	583,849	583,849
-Share premium	49,277	49,277
-Retained earnings*	358,786	354,952
-Accumulated other comprehensive income	9,416	9,304
-Other reserves	49,021	49,021
-Funds for general banking risk	3,302	3,302
-Deductions:		
Prudential Valuation fair valued assets and liabilities	(596)	(529)
Other intangible assets	(32,106)	(32,106)
Depositor Compensation Scheme	(35,507)	(35,507)
Total Tier 1 Capital	985,442	981,563
*Retained earnings include current period's profit which is subject to regulatory approval.		
Tier 2		
-Capital instruments and subordinated loans	163,237	163,237
Total Tier 2 Capital	163,237	163,237
Total Own Funds	1,148,679	1,144,800

Further information on the Group's capital adequacy ratios may be found in the Pillar 3 Disclosures Report – section 4.2, table CC1. The unaudited report will be available on the Bank's website.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.8 Offsetting financial assets and financial liabilities

The derivative financial assets with a positive carrying amount and the derivative financial liabilities with a negative carrying amount are set-off to the extent that there are liabilities and if not, they are presented separately in the Statement of Financial Position. These instruments are subject to the ISDA Master Agreement. The ISDA Master Agreement provides, amongst others, for the netting of termination values for purposes of determining a single lump-sum termination amount upon the insolvency of a counterparty. By virtue of the Set-off and Netting on Insolvency Act, 2003 (Chapter 459, Laws of Malta), the close-out netting provisions contained in the ISDA Master Agreement are valid and enforceable under Maltese law. The set-off provisions under the ISDA Master Agreement can be triggered where an event of default, credit event upon merger or any termination event has been declared.

The Bank also has in place credit support annexes "CSAs" with a number of its financial counterparties for purposes of the collateralisation of exposures between the Bank and its counterparties. The CSA is a schedule to the ISDA Master Agreement. By virtue of such CSAs, a party to a derivative that has an exposure to its counterpart, will post collateral to its counterpart to cover such exposure by way of an outright title transfer of such collateral. All CSAs that the Bank has in place are of a two-way nature.

In the case of non-financial counterparties, the Bank enters into pledging collateral arrangements with the counterparties, in favour of the Bank. Such pledging agreements are of a one-way nature, in favour of the Bank.

	The Group	
	2022	**2021**
	€000	**€000**
Derivative financial assets		
Gross amounts of recognised financial assets	28,866	3,080
Gross amounts of recognised financial liabilities set off in the statement of financial position	-	(1,876)
Net amounts of financial assets presented in the statement of financial position	28,866	1,204
Related amounts not set off in the statement of financial position:		
Financial instruments	(2,212)	(1,204)
Financial collateral received	(25,684)	-
Net amount	970	-
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements		
Derivative financial liabilities		
Gross amounts of recognised financial liabilities	6,702	19,518
Gross amounts of recognised financial assets set off in the statement of financial position	-	(1,875)
Net amounts of financial liabilities presented in the statement of financial position	6,702	17,643
Related amounts not set off in the statement of financial position:		
Financial instruments	(2,212)	(1,204)
Financial collateral pledged	(2,015)	(16,439)
Net amount	2,475	-

A number of financial assets and financial liabilities are being offset and it is the intention to settle net, since they relate to the same counterparties and have the same maturities.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.9 Interest Rate Benchmark Reform

i. Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group does not have significant exposure to IBORs on its financial instruments which are subject to this market-wide initiative. Most reforms affecting the Group have been completed by the end of 2021. However, although sterling LIBOR and US dollar LIBOR were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress.

In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorised administrator of LIBOR), announced that after 31 December 2021 LIBOR settings for sterling, euro and the one-week and two-month US dollar setting will either cease to be provided or no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after 30 June 2023.

The Group deems that IBOR reform has not and will not have significant operational, risk management and accounting impacts across all of its business lines. Financial risk is predominantly limited to interest rate risk. The Bank has entrusted its Treasury and Business Banking functions to manage its transition to alternative rates. Their objectives included: evaluating the extent to which loans granted and financial instruments which are based on IBOR cash flows; whether such contracts need to be amended as a result of IBOR reform; and how to manage communication about IBOR reform with counterparties.

For contracts indexed to an IBOR that matures after the expected cessation of the IBOR rate, the IBOR committee has establish policies to amend the contractual terms. These amendments include the additional fallback clauses or replacement of the IBOR rate with an alternative benchmark rate. With effect from 1 November 2021, all newly originated floating-rate loans and advances to customers incorporate fallback provisions.

The Group monitors the progress of transition from IBOR to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

As at 31 December 2021, the IBOR reform in respect of currencies to which the Group has exposure has been largely completed. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and status of transition, mainly GBP LIBOR to Sterling Overnight Interbank Average Rate (SONIA), USD LIBOR to Secured Overnight Financing Rate (SOFR), JPY LIBOR to Tokyo Over-Night Average Rate (TONAR) and EONIA to €STR.

ii. Non-derivative financial assets

All loans and advances to customers indexed to IBOR as at 31 December 2021 were transitioned on 3 January 2022. As at 31 December 2021, the Group amended all existing loans and advances to customers contracts indexed to IBOR and inserted fallback provisions.

During 2022, the Group had the following principal IBOR and ARR (alternative Reference Rate) exposures in respect of non-derivative financial assets:
- Floating rate loans and advances to customers: EURIBOR, SONIA and CDOR;
- Floating rate indexed assets and investment securities indexed to EURIBOR, GBP Libor, SONIA and USD Libor held throughout its operations.

iii. Non -derivative financial liabilities:

The Bank does not have any financial liabilities linked to interbank offer rates (IBOR) as at 31 December 2022 and 31 December 2021.

During 2021 floating rate securities amounting to £19.3 million held in GBP changed the benchmark from GBP LIBOR to SONIA. During 2022 no floating rate securities required transitioning to new benchmarks

iv. Derivatives and hedge accounting:

The derivatives held by the Group in US Dollar (refer to note 39.4.2) are held for risk management purposes and have floating legs that are indexed to USD LIBOR. The Group's derivative instruments are governed by ISDA's 2006 definitions. ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the 2006 ISDA definitions will be accomplished.

Notes to the financial statements

for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (continued)

39.9 Interest Rate Benchmark Reform (continued)

The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The Group has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts when the supplement becomes effective – i.e. on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks.

The Group's interest rate derivatives held for hedging amount to $65 million in notional value (market value: € 2.2 million) as of 31 December 2022. The floating legs of the interest rate swaps are indexed to the 6-month USD LIBOR which will no longer be published following the 30 June 2023. In anticipation of this deadline, the Group has initiated a transition plan to address any potential issues prior to the actual transition of these instruments to the alternative rate (SOFR). No major impact is being envisaged to the hedge effectiveness of existing transactions.

40. ASSETS HELD FOR REALISATION

The assets held for realisation mainly comprise immovable properties that were held as collateral for outstanding loans, which properties were taken into the possession of the Bank following defaults by the counterparty. The Bank's policy is to dispose of such assets within a reasonable timeframe from the date of classification, unless events or circumstances which are beyond the Bank's control extend the period to complete the sale.

41. TRUST ACTIVITIES

The Group acts as trustee and provides trust activities that result in the holding and placing of assets on behalf of third parties. Trust assets are not assets of the Group and therefore they are not included in its Statement of Financial Position.

Income derived from trust assets is excluded from revenue. Fees arising from the rendering of trustee services are recognised in the Group's profit or loss.

At 31 December 2022, the total assets held by the Group on behalf of its customers amounted to €14.7 million (2021: €63.9 million). Details on significant claims related to Deiulemar trust litigation settlement are given in note 33..

42. REGULATORY COMPENSATION SCHEMES

As at 31 December 2022, no balances with Central Bank of Malta have been pledged in favour of the Depositor Compensation Scheme (refer to note 16).

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme.

Bank of Valletta p.l.c. has elected to pay the amount of the variable contribution directly to the Scheme.

Regulatory contributions amounting to €12.1 million (2021: €15.0 million), included with administrative expenses, reflect the Group's annual obligations arising from the recent EU Directives on Deposit Guarantee Scheme and Single Resolution Fund.

43. EVENTS SUBSEQUENT TO THE FINANCIAL REPORTING DATE

There are no events subsequent to the financial reporting date to report.

44. REGISTERED OFFICE

The registered and principal office of the Bank is 58, Triq San Żakkarija, Il-Belt Valletta, VLT1130, Malta.

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Independent Auditors' Report

To the Shareholders of Bank of Valletta p.l.c.

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Valletta p.l.c. (the "Bank" or the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Bank and the Group as at 31 December 2022, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act") and, additionally, specifically in relation to those of the Group, with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year (as communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Measurement of impairment allowances on loans and advances to customers at amortised cost, including off-balance sheet elements of those exposures and related disclosures.

Accounting policy notes 1.4.3 to the financial statements and notes 8, 17, 33, 34 and 39.2 for further disclosures.

Expected credit loss allowance on 'Loans and advances to customers at amortised cost' (Bank and Group: €5.56 billion) amounted to €132.9 million. Expected credit loss provision on 'Financial guarantees contracts and loan commitments' (Bank and Group: €2.2 billion) amounted to €15.6 million.

The calculation of the expected credit loss ('ECL') involves significant judgement and estimates. Of all the Group's financial instruments, the most significant impact in terms of complexities around the measurement of the ECL and of the materiality of the resultant allowances was in relation to the loans and advances to customers' portfolio (and the related off-balance sheet elements namely financial guarantees contract and loan commitments). In that regard, our key areas of audit risk in the Group's calculation of the ECL were the following:

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key audit matters (continued)

- Model estimations – Inherently judgmental modelling is used to estimate ECL which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposures at Default ("EAD"). In particular, the PD models are the key drivers of the Group's ECL calculation and are therefore the most significant judgmental element of the Group's ECL modelling approach.

- Economic Scenarios - Significant management judgement is applied in determining the selection of (i) forward looking macroeconomic scenarios, (ii) the associated scenario probabilities and (iii) the material economic variables which drive the scenarios and the related weightings. Management's assessment of economic scenarios has been heightened by the current global macroeconomic uncertainties driven by the Russia-Ukraine conflict that have resulted in supply chain disruptions and significant inflationary pressures.

- Qualitative adjustments to the model-driven ECL raised by the Group to address known impairment model limitations or emerging trends as well as risks not captured by the model. These adjustments are inherently uncertain and significant management judgement is involved in the estimation process.

- Identification of a significant increase in credit risk ('SICR') is also a key area of judgement within the Group's ECL calculation as the application of the SICR criteria determines whether a twelve month or lifetime provision is recorded.

- Individually assessed stage 3 exposures may be materially misstated if individual impairments are not appropriately identified and estimated. The calculation of expected credit losses on stage 3 exposures includes a range of estimates of future cash flows and valuation of collateral, which are inherently uncertain and judgmental. Management judgement is also involved in post-model adjustments on stage 3 exposures.

The disclosures regarding the application of IFRS 9 are important in the context of explaining the key judgements made, as referred to in this key audit matter, and inputs used to generate the IFRS 9 ECL results.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key audit matters (continued)

Our response

As part of our procedures:

- We tested the design and implementation as well as the operating effectiveness of relevant manual and automated controls (that is, Information Technology based). More specifically, the following controls were tested:
  - the Group's review and approval of loan credit ratings;
  - the Group's review control over the completeness and accuracy of loan exposures' inputs, data and assumptions keyed into the ECL model;
  - the Group's review control over model validation and monitoring;
  - management's review control over ECL movements, calculation and authorization of post model adjustments and management overlays; and
  - testing the design and operating effectiveness of the key controls over past due days calculations and automated credit rating calculation.

- We involved our own financial risk modelling specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies (including the SICR criteria used) as well as changes implemented during the year as disclosed in Note 39.2.1.2, 39.2.1.2.5 and 39.2.1.2.6. We inspected model code for the calculation of certain components of the ECL model to assess its consistency with the Group's approved methodology. We used our experience of the Group to independently assess PD and LGD assumptions. On a sample basis, we assessed the reasonableness of the model predictions by comparing them against actual results. We made enquiries of the Group as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, against the specialists' expectations on the direction and extent of variations identified.

- We involved our own economics specialist to assist in assessing:
  - the appropriateness of the methodology for determining the macroeconomic scenarios used and the reasonableness of the probability weightings applied to them;
  - the appropriateness of the stage determination criteria based on the ECL methodology.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key audit matters (continued)

- the key macroeconomic variables (as set out in note 39.2.1.2.5 to the financial statements) as well as the accuracy of macroeconomic data feeding the ECL model; and
- the reasonableness of the Group's considerations of the ECL impact due to economic environment factors.

- In evaluating the Group's credit grading process, we assessed the Internal Credit Risk System (ICRS) model. We have also performed credit reviews on a selection of corporate exposures selected qualitatively based on risk, including a sample of stage 3 loans and advances to customers. In performing those credit reviews, we:

  - considered relevant internal information available used in the Group's assessment and any relevant external data in relation to those exposures;
  - evaluated whether those exposures were graded in line with the Group's credit policy; and
  - determined whether a SICR was appropriately identified.

  In addition, for the selected stage 3 corporate exposures, we independently re-performed the impairment calculation to assess the reasonableness of the Bank's related ECL.

- On a sample of loans and advances to customers, we:
  - performed testing over key data elements (EAD, PD and LGD) impacting the ECL calculations to assess the accuracy of information used; and
  - re-performed model calculations for accuracy for all stages.

- We assessed the post model adjustments, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data.

- We assessed whether the disclosures in relation to IFRS 9 adequately explain the key judgements made and significant inputs used in the recognition of expected credit losses as at the end of the financial reporting period.

We have no key observations to report, specific to this matter.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Other information

The directors are responsible for the other information which comprises the:

— Contents and General Information;
— Chairman's Statement;
— CEO's Commentary;
— Board of Directors and Group Company Secretary;
— Executive Committee and Group Chief Internal Auditor;
— Corporate Social Responsibility
— Directors' Report;
— Corporate Governance Statement of Compliance;
— Remuneration Report;
— ESG Risk Management and Disclosures;
— The Group's five year summary; and
— Group's Financial Highlights in US dollars.

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, and, additionally, specifically in relation to those of the Group, with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta plc.

Auditors' responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

2 Opinion on the Directors' Report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Capital Markets Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, other than for the non-financial information that is exclusively required to be disclosed by paragraph 8 of the Sixth Schedule of the Act with respect to the Bank, and paragraph 11 of the Sixth Schedule of the Act with respect to the Group (and on which we report separately below in our 'Report on Other Legal and Regulatory Requirements'), we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Capital Markets Rule 5.62 of the Capital Markets rule issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the shareholders on 19 June 2015, and subsequently reappointed at the Company's general meetings for each financial period thereafter. The period of total uninterrupted engagement is eight years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

Matters on which we are required to report by the Act, specific to large undertakings which are public-interest entities and public-interest entities which are parent undertakings of a large group that (individually and on a consolidated basis, respectively) exceed the criterion of an average number of five hundred employees during the financial year

Pursuant to article 179(3) of the Act, we report as under matters not already reported upon in our 'Opinion on the Directors' Report:

The Directors' Report contains the information required by paragraph 8 of the Sixth Schedule, with respect to the Bank and paragraph 11 of the Sixth Schedule with respect to the Group.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, in our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof; and
- the Bank's financial statements are in agreement with the books of account.

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion and to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Report on compliance with the requirements of the Commission Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109/EC (the "ESEF Regulation"), by reference to Capital Markets Rule 5.55.6 issued by the Listing Authority

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act, 1979 (Chapter 281, Laws of Malta), *the Accountancy Profession (European Single Electronic Format) Assurance Directive*, on the Group's Annual Report for the year ended 31 December 2022, prepared in a single electronic reporting format.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Responsibilities of the directors for compliance with the requirements of the ESEF Regulation

As required by Capital Markets Rule 5.56A, the directors are responsible for the preparation of the Annual Report in XHTML format, including the specified mark-ups, in accordance with the requirements of the ESEF Regulation.

In addition, the directors are responsible for such internal control as they determine is necessary to enable the preparation of the Annual Report that is in compliance with the requirements of the ESEF Regulation.

Auditors' responsibilities to report on compliance with the requirements of the ESEF Regulation

Our responsibility is to obtain reasonable assurance about whether the Annual Report in XHTML format, including the specified mark-ups, comply in all material respects with the ESEF Regulation based on the evidence we have obtained.

In discharging that responsibility, we:

- obtain an understanding of the entity's financial reporting process, including the preparation of the Annual Report, in accordance with the requirements of the ESEF Regulation;
- perform validations to determine whether the Annual Report has been prepared in accordance with the requirements of the technical specifications of the ESEF Regulation; and
- examine the information in the Annual Report to determine whether all the required mark-ups therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Opinion

In our opinion, the Annual Report for the year ended 31 December 2022 has been prepared, in all material respects, in accordance with the requirements of the ESEF Regulation, by reference to Capital Markets Rule 5.55.6.

The Principals authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report are Claude Ellul and Michael McGarry.

Claude Ellul
Partner, for and on behalf of
KPMG
Registered Auditors,
92
Marina Street,
Pietà PTA 9044,
Malta

Michael McGarry
Partner, for and on behalf of
KPMG LLP
Chartered Accountants,
15 Canada Square,
Canary Wharf,
London E14 5GL,
United Kingdom

30 March 2023

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The Group's five-year summary

extracted from the respective audited financial statements

A. STATEMENTS OF PROFIT OR LOSS

For the financials years

	2022	2021	2020	2019	2018
	12 months to December 2022	12 months to December 2021	12 months to December 2020	12 months to December 2019	12 months to December 2018
	€000	€000	€000	€000	€000
Interest and similar income	220,210	194,813	190,282	206,963	213,896
Interest expense	(18,311)	(38,503)	(43,476)	(54,113)	(57,350)
Net interest income	201,899	156,310	146,806	152,850	156,546
Other operating income	91,458	86,598	84,809	96,436	101,220
Other operating charges	(192,616)	(195,603)	(170,382)	(162,540)	(130,598)
Net impairment reversal/(charge)	49,075	18,856	(65,136)	11,562	10,816
Net litigation settlement (charge)/reversal	(102,958)	-	8,584	(25,000)	(75,000)
Share of results of equity-accounted investees, net of tax	1,860	14,498	10,520	15,897	8,214
Profit before tax	48,718	80,659	15,201	89,205	71,198
Income tax expense	(17,547)	(24,468)	(1,399)	(25,713)	(19,788)
Profit for the year	31,171	56,191	13,802	63,492	51,410
Attributable to:					
Equity holders of the Bank	31,171	56,191	13,802	63,492	51,410
	31,171	56,191	13,802	63,492	51,410
Earnings per share	5.3c	9.6c	2.4c	10.9c	8.8c

The Group's five-year summary

extracted from the respective audited financial statements (continued)

B. STATEMENTS OF FINANCIAL POSITION

	2022 €000	2021 €000	2020 €000	2019 €000	2018 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	3,389,261	4,626,066	3,798,449	3,669,580	3,400,588
Financial assets at fair value through profit or loss and Investments	4,713,427	3,707,655	3,447,912	3,276,299	3,521,161
Loans and advances to banks	394,546	452,469	479,409	501,686	490,644
Loans and advances to customers at amortised cost	5,560,076	5,097,598	4,741,443	4,445,812	4,362,983
Investments in equity-accounted investees	145,615	145,501	111,999	101,479	108,510
Property and equipment and intangible assets	188,738	186,696	188,312	186,659	161,198
Current tax	20,706	28,640	26,759	15,185	7,606
Deferred tax	67,898	84,563	91,259	76,017	71,769
Assets held for realisation	12,138	11,740	9,958	10,123	4,335
Other assets	7,227	5,423	5,251	42,627	7,880
Prepayments	18,521	12,091	10,020	5,142	10,314
Total Assets	**14,518,153**	**14,358,442**	**12,910,771**	**12,330,609**	**12,146,988**
LIABILITIES					
Derivative liabilities held for risk management and designated for hedge accounting	6,702	17,642	28,406	24,870	19,018
Amounts owed to banks	77,074	560,117	88,031	66,047	146,021
Amounts owed to customers	12,547,911	12,176,854	11,272,289	10,629,719	10,414,908
Deferred tax	7,054	6,717	6,186	5,736	5,743
Other liabilities	191,552	203,141	161,617	189,593	196,960
Provisions	16,518	104,449	113,880	118,109	95,767
Debt securities in issue	350,260	-	-	-	40,197
Subordinated liabilities	163,237	163,237	163,237	234,230	234,241
Total Liabilities	**13,360,308**	**13,232,157**	**11,833,646**	**11,268,304**	**11,152,855**
EQUITY					
Called up share capital	583,849	583,849	583,849	583,849	530,772
Share premium account	49,277	49,277	49,277	49,277	49,277
Revaluation reserve	57,212	58,438	55,477	54,898	50,034
Retained earnings	467,507	434,721	388,522	374,281	364,050
Total Equity	**1,157,845**	**1,126,285**	**1,077,125**	**1,062,305**	**994,133**
Total Liabilities and Equity	**14,518,153**	**14,358,442**	**12,910,771**	**12,330,609**	**12,146,988**
MEMORANDUM ITEMS					
Contingent liabilities	374,109	351,362	285,775	341,618	335,405
Commitments	1,918,119	1,898,310	1,811,954	1,828,756	1,881,392

The Group's five-year summary

extracted from the respective audited financial statements

C. STATEMENTS OF CASH FLOW

	2022 €000	2021 €000	2020 €000	2019 €000	2018 €000
Net cash (used in)/from operating activities	(561,373)	1,157,101	295,040	90,157	251,776
Cash flows from investing activities					
Dividends received	2,387	2,443	219	24,186	10,774
Interest received from investing securities	30,940	36,575	40,332	50,840	54,953
Injection of capital in associate (note 18)	-	(20,000)	-	-	-
Proceeds from sale of equity instruments	-	-	562	-	12,296
Net (outflow)/inflow on investment securities	(1,024,416)	(289,103)	(259,471)	263,225	129,240
Purchase of property and equipment	(16,567)	(11,849)	(15,724)	(34,996)	(26,295)
Proceeds on disposal of property and equipment	-	-	-	330	2,000
Net cash (used in)/from investing activities	**(1,007,656)**	**(281,934)**	**(234,082)**	**303,585**	**182,968**
Cash flows from financing activities					
Interest paid on debt securities and subordinated liabilities	(5,781)	(5,776)	(6,457)	(10,050)	(13,414)
Proceeds from issue of senior non-preferred notes	350,000	-	-	-	-
Outflows from issue of senior non-preferred notes	(2,274)	-	-	-	-
Repayment of debt securities	-	-	(70,993)	(40,208)	(55,400)
Payment of lease liabilities	(1,739)	(1,919)	(1,704)	(1,475)	-
Dividends paid	(10,019)	-	-	-	(17,678)
Net cash from/(used in) financing activities	330,187	(7,695)	(79,154)	(51,733)	(86,492)
(Decrease)/increase in cash and cash equivalents	**(1,238,842)**	**867,472**	**(18,196)**	**342,009**	**348,252**

D. PERFORMANCE EXPRESSED IN RELATION TO AVERAGE TOTAL ASSETS AND AVERAGE CAPITAL EMPLOYED

	2022 %	2021 %	2020 %	2019 %	2018 %
Operating income to total assets	2.0	1.8	1.8	2.0	2.2
Operating expenses to total assets	1.3	1.4	1.4	1.3	1.1
Profit before tax to total assets	0.3	0.6	0.1	0.7	0.6
Profit before tax to capital employed	4.3	7.3	1.4	8.7	7.3
Profit attributable to equity holders to total assets	0.2	0.4	0.1	0.5	0.4
Profit attributable to equity holders to capital employed	2.7	5.1	1.3	6.2	5.3

Group Financial Highlights in US dollars

31 December 2022

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2022. The rate used was €1 = US$ 1.0677. This does not reflect the effect of the change in the rate of exchange since 31 December 2022 which was €1 = US$ 1.1329.

	2022 US$000	2021 US$000
Net income attributable to equity holders of the Bank	33,281	63,659
Net income per share	6.0c	12.0c
Gross dividend paid	16,457	-
Net dividend paid	10,697	-
Gross dividend per share	2.8c	-
Total assets	15,501,032	16,266,679
Liquid funds	3,618,714	5,240,870
Investments and financial assets at fair value through profit or loss	5,032,526	4,200,402
Advances	6,357,750	6,287,671
Investments in equity-accounted investees	155,473	164,838
Share capital	623,376	661,443
Capital reserves	113,698	122,030
Retained earnings	499,157	492,495