BNF BANK

Annual Report

2022

BNF BANK P.L.C.
Company Registration No. C 41030 | Annual Report and Financial Statements 31 December 2022

BNF Bank p.l.c. is also referred throughout the document as 'BNF Bank', 'BNF', or 'the Bank'.

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General Information

General Information

Directors

The Directors who served throughout the year were as follows:

Dr Michael Frendo	Non-Executive Chairman
Sheikh Mohamed Faisal Q.F. Al-Thani	Non-Executive Board Member (Deputy Chairman)
Sheikh Turki Faisal Q.F. Al-Thani	Non-Executive Board Member
Mr Michael Anthony Collis*	Executive Board Member
Mr Kenneth Mizzi	Non-Executive Board Member
Mr Mark Portelli	Non-Executive Board Member
Chev. Maurice Mizzi	Non-Executive Board Member
Mr Mario P Galea	Non-Executive Board Member
Mr Paul Mark Johnson	Non-Executive Board Member
Mr Charles Borg	Non-Executive Board Member
Mr Hassan El-Sayed Abdalla*	Non-Executive Board Member
Ms Juanita Bencini	Non-Executive Board Member

* Mr Hassan El-Sayed Abdalla appointed as a Director with effect from 28 June 2022.

* Mr Michael Anthony Collis retired with effect from 31 December 2022.

Company secretary

Dr Jean Noel Cutajar

Registered office

Level 2, 203 Rue D'Argens
Gzira, GZR 1368, Malta

Auditors

PricewaterhouseCoopers
78, Mill Street, Zone 5, Central Business District
Qormi, CBD 5090, Malta

Chairman's Statement

2022 was a successful year for BNF Bank, both in terms of financial results and because some key milestones were achieved.

The global environment continued to present challenges for governments and central banks, which required them to navigate through economic uncertainty. The main sources of uncertainty were the war in Ukraine, continued supply chain disruptions, and inflationary pressures. In addition, some ambiguity remained surrounding the global recovery from the COVID-19 pandemic. Malta was impacted primarily through heightened levels of inflation, although lower than the European average. In 2022 Malta's economy also continued its recovery from the COVID-19 pandemic and was removed from the FATF grey list.

In 2022 BNF Bank successfully listed on the Malta Stock exchange and issued a subordinated bond, a milestone which formed a core part of the Bank's capital plan. The Bank has also implemented an important phase of its digital transformation, which enables it to monitor financial crime compliance in a more structured and efficient manner. At BNF we consider financial crime compliance to be of utmost importance, and we continue to urge our valued customers and suppliers to support us in this endeavour.

The financial statements show that BNF Bank continued to grow in a prudent and sustainable manner. The Bank's total assets grew by 15.8% during 2022, to €1.2bn. Profit before tax also increased from €9.1 million in 2021 to €12.2 million in 2022. More detailed analysis of our financial performance can be found in the CEO's Statement and in the Directors' Report.

I am extremely proud of how BNF Bank, through the dedication of its management and staff, has met the continuing challenges of these extraordinary times.

Our staff are also owed heartfelt gratitude for their incredible efforts over the past two years.

Technology is a crucial component of our journey going forward. BNF has invested heavily in this area and will continue to strengthen and further automate internal controls, whilst facilitating an enhanced customer experience. BNF Bank will continue to offer a service to meet our customers' varied preferences – maintaining a significant branch network whilst developing our digital offering.

During this past year, we have continued to be present in the community, not only by holding a prominent position as a trusted provider of financial services, but also with actions and engagements with a positive environmental and social impact. Through our CSR activities, we have been able to provide both tangible and immediate contributions to the community's welfare. See page 40 for more detail on the Bank's CSR activities.

We recognise the responsibility that we have towards society at large, to protect and hand over a sustainable greener environment for the enjoyment of future generations. We continue to incorporate sustainability into our daily business and have set up a specific ESG Committee to focus on meeting our Environmental, Social and Governance responsibilities, including, inter alia, that of having a lower carbon footprint.

The Bank takes pride in the very strong governance structure and ethical responsibility that we have embedded in our business. Within this framework, the repeated year-on-year financial growth provides confidence of more successful years ahead.

MICHAEL FRENDO
Chairman

Chief Executive Officer's Review

In 2022, BNF Bank repeated a strong financial performance in challenging conditions. The Bank was successful in executing a fundamental part of its capital plan, that of issuing a subordinated bond on the Malta Stock Exchange.

Strategic objectives achieved in 2022

The Bank navigated through another year of complex international challenges in 2022, to continue to achieve the objectives set out in its Vision 2023 strategy. As of 31 December 2022, the Bank was largely in line with its financial KPIs.

Key strategic achievements included growth in the Bank's commercial assets, the successful issue of a subordinated bond listed on the Malta Stock Exchange, and technological advancements.

The Bank also continued to grow its UK branch, which currently participates in secured syndications with conservative loan-to-value ratios, the underlying security being central and prime immovable property.

Financial performance

The Bank reported a profit before tax of €12.2million, a 35% increase over 2021. Higher profitability in 2022 was primarily due to increased net interest income of €25.8 million (2021: €22.7 million), which resulted from growth in the Bank's loans and advances to customers and careful liability management.

In addition to net interest income, net fees and commission income and other ancillary income contributed to a net operating income for 2022 of €30.1 million (2021: €27.2 million).

The Bank's cost-to-income ratio underlines the positive jaws generated between net operating income and general administrative expenses. A cost-to-income ratio of 61.7% (2021: 62.9%) reflects the Bank's prudent stance toward cost control whilst not conceding on our strategic goals.

In 2022 the Bank wrote back expected credit losses ('ECL') of €0.7 million (2021: ECL increase of €1.1 million) due to an improvement in asset quality experienced throughout the year.

Net loans to customers at year end increased by 14% to €903.7 million, whilst the percentage of credit impaired lending decreased from 4.1% to 2.6%.

The Bank's Capital Adequacy Ratio improved to 19.6% (2021: 17.5%) further to the issuance of a €20.0 million subordinated bond which qualifies as Tier 2 capital for regulatory purposes. The Common Equity Tier 1 Ratio stood at 14.6% (2021: 15.6%), both ratios being well above overall capital requirements and supervisory pillar two guidance. The Liquidity Coverage Ratio ('LCR') as of 31 December 2022 was 237.7% (2021: 129.1%), and the Net Stable Funding Ratio ('NSFR') was 139.8% (2021: 130.8%).

Subsequent to the end of the reporting period, a net dividend of €0.041 per nominal share of €0.7552, for a total amount of €4,036,726.50, is being proposed by the Board of Directors to be distributed to the shareholders for the twelve months ended 31 December 2022. A resolution to this effect will be proposed at the Annual General Meeting, subject to regulatory approval.

The strong financial performance for 2022 was once again underpinned by focused and rigorous risk management, and adherence to regulatory requirements.

Outlook for 2023

The global challenges of 2022 persisted into 2023 with high levels of inflation continuing to burden the global economy. Locally, inflation remained below the European average primarily due to subsidised energy costs, nevertheless households and businesses continue to contend with increasing prices.

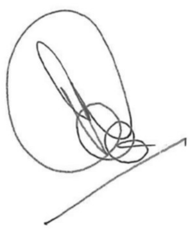
In March 2023, the international financial sector was hit by stress events resulting in the collapse of a number of U.S. Regional Banks, and in a government brokered deal between two major banks in Switzerland. This resulted in financial markets turmoil, with BNF Bank having no direct exposure to the institutions involved, and at the date of this report the Bank does not expect to be materially impacted.

As the Bank has commenced the final year of its Vision 2023 strategy, we continue to work towards our core objective of keeping our customers as our focal point and striving to improve our product and service offering. Beyond 2023 we are progressing with our strategic plans which will take us on our journey for the medium-term, and ensure the continued success of BNF Bank.

Conclusion

Once again our staff rose to the challenges which were put before them. For this reason, we were able to accomplish another strong performance in 2022.

As a Bank, we pride ourselves on our community initiatives, undertaken through our Branch network and framed by our ESG strategy. Our objective is to be fully connected with the communities we work in, not just through the banking services we offer but also by supporting worthy causes both financially and by our staff giving their time to help. More details of these initiatives can be found on page 40.



DAVID POWER
Chief Executive Officer

Core Values

We are a team of inspired people who believe that opportunities start with a conversation.

The values that guide our daily behaviour are at the basis of everything we do: Ambition, Responsibility and Empathy.

Ambition

We embrace change and face challenges head on, while continually looking for solutions. Ambition to us represents a strong desire to do and achieve.

Responsibility

We take personal responsibility for growth and development, keeping in mind the community in which we operate. We want to share our knowledge and experience with our customers, who know they can count and depend on us.

Empathy

We are empathic because we have the ability to understand and share the feelings of others. We understand our customers' needs to deliver a high-quality service.

Board of Directors

Michael Frendo

Non-Executive Chairman

Chairman of the Board since May 2013. A former Speaker of the House of Representatives, Parliament of Malta (2010-2013) and a former Minister for Foreign Affairs (2004-2008). Dr Michael Frendo also held various other ministerial portfolios including Information and Communication Technologies, Transport and Civil Aviation, and Culture, Broadcasting and Consumer Protection. Dr Frendo is a lawyer with a postgraduate specialisation in European Union law who has also worked in the private sector in both Malta and the UK. Dr Michael Frendo is a signatory of the Treaty of Lisbon and was a member of the European Convention on the Future of Europe. He has published widely including a number of books and articles on European, diplomatic and legal issues.

Michael Anthony Collis*

Former Chief Executive Officer & Managing Director

Mr Collis has extensive banking experience having worked in the banking industry in the UK and Middle East in excess of thirty years. During this time he served on a number of bank boards and held senior positions in various banks with responsibility for a range of activities including retail and wholesale banking, corporate finance and private banking. He has served as CEO and Executive Director of Ahli United Bank (UK) Limited, a UK licensed bank regulated by the FSA. He also served as Senior Deputy Group CEO of Ahli United Bank B.S.C. (Bahrain). Prior to that he served as executive director and head of European corporate finance at Nikko Bank, a UK licensed bank regulated by the FSA. He originally started his banking career with Lloyds Bank p.l.c and subsequently joined Mizuho Bank where he held various senior positions and headed the bank's UK corporate banking and corporate finance activities for over ten years.

Prior to this latest appointment, Mr Collis served as Chief Executive Officer of Al Faisal International for Investment QPSC (Qatar), the ultimate majority shareholder of the Bank, a position which he has since relinquished. He had occupied this position since 2015 during which time he was also responsible for AFII's proprietary trading and strategic financial investments, including the acquisition of Banif Bank (Malta) p.l.c in 2016.

* Mr Michael Anthony Collis retired with effect from 31 December 2022.

Sheikh Mohamed Faisal Q.F. Al Thani

Non-Executive Deputy Chairman

Sheikh Mohamed Faisal Q.F. Al Thani has been Vice Chairman of the Board of Al Faisal Holding since 2010 and also sits on the Board of Directors of Al Khaliji Bank. He is a member of the Board of Trustees at the American University of Sharjah (UAE) and of the Arab Academy for Banking and Financial Sciences (Egypt), as well as being Honorary President of the Italian Chamber of Commerce in Qatar.

He holds a Bachelor's Degree in Business Administration from Carnegie Mellon University, Qatar.

Sheikh Turki Faisal Q.F. Al Thani

Non-Executive Director

Sheikh Turki Faisal Q.F. Al Thani is the Chairman of Al Sawari Holding Company and is also a member of the Board of Al Faisal Holding since 2014.

He is also the Founder and the CEO of Catalyst Company. He holds a Bachelor's Degree in Economics from Georgetown University Qatar.

Mario P. Galea

Non-Executive Director

Mr Galea has been a member of the audit committee since 2013. A fellow of the Association of Chartered Certified Accountants and the Malta Institute of Accountants. Mr Galea sits on the Accountancy Board, which is the accountancy profession regulator in Malta. He founded and served as Managing Partner and Chairman of Ernst & Young in Malta specialising mainly in auditing, until his retirement in 2012. He also served on the Council of the Malta Institute of Accountants as Officer and President and on the Council of the Federation des Experts Comptables Europeens (FEE). More recently, he began serving as independent non-executive director on the boards of a number of companies listed on the Malta Stock Exchange. Served as Chairman of the Malta Resources Authority. Serves as a member or chairman on a number of audit committees in both regulated and non-regulated sectors. He is engaged also in assisting the boards of a number of family businesses with governance, organisational and financial matters. Sits on a number of finance committees and currently serves as Chairman of the Ethics Committee and member of the Anti-Money Laundering Committee of the Malta Institute of Accountants.

Kenneth Mizzi

Non-Executive Director

Director on the Board since April 2008. A qualified Chartered Accountant, after working with Touche Ross in London he returned to Malta to join his family's business in 1971. He has served as Director on the Board of the Malta Development Corporation (1978-1980) and a number of other parastatal companies. He also served as Director on the Board of Mid-Med Bank Limited and of HSBC Fund Management (Malta) Limited. He is also Managing Director of SAK Limited, franchisee of The Body Shop in Malta, Managing Director of Muscats Motors Limited, United Acceptances Finance Limited and a Director of a number of other Mizzi Organisation companies.

Maurice Mizzi

Non-Executive Director

Director on the Board since April 2008. He read law at the University of Malta where he obtained a Diploma of Legal Procurator. He joined his family business in 1957 and was appointed on the Board of a number of Mizzi Organisation companies. He is currently Managing Director of Continental Cars Limited, Mizzi Limited and Titan International Limited. He has held a number of chairmanships for the government including Mediterranean Film Studios (1984-1990) and the Malta Development Corporation (1997-1998). He has been Honorary Consul of Iceland since 1978. He also served as a Director on the Board of Plaza Centres p.l.c., Allcom Limited, Technical and Management Services Limited, Datatrak Holdings p.l.c., Datatrak Systems Limited, Datastream Limited, and Maltacom p.l.c. He is currently also inter alia Director of Mizzi Associated Enterprises and President of Mizzi Organisation and of the Maltese Chinese Chamber of Commerce.

Mark Portelli

Non-Executive Director

Director on the Board since April 2008. A graduate in Economics from the University of Manchester. He has served as Executive Chairman of the Malta Freeport Corporation between 2002 and 2013 and as Chairman of the Grand Harbour Regeneration Corporation and Transport Malta between 2007 and 2013. He is currently employed as Chief Executive Officer of MIDI p.l.c. and he serves as a non-executive director of a number of companies.

Charles Borg

Non-Executive Director

Mr Borg, a fellow of the Chartered Institute of Bankers (UK), holds a Banking and Finance Honours Degree and a Masters Degree in Financial Services from the University of Malta. He enjoyed a 34-year career at Bank of Valletta p.l.c. until December 2015. During this time he occupied various senior management positions, including that of Chief Executive Officer from 2012 to 2015. Prior to that, Mr Borg also served as Chief Officer, Financial Markets and Investments at BOV, with responsibility for all retail and wholesale funding of the BOV Group, as well as the management of BOV's treasury portfolio. Mr Borg also served as a Director of Valletta Fund Management Ltd, of which he was also General Manager, Valletta Fund Services Limited and BOV Investments Limited. In addition, Mr Borg served as a Director on other listed companies on the Malta Stock Exchange, including Mapfre Middlesea Insurance p.l.c. He also chaired the Audit Board of the European Investment Fund, a subsidiary of the European Investment Bank. He served as a Director on the World's Savings Bank in Brussels and was also the President of the Institute of Financial Services and the President of the Malta Bankers Association. Mr Borg is currently the CEO and an Executive Director of PG p.l.c. which has recently been listed on the Malta Stock Exchange and holds a number of other non-executive directorship positions in Malta. Apart from serving as a Non-Executive Director of BNF Bank p.l.c., Mr Borg will also be chairing the Bank's Credit Approvals Committee.

Juanita Bencini

Non-Executive Director

Ms Bencini is an ex-KPMG partner where for 17 years she headed Risk Consulting Advisory within the Malta practice and for seven years was also Head of Risk Consulting within the KPMG international region of which the Malta practice forms part. Today, she works as a consultant to the financial services industry and is a professional director on boards of regulated entities. Her area of expertise include risk management, financial services regulation, corporate governance and AML. She has also served as President of the Institute of Financial Services Practitioners and remains a Council Member. She acts as Chair of the AML Committee of both the Institute of Financial Services Practitioners and the Malta Institute of Accountants.

Paul Johnson

Non-Executive Director

Mr Johnson has a wealth of experience in Banking and other Financial Service industries where he occupied various senior management roles and served on a number of boards. Mr Johnson first joined the Royal Navy where he gained experience in a wide variety of activities including technology, operations and change across a number of sectors including IBM Consultancy. His recent Senior and Executive positions have included, Chief Information Officer and Chief Operations Officer at GMAC, Lloyds Bank and Aldermore Bank. Mr Johnson was also involved in the design and setup of a FinTech Blockchain-based Bank. In addition to serving on BNF's Board, he is also an Independent Non-Executive Director on the Board of a regulated Bank in the UK.

Hassan El-Sayed Abdalla

Non–Executive Director

Governor of the Central Bank of Egypt (CBE) since 2022, Mr El-Sayed Abdalla also serves as Chairman of Union de Banques Arabes et Françaises (UBAF). Prior to his joining the CBE, Abdalla founded and led Panther Associates, a boutique investment advisory and private equity firm and chaired both United Media Services (UMS) and Misr Spinning and Weaving (Al-Mahala Al-Kubra).

During his over thirty years of experience, Abdalla served as Vice Chairman and Managing Director at Arab African International Bank, from 2002 until 2018, and held board seats in several reputable and international organizations including but not limited to the Central Bank of Egypt, the Egyptian Stock Exchange, the Egyptian National Competitive Council (ENCC), the Arab Business Council of World Economic Forum, the Institute of International Finance (IIF), the IIF Emerging Markets Advisory Council (Washington DC), and the London Stock Exchange's London Africa Advisory Group.

He obtained his Bachelor's and Masters degrees from the American University in Cairo (AUC).

*Mr Hassan El-Sayed Abdalla appointed as a Director with effect from 28 June 2022.

Executive Committee

David Power*

Chief Executive Officer

Mr Power began his career at Standard Bank of South Africa, where he spent 17 years holding several senior positions including Head of Priority Banking and the Offshore Banking Group. After this he served as Divisional Director for Private Banking at Nedbank, South Africa and then moved to Kuwait as the Deputy General Manager of Gulf Bank. He also held the positions of Group Chief Retail and Private Banking Officer for the National Bank of Oman and Head of Retail Banking for Commercial Bank International, Dubai. Mr Power was also the Group Chief Retail and Private Banking Officer of Kuwait Finance House, Kuwait and later, Chief Executive Officer of Kuwait Finance House, Malaysia.

He has worked in multiple jurisdictions, including South Africa, the Middle East, Southeast Asia and the UK, holding several executive positions with responsibility for a wide variety of functions including Retail, Commercial, Small Business, Private Banking, Wealth Management and Offshore Banking. David is a graduate of the University of Cape Town, South Africa and has several post graduate diplomas. He has a CPIF (Chartered Professional in Islamic Finance), from CIFF Malaysia, an MDP from Ashridge, UK, a PIM from Henley, UK and an OWP from IMD Switzerland.

*Mr David Power appointed with effect from 1 January 2023.

Michael Anthony Collis**

Former Chief Executive Officer & Managing Director

Mr Collis has extensive banking experience having worked in the banking industry in the UK and Middle East in excess of thirty years. During this time he served on various bank boards and held senior positions in a number of banks with responsibility for a range of activities including retail and wholesale banking, corporate finance and private banking. He has served as CEO and Executive Director of Ahli United Bank (UK) Limited, a UK licensed bank regulated by the FSA. He also served as Senior Deputy Group CEO of Ahli United Bank B.S.C. (Bahrain). Prior to that, he served as executive director and head of European corporate finance at Nikko Bank, a UK licensed bank regulated by the FSA. He originally started his banking career with Lloyds Bank p.l.c and subsequently joined Mizuho Bank where he held various senior positions and headed the bank's UK corporate banking and corporate finance activities for over ten years.

Prior to this latest appointment, Mr Collis served as Chief Executive Officer of Al Faisal International for Investment QPSC (Qatar), the ultimate majority shareholder of the Bank, a position which he has since relinquished. He had occupied this position since 2015 during which time he was also responsible for AFII's proprietary trading and strategic financial investments, including the acquisition of Banif Bank (Malta) p.l.c. in 2016.

** Mr Michael Anthony Collis retired with effect from 31 December 2022.

George Debono

Chief Commercial Officer

Mr Debono has more than 20 years experience in the financial services industry, during which he occupied senior management roles, predominantly within HSBC's Commercial Banking, Retail Banking and Risk sectors. In 2010, Mr Debono was entrusted with the establishment and management of HSBC Malta's first Premier Centre. Subsequently, he held various senior roles within HSBC's Commercial Banking, heading its International Banking Unit, Mid-Market Enterprises and Corporate Real Estate and Hotels sector. In the role of Chief Commercial Officer at BNF Bank, George Debono leads the Commercial Banking Department, Business Development Department, Treasury Department and International Banking Unit.

Mr. Debono holds a Masters Degree with Distinction in International Banking and Finance from the University of Salford, Manchester, taught by Robert Kennedy College, Switzerland.

Mark Micallef

Chief Financial Officer

Mr Micallef was Deloitte Malta's Banking Advisory Leader, with his specialist areas being banking risk, regulation, strategy and finance. Throughout his career, Mark has assisted banks and prudential regulators on various exercises ranging from risk governance and business strategy to supervisory credit risk and asset quality reviews.

Mark's finance experience extends from Malta across international borders within the European market, such as the UK, Germany, Slovenia and Bulgaria. An auditor by profession, Mark is a Malta CPA warrant holder and a fellow member of the Association of Chartered Certified Accountants.

In the role of Chief Financial Officer, Mark is responsible for the financial governance of BNF Bank together with statutory and regulatory reporting, management reporting, budgets and forecasts, investment appraisal, taxation and investment operations.

Maruska Buttigieg Gili*

Chief Risk Officer

Ms Buttigieg Gili joined BNF Bank p.l.c. at its inception, setting up the Bank's Compliance and Internal Audit functions. She also occupied the roles of Money Laundering Reporting Officer and Compliance Officer. Subsequently, she was appointed Head of the Internal Control Department responsible for the Legal and Compliance Unit, the Risk Control and Oversight Unit and the Credit Analysis Unit.

Prior to joining the Bank, Ms Buttigieg Gili worked at the Central Bank of Malta for over 12 years. During this period, she occupied various positions within the Bank's Human Resources and Economic Statistics departments. She represented the Central Bank of Malta on various working groups of the European Central Bank in relation to statistics.

Ms Buttigieg Gili graduated in Financial Services (UMIST) and holds a Masters in Economics from the University of Malta.

* Ms Maruska Buttigieg Gili resigned with effect from 30 December 2022.

Dr Jean Noel Cutajar

Chief Legal Officer

Dr Jean Noel Cutajar is a lawyer by profession with his areas of expertise being focused on banking, finance and corporate law.

Further to obtaining his Doctorate of Laws from the University of Malta in 2010, Dr Cutajar also attained a Masters in Laws degree specializing in banking and finance from the University of London in 2017.

Throughout his career Dr Cutajar occupied the position of company secretary in different companies and held various roles at the Central Bank of Malta and HSBC Bank Malta p.l.c., amongst others.

Dr Cutajar also heads the Bank's Legal Department and is a visiting lecturer at the University of Malta.

Daniel Cutajar

Chief Technology Officer

As Chief Technology Officer, Mr. Daniel Cutajar is responsible for the implementation of the Bank's IT strategy and digital transformation.

Prior to joining BNF Bank, Daniel was Head of Information Technology at Ferratum Bank, responsible for the IT function and overseeing the Bank's IT strategy, IT governance, business continuity and outsourcing agreements.

Mr. Cutajar was a member of Ferratum Bank's Executive Committee and the Group IT Management Committee.

He also chaired the Bank's IT GRC (IT Governance, Risk & Compliance) Committee.

Mr. Cutajar is an IT professional with over 23 years of experience in the Maltese financial services industry holding various senior technical and management roles throughout his career. Mr. Cutajar holds a Master degree in Business Administration eBusiness from the University of Malta.

Directors' Report

Directors' Report

The Directors present their annual report together with the audited financial statements of the Bank for the year ended 31 December 2022.

The Directors who served during the year are listed in the General Information section.

Principal activities

BNF Bank p.l.c. was incorporated as Banif Bank (Malta) p.l.c. and licenced to operate as a credit institution in terms of the Banking Act, Cap. 371 of the Laws of Malta on 27 March 2007. On 4 October 2016, following the non-objection of the European Central Bank by virtue of a decision dated 12 August 2016 made pursuant to Articles 4(1)(c) and 15(3) of Council Regulation EU no. 1024/2013, Article 87 of Regulation (EU) no. 468/2014 of the European Central Bank (EC/2014/17) and Article 13(1) and Article 13A of the Banking Act (Cap. 371 of the laws of Malta), a controlling stake was purchased by Al Faisal International for Investment Malta Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar. The Bank's name was subsequently changed to BNF Bank p.l.c. On 3 July 2018 Al Faisal International for Investment Malta Limited changed its name to JUD Investment Group Limited. At 31 December 2022, JUD Investment Group Limited owned 92.4% of the ordinary shares of BNF Bank.

The Bank provides a comprehensive range of retail and commercial banking services through a network of twelve branches and a corporate and business centre in Malta, and a branch in London.

BNF Bank employed an average of 251 people throughout 2022 and served over 40,000 customers. The Bank's long-term strategic objective continues to be that of conservative, robust, and profitable growth.

As always, BNF remains committed to offering its customers the best possible standard of service, and peace of mind that their finances are in good hands. Good governance remains a top priority for BNF Bank; the Statement of Compliance with the Principles of Good Corporate Governance in this Annual Report details the Bank's governance structures.

Subsequent to the end of the reporting period, a net dividend of €0.041 per nominal share of €0.7552, for a total amount of €4,036,726.50, is being proposed by the Board of Directors to be distributed to the shareholders for the twelve months ended 31 December 2022. A resolution to this effect will be proposed at the Annual General Meeting, subject to regulatory approval.

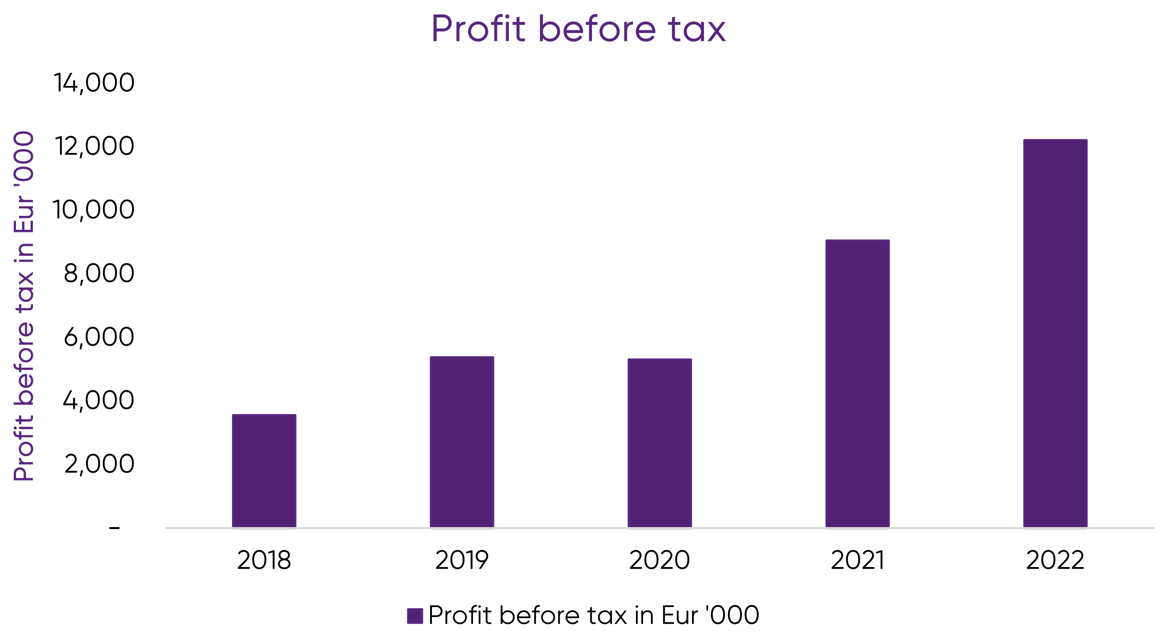
A review of the Bank's financial performance for 2022 is set out overleaf.

Profitability

Profitability for 2022 continued the upward trend experienced in recent years, with a profit before tax of €12.2 million (2021: €9.1 million). The main contributor to increased profitability was net interest income, which was 14% higher in 2022 than 2021. Net operating income amounted to €30.1 million (2021: €27.2 million).

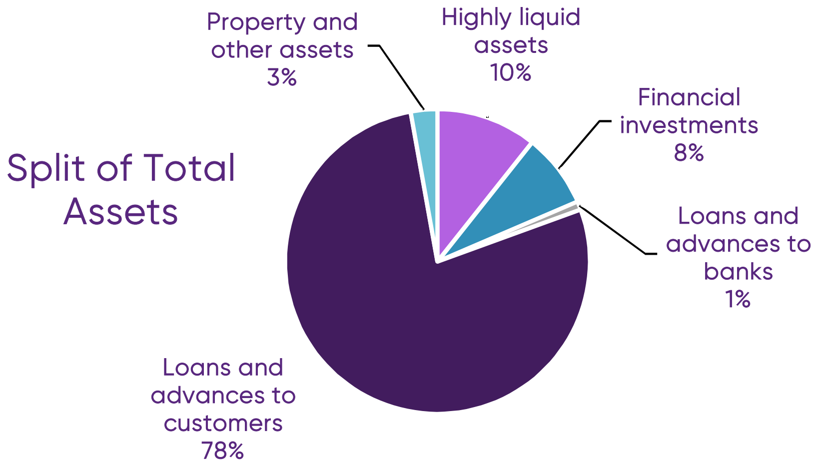
Operating expenses amounted to €18.6 million in 2022 (2021: €17.1 million), and the cost-to-income ratio improved to 61.7% (2021: 62.9%).

Credit impairment gains of €0.7 million in 2022 (2021: losses of €1.1 million) reflected the Bank's improving asset quality and was testament to a cautious provisioning stance in recent years. For detail on 2022 and 2021 IFRS 9 staging and expected credit losses, refer to the financial risk management disclosures in Note 3 to the Financial Statements.



Financial position

Total assets grew by 15.8% and totalled €1,163.0 million as of 31 December 2022 (2021: €1,004.7 million). Total asset growth of €158.3 million was funded primarily with an increase in amounts owed to customers of €147.3 million, a subordinated bond issue of €20.0 million, and an increase in total equity of €2.6 million. Amounts owed to banks and other institutions decreased by €19.3 million.



The largest and main income-producing asset portfolio on 31 December 2022 remained loans and advances to customers, which made-up 78% of total assets. Loans and advances to customers comprised of net corporate lending amounting to €321.8 million (2021: €300.3 million) and net retail lending amounting to €581.9 million (2021: €492.8 million). During 2022 the percentage of total loans and advances to customers which were credit-impaired decreased from 4.1% to 2.6%, and the total credit-impaired exposure amounted to €24.2 million (2021: €33.3 million). Exposure to credit-impaired loans and advances to customers was mitigated with collateral amounting to €18.1 million (2021: €27.3 million), and loss allowances of €11.9 million (2021: €12.2 million).

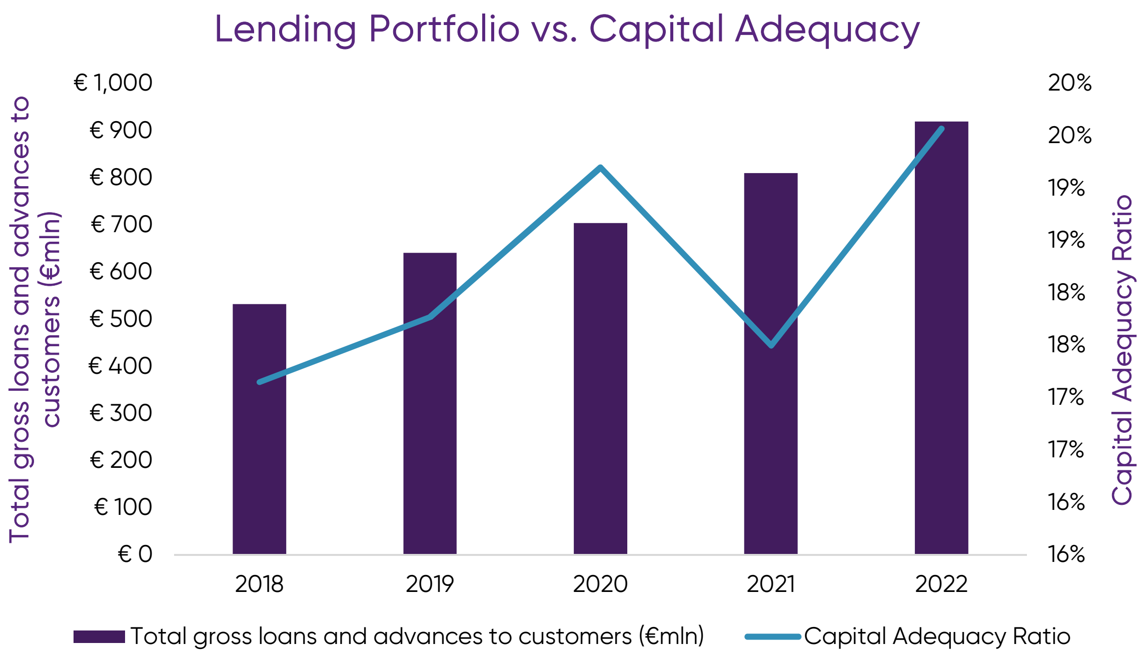
As disclosed in further detail in Note 3 to the Financial Statements on financial risk management, loans and advances to customers on 31 December 2022 and 31 December 2021 were classified as follows under IFRS 9 staging criteria:

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
2022				
Gross carrying amount	861,600	33,668	24,216	919,484
Loss allowance	(2,665)	(1,224)	(11,907)	(15,796)
Carrying amount	858,935	32,444	12,309	903,688
Coverage ratio	0.3%	3.6%	49.2%	1.7%
2021				
Gross carrying amount	742,397	33,815	33,336	809,548
Loss allowance	(2,572)	(1,700)	(12,183)	(16,455)
Carrying amount	739,825	32,115	21,153	793,093
Coverage ratio	0.3%	5.0%	36.5%	2.0%

During 2022 loss allowance coverage ratios remained cautious and the Bank retained a temporary conservative overlay in provisioning by means of a post-model adjustment. For further detail on the post-model adjustment refer to Note 3.

BNF Bank's liquidity position remained robust throughout 2022, and the Bank continued to operate diversified sources of funding. The Liquidity Coverage Ratio as of 31 December 2022 was 237.7% (2021: 129.1%), and the Net Stable Funding Ratio was 139.8% (2021: 130.8%). The Bank's main source of funding remained retail and commercial deposits from the Maltese market, although the Bank also continued to strengthen its partnership with online deposit platforms to raise Euro and Pounds Sterling funding from German and UK retail depositors, respectively.

The Bank's Capital Adequacy Ratio as of 31 December 2022 was 19.6% (2021: 17.5%) and the Common Equity Tier 1 Ratio was 14.6% (2021: 15.6%), both well above overall capital requirements and supervisory pillar two guidance.



Risk management

Note 3 to the Financial Statements, Financial Risk Management, illustrates the process of how the Bank identifies and manages its risks and uncertainties. The risks described in Note 3 are credit risk, market risk, liquidity risk, operational risk, capital risk management, and environmental, social and government risks. The same note includes extensive detail of the processes undertaken by the Bank to manage these risks.

In March 2023, the international financial sector was hit by stress events resulting in the collapse of a number of U.S. Regional Banks, and in a government brokered deal between two major banks in Switzerland. This resulted in financial markets turmoil, with BNF Bank having no direct exposure to the institutions involved, and at the date of this report the Bank does not expect to be materially impacted.

Disclosure in terms of the Sixth Schedule to the Companies Act, Cap. 386 of the Laws of Malta.

During the year ended 31 December 2022, no shares in the Bank were:

- Purchased by it or acquired by it by forfeiture or surrender or otherwise.
- Acquired by another person in circumstances where the acquisition was by the Bank's nominee, or by another with the Bank's financial assistance, the Bank itself having a beneficial interest.
- Made subject to pledge or other privileges, to a hypothec or to any other charge in favour of the Bank

Preparation of financial statements and Directors' responsibilities

The directors are required by the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- Ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- Selecting and applying appropriate accounting policies;
- Making accounting estimates that are reasonable in the circumstances; and
- Ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Banking Act, 1994 and the Companies Act, 1995. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of BNF Bank plc for the year ended 31 December 2022 are included in the Annual Report 2022, which is published in hard-copy printed form and may be made available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Going concern pursuant to Capital Markets Rule 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 which show that the Bank is able to continue operating as a going concern for the foreseeable future. These conditions include stressed scenarios reflecting the uncertainty due to the war in Ukraine, as well as other potential impacts from top and emerging risks such as supply chain disruptions resulting in inflationary pressures and increasing interest rates. In addition some uncertainty remains surrounding the global recovery from the COVID-19 pandemic.

Information pursuant to Capital Markets Rule 5.64

The Bank does not have any listed securities carrying voting rights.

Statement of the Directors pursuant to Capital Markets Rule 5.68

The Directors confirm that, to the best of their knowledge:

i. The financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

ii. The Annual Report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties faced.

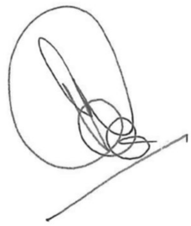
Statement of Responsibility by the Directors pursuant to Capital Markets Rule 5.68

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 that this report includes a fair review of the performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf on 27 March 2023 by



DAVID POWER
Chief Executive Officer

MICHAEL FRENDO
Chairman

Statement of Compliance with the Principles of Good Corporate Governance

Statement of Compliance with the Principles of Good Corporate Governance

Pursuant to Capital Markets Rule 5.97 as issued by the Malta Financial Services Authority, BNF Bank p.l.c. hereby includes a Statement of Compliance reporting on the extent to which the Bank has adopted the Code of Principles of Good Corporate Governance appended as Appendix 5.1 to the said Capital Markets Rules (the 'Principles') and the effective measures that the Bank has taken to ensure compliance with these Principles during the financial year under review.

This statement is divided into two sections with the first section indicating the extent to which the Bank has adopted the Code, and the second section identifying a specific divergence from the Code and reasons for such.

SECTION 1 – COMPLIANCE WITH THE CODE

PRINCIPLE 1 - THE BOARD

The affairs of the Bank are directed by the Board of Directors (the 'Board').

The Bank's Board includes a mix of distinguished individuals in diverse business sectors. All directors hold or have previously held key management positions in various local and international organisations.

The Board delegates responsibility for the Bank's day-to-day management to the Executive Committee ('Management'), and certain other responsibilities to the Audit Committee, the Risk Committee, the Compensation and Nomination Committee and the Credit Approval Committee. Further detail on committees is available under Principle 4 below.

PRINCIPLE 2 - CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chief Executive Officer and the Chairman of the Board are separate and distinct and are held by different individuals.

The Chairman leads and sets the agenda of each Board meeting and is responsible to ensure that the Board engages in effective discussion and takes informed decisions. The Chairman is also responsible to ensure effective communication within the Board, and with Management and the shareholders.

The Chairman meets the independence criteria set out in the Code.

The CEO leads the Executive Committee and is responsible to drive performance in line with the strategy set by the Board.

PRINCIPLE 3 - COMPOSTION OF THE BOARD

The Board is composed of an independent non-executive chairman, one executive director (ED)[1], seven non-executive directors (NED) and three independent non-executive directors (INED).

The shareholders are empowered to appoint or remove directors to the Board in accordance with the Bank's Articles of Association. The appointment of new directors is carried out by using a transparent approach, after taking into consideration diversity of knowledge, judgment and experience. Each Director's appointment undergoes a due diligence process by the Malta Financial Services Authority to establish whether they are fit and proper pursuant to the Banking Act.

The Directors who served on the Board during the period under review were the following:

Dr Michael Frendo – Chairman	INED
Sheikh Mohamed Feisal Q.F. Al-Thani - Deputy Chairman	NED
Sheikh Turki Feisal Q.F Al-Thani	NED
Mr Michael Anthony Collis - Chief Executive Officer and Managing Director*	ED
Ms Juanita Bencini	INED
Mr Charles Borg	NED
Mr Mario P. Galea	INED
Mr Paul Mark Johnson	INED
Mr Kenneth C. Mizzi	NED
Chev. Maurice Mizzi	NED
Mr Mark Portelli	NED
Mr Hassan El-Sayed Abdalla*	NED

**Mr Hassan El-Sayed Abdalla appointed as a Director with effect from 28 June 2022.*

**Mr Michael Anthony Collis retired with effect from 31 December 2022.*

The remuneration paid to the Directors is as established by the Bank's shareholders and discussed at the Compensation and Nomination Committee.

PRINCIPLE 4 – RESPONSIBILITIES OF THE BOARD

The Board is responsible for ensuring that the roles of corporate responsibility, namely accountability, strategy formulation and policy development are implemented throughout the Bank. The Board also sets the Bank's values and standards, and understands that high ethical standards are required in its decision-making process. Decisions and strategies formulated by the Board seek to encompass the interests of all stakeholders including the Bank's customers, shareholders and employees.

The Board regularly reviews the Bank's performance against approved budgets, and sets targets. The Board also considers credit decisions falling within its credit sanctioning limits, which includes all credit where any director has a direct or indirect interest. Each director informs the Board of the nature of any direct or indirect interest, and does not participate in the respective discussion or voting.

[1] Retired with effect from 31st December 2022

Board Committees

The Board of Directors has delegated certain responsibilities to the following committees:-

The Audit Committee

The Audit Committee is responsible for monitoring the financial reporting process in order to ensure the integrity of the Bank's financial statements. Furthermore, the Audit Committee reviews and reports on estimates and judgments in the Bank's financial information, and on any significant financial reporting issues. The Audit Committee advises the Board on whether the annual report and accounts of the Bank are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Bank's performance, business model and strategy.

The Audit Committee, through its review and assessment of the work of the internal auditor, provides information, direction and recommendations to the Board about the operation of controls implemented by management as well as their completeness and effectiveness.

The Audit Committee also reviews and monitors Management's actions and timeliness in addressing control weaknesses, non-compliance with laws, regulations and policies, and any matters identified by internal and external auditors. The Audit Committee follows closely correspondence with regulators and management actions.

The Internal Audit function reports specifically and exclusively to the Audit Committee. The Audit Committee frames the policy on internal audit, and subsequently monitors and reviews the effectiveness, independence and objectivity of the Bank's Internal Audit function.

Furthermore, the Audit Committee oversees the Bank's relationship with the external auditors and assesses the effectiveness of the external audit process. It makes recommendations to the Board of Directors regarding the appointment of the Bank's external auditors, their remuneration and terms of engagement.

The Audit Committee also oversees the function of the Bank's Whistleblowing Reporting Officer and the effectiveness of the Bank's whistleblowing procedures.

In terms of Capital Markets Rules 5.117, 5.118 and 5.119, the Audit Committee is made up of three non-executive Directors appointed by the Board, the majority of which are independent. The Committee as a whole has competence relevant to the sector/s which the Bank operates in, and all members of the Committee have significant recent and relevant experience in financial reporting, auditing and/or accounting.

Members

The Audit Committee is composed of the following members:

- Mr Mario P. Galea – Chairperson
- Mr Paul M. Johnson
- Mr Mark Portelli

The Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Whistleblowing Reporting Officer and representatives of the Bank's External Auditors attend the Audit Committee meetings by invitation. The Head of Internal Audit Function also attends the meetings of the Audit Committee. The Audit Committee follows closely correspondence with regulators and management actions.

Various one-to-one meetings are also held regularly between the Chairperson of the Audit Committee and members of Management.

The Risk Committee

The Risk Committee monitors and reviews risk exposure, and Management's risk processes and strategies. Any risk identified falls within one of the following categories:

- Financial risk
- Market risk
- Credit risk
- Operational risk (including relating to the prevention of money laundering and funding of terrorism)
- Reputational risk

The Risk Committee recommends the risk appetite framework in line with the Bank's strategy, and regularly reviews the Bank's risk profile taking into account the current and prospective macroeconomic, macro-prudential and financial environment. Risk strategies are discussed on both an aggregate basis, as well as by type of risk. The Risk Committee follows closely correspondence with regulators and management actions.

The Risk Committee reviews and considers reports from the Risk Management and Compliance functions to ensure good standing of the Bank's risk profile, risk culture, risk appetite and limits, and risk mitigation plans.

The Risk Committee reviews and advises the Board on the liquidity adequacy assessment and internal capital adequacy assessment process (ILAAP and ICAAP), and endorses statements in relation to risks in the annual report. Furthermore, the Risk Committee actively participates in the annual review of the Bank's Business Risk Assessment and in the review of policies relating to the prevention of money laundering and funding of terrorism. The Risk Committee advises and where necessary, updates and approves, any recommendations of the Audit Committee to the Board, relating to any financial or operational risk policy statements required by law or regulation.

The Risk Committee is currently made up of three non-executive directors whose combined skills are sufficient to address all the above risk categories:

Members

- Ms Juanita Bencini - Chairperson
- Mr Mario P. Galea
- Mr Charles Borg

The Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Head of Risk and Compliance Function attend meetings of the Risk Committee by invitation.

Various one-to-one meetings are also held regularly between the Chairperson of the Risk Committee and members of Management, the Head of Risk and Compliance Function/the Compliance Officer and the Bank's MLRO.

The Compensation and Nomination Committee

Information on the functions of this Committee is considered under Principle 8.

The Credit Approval Committee

The Credit Approval Committee is responsible for assessing credit facilities and taking credit decisions within certain monetary and risk bands.

The Credit Approval Committee is made up of three directors appointed by the Board with experience in credit.

Members

- Mr Charles Borg - Chairperson
- Mr Michael Anthony Collis (*Retired with effect from 31st December 2022)*
- Mr Mark Portelli

The Chief Commercial Officer, the Head of Credit Analysis Function and senior representatives of the Bank's Commercial Function attend the Committee meetings by invitation.

Management Committees

The Executive Committee

The Executive Committee is composed of six members; the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Commercial Officer, the Chief Legal Officer and the Chief Technology Officer.

Formulation of risk strategies and risk profiles, including policies conducive to the achievement of organisational goals, are the responsibility of the Executive Committee, however implementation is delegated to the Departmental Heads through a formally documented organisational structure with clear and transparent demarcation of functional responsibilities. The Executive Committee is also responsible for assessing credit facilities and taking credit decisions as prescribed in the Bank's credit policy.

Various senior members of the Bank's management attend the meetings of the Executive Committee by invitation.

The Executive Committee has established the following management committees within the Bank:

The Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) meets on a monthly basis to analyse financial information and to assess the impact that the various types of risks arising from changes in interest rates, exchange rates and the market, have on the profitability of the Bank and the various other components of the financial statements. This Committee also monitors the commercial activity of the Bank, reviews risks to liquidity and capital, and plays a vital role in the management and mitigation of the same risks.

The ALCO is made up of the Members of the Executive Committee, the Head of the Treasury Function, the Head of the Business Development Function, the Head of the Retail Function, the Head of the Corporate Function, the Head of the Financial Management Function and the Head of the Risk and Compliance Function. Other Bank officials may be invited to attend meetings depending on the agenda to be discussed or when determined by the Committee.

The Investments Committee

The Investments Committee (IC) meets with the aim to discuss the investment strategy and specific investments for the Bank's proprietary portfolio. The objective of the Committee is to achieve returns for the Bank in line with the Bank's liquidity, capital adequacy, risk and profitability goals.

The Investments Committee meets at least once every two months. It includes Members of the Executive Committee and the Head of Treasury Function.

The Credit Committees

These Committees are responsible for assessing credit facilities and taking credit decisions within certain monetary and risk bands. The Committees are coordinated at three different levels, each assigned a sanctioning limit under which they operate. If a divergence in the respective committee level exists, the lending decision would need to be taken one authorisation level upwards.

The Committees meet as frequently as necessary and comprise of officials from the Commercial Function and the Credit Analysis Function. Each Committee is chaired by the Credit Analysis Function member.

The Products Oversight Committee

The Products Oversight Committee's main purpose is that of discussing and implementing projects in relation to new products, new services, channels and/or changes to existing products.

The Committee is made up of senior members from a number of functions, mainly Product Strategy, Corporate Banking, Retail Banking, Risk and Compliance, Credit Operations, Credit Analysis, Financial Management, Legal, Treasury and Information Systems. The Product Strategy function is responsible for the chairing and steering of this Committee.

The Environmental, Social and Governance Committee

The Environmental, Social and Governance (ESG) committee's main purpose is to define the Bank's practices relating to ESG matters. The committee is made of the Chief Risk Officer (Chairperson), Chief Commercial Officer (Deputy Chairperson), Chief Technology Officer, Head of Risk and Compliance Department, Head of Financial Management Department, Head of Business Development Department, Head of Human Resource, Properties and Administration Department, and Senior Co-Ordinator of Regulatory Compliance Unit.

Succession Policy (Code provision 4.2.7)

Code provision 4.2.7 recommends "the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility".

During 2022 the Bank established a Succession Policy that applies to the Bank's Board of Directors and members of the Bank's senior management. The Policy sets out the approach to ensure the continual coverage of duties which are critical to the ongoing operations of the Bank and sets out the approach adopted by the Board in planning for Board Member and Senior Management resignations and departures.

PRINCIPLE 5 – BOARD MEETINGS

The Board meets as often as necessary, at least quarterly, in order to discharge its duties effectively. The Chairman sets and circulates the agenda to all directors. The Chairman, in collaboration with the Company Secretary, also ensures that all supporting material is circulated to all directors well in advance of Board meetings, to give time to consider the information therein. The Chairman also ensures that directors participate actively in all Board meetings. During 2022, the Board of Directors met 15 times (refer to Note 11.1 in the Additional Regulatory Disclosures).

PRINCIPLE 6 – INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board of Directors in accordance with Code Provision 6 appoints the Chief Executive Officer and participates in the selection of the members of senior management. Board members have access to the advice and services of the Company Secretary who is responsible to ensure that the Board procedures and all applicable rules and regulations are followed. Furthermore, the Company Secretary ensures that the minutes faithfully record attendance, matters discussed, and decisions taken. Minutes of Board meetings are circulated to all directors and are approved at the subsequent meeting.

The Board and the Executive Committee ensure that the Bank properly recruits, retains, motivates and promotes senior management and staff, and that staff progress within their career streams.

The Board adheres to the Induction and Training Policy which regulates training and professional development undertaken by the Directors of the Bank.

PRINCIPLE 8 - COMPENSATION AND NOMINATION COMMITTEE

The Compensation and Nomination Committee is responsible for reviewing the remuneration policy of the Bank and for making any recommendations as the Committee deems appropriate in light of the general strategic interests of the Bank and regulations. The Compensation and Nomination Committee:

1. Sets the over-arching principles and parameters of the remuneration policy;
2. Considers and approves remuneration arrangements of senior executives and highly paid persons;
3. Monitors and reviews remuneration paid to the Chairman and other members of the Board of Directors, and makes recommendations to shareholders in General Meetings;
4. Approves annual pay increases and bonuses as recommended by Management;
5. Oversees any remuneration matters; and
6. Exercises the functions of a Board Nomination Committee.

The Compensation and Nomination Committee was made up of the following members:

MEMBERS	ATTENDED
Mr Paul Mark Johnson – Chairperson	8 out of 8
Dr Michael Frendo	8 out of 8
Mr Kenneth Mizzi	7 out of 8

Further information on the Bank's Remuneration Policy can be found in the Report of the Compensation and Nomination Committee.

PRINCIPLE 9 & 10 - RELATIONS WITH SHAREHOLDERS, THE MARKET AND INSTITUTIONAL SHAREHOLDERS

The Bank provides the market with regular, timely, accurate and detailed information in accordance with the requirements of the Capital Markets Rules by way of company announcements.

The Bank provides regular and timely information to its shareholders to enable informed decision-taking, and communicates results and strategy in the Bank's Annual Report.

The Board ensures that the interests of the Bank's shareholders are protected at all times. In addition, the Chairman ensures that the views of all shareholders are communicated to the Board.

The Bank has a Group-Wide Dealing Policy to give guidance to the Bank's directors and employees on procedures to be followed when dealing in the Bank's securities and on the treatment of inside information in line with the provisions of the Prevention of Financial Markets Act and any related subsidiary legislation and regulations.

PRINCIPLE 11 - CONFLICTS OF INTEREST

The Directors are aware of their responsibility to act in the best interest of the Bank and adhere to their obligation regarding conflicts of interest. Given that certain conflicts of interest arise naturally, the Bank has established a policy whereby any director experiencing such conflict of interest is to make a declaration to the Board of Directors. In such instances, the relative director neither participates in the discussion nor votes on the matter in question. The minutes of the Board duly reflect the manner in which such situations are handled.

PRINCIPLE 12 - CORPORATE SOCIAL RESPONSIBILITY

BNF's brand values are shared by the Members of the Board and Executive Management, and are instilled within the Bank's culture. BNF's brand values include:

- Ethical business practices: BNF is in the business of corporate and retail banking, and therefore has a role which is ingrained within society. BNF endeavours to operate ethically in all that it does;
- Investing in its people: The Bank invests in training and career development and believes in providing equal opportunities and desirable working conditions;
- Communication: BNF fosters a culture of open communication and inclusion;
- Maintaining a role in the development and progress of the local community: The Bank undertakes initiatives to contribute towards sections of society that are lacking in education, opportunity and inclusion. This value is observed through the Bank's product offerings and through the Bank's CSR Policy, which apportions a fund toward supporting various CSR projects; and
- Minimising carbon footprint: The Bank regularly reviews its purchasing policies and physical infrastructures to determine opportunities to minimise any environmental impact.

SECTION 2 – NON-COMPLIANCE WITH THE CODE

PRINCIPLE 7 – EVALUATION OF THE BOARD'S PERFORMANCE

Principle 7 "Evaluation of the Board's Performance" recommends that "the board should undertake an annual evaluation of its own performance and that of its committees". During the year under review the Board of Directors did not formally undertake the self-assessment in line with the Joint EBA and ESMA Guidelines. Although the annual evaluation was not undertaken, there were no major changes to the Board of Directors' composition.

SECTION 3 – INTERNAL CONTROL

The Board of Directors is ultimately responsible for internal control within the Bank. The Board of Directors delegates to the Executive Committee the authority to operate the Bank within limits established in the Executive Committee's Terms of Reference.

On a regular basis, the Bank issues policies and procedures to control and/or mitigate material risks. Policies are subject to a periodic review by the Board of Directors, and are enhanced in accordance with changes to the Bank's risk profile. Policies are subsequently circulated and adhered to by staff at all times, and are implemented through procedures designed by Management. All policies and procedures are available to all staff on the Bank's intranet. Any deviance from parameters set in policies or procedures is subject to sanctioning by the appropriate approval body.

The Bank adopts the three lines of defence model to risk management and internal control, further detail on which is set out in the Additional Regulatory Disclosures section of this Annual Report.

SECTION 4 – CORPORATE PHILANTHROPY AND COMMUNITY RELATIONS

BEING PART OF THE COMMUNITIES THAT WE SERVE

Our keen sense of Corporate Social Responsibility is driven by our strong values and commitment to actively contribute towards the advancement and wellbeing of society especially in the communities that we serve. As we position ourselves as a community bank, we devote special effort to the actions that we do. The direct interaction with our customers via our twelve branches throughout the Maltese islands, allows us to be as close as possible to our communities. BNF Bank employees are also encouraged to support the Bank's five major pillars; education, health, the environment, philanthropy, culture and heritage, to make an impact where it matters most.

SPREADING OUR IMPACT

With a view to support the fight to prevent cancer in Malta through medical research, the promise of ALIVE Charity Foundation can only become a reality with the support and donations from the public, to which we responded wholeheartedly. In a concerted effort towards this cause and to help improve the lives of people and children diagnosed with cancer, we also supported Puttinu Cares Foundation, a Foundation which firmly believes that every individual deserves to receive as much help and support as possible. By partnering with Smiling with Jerome, management and staff also supported breast and prostate cancer patients during the months of October and November, with the purchase of Chemo Bags of Hope to cancer patients at Mater Dei Hospital, to help bring some comfort during the long hours of treatment.

Alive Charity Foundation

Smiling with Jerome

Support was also extended to Beating Hearts Malta who provide patients diagnosed with a congenital heart defect (CHD) and their families the comfort and support they need to overcome their challenges. Although not all diagnoses of defects require treatment, this condition can directly affect one's overall health, requiring as much aid as possible from such associations. With inclusion at the heart of our values at BNF Bank, we also responded to Opening Doors Association's call for support to help ensure that the creative expression of people with intellectual disabilities is nurtured in theatre, dance, and music, creating a more inclusive future.

Opening Doors Association

Beating Hearts Malta

With education and wellbeing taking an important role in the Bank's CSR agenda, we supported FIDEM Charity Foundation with their community outreach and teaching programmes to build an accessible and trusted group of support, particularly for women and children. Donations were also directed to Dar Hosea who similarly offer support and assistance to vulnerable women subjected to sexual exploitation.

To address the increasing issue of homelessness in Malta, particularly during the holiday season and winter months, together with contributions from staff, we supported YMCA's Homeless Project. Relying heavily on public donations, the team at YMCA provide a warm and safe residential accommodation at their shelter 'Dar Niki Cassar' together with necessities and support to people with psychological difficulties. Funds were also directed to the volunteers at Soup Kitchen who offer support to the most vulnerable and marginalised individuals in our society, providing them with more than just a hot meal. With the increase of homelessness and hunger in Malta, the provision of essentials is highly needed to ensure that individuals benefitting from their services live a life with dignity.

More of our donations were directed towards yet another cause close to our people's hearts – the creation of a more humane society for pets to live in. Supported entirely by public contributions and volunteers, Island Sanctuary caters for the needs of many stray and abandoned dogs in Malta.

The Island Sanctuary

OUR CORPORATE PHILANTHROPIC EFFORTS

Through our philanthropic relationships, we support vulnerable individuals, including families, youth and young adults out of school and work, the elderly, individuals living with disabilities and suffering from health conditions, and those impacted by social injustice, to enjoy a better and improved quality of life.

BNF Bank supports the Malta Community Chest Fund under the auspices of the H.E, the President of Malta, which manages to reach out to so many deserving causes every year, by bringing the community together in an act of solidarity. We are proud of the emphasis placed on supporting meaningful initiatives that our own staff shed light on, with Cure GM1 Foundation being one close to our hearts. The Foundation seeks solutions for those who were born with this rare genetic condition that critically effects the nervous system and is sadly always fatal in children.

We have also extended our support to The Malta Trust Foundation to assist with the provision of various services to persons with disabilities in an effort for more societal integration. We actively supported the provision of a custom-made assistive device to children with disabilities, specifically the blind or severely visually impaired and for the non-verbal and autistic. This commitment which continues to underline our support to vulnerable sectors of society was also strengthened via our contribution to the Physically Handicapped Rehabilitation Fund (PHRF) who mirror our belief in inclusion and in offering the same opportunities and the best possible quality of life to all members of society.

Other organisations we assisted in 2022 were the Rotary Club Malta, a service club which enables assistance locally and abroad, and Dar Hosea who offer support and assistance to vulnerable women subjected to sexual exploitation, removing them from the prostitution cycle and ultimately help these vulnerable women regain self-worth while providing them with care, food, clothing, medical and housing assistance. We also supported the non-profit Emergency Fire and Rescue Unit (EFRU) with their Sicily Cycling Tour, supporting the team of volunteers on their fundraising mission for the association to continue providing their free invaluable service in emergency situations.

Emergency Fire and Rescue Unit

Our investment toward nurturing young football talent from grassroots to elite level comes through a commercial partnership with the Inħobb il-Futbol Foundation. Establishing a clear pathway towards youth development signifies our trust in the Foundation's commitment towards their strategic goal and for the amplified promotion of as much diversity as possible to continue to make this sport a unifying factor in our society. In sharing similar values of ambition and responsibility within the community, this year we extended our collaboration to further support the Foundation's female leagues allowing greater accessibility and increased participation in football, whilst striking a gender balance in relation to our support.

Inħobb il-Futbol Foundation

CULTIVATING APPRECIATION OF CULTURAL AND HISTORICAL HERITAGE

Malta is endowed with a vast cultural and architectural heritage testament to the various influences throughout thousands of years from pre-history until the recent past. The costs of studying, restoring and conserving heritage sites is immense and almost always requires the collaboration of various stakeholders. Throughout the year we extended our support to Fondazzjoni Wirt Artna, a voluntary organisation that recognises the value of safeguarding our natural environment and have continuously endeavoured to contributing towards the restoration, and ongoing protection of it. The preservation of our natural and cultural environment for now and future generations, is also on Din l-Art Helwa's maintenance programmes for the numerous sites it looks after, giving them new life within their original context.

Fondazzjoni Wirt Artna

Din l-Art Helwa

Malta and Gozo have become quite a blossoming hub for art and culture events assuring stakeholders and the general public of a packed calendar all year-round, covering art exhibitions, music events, concerts and theatre productions. Aligned with our CSR agenda is our pledge to incorporate our support of the art and culture scene through financial contributions to local theatre and musical productions. By supporting productions from Teatru Astra, Teatru Aurora and Teatru Manoel through its 'Malta Spring Festival' we uphold our commitment to strengthen this cultural aspect.

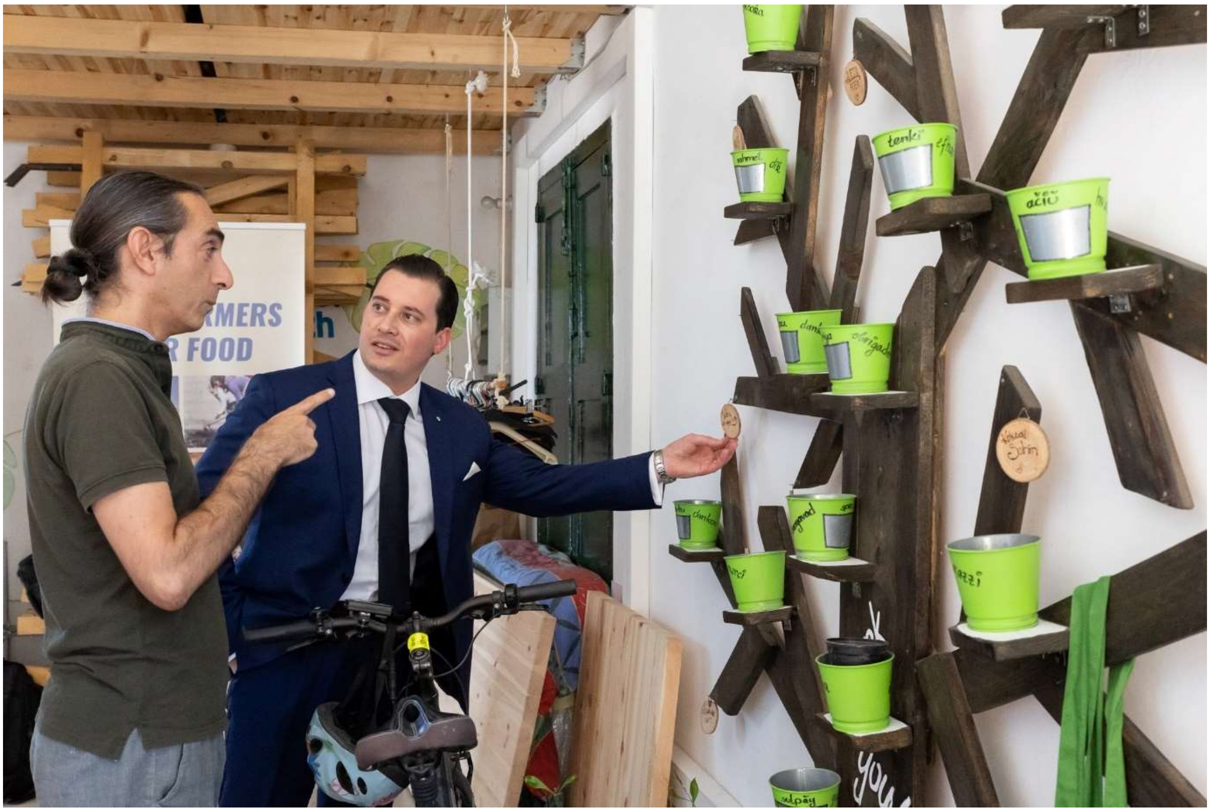
MINIMISING OUR ENVIRONMENTAL IMPACT

With environmental issues on the global agenda, we have increased our efforts to reduce the impact of our operations and move towards more sustainable work practices, with a dual focus: climate action and inclusive growth. As a baseline, we have formed an ESG Committee as part of the management governance structure, entrusted with setting the foundations for short, medium, and long-term targets. These targets relate to sustainability for the benefit of the Bank's future, as well as the community which we form part of.

Every year on the last Saturday of March, we unite with likeminded individuals and organisations around the world to support Earth Hour, one of the largest global initiatives in defence of the environment. On this day we take the opportunity to raise awareness about the importance of sustainability and showcase ways of how we can help protect our environment by switching off all ancillary lights at our twelve BNF branches for an hour.

In a concerted effort to reduce our carbon footprint and conserve energy, we transformed this yearly initiative into a longstanding one via the introduction of the BNF Lights Off Initiative. To help keep the planet brighter, we started turning off the lights on the outside of every branch from midnight until 6pm every day. Helping make the world a better place doesn't always have to be challenging and in honour of Earth Day, BNF employees were all presented with reusable bamboo straws, as part of a wider effort to promote re-usability and sustainability. We have also introduced indoor bicycle parking and storage lockers for staff, to encourage environmentally friendly commuting and healthy living.

Contributions were also made to Friends of the Earth Malta, a non-governmental organisation whom we assisted through personal donations for their continued promotion of sustainable development to help transform the future with the premise that we all have an equal part to play in protecting nature for the health of our community and future generations. We recognise that to share the benefits of a healthy planet, we must continue to raise awareness of environmental problems and encourage action.



Friends of the Earth

INVESTING IN SOCIETY THROUGH EDUCATIONAL SUPPORT

At BNF Bank we believe that every child should be given the chance to learn and improve their abilities through the powerful tool of reading. Concurrently, we believe that early reading is one of the best ways to get children and youths engaged in their education, allowing them to challenge themselves and tap into their full potential through the pages of a book. With this in mind, we collaborated with Malta Libraries where we donated level readers, publications in braille and dyslexic friendly and large print books within four local libraries across Malta. The objective of this initiative is to promote reading and literacy among the younger generation in both Maltese and English, whilst giving due attention to inclusivity, urging the public to visit local libraries more frequently.

BNF Bank remains committed to enhancing educational resources and in 2022 we also partnered with the National Literacy Agency, which supports child development via literary initiatives and creative expression. Through this partnership we supported the distribution of a new series of children's books titled 'Karamellu tar-Raħal t'Isfel', across primary schools in Gozo, a series which gives an account of lives gone by in a typical Maltese village, appealing to the younger modern generation. The real-life experiences penned by the author try to inspire children through reading, to be happy with what they have, even if it is limited, while at the same time continue to study and strive for a better life while also helping others.

Malta Libraries – Paola and Qormi Branch Managers

In collaboration with The Optimist of Malta, we enabled the launch of a new 'Ikber Magħna' hub located in Paola. With the full set up of two rooms at the Local Council premises, decked out with laptops, classroom furniture and embellishments, aimed at supporting children and young people in attaining an adequate level of education. The dedicated group welcomes children from the Paola catchment area during after-school hours within an ambience of support and opportunities for learning, with a focus on their homework and studies.

BNF BANK AS A TRUSTED PARTNER IN THE CORPORATE WORLD

EY

BNF Bank is an important player in driving business and providing corporate investment opportunities. Within this framework, our sponsorship in EY's Malta Future Realised Conference forms part of the Bank's overall strategic direction to enhance our position in the industry and to help shape a better future. Our former CEO and Managing Director Michael Collis participated in a panel discussion at the conference, where he shared the Bank's thoughts and ideas on Europe's current volatile landscape, as well as on Malta's competitive geopolitical landscape. With a focus on banking and financial services and the role such institutions may play in the economic outlook, we were optimally positioned together with top global speakers and influential industry leaders to discuss the future of foreign direct investment and the Maltese economy.

BNF Bank CEO & Managing Director panel speaker at the EY Future Realised Event

Malta Chamber of Commerce, Enterprise and Industry

We strive to ensure a business environment that is conducive to the success and prosperity of small and family businesses. Our partnership with the Malta Chamber which sees us sitting on the Family Business Committee is a significant step forward for the benefit of the Maltese business community and family businesses sector. Nurturing small businesses in Malta is another way of how BNF Bank gives back; by sharing our financial knowledge and expertise to open new pathways to financial literacy, access to capital, and business success during the Family Business Training Sessions. We also had the opportunity to meet with foreign business delegations looking for investment partners in Malta, and contributed to the Family Business Committee we contributed towards helping family businesses be at the forefront in adapting business processes, take better strategic decisions, be more flexible and efficient to adapt to the market they operate in.

Social Hub Entrepreneurs, Malta (SHE Malta)

Bringing women in business together to connect, engage, inform and inspire is SHE Malta's mission - one which we endorse at BNF Bank. We strongly believe that gender balance is an important aspect of diversity, providing access to the full talent pool. In today's world, women are paving new paths in various roles, with financial services moving towards gender balance – and this requires structural solutions and more thoughtful underlying cultural change. Our collaboration with SHE Malta is a step in the right direction towards amplifying our efforts and investment in increasing female participation.

CREATING VALUE FOR OUR CUSTOMERS

Our customers have been, and will remain, the focus of everything we do. With propositions that are simple, personal and fair that offer both security and a competitive edge to suit particular needs, we seek to cater for the varied needs of both our personal and business customers.

By adopting a customer-centric strategy, the team at BNF Bank focuses on personal relationships with customers based on listening, trust, transparency and loyalty. These relationships make the most of open conversations through which the team strives to understand customer aspirations and life plans with the promise to offer customers greater freedom, accessibility and an overall enhanced experience.

Thanks to Visa, we launched one of our most exciting campaigns which offered our credit card customers the chance to experience the greatest football event in the world. A randomly selected BNF Bank winner and guest were awarded a once-in-a-lifetime all-inclusive package to watch the semi-final matches at the FIFA World Cup, Qatar 2022™, courtesy of Visa. Card holders were also encouraged to participate and increase their chances of winning the grand 1st Prize of the Visa National Campaign for Malta, consisting of a trip for two persons to watch the final match and the 22nd FIFA World™ Final, which was successfully clinched by another BNF customer. Through this campaign we sought to enhance the seamless experience of the Bank's products and services that customers are already accustomed to, whilst increasing the use of the convenient and secure BNF contactless cards.

FIFA World Cup Qatar 2022 competition, courtesy of Visa

With technology playing a crucial role in delivering service excellence as more and more customers embrace the convenience of digitisation, the development of our digital touchpoints provides customers with greater freedom, accessibility, and an overall enhanced experience. To help our customers proactively monitor their accounts, we also introduced the BNF Debit Cards Transaction Notification SMS service giving debit card users instant free of charge SMS alerts for every approved or declined transaction or ATM withdrawal.

CULTIVATING A CULTURE OF WELLBEING

At BNF Bank, care starts with investing in our people's well-being which takes many forms. To truly foster a healthy and positive work environment, through Richmond Foundation's 'Staff Organisation Support Programme', we offer our colleagues confidential and free of charge invaluable psychological support for their mental well-being.

As an extension to the existing partnership with the Foundation we also introduced the 'Mental Health First Aid' programme, offered to staff developing a mental health problem, experiencing a worsening of an existing mental health problem or in a mental health crisis. We want our people to feel inspired and equipped to build a fulfilling career full of moments that matter without compromising their work-life balance and wellbeing.

RECOGNISING AND REWARDING THE SUCCESS OF OUR PEOPLE

At BNF Bank we promote a culture that appreciates and celebrates successes. Each year we line up a number of awards that recognise the work performance of exceptional team members and the remarkable behaviour that supports the Bank's business while embracing the vision, mission and values of the organisation.

During the annual awards ceremony we reward top performing employees for their ambition and outstanding achievements, further incentivising, engaging, and motivating the team to maintain the already high benchmarks and standards we have set in customer care and internal service excellence.

Whilst we recognise and award milestones for long-serving employees for their commitment and dedication, individuals and teams are further awarded based on their merit and peer recognition including the Employee of the Year. The CEO Prize rewards the best staff efforts towards creative and innovative ideas aimed at improving efficiency. Through the Internal Service Excellence Award, Best Performing Branch of the Year and Best Performing Corporate Banking Team of the Year, we also recognise outstanding teams, units, and branches that drive the Bank's business, operational and governance objectives and give an excellent service to both internal and external customers.

All Ideas Matter Award 2022

Internal Service Excellence Award 2022

Best Performing Branch Award 2022 – Paola Branch

Best Performing Corporate Banking Team 2022

Drawbridge Award 2022

Employee of the Year 2022

The CEO Prize Award 2022

A WINNING COMBINATION - DYNAMIC, ENGAGED AND TRUSTED

Trust is earned by doing the right thing. It is built by making commitments and keeping them, by always striving for better and delivering. We focus relentlessly on compliance with laws, regulations, and best practices. Our growing commitment to ESG values is apparent not only in our efforts towards sustainable finance, but also in our environmental responsibility to the world around us, through more efficient operations and community outreach.

As a bank with the ambition and aspiration to Building a New Future and take on new challenges in this dynamic environment, we strive to make a positive difference for our communities and our employees. Our efforts are led by a team of complementary professionals in their field of expertise, each with different roles within the company but united around a common goal.

As we endeavour to be clear and candid in our promise to our customers, we strive to add value by continuously deepening our knowledge of the industry and the financial community to stay at the pinnacle of modern financial market trends. Being recognised by organisations and publications of international repute reveals the importance given to four solid operational value-added elements - a focused banking model, a personalised customer service, a visible and trustworthy brand, and the perseverance, dedication and resilience of our staff.

BANK OF THE YEAR 2022

For the third consecutive year, The Banker, a publication of the Financial Times has recognised us for the top-quality tailor-made solutions that we provide and awarded us with the prestigious accolade 'Bank of the Year Malta 2022'. Selected for our financial performance and resilience despite challenges posed by the significant geo-political uncertainty within the macroeconomic environment, this award serves as testament to our dedication, commitment, and success, driving us to continue delivering an exceptional service.

Bank of the Year 2022 – Chairman, Directors & Executive Committee

Report of the Compensation and Nomination Committee

Remuneration Policy

BNF Bank p.l.c. has a Remuneration Policy in place, which is approved by the Board of Directors and is subject to annual review. The Bank's Remuneration Policy is drawn up in line with The Supervisory Review Process of Credit Institutions Authorised under the Banking Act, Banking Rule 12.

The Policy is intended to create guidelines for the Bank when offering remuneration and benefits to all the employees of the Bank and at the same time to ensure transparency in remuneration matters. It primarily aims at helping the Bank attract, retain and motivate high calibre employees within the context of the market in which it operates, keeping in mind the interest of the Bank, the shareholders and all other stakeholders. The Bank also carries a set of rules and procedures for the appraisal of performance, which are updated from time to time in line with operational requirements/realities.

BNF Bank p.l.c. remunerates employees through a system of:

- Fixed Pay for full-time and part-time salaried employees, within a published pay structure and dependant on employee's skills, experience and level of responsibility;
- Fees are payable to non-executive directors in line with the time and effort committed to the institution and industry practice;
- Benefits in kind are offered to the employees in the form of reduced fees, preferential interest rates and other benefits in line with industry practice; and
- Annual Bonuses as further detailed below.

The Bank's performance related reward system does not guarantee the levels of variable performance pay-outs to employees. On a yearly basis, the Bank's Board of Directors approve a fund for bonuses and salary increases, which reflects the efforts and the results achieved by the Bank on its short and longer-term goals. This is then distributed among employees in accordance with the Performance Appraisal Policy and Procedures and the Bank's Remuneration Policy.

The strategy of the Bank is to offer levels of variable compensation which do not incentivise excessive risk-taking, in comparison to the employee's fixed pay. This is intended to ensure that risks taken are within acceptable parameters and that employees follow the Bank's values and vision. Individual targets are set out in a way that encourage employees to achieve individual and group targets whilst improving personal skills and competencies.

In view of the proportion of performance related reward to fixed pay, it has hitherto not been the practice to apply deferred payment of such reward. Malus and clawback have not, to date, therefore been considered applicable.

Non-Executive Directors

Non-executive directors are not full-time employees of the Bank and do not receive a regular salary, allowances, pension rights or other benefits. The compensation for non-executive directors is based solely on a fee for their services together with reimbursement of any expenses made in the course of the Bank's business.

The Bank paid Non-Executive Directors compensation for the year 2022 was as follows:

	Chairman	Other Members
Compensation	€42,000	€198,000

Executive Committee

During 2022, the Bank's Executive Committee was made up of one Executive Director and five Chief Officers.

Material Risk Takers (MRT) Remuneration

Fixed and variable remuneration paid to MRTs is detailed in the table below and is aggregated by distinction between senior and non-senior management. The identification of MRTs is based on the framework for prudential supervision established by Directive 2013/36/EU.

Remuneration payable to Senior Management and MRTs for the year was:

	Senior Management	MRTs
Number of Employees	17	10
Fixed	€1,255,220	€655,754
Variable	€448,000	€86,432

All variable remuneration was paid in cash and no shares, share linked instruments or similar instruments were used.

The members of the Bank's Executive Committee and Heads of Department enjoy cash and non-cash benefits which in a number of cases includes the service of a company vehicle. All Bank employees benefit from life cover, health insurance and personal accident cover.

None of the members of senior management or MRTs received remuneration in excess of €1 million.

GOING CONCERN

Having taken into consideration the Bank's performance and its future strategic goals, the Directors declare that the Bank is able to continue operating as a going concern for the foreseeable future. In making this assessment, a wide range of information was taken into consideration, including both present and future conditions. These conditions include stressed scenarios reflecting the uncertainty due to the war in Ukraine, as well as other potential impacts from top and emerging risks such as supply chain disruptions resulting in inflationary pressures and increasing interest rates. In addition some uncertainty remains surrounding the global recovery from the COVID-19 pandemic.

In March 2023, the international financial sector was hit by stress events resulting in the collapse of a number of U.S. Regional Banks, and in a government brokered deal between two major banks in Switzerland. This resulted in financial markets turmoil, with BNF Bank having no direct exposure to the institutions involved, and at the date of this report the Bank does not expect to be materially impacted.

The aforementioned matters could impact the Bank's profitability, capital and liquidity.

Approved by the Board of Directors and signed on its behalf on 27 March 2023 by:

DAVID POWER
Chief Executive Officer

MICHAEL FRENDO
Chairman

Primary Financial Statements

Statement of Financial Position
For the year ended 31 December 2022

	Notes	2022 €000	2021 €000
ASSETS			
Balances with Central Bank of Malta and cash	6	124,264	102,410
Cheques in course of collection		6,515	1,327
Financial investments	7	91,420	72,135
Loans and advances to banks	8	10,730	11,713
Loans and advances to customers	9	903,688	793,093
Derivative financial assets	10	464	6
Property and equipment	11	5,582	5,640
Intangible assets	12	868	864
Right-of-use assets	13	1,493	1,830
Deferred tax assets	14	7,883	6,757
Prepayments and accrued income	15	4,803	3,187
Other assets	16	5,269	5,736
TOTAL ASSETS		1,162,979	1,004,698
EQUITY			
Share capital	17	74,544	74,544
Perpetual capital notes	18	10,000	10,000
Revaluation reserve	19	(2,543)	38
Reserve for general banking risks	19	992	992
Retained earnings	19	17,296	12,137
TOTAL EQUITY		100,289	97,711
LIABILITIES			
Amounts owed to banks and other institutions	20	10,168	29,436
Amounts owed to customers	21	1,006,416	859,152
Derivative financial liabilities	10	29	256
Current tax liabilities		1,927	652
Other liabilities	22	18,960	12,663
Accruals	23	5,415	4,828
Debt securities in issue	24	19,775	-
TOTAL LIABILITIES		1,062,690	906,987
TOTAL EQUITY AND LIABILITIES		1,162,979	1,004,698
Memorandum Items			
Contingent liabilities	25	9,732	9,506
Commitments	25	255,468	253,534

The accounting policies and explanatory notes on pages 67 to 173 form an integral part of the financial statements. The financial statements on pages 61 to 173 were approved and authorised for issue by the Board of Directors and signed on its behalf on 27 March 2023 by:

DAVID POWER
Chief Executive Officer

MICHAEL FRENDO
Chairman

Income Statement
For the year ended 31 December 2022

	Notes	2022 €000	2021 €000
Interest receivable and similar income			
- on loans and advances, balances with Central Bank of Malta and other instruments	26	29,790	26,312
- on debt and other fixed income instruments	26	757	286
Interest payable and similar expense	27	(4,770)	(3,900)
Net interest income		25,777	22,698
Fees and commission income	28	4,372	4,004
Fees and commission expense	28	(1,084)	(1,365)
Net fees and commission income		3,288	2,639
Net trading income	29	206	326
Net gains from financial instruments at FVTPL	7	853	1,075
Gains on disposal of debt instruments at FVOCI		2	399
Other income		-	104
Net operating income		30,126	27,241
Employee compensation and benefits	30	(10,061)	(9,030)
Other administrative expenses	31	(7,282)	(6,835)
Depreciation of property and equipment and right-of-use assets	11,13	(910)	(925)
Amortisation of intangible assets	12	(321)	(333)
Movements in expected credit losses	32	656	(1,067)
Profit before tax		12,208	9,051
Income tax expense	33	(4,135)	(2,750)
Profit for the year		8,073	6,301
Earnings per share	34	8c2	6c4

The accounting policies and explanatory notes on pages 67 to 173 form an integral part of the financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2022

	2022 €000	2021 €000
Profit for the year	8,073	6,301
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Debt instruments measured at FVOCI:		
- Net losses in fair value, before tax	(4,065)	(414)
- Net gains on financial assets reclassified to profit or loss on disposal, before tax	(2)	(399)
- Changes in allowance for expected credit losses, before tax	98	(149)
Income taxes on the above	1,388	337
Other comprehensive income for the year, net of tax	(2,581)	(625)
Total comprehensive income for the year, net of tax	5,492	5,676

The accounting policies and explanatory notes on pages 67 to 173 form an integral part of the financial statements.

Statement of Changes in Equity
For the year ended 31 December 2022

	Notes	Share capital €000	Perpetual capital notes €000	Revaluation reserve €000	Reserve for general banking risks €000	Retained earnings €000	Total €000
At 1 January 2021		74,544	10,000	663	992	6,750	92,949
Comprehensive income							
Profit for the year		-	-	-	-	6,301	6,301
Other comprehensive income							
Fair valuation of debt instruments measured at FVOCI:							
- net movement in fair value arising during the year	7	-	-	(269)	-	-	(269)
- reclassifications - net amounts classified to profit or loss		-	-	(259)	-	-	(259)
- changes in allowance for expected credit losses	7	-	-	(97)	-	-	(97)
Total other comprehensive income for the year		-	-	(625)	-	-	(625)
Total comprehensive income		-	-	(625)	-	6,301	5,676
Transactions with owners							
Distributions to owners:							
Return on perpetual capital notes	18	-	-	-	-	(914)	(914)
Total transactions with owners		-	-	-	-	(914)	(914)
At 31 December 2021		74,544	10,000	38	992	12,137	97,711
At 1 January 2022		**74,544**	**10,000**	**38**	**992**	**12,137**	**97,711**
Comprehensive income							
Profit for the year		**-**	**-**	**-**	**-**	**8,073**	**8,073**
Other comprehensive income							
Fair valuation of debt instruments measured at FVOCI:							
- net movement in fair value arising during the year	7	**-**	**-**	**(2,642)**	**-**	**-**	**(2,642)**
- reclassifications - net amounts classified to profit or loss		**-**	**-**	**(2)**	**-**	**-**	**(2)**
- changes in allowance for expected credit losses	7	**-**	**-**	**63**	**-**	**-**	**63**
Total other comprehensive income for the year		**-**	**-**	**(2,581)**	**-**	**-**	**(2,581)**
Total comprehensive income		**-**	**-**	**(2,581)**	**-**	**8,073**	**5,492**
Transactions with owners							
Distributions to owners:							
Return on perpetual capital notes	18	**-**	**-**	**-**	**-**	**(914)**	**(914)**
Dividends paid		**-**	**-**	**-**	**-**	**(2,000)**	**(2,000)**
Total transactions with owners		**-**	**-**	**-**	**-**	**(2,914)**	**(2,914)**
At 31 December 2022		**74,544**	**10,000**	**(2,543)**	**992**	**17,296**	**100,289**

The accounting policies and explanatory notes on pages 67 to 173 form an integral part of the financial statements.

Statement of Cash Flows
For the year ended 31 December 2022

	Notes	2022 €000	2021 €000
Cash flows from operating activities			
Interest, fees and commission received		33,842	30,560
Interest, fees and commission paid		(5,031)	(5,361)
Net return from trading activities		508	678
Payments to employees and suppliers		(18,596)	(16,407)
Cash flows from operating profit before changes in operating assets and liabilities		10,723	9,470
Movement in operating assets:			
Balances with Central Bank of Malta		(834)	(1,050)
Loans and advances to customers		(111,007)	(106,225)
Other assets and cheques in course of collection		(4,771)	161
Movement in operating liabilities:			
Amounts owed to customers		147,262	82,166
Other liabilities		6,680	1,082
Net cash flows generated from /(used in) operating activities before tax		48,053	(14,396)
Income tax paid		(2,595)	(2,799)
Net cash flows generated from/(used in) operating activities		45,458	(17,195)
Cash flows from investing activities			
Net interest on financial assets		780	340
Purchase of property, equipment and intangible assets	11,12	(782)	(957)
Purchase of financial investments	7	(47,361)	(25,685)
Proceeds from disposal and redemption of financial investments		24,518	32,727
Net cash flows (used in) /generated from investing activities		(22,844)	6,425
Cash flows from financing activities			
Return on perpetual capital notes		(914)	(914)
Dividends paid		(2,000)	-
Proceeds from issue of debt securities	24	19,750	-
Principle payments of lease liabilities		(368)	(409)
Net cash flows generated from/(used in) financing activities		16,468	(1,323)
Net increase/(decrease) in cash and cash equivalents		39,082	(12,093)
Cash and cash equivalents at beginning of year		78,137	90,230
Cash and cash equivalents at end of year	35	117,219	78,137

The accounting policies and explanatory notes on pages 67 to 173 form an integral part of the financial statements.

Notes to the Financial Statements

Notes to the Financial Statements

For the year ended 31 December 2022

1. STATUTORY INFORMATION

BNF Bank p.l.c. is a public limited liability company domiciled and incorporated in Malta. The Bank was incorporated on 27 March 2007 and started operating as a fully-fledged retail bank during January 2008.

The Bank is a standalone financial services institution and as from December 2015 the Bank complies with the disclosure requirements laid down in Part Eight of the Capital Requirements Regulation ('CRR'). The Additional Regulatory Disclosures ('ARD') are aimed at providing the Bank's stakeholders further insight to the Bank's capital structure and adequacy. The Bank publishes these disclosures on an annual basis as part of the Annual Report.

The disclosures have been prepared by the Bank in accordance with the Pillar III quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority ('MFSA'). Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013. As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank, through its internal verification procedures, is satisfied that the ARDs are presented fairly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Bank's financial statements are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Banking Act (Chap. 371 of the Laws of Malta), 1994 and the Companies Act, 1995 (Chap. 386 of the Laws of Malta). These financial statements are prepared under the historical cost convention, as modified by the fair valuation of certain financial assets and financial liabilities.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Bank's accounting policies (see Note 4.1 – Critical accounting estimates, and judgments in applying the Bank's accounting policies).

2.2 Standards, interpretations and amendments to published standards effective in 2022

In 2022, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2022. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Bank's accounting policies impacting the Bank's financial performance and position.

2.3 Standards, interpretations and amendments to published standards that are not yet effective

There were no new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2023 that were published by the date of authorisation for issue of this financial information and which could have a possible significant impact on the Bank's financial statements in the period of initial application.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors which is the Bank's chief operating decision-maker.

An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision-maker.

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in euro (€), which is the Bank's functional and presentation currency.

2.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

2.6 Financial assets

2.6.1 Initial recognition and measurement

The Bank recognises a financial asset in its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset 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, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. At initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss in the Income Statement.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one gain or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2.6.2 Classification and subsequent measurement

The Bank 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.

The classification requirements for debt and equity investments are described below.

2.6.2.1 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 and trade receivables purchased from customers in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- The Bank's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Bank 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'), and that are not designated at FVPL, 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 3.2.3. Interest income from these financial assets is included in 'Interest receivable 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 FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, 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 within 'Gains on disposal of debt instruments at FVOCI'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

- *Fair value through profit or loss:* 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 Income Statement 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 within 'Net investment income'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

The amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired (see definition in Note 3.2.3.2) at initial recognition, the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

a) Business model

Key management personnel determine the Bank's business model by considering the way financial instruments are managed in order to generate cash flows, that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets.

If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management. The information that will be considered in such assessment includes:

- The objectives for the portfolio including 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 assets;
- The method for the evaluation of the performance of the portfolio and how such performance is reported to the Bank'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; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be 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. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Bank may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

b) Cash flows that represent solely payments of principal and interest (SPPI)

In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending agreement. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

- Contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
- Leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;

- Contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- Contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
- Features that modify consideration for the time value of money (for example, periodic reset of interest rates).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

2.6.2.2 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 or additional tier 1 instruments of banks.

The Bank subsequently measures all equity investments at FVTPL, except where the Bank’s management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank’s policy is to designate equity investments at FVOCI when those investments are held for purposes other than to generate investment returns. This election is made on an investment-by-investment basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal.

Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the Income Statement.

2.6.3 Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and on the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for ECL 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.

Note 3.2.3 provides more detail of how the ECL allowance is measured. ECL allowances 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:* Generally, as a provision;
- *Financial instrument with both a drawn and undrawn component, whereby the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* The Bank presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- *Debt instruments measured at FVOCI:* No loss allowance is recognised in the Statement of Financial Position against the carrying amount of the asset since the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented in the Statement of Comprehensive Income.

2.6.4 Modification of loans and advances to customers

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.

The Bank renegotiates loans and advances to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Bank’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms, and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, revision of interest rate and changing the timing of interest payments. Both retail and corporate loans are subject to the forbearance policy.

When modification happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently 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. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss.

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The impact of modifications of financial assets on the expected credit loss calculation is discussed in Note 3.2.8.

2.6.5 Derecognition of financial assets (other than on a modification)

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

2.7 Derivative financial instruments recorded at fair value through profit or loss

The Bank deploys no hedging strategies that achieve hedge accounting in terms of IAS 39.

Derivative financial instruments, such as cross-currency swaps and forward foreign exchange contracts are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values are obtained utilising valuation techniques for over-the-counter derivatives, including discounted cash flow models. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair values for currency forwards and swaps are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.9 Property and equipment

All property and equipment used by the Bank is stated at historical cost, including transaction costs and borrowing costs less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings:	
Freehold	20-50
Leasehold	10
Computer equipment	4
Other equipment	3-10

The asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, at each financial period end. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

Property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognised.

2.10 Intangible assets

Intangible assets consist of computer software and other intangibles. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial period end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives. Computer software is amortised over 4 - 10 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Other intangibles are assessed as having an indefinite useful life.

Subscription fees incurred with respect to Software-as-a-Service (SaaS) arrangements that do not meet the definition of an intangible asset are recognised as an expense throughout the contract term. Implementation and staff costs related to such arrangements are accounted for depending on whether they give rise to a separate intangible asset.

Implementation and staff costs that meet the recognition criteria of IAS 38 to be considered as intangible assets are recognised as 'intangible assets not yet available for use' until their implementation process is finalised and the intangible assets are made available for use, at which point, they are amortised over their useful economic life.

Implementation and staff costs that do not meet the recognition criteria of IAS 38 to be recognised as intangible assets are expensed in the year they are incurred. Implementation costs that are not considered to be distinct from the SaaS arrangement and are incurred before the SaaS is put in use, are capitalised as a prepayment and expensed over the term of the SaaS arrangement.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).The impairment test can also be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Property acquired through judicial action

In certain circumstances, property is acquired by the Bank in satisfaction of debt following judicial action. Such properties are measured at the lower of carrying amount and fair value less costs to sell.

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Perpetual capital notes

Perpetual capital notes qualify as Additional Tier 1 capital instruments, are undated and subordinated obligations. These instruments are redeemable at par at the discretion of the Bank and are classified as equity. Coupon payments on perpetual capital notes may be cancellable at the Bank's discretion and are accounted for through equity in the Statement of Financial Position.

2.16 Financial liabilities

2.16.1 Initial recognition and measurement

The Bank recognises a financial liability on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability.

2.16.2 Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments (see Note 2.26).

Financial liabilities measured at amortised cost comprise principally amounts owed to banks and other institutions, amounts owed to customers, debt securities in issue together with other liabilities.

2.16.3 Derecognition

The Bank derecognises a financial liability from its Statement of Financial Position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.17 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest, as a liability, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate.

When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its Statement of Financial Position to financial assets recognised as FVPL pledged as collateral or to financial investments recognised as FVOCI pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest rate.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

2.18 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Provisions for legal and other claims

Provisions for legal and other claims are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Provisions for pension obligations

The Bank contributes towards the government pension defined contribution plan in accordance with local and UK legislation as applicable and to which it has no commitment beyond the payment of fixed contributions. These obligations are recognised as an expense in the Income Statement as they accrue. The Bank does not contribute towards any other retirement benefit plans.

2.21 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired (see definition in Note 3.2.3.2) at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- Financial assets that are not 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).

2.22 Fees and commissions

Fees and commissions income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of effective interest. Other fees and commissions are generally recognised on an accrual basis when the service has been provided.

Fees and commissions income, comprising account servicing fees, investment management fees, placement fees and other similar fees, are recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period. A contract with a customer that results in a recognised financial instrument may be partially in scope of IFRS 9 and partially in scope of IFRS 15. In such an event, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commissions expense, relating mainly to transaction and service fees, are expensed as the services are received.

2.23 Dividend income

Dividends are recognised in profit or loss in 'other income' when the entity's right to receive payment is established.

2.24 Net trading income

The line item includes income from foreign exchange activities and net income from derivatives (such as cross-currency swaps and forward exchange contracts).

2.25 Leases

A 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 direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank leases a number of properties and motor vehicles as well as low value items such as photocopiers and note counting machines. Rental contracts are typically made for fixed periods but may have extension options. The lease term reflects the exercise of such options. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.26 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 3.2.3); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

'Loan commitments' are the Bank's commitments to provide credit under pre-specified terms and conditions and are measured as the amount of the loss allowance (calculated as described in Note 3.2.3).

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses in excess of the gross carrying amount are recognised as a provision.

2.27 Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at face value less expected credit loss allowances. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.28 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

2.29 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction

The Bank's business model exposes it to financial risks, which it categorises as follows:

- *Credit risk:* The risk of losses arising from untimely or non-repayment of existing or contingent credit obligations, generally resulting from deterioration in the financial condition of a borrower. The Bank is exposed to credit risk on customers, clients or market counterparties, through interbank, commercial and consumer loans and advances, loan commitments arising from such lending activities, and credit enhancement provided, such as financial guarantees, documentary credits, endorsements and acceptances. The Bank is also exposed to credit risk on investments in debt securities and derivatives as well as settlement balances with market counterparties.

  Credit risk could impair the quality and hence the value of the Bank's lending assets. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country of origination of an asset. Settlement risk refers to the risk of losses through failure of a counterparty to settle outstanding dues on the settlement date.

- *Market risk:* The risk of losses arising from fluctuations in fair value or future cash flows of financial instruments, due to changes in market variables such as prices, interest rates and currencies, the correlations between them, and their levels of volatility.

- *Liquidity risk:* The risk of losses due to:

  i. The Bank's funding costs increasing disproportionately;

  ii. Lack of funding preventing the Bank from establishing new business; and

  iii. Lack of funding which will ultimately prevent the Bank from meeting its obligations.

  Liquidity risk arises from:

  iv. Market (product) liquidity risk: The risk of losses arising from the inability to easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption; and

  v. Funding liquidity risk: The risk of losses arising from a timing mismatch between investing, placements and fundraising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- *Operational risk*: Operational risk is the risk of direct or indirect losses arising from inadequate or failed internal processes, system failure, human error, fraud or from external events (including legal risk). When controls fail to perform or underperform, operational risks can cause damage to reputation, have legal or regulatory implications, and/or lead to financial loss.

- *Environmental, Social and Governance (ESG) risks:* ESG risks refer to the risks of any negative financial impact on the Bank stemming from the current or prospective impacts of ESG factors on its counterparties or invested assets. ESG factors refer to environmental, social and governance factors that may have a positive or negative impact on the financial performance or solvency of the Bank. The Bank is currently in the process of evaluating its potential exposure towards climate and environmental risks.

Extensive financial risk management takes place as part of the Bank's Risk Management Framework. The Risk Management Framework is an integral part of the Bank's organisational and governance structure, the details of which are set out in the Statement of Compliance with the Principles of Good Corporate Governance.

Three lines of defence

The Bank's Risk Management Framework is modelled on the Three Lines of Defence Principle:

- The first line of defence

The first line of defence comprises of the internal entities which own and manage risk. The control duties in the first line underline the dual responsibility which is to generate business for the organisation while remaining cognisant of the associated risks and controls. The first line is composed primarily of all commercial and customer-facing departments;

- The second line of defence

The second line of defence comprises of all functions, including risk and compliance control functions, providing oversight and support to the first line of defence. The key duties of the second line are to monitor and report risk-related practices and information, and to oversee all types of compliance and financial controlling issues. The second line of defence defines preventive and detective control requirements, and ensures that such requirements are embedded in the policies and procedures of the first line.

- The third line of defence

The third line of defence comprises the Internal Audit Function, which provides independent assurance to Management and the Board of Directors on a broad range of objectives, including efficiency and effectiveness of operations, safeguarding of assets, reliability and integrity of reporting processes and compliance with laws and regulations. The Internal Audit Function has a direct reporting line to the Audit Committee.

Risk Culture

The Board of Directors is responsible for the Bank's risk culture, and for outlining its long-term objectives. Furthermore, the Board has the responsibility for ensuring that the Executive Committee implements a strategy which enables the Bank to meet its objectives while respecting its risk appetite.

To this end, the Board of Directors continuously challenges the Bank's management and their performance and has delegated the responsibility of the oversight of risk management to the Risk Committee. Through the Risk Committee, the Board of Directors regularly and thoroughly engages in analysis of the Bank's risk situation. The primary tools used by the Risk Committee to address their responsibility are the Risk Appetite and the Risk Management Process.

Risk Appetite

The Board has approved a risk appetite statement which sets out their tolerance to risk exposure with respect to all risks identified. This statement is translated into a system of risk limits for all risks which the Bank considers as material, to ensure that the Risk Appetite is fully embedded throughout the Bank.

The Bank allocates resources to monitor ongoing compliance with approved limits, and has a fixed reporting cycle to ensure that Management and the Board of Directors are informed of all material matters in this respect.

Risk Management Process

The Bank's risk management process forms an integral part of its Risk Management Framework, and is outlined as follows:

- Identification and assessment of material risks and controls

The Bank carries out an analysis of its business model and strategy on a regular basis. As part of that analysis, the Bank endeavours to identify its key vulnerabilities, being the areas that drive its risks and potential scenarios of stress.

The Bank maintains a risk taxonomy which is updated on a regular basis, identifying risk categories and sub-categories of risk exposure.

- Risk measurement and mitigation

The Bank aims to mitigate risk with controls where possible, by ensuring that adequate processes, procedures, and systems of internal control exist at all times. Systems of internal control also support accurate financial reporting, which in turn aids effective decision making.

Identified risks are evaluated both on a holistic and micro level, across different levels and different business lines. Following risk identification, the inherent level of risk is assessed by considering the risk drivers, probability of occurrence and potential impact. The availability and effectiveness of mitigating controls is also assessed in order to derive the level of residual risk.

Subsequent to the identification of the residual risk, the Bank initiates a process whereby further risk mitigation action plans are implemented to further treat such residual risk.

In cases where residual risk remains beyond the Board's risk appetite or where the residual risk is not considered acceptable, further risk treatment is considered. Additionally, such risks are often targeted as part of the Bank's stress testing framework and may be considered as part of the Pillar 2 add-on.

- Monitoring and reporting

The Risk function is involved in aggregating and reporting risks, ongoing reporting and overseeing the risk mitigation activity being recommended.

The Bank's risk profile is not static but changes according to internal and external risk drivers and factors. The regular monitoring and reporting of risks in line with the framework of various Committees within the Bank, ensures that limits are being observed and analysed by different structures within the Bank and where needed, the risk profile is adjusted accordingly to better reflect the Bank's business model.

Qualitative and quantitative aspects of the Bank's risk position are regularly reported to and discussed by top management. This includes the Board of Directors and its sub-committees i.e. the Audit Committee and Risk Committee, the Executive Committee, as well as management committees, such as the ALCO.

Regulatory risk reporting also takes place regularly through the ICAAP and ILAAP reports and the Recovery Plan.

3.2 Credit risk

Credit risk is the single largest financial risk for the Bank. In this regard, as part of the second line of defence, management set up the Risk Function, which is responsible for various elements of credit risk. Such structure comprises two independent and segregated functions, namely:

- *Credit Analysis Department (CAD):* Responsible for credit risk management activities by way of analysis of credit requests, implementation of credit policies, and participation in credit committees where credit decisions are taken by consensus; and

- *Risk Unit:* Responsible for credit, concentration, and correlation risk control and oversight activities. This Unit does not actively participate in credit decisions, and is responsible for the maintenance of credit policies, risk models, metrics, tools, and reporting on adherence or otherwise to the Bank's Risk Appetite Framework on credit and other risks.

The above-mentioned functions report to the Chief Risk Officer (CRO) who forms part of the Bank's Executive Committee. In terms of organisational structure, the CRO has a duty to report inter alia to the Risk Committee, and is frequently invited to report to the Audit Committee on credit and other financial risks.

Credit decisions are taken within credit committees where, at each discretionary level, the risk function is represented through the CAD.

The Bank's Credit Committees' structure is composed of various levels ranging from Level 1 to Level 2, Executive Committee (EC), the Credit Approval Committee and the Board of Directors. The Board of Directors acts as the highest approval body within the Bank whilst the Credit Approval Committee is a Board Committee. The role of the Credit Approval Committee is to approve credit applications within an established range, and to make recommendations to the Board in respect of credit applications that fall within the approval range of the Board of Directors.

The Committee may escalate to the Board any credit application where it considers that action is needed, with recommendations as to the steps to be taken. Furthermore, the Board of Directors also delegated oversight functions related to credit risk to several Board committees, such as the Audit Committee and the Risk Committee.

3.2.1 Credit risk management

Lending decisions should achieve a reasonable balance between the risks and returns of extending credit to a customer. The Bank has a credit authorisation structure, made up of various credit committee levels; ranging from the lowest level, which includes authorisation by a Branch/ Senior Manager and an Analyst / Manager from the Credit Analysis Department to the highest level, being the Board of Directors. Each credit committee level is assigned a sanctioning limit, under which it can operate within specific guidelines. Within its discretionary limit, a credit committee can approve new credit, increase, reduce or otherwise amend the terms and conditions of existing facilities, or simply renew existing facilities without altering the terms and conditions at original sanction. A credit committee has the onus to ensure that the facility carries acceptable credit risk and meets credit rating requirements. Lending is not primarily based on the existence of collateral but on the customer's perceived ability to repay the exposure from the primary repayment source.

At the same time, the existence of security acts as a fall-back option available in case of need. Where applicable the Bank ensures that security held is perfected. The majority of facilities are secured either by cash, financial assets, property and/or guarantees.

Facilities are generally reviewed periodically. In a facility review, the Bank analyses factors such as the customer profile, credit quality, non-financial considerations, adherence to internal policies and procedures, and profitability.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

The Bank rigorously applies a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions to collateral.

In addition, exposures which are technically performing but exhibit early signs of deterioration (e.g. days past due and/or other early warning signals), are separately analysed on a monthly basis by the Risk Unit in liaison with the business units. This often results in prompt revision of individual risk rating, revised expected loss quantification, and instigation of corrective action.

Credit quality is also reviewed in aggregate by portfolio, to provide early identification of possible changes in the creditworthiness of relevant portfolio segments.

The Bank has in place policies and procedures which formalise the above internal control mechanisms.

The Bank continued to adapt its credit risk management processes for the purposes of identifying deterioration in credit risk within its portfolios and estimating expected credit loss allowances using the best possible judgement.

During the financial year ended 31 December 2022, the impact of the COVID-19 pandemic subsided, with a significant rebound in economic growth registered in 2021 and 2022, restoring the local economy to pre-COVID levels. Exposures which were granted moratoria in accordance with Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') issued by the Central Bank of Malta ('CBM'), in line with the European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crises, have now matured and borrowers have gradually returned to the pre-moratoria repayments schedules. The Bank has not experienced significant defaults subsequent to the expiry of these moratoria.

Notwithstanding the above, the level of economic uncertainty remained elevated during the financial year ended 31 December 2022, primarily driven by the geopolitical developments as a result of the escalation of the military conflict between Russia and Ukraine in February 2022, as well as widespread supply chain disruptions experienced as the world economy recovers from the impacts of the pandemic, which triggered significant inflationary pressures across the world.

As a result, economic uncertainty continues to prevail especially in view of the increasing interest rate environment and inflationary pressures, partially mitigated by government support measures, which conditions have impacted the Bank's customers' business models, income levels or cash flow generation. Accordingly, the Bank continued to adapt its credit risk management processes for the purposes of identifying deterioration in credit risk within its portfolios and estimating credit loss allowances using the best possible judgement.

In this respect, the Bank continued to increase the depth of its monitoring activities on loan portfolios by performing enhanced reviews on a periodic basis to identify borrowers who were experiencing, or are likely to experience, financial difficulty as a result of the ongoing macroeconomic challenges to identify borrowers deemed to be at risk of a Significant Increase in Credit Risk ('SICR') or Unlikeliness-To-Pay ('UTP') trigger event. The identification of customers experiencing SICR or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers.

The current macroeconomic environment has elevated the level of uncertainty in respect of the economic outlook. Hence, the level of subjectivity underlying the ECL model parameters, including how these react to forward-looking economic conditions remains high. This necessitates more regular monitoring and rigorous evaluation of forecast economic conditions, together with heightened expert judgement, in order to best determine the range of possible economic outcomes used for the purposes of estimating ECL. Further information in respect of macroeconomic forecasts reflected within the ECL calculations is provided in Note 3.2.3.4.

3.2.2 Credit risk measurement

Measurement of credit risk considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The Bank's internal models measure expected credit losses by portfolio using probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters. Refer to Note 3.2.3.3 for more details.

a) Loans and advances to customers

The Bank uses internal credit risk gradings (see Note 3.2.7) to reflect its assessment of the probability of default of individual counterparties or facilities. Internal credit risk gradings are based on payment behaviour, loan specific information and expert judgement of the Bank's credit committees.

Information considered by the Bank when determining the internal credit risk grades includes the payment behaviour of the borrower and other information about borrowers which impact their creditworthiness, including level of income and/or financial performance.

The internal credit risk gradings are calibrated such that they reflect the increased risk of default at each higher risk grade.

Corporate

For corporate business, the rating is determined at the borrower level. A Bank official will incorporate any updated or new information/credit assessments into the Bank's credit system on an ongoing basis. In addition, a Bank's official will also update information about the creditworthiness of the borrower from sources such as financial statements.

The creditworthiness of the borrower is considered in every periodic review. This will determine the updated internal credit risk grading.

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on an ongoing basis. Any other known information about the borrower which impacts their creditworthiness, such as unemployment and previous delinquency history, is also captured.

b) Other financial assets

Other financial assets include balances with the Central Bank of Malta, investments and loans and advances to banks. The Bank considers external risk grades to reflect its assessment of the probability of default of individual counterparties. These published grades are continuously monitored and updated. The PD associated with each grade are determined based on realised default rates over the prior 12 months.

In determining the probability of default of individual counterparties, the Bank distinguishes between exposures considered as investment-grade and non-investment grade.

3.2.3 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 upon initial recognition is classified in 'Stage 1'.
- 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 3.2.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument becomes credit-impaired, the financial instrument is moved to 'Stage 3'. Refer to Note 3.2.3.2 for the Bank's definition of credit-impaired.
- 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 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Refer to Note 3.2.3.3 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 forward looking information is considered. Note 3.2.3.4 includes an explanation of how the Bank has incorporated forward looking information into ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired upon initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

Further explanation is also provided of how the Bank determines appropriate groupings of loans and advances to customers for ECL measurement (see Note 3.2.3.5).

The expected credit loss requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL").

The Bank recognises loss allowances at an amount equal to 12-month ECL for debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when it is considered 'investment-grade', defined by recognised external rating agencies.

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)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

3.2.3.1 Significant increase in credit risk (SICR)

To determine whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Such analysis is based on the Bank's historical experience, credit assessment and forward-looking information.

The Bank primarily identifies whether a SICR has occurred for an exposure within the loans and advances to customers, through the Bank's internal risk gradings. The Bank allocates each exposure to an internal rating grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different internal rating grade (refer to Note 3.2.7). Exposures which exhibit a SICR are subject to extended ongoing monitoring. The Bank identifies SICR and classifies non-defaulted exposures as 'Stage 2' when these fulfil at least one of the following conditions:

i. The exposure is considered forborne and allocated a forbearance flag under the Bank's definition of forbearance (set out in section 3.2.7);

ii. The credit quality of any other exposure to the same customer is not considered 'regular' (except where otherwise stated in the Bank's Credit Policy e.g. cash covered facilities); and

iii. The borrower's internal rating grade is not considered 'high-grade', as defined in Note 3.2.7.

As referred to previously, the progressive economic recovery from the downturn caused by the COVID-19 pandemic observed during the reporting period was largely outweighed by the emerging risks induced by the geopolitical tensions between Russia and Ukraine. As a result, economic uncertainty continues to prevail, particularly with respect to the identification of borrowers that would have experienced a SICR or that exhibit UTP characteristics. As detailed in Note 3.2.1, the Bank continued to increase the depth of its monitoring activities. As part of these credit assessments, judgement was exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

The Bank has utilised segmentation techniques for the purposes of identifying indicators of SICR within both retail and corporate portfolios.

In relation to retail portfolios, SICR is generally determined on the basis of delinquency related indicators since less information is available at asset level to enable the timely identification of a SICR. Due to the heightened risks, the Bank continued to rigorously apply its credit assessment and oversight processes, which include monitoring of arrears.

In the context of the corporate portfolio, the Bank continues to rigorously assess and monitor its borrowers through credit assessments. Judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers, affecting their ability to pay. During 2022, the Bank intensified its efforts to obtain updated recent financial information on the underlying business of the borrowers with a view to carry out further enhanced assessments.

In light of the current macroeconomic environment, the estimated ECL remains subject to a high degree of uncertainty. To reflect the volatile economic conditions associated with the widespread supply chain disruptions and significant inflationary pressures, judgemental temporary post-model adjustments were applied by management as explained in Note 3.2.3.4.

Monitoring typically involves use of the following data:

CORPORATE EXPOSURES	RETAIL 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 contractual conditions, quality of management and senior management changes. • Data from credit reference agencies, press articles. • 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 assessment of SICR incorporates forward-looking information (see Note 3.2.3.4) and is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Analysis Department.

As a backstop, and as required by IFRS 9, the Bank presumes that SICR has occurred when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

In the case of other financial assets (including loans and advances to banks and investments in debt securities), the Bank applies the low credit risk simplification to all its exposures considered 'investment-grade', thus they are not subject to the SICR assessment. Moving from 'investment-grade' to 'non-investment grade' does not automatically mean that there has been a SICR.

3.2.3.2 Definition of default and credit-impaired assets

The Bank's assessment to determine the extent of increase in credit risk of a financial instrument since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Bank applies the definition of default in a consistent manner with internal credit risk management practice for the relevant instruments and the definition considers qualitative and quantitative factors where appropriate.

The Bank determines that a financial instrument is credit-impaired or in default (and accordingly stage 3 for IFRS 9 purposes) by considering relevant objective evidence, primarily whether:

- Contractual payments of either principal or interest are past due for more than 90 days for any material credit obligations to the Bank;
- There are other indicators that the borrower is unlikely to pay, such as that a concession has been granted to the borrower for economic or legal reasons of an enduring nature relating to the borrower's financial condition (UTP criteria, which indicates the borrower is in significant financial difficulty); and
- The loan is otherwise considered to be in default in line with an instrument's terms and conditions.

As set out in this section, the Bank's definitions of credit-impaired and default are fully aligned.

In assessing whether a borrower is in default/credit-impaired, the Bank considers indicators that are:

- Qualitative – such as non-adherence to terms and conditions of sanction and/or other breaches of covenant;
- Quantitative – such as overdue status and non-payment of another obligation of the same obligor to the Bank; and
- Based on data developed internally and obtained from external sources.

The default definition is applied consistently when modelling the PD, EAD and LGD parameters throughout the Bank's expected credit loss calculations.

Except for forborne exposures, an instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of at least three months. This period 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.

In the case of forborne exposures, as stated in Note 3.2.8, the cure period comprises 12 consecutive monthly repayments made in a timely manner with a minimal grace period of one day (i.e. one or more repayments may be made no more than one day late).

The Bank considers other financial assets to be in default when a payment due including a coupon payment is not affected.

3.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

Expected credit losses are measured on either a 12-month or on a 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. Further details are set out in Note 3.2.3.4.

ECL are the discounted product of the PD, EAD and LGD. ECL are determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates ECL for each future month, which are then discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

The PD, EAD and LGD parameters are derived from internally developed statistical models and other historical data, adjusted to reflect forward-looking information as described below.

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired assets' above), either over the next 12 months, or over the remaining lifetime of the obligation. Accordingly, the 12-month and lifetime PD represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

PD estimates are estimates at a certain date, which, for loans and advances to customers 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 compiled data comprising both quantitative and qualitative factors using internal and external sources.

With respect to the retail portfolio (as defined in Note 3.2.3.5), the PD calculation is based on fitting theoretical distribution to historical default rates in particular periods after origination ('months on book') for each homogeneous portfolio, to produce term structure of point-in-time PD.

In the case of the local corporate portfolio (as defined in Note 3.2.3.5), the PD calculation is based on a transition matrix approach which determines the probability of a borrower's transition from one internal rating class to another (or staying within the same class) by tracking the historical movement of loans between states over a defined period of time. The PD is calculated on the basis of a 12-month horizon, with annual frequencies. The main assumptions underlying this approach is that the PD does not depend on 'months on book' and that the future PD depends on current characteristics of the exposure or borrower.

Due to the lack of internal history of defaults on the international lending portfolio (as defined in Note 3.2.3.5), the Bank applies PDs which are sourced from renowned external service providers which assess the credit risk of small and medium-sized enterprises ('SMEs'), and determine PDs by reference to financial and non-financial aspects namely the entity size, country, industry sector, corporate governance and the macroeconomic environment in which the entity operates. Furthermore, these PDs are Point in Time PDs and only take into account the situation of the company at the moment of assessment.

Default is considered to be an absorbing state, whereby if an exposure is defaulted, it subsequently remains in default.

Market data is used for the PD of loans and advances to banks and investment securities. If a counterparty or exposure migrates between internal rating grades or external credit ratings, such will lead to a change in PD.

The Lifetime PD is developed as follows:

- *Retail portfolio:* Obtaining an average PD profile for homogenous groups by fitting a parametric distribution to the Bank's historical default rates. Homogenous grouping is based on similar months on book, days past due and internal ratings. The average PD profile is adjusted to consider forward-looking information through macroeconomic modelling.
- *Corporate portfolio:* Obtaining a transition matrix which shows the probability of a borrower's transition from one internal rating class to another (or staying in the same class) within a given horizon, raised to a particular power. The conditional PD is adjusted to consider forward-looking information through macroeconomic modelling.

EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Bank 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 the gross carrying amount at default.

The 12-month and lifetime EAD are determined based on the expected payment profile, which varies by product type:

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis;
- For revolving products, the exposure at default is predicted by taking the drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on the analysis of the Bank's recent default data.

Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents expected credit losses on the EAD assuming an event of default. LGD takes into account among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. The 12 month and lifetime LGD are determined based on the factors which impact the recoveries post default.

For secured products, LGD is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed. The LGD for exposures secured by real estate is derived from the adjusted loan-to value ratio of the individual facilities, and takes into account the expected recovery by applying haircuts for the cost to sell the property. Also taken into account are the sales ratio and sales ratio volatility, and the effect of discounting (using the effective interest rate) over a projected time to sell period. The sales ratio resembles a market value haircut while the sales ratio volatility captures the standard deviation of the sales ratio.

For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

ECL are measured from the initial recognition of a financial asset. The maximum period considered when measuring ECL (whether 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. With respect to non-revolving credit facilities, the contractual life of the facility is considered. In the case of revolving credit facilities, provided that such facilities do not have a fixed term or repayment structure, the Bank considers the lifetime of such exposures to be 6 months, in cases where the next substantive credit review is within the next 6 months. Otherwise, for the purpose of measuring ECL, the Bank considers a lifetime of 12 months. For the credit cards portfolio, the Bank considers a lifetime of 36 months.

Forward-looking economic information is considered in determining the 12-month and lifetime PD and LGD. Refer to Note 3.2.3.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculations are monitored and reviewed on a regular basis. For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans.

Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans.

The heightened level of uncertainty within the local property market, driven by the current macroeconomic environment, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of the current macroeconomic uncertainties will not be fully known until market conditions stabilise.

As a result, the estimated ECL remains subject to a high degree of uncertainty. To reflect the volatile economic conditions currently being experienced, judgemental post-model adjustments were applied by management in order to overcome limitations in respect of the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

Cognisant of the level of uncertainty that remains and to ensure that ECL estimates continue to reflect a degree of caution and in the context of management's post-model adjustment determination, economic scenarios selected do not consider the economic growth registered during 2022.

3.2.3.4 Forward-looking information incorporated in the ECL model

The calculation of ECL incorporates forward-looking information. The Bank performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD may vary by portfolio.

In this respect, the Bank has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and using an analysis of historical data, has analysed relationships between macro-economic variables, credit risk and credit losses. These key drivers include:

1) *Corporate exposure:* The Real Estate Price Index (REPI) and the Gross Fixed Capital Formation (GFCF), given the significant impact they have on local investment and the performance of corporate entities;
2) *Retail exposure:* The real GDP, unemployment, average gross salary, and the Real Estate Price Index (REPI), given the significant impact they have on local investment and labour market. The performance of these economic indicators affects repayment feasibility of secured and unsecured retail borrowers.

The impact of these economic variables on the PD is determined by performing statistical regression analysis to understand the historical impact that changes in these variables had on the Bank's default rates.

Three possible scenarios are considered to capture non-linearity across credit portfolios. The 'Baseline' scenario represents the most-likely outcome. It is based on authoritative sources forecasting these economic variables referred to above and providing the best estimate view of the economy over the next three years. Apart from the 'baseline' scenario, the Bank considers an 'upside' and a 'downside' macro-economic scenario; which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The Bank considers economically plausible upside and downside scenarios, and the downside scenario is not necessarily as severe as scenarios used in stress testing.

Each scenario is weighted by a probability of occurrence, determined by a combination of macroeconomic research and expert credit judgment, taking into account the range of possible outcomes each chosen scenario represents. The Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). Probability-weighted ECL are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As referred to previously, during 2022 heightened geopolitical risks, high inflation, rising interest rates and market volatility led to adverse global macroeconomic developments, reduced real household incomes, elevated business costs, hindered consumption and investment and lowered growth expectations. The local economy remained resilient despite expected slower growth, partly due to the Maltese Government implementing several measures designed to soften the extent of the economic slowdown and to sustain a good momentum in the labour market. Such measures include economic assistance to minimise the impact of inflation, mainly through fuel and energy subsidies as well as direct support to Maltese households.

Nevertheless, the underlying headwinds from the international economic environment are likely to keep the Maltese economy under pressure. Despite the indications suggesting easing of global supply chain disruptions, inflationary pressures persist, as higher costs cascade to import and consumer prices with a lag. Following a decade of extremely low interest rates, during the current financial year the ECB and other Central Banks raised key interest rates which could pose debt repayment challenges for borrowers and which could result in financial stability implications, not only from a macroprudential perspective, but also impacting banks directly through higher non-performing loans or lower profits. The Bank's portfolio has, so far, not shown any meaningful signs of credit quality deterioration. Albeit, the Bank will continue to exercise caution and prudence when estimating provisioning levels. The unfolding economic landscape is dominated by a persistent inflationary outlook, continued supply issues, higher energy prices and prolonged or escalating geopolitical tensions. As a result, economic forecasts remain subject to a high degree of uncertainty.

In this regard, a significant judgement within the Bank's estimation of ECL allowances as at 31 December 2022 relates to the determination of forward-looking scenarios reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs. As with any macro-economic forecast, the projections and likelihoods of occurrence are subject to a degree of uncertainty and actual outcomes could be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes after analysing different simulations to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

In light of the current macroeconomic environment, the estimation of credit loss allowances as of 31 December 2022 and 2021 required an elevated level of subjectivity and expert judgement. ECL estimates remain subject to a high degree of uncertainty. In this respect, judgements applied by management in estimating ECL, including the enhancement of a post-model overlay, continue to reflect a degree of caution. This post-model mechanism addresses the potential limitations in statistical models which could emerge, given that a number of assumptions are being applied during a period of time characterised by a high degree of economic volatility.

Significant judgement has also been applied both in the determination of probability of defaults, particularly for exposures currently classified as performing and for selection of economic scenarios and in terms of the calibration of scenario weightings.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2022 are set out below. The 'baseline', 'upside' and 'downside' scenarios were used for all portfolios:

i. The 'baseline' scenario captures business-as-usual macroeconomic expectations, whereby the current rhythm of economic activity is maintained;

ii. The 'downside' scenario is based on a subdued level of economic activity hypothesized to correspond to an economic recession;

iii. The 'upside' scenario is based on the assumption that it would be possible to marginally improve further over the already benign economic conditions.

	As at 31 December 2022		
	2023	2024	2025**
Average gross salary rate (YoY)*			
'Baseline'	2.92%	3.49%	3.18%
Range of forecasts for alternative scenarios	[0.8 – 3.7]%	[0.6 – 4.5]%	[-0.2% – 4.3]%
Gross Fixed Capital Formation (GFCF) (YoY)*			
'Baseline'	-3.61%	-0.27%	-0.04%
Range of forecasts for alternative scenarios	[-6.9 – -0.9]%	[-4.7 – 3.3]%	[-5.2% – 4.1]%
Real GDP rate (YoY)*			
'Baseline'	3.67%	3.53%	3.35%
Range of forecasts for alternative scenarios	[0.2– 4.9]%	[-1.2 – 5.2]%	[-2.1% – 5.3]%
Unemployment rate (YoY)*			
'Baseline'	3.11%	3.25%	3.35%
Range of forecasts for alternative scenarios	[3.0 – 3.2]%	[3.0 – 3.4]%	[3.1% – 3.6]%
Real Estate Price Growth rate (REPI) (YoY)*			
'Baseline'	4.92%	4.60%	4.53%
Range of forecasts for alternative scenarios	[4.2 – 5.4]%	[3.6 – 5.2]%	[3.4% – 5.2]%

*YoY = year on year

** 2025 Q3 data forecast

	As at 31 December 2021		
	2022	2023	2024**
Gross Fixed Capital Formation (GFCF) (YoY)*			
'Baseline'	-11.80%	-8.98%	-7.38%
Range of forecasts for alternative scenarios	[-14.8 – -0.5]%	[-13.0 – 6.1]%	[-12.0 – 10.0]%
Real GDP rate (YoY)*			
'Baseline'	3.85%	1.79%	0.96%
Range of forecasts for alternative scenarios	[1.0 – 4.7]%	[-2.0 – 2.9]%	[-3.4 – 2.2]%
Unemployment rate (YoY)*			
'Baseline'	3.21%	3.19%	3.17%
Range of forecasts for alternative scenarios	[3.1 – 3.3]%	[3.0 – 3.4]%	[3.0 – 3.4]%
Real Estate Price Growth rate (REPI) (YoY)*			
'Baseline'	2.86%	4.50%	3.54%
Range of forecasts for alternative scenarios	[1.7 – 4.4]%	[3.1 – 6.4]%	[1.9 – 5.7]%

*YoY = year on year

** 2024 Q3 data forecast

The weightings assigned to each economic scenario were 50% (2021: 50%) for the 'baseline' scenario, 25% (2021: 25%) for the 'downside' scenario and 25% (2021: 25%) for the 'upside' scenario. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured.

The number of scenarios and their attributes including the macroeconomic variables are reassessed at each reporting date. The economic scenarios were simulated over a full economic cycle. There were no significant changes in the estimation techniques during the year.

Economic scenarios sensitivity analyses of ECL estimates

The outcome of the Bank's credit loss allowances estimation process is sensitive to judgements and estimations made throughout the incorporation of forward-looking economic conditions. Management has assessed the sensitivity of the Bank's expected credit losses by assigning a 100% weighting to the baseline, downside and upside scenario respectively. The Bank's credit loss allowances would decrease by €0.6 million (2021: €0.8 million) if the provisions had to be calculated solely on the baseline scenario; ECLs would increase by €1.7 million (2021: €1.9 million) if these had to be estimated using only the downside scenario and would reduce by €1.7 million (2021: €1.9 million) if the upside scenario only were to be taken into consideration. Considering any of these scenarios, the Bank would remain in a profitable position. This demonstrates the Bank's resilience in overcoming negative shocks and the ability to absorb such changes, if necessary.

Other forward-looking considerations not otherwise 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 and therefore no adjustment has been made to the ECL for such factors. This matter is reviewed and monitored for appropriateness on an ongoing basis.

3.2.3.5 Categorisation of loans and advances to customers for ECL measurement

As part of the ECL model, the Bank classifies its exposures to loans and advances to customers into groups with similar characteristics that include instrument type. In this respect, the Bank considers the following categories when measuring ECL:

- Corporate portfolio, which includes local loans and advances to business entities as well as the international lending portfolio which represents exposures originated by the Bank's branch in London which finances prime properties in the same city.
- Retail portfolio, which includes loans and advances to individual customers such as mortgages, credit cards and other consumer credit.

3.2.4 Maximum exposure to credit risk

An 'exposure' is defined as the amount at risk arising from the Bank's assets and off-balance sheet items. The Bank's maximum credit risk with respect to assets and off-balance sheet items can be classified into the following categories:

- Financial assets recognised on-balance sheet comprising principally balances with Central Bank of Malta, financial investments and loans and advances to banks and customers. The maximum exposure to credit risk of these financial assets is equal to their gross carrying amounts. Refer to section 3.2.11 for information on the impact of collateral held for loans and advances to customers.

- Documentary credits and guarantee obligations incurred on behalf of third parties. The latter carry the same credit risk as loans, whilst documentary credits are collateralised by the underlying shipments of goods to which they relate, and therefore carry less risk than a loan to a customer. The maximum exposure to credit risk is the full amount that the Bank would have to pay if the guarantees are called upon or if documentary credits are exercised.
- Lending commitments and other credit related commitments that are irrevocable over the life of the respective facilities and are off-balance sheet items. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused lending commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored similarly to on-balance sheet loans and advances.

The Bank's credit risk exposure relating to on-balance sheet assets and off-balance sheet instruments, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, include the following:

	2022		2021	
	Gross exposure €000	ECL allowance €000	Gross exposure €000	ECL allowance €000
Credit risk exposure relating to on -balance sheet assets				
Subject to IFRS 9 impairment allowance				
Financial assets measured at amortised cost				
Balances with Central Bank of Malta	**117,616**	**(14)**	96,974	(243)
Cheques in course of collection	**6,515**	**-**	1,327	-
Financial investments	**32,444**	**(69)**	-	-
Loans and advances to banks	**10,736**	**(6)**	11,714	(1)
Loans and advances to customers				
- Corporate	**332,618**	**(10,783)**	311,747	(11,405)
- Retail	**586,866**	**(5,013)**	497,801	(5,050)
Accrued income	**2,563**	**-**	1,858	-
Financial investments measured at FVOCI	**58,655**	**(242)**	70,719	(144)
Not subject to IFRS 9 impairment allowance				
Derivative financial instruments	**464**	**-**	6	-
Financial investments measured at FVTPL	**390**	**-**	1,416	-
Credit risk exposure	**1,148,867**	**(16,127)**	993,562	(16,843)
Credit risk exposure relating to off -balance sheet instruments				
Contingent liabilities	**9,732**	**(48)**	9,506	(136)
Undrawn commitments to lend	**255,438**	**(327)**	253,516	(315)
Credit risk exposure	**265,170**	**(375)**	263,022	(451)

Accrued income substantially arises from loans and advances to customers. Expected credit losses in respect of accrued income, which are not deemed material, have been allocated to loans and advances to customers.

3.2.5 Credit concentration risk

Concentration risk results from limited diversification. This risk is managed by regular measurement and monitoring of counterparty, product and collateral type concentration levels against industry thresholds.

Credit concentration risk by industry sector

The Bank's financial investments (gross of credit loss allowance) were composed of local and foreign government debt securities, and other debt instruments as shown in the following table, excluding equity investments of which there were no investments held as at 31 December 2022 (2021: €1,246,000):

	2022	2021
	€000	€000
Governments	36,447	31,017
Corporate		
Financial services	54,220	39,872
Other sectors	822	-
	91,489	70,889

The industry sector analysis of the Bank's loans and advances to customers (gross of credit loss allowances) is set out in the following table:

	2022	2021
	€000	€000
Manufacturing	8,594	9,732
Financial services	47,258	54,522
Households and individuals	606,471	519,564
Construction	67,997	65,235
Wholesale and retail	31,747	33,432
Other sectors	157,417	127,063
Gross loans and advances to customers	919,484	809,548

Credit concentration risk for counterparties

As at 31 December 2022, no loans and advances to customers were deemed to be prohibited large exposures in accordance with the requirements of Part Four: Large Exposures, of the CRR except for one exposure covered by a government guarantee and eligible for an exemption in line with CRR specifications. A limited number of customers amount to over 10% of the Bank's regulatory own funds, which customers are monitored more frequently and rigorously.

Within its daily operations, the Bank transacts with counterparty banks and other financial institutions. To mitigate the risk of losses in respect of such transactions, the Bank places short-term funds solely with pre-approved counterparties subject to pre-established limits, which limits are determined after having considered the respective institution's external credit rating. Open positions for such transactions are checked against limits on a daily basis and are available in real time.

Credit concentration risk by geographical region

The Bank monitors credit concentration risk by geographical region. The majority of the Bank's exposures were in Malta at the end of the period under review, the country in which the Bank is incorporated. The Bank originated a number of exposures in the United Kingdom (as defined in Note 3.2.3.5), which as at 31 December 2022 had a carrying amount of €48.4 million (2021: €40.8 million). Moreover, the Bank also held balances with correspondent banks in foreign jurisdictions and investments in debt securities issued by foreign entities. The following tables represent financial instruments and loans and advances to banks split by geographical region, excluding equity investments of which there were no investments held as at 31 December 2022 (2021: €1,246,000).

	2022	2021
	€000	€000
Financial investment s at FVOCI and FVTPL		
Malta	34,397	26,343
Belgium	521	-
France	400	2,305
Germany	1,031	3,057
Netherlands	7,814	9,216
Portugal	5,119	5,237
Spain	6,590	10,428
Switzerland	1,409	886
United Kingdom	1,374	8,233
United States	390	6,430
	59,045	72,135

	2022	2021
	€000	€000
Financial investments measured at amortised cost		
Malta	8,850	-
Canada	4,877	-
France	10,024	-
Norway	4,749	-
Spain	3,944	-
	32,444	-

	2022	2021
	€000	€000
Loans and advances to banks		
United Kingdom	10,397	11,392
United States	339	322
Gross loans and advances to banks	10,736	11,714

3.2.6 Information on credit quality of balances with banks and debt securities

During 2022, the Bank held debt securities and similar instruments issued by investment grade sovereign and non-sovereign counterparties. The issuers are approved and regularly reviewed, focusing on market developments. The debt securities held by the Bank are listed on the Malta Stock Exchange, a regulated market in Malta, or on other recognised exchanges.

Loans and advances to banks included money market placements and balances held with counterparty banks.

At the end of the reporting period, none of these financial assets mentioned were past due or impaired.

The following tables set out information on the credit quality of financial assets measured at amortised cost and financial investments measured at FVOCI. The credit quality of the financial assets is determined by credit ratings applicable to issuers or counterparties. Explanation of the terms 12-month ECL, lifetime ECL and credit impaired are included in Note 3.2.3.

The credit rating of Malta was classified as investment grade by external rating agencies as at 31 December 2022 and 2021.

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Balances with Central Bank of Malta at amortised cost				
Gross carrying amount	117,616	-	-	117,616
Loss allowance	(14)	-	-	(14)
Carrying amount	**117,602**	**-**	**-**	**117,602**

	2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Balances with Central Bank of Malta at amortised cost				
Gross carrying amount	96,974	-	-	96,974
Loss allowance	(243)	-	-	(243)
Carrying amount	96,731	-	-	96,731

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at FVOCI				
Aaa to Aa3	3,355	-	-	3,355
A1 to A3	38,402	-	-	38,402
Baa1 to Baa3	8,856	-	-	8,856
Ba1 to Ba3	4,975	-	-	4,975
Unrated	3,067	-	-	3,067
Carrying amount – fair value	58,655	-	-	58,655
Loss allowance	(242)	-	-	(242)

Unrated financial investments disclosed above represent bonds listed on the Malta Stock Exchange which are unrated by international credit rating agencies.

	2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at FVOCI				
Aaa to Aa3	5,309	-	-	5,309
A1 to A3	50,286	-	-	50,286
Baa1 to Baa3	9,547	-	-	9,547
Ba1 to Ba3	3,142	-	-	3,142
Unrated	2,435	-	-	2,435
		-		
Carrying amount – fair value	70,719	-	-	70,719
Loss allowance	(144)	-	-	(144)

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at amortised cost				
Aaa to Aa3	23,594	-	-	23,594
Baa1 to Baa3	8,850	-	-	8,850
Gross carrying amount	32,444	-	-	32,444
Loss allowance	(69)	-	-	(69)
Carrying amount	**32,375**	**-**	**-**	**32,375**

As at 31 December 2021, the Bank held no investments measured at amortised cost.

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to banks at amortised cost				
Aaa to Aa3	339	-	-	339
A1 to A3	10,397	-	-	10,397
Gross carrying amount	10,736	-	-	10,736
Loss allowance	(6)	-	-	(6)
Carrying amount	**10,730**	**-**	**-**	**10,730**

	2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to banks at amortised cost				
Aaa to Aa3	322	-	-	322
A1 to A3	11,392	-	-	11,392
Gross carrying amount	11,714	-	-	11,714
Loss allowance	(1)	-	-	(1)
Carrying amount	11,713	-	-	11,713

The Bank did not hold any purchased credit-impaired assets throughout the period.

After the end of the reporting period there were no significant changes in credit ratings reflected in the tables above which have a material impact on the credit quality of the financial assets.

3.2.7 Information on credit quality of loans and advances to customers

The credit quality of loans and advances to customers is managed by the Bank using internal credit ratings. The Bank applies an internal rating system ('IRS') which encapsulates the risk profile associated with every customer lending relationship.

The IRS comprises 13 credit rating levels which constitute a continuum of progressively increasing risk profiles ranging from A1 (best rating, least risky) to E (loss, worst case representing full risk materialisation).

The Bank's IRS is broken down as follows:

Performing

- High Grade (Internal rating of A1 to A3)

A customer having an internal risk rating between A1 through A3 generally would not have any interest and/or capital payments overdue by more than 30 days or a recent history of default. High grade exposures typically do not exhibit indicators of future losses.

- Standard (Internal rating of A4 and B)

An exposure with more than 30 days past-due is not graded higher than B under the Bank's IRS.

An exposure is assessed as per section 3.2.8 and potentially classified as A4 if days past-due are not more than 30 but it exhibits one or more of the following indicators: a tight debt-service ratio, a deterioration in financial standing, operations or collateral in an industry under distress, overdraft facilities experiencing hardcore elements, or a high loan-to-value ratio. Other quantitative or qualitative factors may be considered in such assessments as may be deemed necessary by the Bank's credit committees. In addition to the above, if an exposure has more than 30 days past-due it will have an internal risk rating of B or higher under the Bank's IRS.

- Substandard (Internal rating of C)

Customers having an internal risk rating of C, thus classified within the 'Substandard' category, generally have interest and/or capital payments overdue by more than 60 days but not overdue by more than 90 days. Further or prolonged deterioration in the indicators set out in the above section on exposures rated as 'Standard' could result in a C rating.

Non-performing

- Doubtful (Internal rating of D1 to D6 and E)

All credit-impaired or defaulted exposures (see definition in Note 3.2.3.2) fall within this category of the IRS. Exposures past due by more than 90 days automatically fall within this category. Customers granted additional forbearance measures on already forborne exposures will also fall within this category.

The Bank's credit impaired loans and advances mainly relate to a number of independent customers which are not meeting repayment obligations or deemed by the Bank as unlikely to pay their obligations to the Bank without recourse by the Bank to realising the collateral.

The following tables set out information about the credit quality of loans and advances to customers measured at amortised cost. Explanation of the terms 12-month ECL, lifetime ECL and credit-impaired are included in Note 3.2.3.

	2022			
	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Loans and advances to customers at amortised cost				
Corporate				
High grade	296,039	150	-	296,189
Standard	-	14,285	-	14,285
Substandard	-	8,050	-	8,050
Doubtful	-	-	14,094	14,094
Gross carrying amount	296,039	22,485	14,094	332,618
Loss allowance	(1,346)	(626)	(8,811)	(10,783)
Carrying amount	294,693	21,859	5,283	321,835
Retail				
High grade	565,561	414	-	565,975
Standard	-	9,934	-	9,934
Substandard	-	835	-	835
Doubtful	-	-	10,122	10,122
Gross carrying amount	565,561	11,183	10,122	586,866
Loss allowance	(1,319)	(598)	(3,096)	(5,013)
Carrying amount	564,242	10,585	7,026	581,853
Total				
High grade	861,600	564	-	862,164
Standard	-	24,219	-	24,219
Substandard	-	8,885	-	8,885
Doubtful	-	-	24,216	24,216
Gross carrying amount	861,600	33,668	24,216	919,484
Loss allowance	(2,665)	(1,224)	(11,907)	(15,796)
Carrying amount	858,935	32,444	12,309	903,688

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to customers at amortised cost				
Corporate				
High grade	264,373	162	-	264,535
Standard	-	22,865	-	22,865
Substandard	-	42	-	42
Doubtful	-	-	24,305	24,305
Gross carrying amount	264,373	23,069	24,305	311,747
Loss allowance	(1,415)	(1,057)	(8,933)	(11,405)
Carrying amount	262,958	22,012	15,372	300,342
Retail				
High grade	478,024	567	-	478,591
Standard	-	9,719	-	9,719
Substandard	-	460	-	460
Doubtful	-	-	9,031	9,031
Gross carrying amount	478,024	10,746	9,031	497,801
Loss allowance	(1,157)	(643)	(3,250)	(5,050)
Carrying amount	476,867	10,103	5,781	492,751
Total				
High grade	742,397	729	-	743,126
Standard	-	32,584	-	32,584
Substandard	-	502	-	502
Doubtful	-	-	33,336	33,336
Gross carrying amount	742,397	33,815	33,336	809,548
Loss allowance	(2,572)	(1,700)	(12,183)	(16,455)
Carrying amount	739,825	32,115	21,153	793,093

The following table sets out information about the credit quality of loans and advances to customers, guarantees, documentary credits and undrawn commitments to lend on an aggregate basis:

	2022			
	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
High grade	1,122,532	570	-	1,123,102
Standard	-	27,782	-	27,782
Substandard	-	9,156	-	9,156
Doubtful	-	-	24,614	24,614
Gross amount	**1,122,532**	**37,508**	**24,614**	**1,184,654**
Loss allowance	(2,786)	(1,351)	(12,034)	(16,171)
	1,119,746	**36,157**	**12,580**	**1,168,483**

	2021			
	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
High grade	995,535	730	-	996,265
Standard	-	41,168	-	41,168
Substandard	-	719	-	719
Doubtful	-	-	34,418	34,418
Gross amount	995,535	42,617	34,418	1,072,570
Loss allowance	(2,703)	(1,902)	(12,302)	(16,907)
	992,832	40,715	22,116	1,055,663

As at 31 December 2022 and 2021, there were no purchased credit-impaired assets.

The following table analyses the credit impaired loans and advances, gross of credit loss allowances, by industry sector:

	2022 €000	2021 €000
Manufacturing	**662**	676
Households and individuals	**10,815**	10,791
Construction	**267**	7,600
Wholesale and retail	**7,231**	7,112
Other	**5,241**	7,157
	24,216	33,336

The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio at 31 December 2022:

	Non-forborne Exposures 2022 €000	Forborne Exposures 2022 €000	Total 2022 €000
Performing - Stage 1			
Loans which are not past due	850,212	-	850,212
Loans which are past due by less than 30 days	11,388	-	11,388
	861,600	-	861,600
Underperforming - Stage 2			
Loans which are not past due			
High grade	-	548	548
Standard	20,850	1,640	22,490
Substandard	2,057	2	2,059
	22,907	2,190	25,097
Loans which are past due by less than 90 days			
Past due by less than 30 days	7,499	45	7,544
Past due by less than 60 days but not more than 30 days	1,022	-	1,022
Past due by less than 90 days but not more than 60 days	5	-	5
	8,526	45	8,571
	31,433	2,235	33,668
Non-performing - Stage 3			
Past due loans by more than 90 days and credit impaired loans	16,994	7,222	24,216
Gross loans and advances	**910,027**	**9,457**	**919,484**
Expected credit losses			
12-month ECL	(2,665)	-	(2,665)
Lifetime ECL	(10,424)	(2,707)	(13,131)
Net loans and advances	**896,938**	**6,750**	**903,688**

Interest income recognised during the financial year ended 31 December 2022 in respect of forborne exposures amounted to €316,000 (2021: €401,000).

The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio at 31 December 2021:

	Non-forborne Exposures 2021 €000	Forborne Exposures 2021 €000	Total 2021 €000
Performing - Stage 1			
Loans which are not past due	733,977	-	733,977
Loans which are past due by less than 30 days	8,420	-	8,420
	742,397	-	742,397
Underperforming - Stage 2			
Loans which are not past due			
High grade	-	715	715
Standard	29,294	1,701	30,995
Substandard	346	24	370
	29,640	2,440	32,080
Loans which are past due by less than 90 days			
Past due by less than 30 days	1,611	13	1,624
Past due by less than 60 days but not more than 30 days	106	-	106
Past due by less than 90 days but not more than 60 days	5	-	5
	1,722	13	1,735
	31,362	2,453	33,815
Non-performing - Stage 3			
Past due loans by more than 90 days and credit impaired loans	23,372	9,964	33,336
Gross loans and advances	**797,131**	**12,417**	**809,548**
Expected credit losses			
12-month ECL	(2,572)	-	(2,572)
Lifetime ECL	(10,765)	(3,118)	(13,883)
Net loans and advances	**783,794**	**9,299**	**793,093**

3.2.8 Modification of financial assets

The contractual terms of a loan may be revised for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the credit quality of a customer. Forbearance measures comprise concessions made on the contractual terms of a loan in response to a customer's financial difficulties. The Bank categorises loans on which concessions have been granted under conditions of financial difficulties as 'forborne loans' when their contractual payment terms have been revised, because of significant concerns about the customer's ability to meet contractual payments when due.

When considering whether there is significant concern regarding a customer's ability to meet contractual loan repayments when due, the Bank assesses the customer's delinquency status, account behaviour, repayment history, current financial situation and continued ability to repay.

If the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the renegotiation, there will be a significant concern regarding the ability to meet contractual payments. Indicators of significant concerns regarding a borrower's ability to pay include:

- The customer is currently in default on any of its debt;
- The customer has declared or is in the process of declaring bankruptcy or entering into a similar process;
- There is significant doubt as to whether the customer will continue to be a going concern; and
- The Bank forecasts that the customer's entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity.

A range of forbearance measures are employed by the Bank in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default or call-in of facilities. They include extended payment terms, a reduction in principal repayments, the deferral of call-in of facilities and other forms of loan modifications. The Bank's policies and procedures in this area allow the Bank to provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has shown a willingness to repay the loan and is expected to be able to meet the revised obligations. The Bank's credit risk management policies set out restrictions on the number and frequency of forbearance measures and the minimum period an account must have been opened before any forbearance measure can be considered.

For the purposes of determining whether changes to a customer's agreement should be treated as forbearance the following types of modification could be regarded as concessionary in cases where the customer is in financial difficulty:

- Reduction of the stated interest rate for the remaining original life of the debt;
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- Reduction of the face amount or maturity amount of the debt; and
- Reduction of accrued interest.

Term extension is the most common type of modification granted by the Bank.

In assessing whether forbearance is a sustainable strategy, the customer's entire exposures are reviewed and the customer's ability to meet the terms in relation to the revised obligations and other unchanged credit facilities is considered. In all cases, forbearance is only granted when the customer is expected to be able to meet the revised terms. When considering acceptable modified terms the Bank considers the ability of the customer to be able to service the revised interest payments as a necessity. When principal payment modifications are utilised, the Bank requires the customer to be able to comply with the revised terms as a necessary pre-condition for the restructuring to proceed.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

The risk of default of modified assets after forbearance is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset (Note 2.6.5).

The Bank monitors the subsequent performance of modified assets and may determine that the credit risk has significantly improved after restructuring.

i. Modified assets are moved from Stage 3 (Lifetime ECL) to Stage 1 (12-month ECL) only if they have performed in accordance with the new terms for 36 consecutive months or more.

ii. Modified assets are moved from Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL) only if they have performed in accordance with the new terms for 24 consecutive months or more.

There are no modified assets classified as Stage 1 as at 31 December 2022.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to modified assets that moved from Stage 3 (Lifetime ECL) or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL).

In April 2020, the Central Bank of Malta issued Directive 18[2], 'On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') in order to provide guidance on the treatment of moratoria in the current environment, in line with European Banking Authority[3] ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (the 'EBA Guidelines'). These are referred to as general payment moratoria and was extended until 31 March 2021.

During the financial years ended 31 December 2020 and 2021, the Bank granted general payment moratoria in accordance with Directive 18. Exposures eligible for general payment moratoria and meeting established criteria were not classified as forborne, unless the borrower was already facing financial difficulties prior to the pandemic. Requests for new general payment moratoria or extensions of general payment moratoria received after 31 March 2021, or extended beyond the maximum duration allowed by Directive 18 ae considered to represent forbearance measures and are classified accordingly.

As at 31 December 2022, the Bank did not have any active general payment moratoria. The Bank also did not experience significant defaults subsequent to the expiry of the general payment moratoria. As part of its credit management process, the Bank monitors on a regular basis loans and advances to customers which were subject to a general payment moratoria and are in arrears.

The movement in the carrying amount of forborne loans and advances, before impairment allowances, is analysed below.

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[2] Amended on 23rd April 2020, 30th June 2020 and 14th January 2021.

[3] EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. EBA/GL/2020/02 amended by EBA/GL/2020/08 and EBA/GL/2020/15

	Forborne exposures 2022 €000	2021 €000
At 1 January	12,417	13,979
Loans to which forbearance measures have been extended during the year	713	1,474
Repayments	(297)	(808)
Retired from forborne	(3,376)	(2,228)
At 31 December	9,457	12,417

As at 31 December 2022 and 2021, the net modification gain or loss from financial assets with lifetime ECL whose cash flows were modified during the period as part of the Bank's restructuring activities was insignificant.

Forborne loans, gross of credit loss allowances, are analysed by industry sector as follows:

	2022 €000	2021 €000
Manufacturing	662	683
Financial services	1,770	1,770
Households and individuals	3,489	4,458
Construction	-	1,240
Wholesale and retail	2,845	3,500
Other sectors	691	766
	9,457	12,417

As at 31 December 2022 and 2021 forborne loans comprise exposures to customers based in Malta.

During 2020, the Bank participated in the Malta Development Bank COVID-19 Guarantee Scheme, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee.

In this respect, as at 31 December 2022, gross loans subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €3.7 million (2021: €5.3 million), of which a maximum amount of €1.9 million (2021: €2.6 million) is considered guaranteed. As at 31 December 2022, gross loans, under this scheme, classified as Stage 1, Stage 2 and Stage 3, amounted to €2.9 million (2021: €4.1 million), €0.8 million (2021: €0.9 million) and nil (2021: €0.3 million) respectively. The total ECL allowance in respect of Stage 1 loans subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €0.01 million (2021: €0.05 million); the ECL in respect of Stage 2 loans amounted to €0.08 million (2021: €0.09 million) while the ECL in respect of Stage 3 loans amounted to nil (2021: €0.06 million).

3.2.9 Loss allowances

Reconciliation of 12-month and lifetime ECL provision

The loss allowance recognised is impacted by a variety of factors, as described below:

- 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;
- 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 PD, LGD or EAD 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

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period. In respect of loans and advances to customers, the recovery in ECL throughout the year was mainly due to improvements in the staging of the loan book, including but not limited to repayments of previously granted moratoria with no indicators of arrears, SICR or UTP. New exposures granted during the year are of good quality and are classified as Stage 1. Reductions in ECL were partly offset through the application of a temporary post-model adjustment, which was applied to capture the current level of uncertainty driven by economic uncertainty, geopolitical tensions, current interest rate environment, market volatility, inflationary pressures and economic slowdown.

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Balances with Central Bank of Malta at amortised cost				
At 1 January 2022	96,974	(243)	96,974	(243)
New financial assets originated or purchased	109,968	(3)	109,968	(3)
Net movement in EAD and changes in risk parameters (PD/LGD)	(89,326)	232	(89,326)	232
At 31 December 2022	117,616	(14)	117,616	(14)
Total net income statement charge for the year				229

	2021			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Balances with Central Bank of Malta at amortised cost				
At 1 January 2021	88,208	(168)	88,208	(168)
New financial assets originated or purchased	3,370	(8)	3,370	(8)
Net movement in EAD and changes in risk parameters (PD/LGD)	22,646	(69)	22,646	(69)
Financial assets derecognised during the year	(17,250)	2	(17,250)	2
At 31 December 2021	96,974	(243)	96,974	(243)
Total net income statement charge for the year				(75)

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at FVOCI				
At 1 January 2022	70,719	(144)	70,719	(144)
New financial assets originated or purchased	12,976	(18)	12,976	(18)
Net movement in EAD and changes in risk parameters (PD/LGD)	(2,331)	(90)	(2,331)	(90)
Financial assets derecognised during the year	(22,709)	10	(22,709)	10
At 31 December 2022	58,655	(242)	58,655	(242)
Total net income statement credit for the year				(98)

	2021			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at FVOCI				
At 1 January 2021	78,176	(294)	78,176	(294)
New financial assets originated or purchased	22,916	(56)	22,916	(56)
Net movement in EAD and changes in risk parameters (PD/LGD)	(3,541)	146	(3,541)	146
Financial assets derecognised during the year	(26,832)	60	(26,832)	60
At 31 December 2021	70,719	(144)	70,719	(144)
Total net income statement charge for the year				150

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at amortised cost				
At 1 January 2022	-	-	-	-
New financial assets originated or purchased	32,444	(69)	32,444	(69)
At 31 December 2022	32,444	(69)	32,444	(69)
Total net income statement credit for the year				(69)

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

As at 31 December 2021, there were no investments measured at amortised cost.

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to banks at amortised cost				
At 1 January 2022	11,714	(1)	11,714	(1)
New financial assets originated or purchased	9,048	(1)	9,048	(1)
Net movement in EAD and changes in risk parameters (PD/LGD)	(479)	(4)	(479)	(4)
Financial assets derecognised during the year	(9,547)	-	(9,547)	-
At 31 December 2022	**10,736**	**(6)**	**10,736**	**(6)**
Total net income statement credit for the year				**(5)**

	2021			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to banks at amortised cost				
At 1 January 2021	16,078	(17)	16,078	(17)
New financial assets originated or purchased	9,547	-	9,547	-
Net movement in EAD and changes in risk parameters (PD/LGD)	(969)	12	(969)	12
Financial assets derecognised during the year	(12,942)	4	(12,942)	4
At 31 December 2021	11,714	(1)	11,714	(1)
Total net income statement charge for the year				16

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2022							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to customers at amortised cost								
Corporate portfolio								
At 1 January 2022	264,373	(1,415)	23,069	(1,057)	24,305	(8,933)	311,747	(11,405)
New and further lending	87,543	(558)	4,287	(79)	584	(766)	92,414	(1,403)
Repayments and disposals	(61,816)	631	(6,439)	318	(3,288)	539	(71,543)	1,488
Transfers of financial instruments								
Stage 1 to Stage 2	(1,561)	3	1,561	(3)	-	-	-	-
Stage 1 to Stage 3	(279)	2	-	-	279	(2)	-	-
Stage 2 to Stage 1	7,779	(479)	(7,779)	479	-	-	-	-
Stage 2 to Stage 3	-	-	(282)	31	282	(31)	-	-
Stage 3 to Stage 2	-	-	8,068	(548)	(8,068)	548	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	470	-	233	-	(166)	-	537
At 31 December 2022	**296,039**	**(1,346)**	**22,485**	**(626)**	**14,094**	**(8,811)**	**332,618**	**(10,783)**
Total net income statement charge for the year								**622**

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2022							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to customers at amortised cost								
Retail portfolio								
At 1 January 2022	478,024	(1,157)	10,746	(643)	9,031	(3,250)	497,801	(5,050)
New and further lending	135,684	(523)	147	(33)	220	(91)	136,051	(647)
Repayments and disposals	(45,641)	355	(1,009)	176	(336)	419	(46,986)	950
Transfers of financial instruments								
Stage 1 to Stage 2	(3,262)	7	3,262	(7)	-	-	-	-
Stage 1 to Stage 3	(641)	2	-	-	641	(2)	-	-
Stage 2 to Stage 1	1,395	(49)	(1,395)	49	-	-	-	-
Stage 2 to Stage 3	-	-	(571)	14	571	(14)	-	-
Stage 3 to Stage 1	2	(2)	-	-	(2)	2	-	-
Stage 3 to Stage 2	-	-	3	(3)	(3)	3	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	48	-	(151)	-	(163)	-	(266)
At 31 December 2022	565,561	(1,319)	11,183	(598)	10,122	(3,096)	586,866	(5,013)
Total net income statement charge for the year								37

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	Stage 1		Stage 2		Stage 3		Total	
	2022							
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to customers at amortised cost								
Total								
At 1 January 2022	742,397	(2,572)	33,815	(1,700)	33,336	(12,183)	809,548	(16,455)
New and further lending	223,227	(1,081)	4,434	(112)	804	(857)	228,465	(2,050)
Repayments and disposals	(107,457)	986	(7,448)	494	(3,624)	958	(118,529)	2,438
Transfers of financial instruments								
Stage 1 to Stage 2	(4,823)	10	4,823	(10)	-	-	-	-
Stage 1 to Stage 3	(920)	4	-	-	920	(4)	-	-
Stage 2 to Stage 1	9,174	(528)	(9,174)	528	-	-	-	-
Stage 2 to Stage 3	-	-	(853)	45	853	(45)	-	-
Stage 3 to Stage 1	2	(2)	-	-	(2)	2	-	-
Stage 3 to Stage 2	-	-	8,071	(551)	(8,071)	551	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	518	-	82	-	(329)	-	271
At 31 December 2022	**861,600**	**(2,665)**	**33,668**	**(1,224)**	**24,216**	**(11,907)**	**919,484**	**(15,796)**
Total net income statement charge for the year								**659**

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2022							
	Stage 1		Stage 2		Stage 3		Total	
	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000
Total loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend								
At 1 January 2022	995,535	(2,703)	42,617	(1,902)	34,418	(12,302)	1,072,570	(16,907)
New and further lending	362,774	(1,116)	1,769	(125)	819	(865)	365,362	(2,106)
Repayments and disposals	(238,986)	1,029	(9,928)	584	(4,364)	963	(253,278)	2,576
Transfers of financial instruments								
Stage 1 to Stage 2	(5,242)	10	5,242	(10)	-	-	-	-
Stage 1 to Stage 3	(941)	4	-	-	941	(4)	-	-
Stage 2 to Stage 1	9,389	(531)	(9,389)	531	-	-	-	-
Stage 2 to Stage 3	-	-	(875)	45	875	(45)	-	-
Stage 3 to Stage 1	3	(2)	-	-	(3)	2	-	-
Stage 3 to Stage 2	-	-	8,072	(552)	(8,072)	552	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	523	-	78	-	(335)	-	266
At 31 December 2022	**1,122,532**	**(2,786)**	**37,508**	**(1,351)**	**24,614**	**(12,034)**	**1,184,654**	**(16,171)**
Total net income statement charge for the year								**736**

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to customers at amortised cost								
Corporate portfolio								
At 1 January 2021	222,803	(1,249)	46,616	(1,803)	17,859	(7,650)	287,278	(10,702)
New and further lending	118,361	(728)	3,404	(525)	1,025	(1,192)	122,790	(2,445)
Repayments and disposals	(79,449)	559	(16,364)	1,145	(2,508)	520	(98,321)	2,224
Transfers of financial instruments								
Stage 1 to Stage 2	(3,252)	4	3,252	(4)	-	-	-	-
Stage 1 to Stage 3	(22)	-	-	-	22	-	-	-
Stage 2 to Stage 1	5,932	(32)	(5,932)	32	-	-	-	-
Stage 2 to Stage 3	-	-	(7,907)	208	7,907	(208)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	31	-	(110)	-	(403)	-	(482)
At 31 December 2021	264,373	(1,415)	23,069	(1,057)	24,305	(8,933)	311,747	(11,405)
Total net income statement charge for the year								(703)

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to customers at amortised cost								
Retail portfolio								
At 1 January 2021	393,688	(827)	15,059	(1,161)	7,804	(2,805)	416,551	(4,793)
New and further lending	129,692	(523)	111	(81)	82	(303)	129,885	(907)
Repayments and disposals	(45,210)	178	(2,800)	386	(625)	206	(48,635)	770
Transfers of financial instruments								
Stage 1 to Stage 2	(3,781)	14	3,781	(14)	-	-	-	-
Stage 1 to Stage 3	(1,215)	15	-	-	1,215	(15)	-	-
Stage 2 to Stage 1	4,850	(417)	(4,850)	417	-	-	-	-
Stage 2 to Stage 3	-	-	(588)	37	588	(37)	-	-
Stage 3 to Stage 2	-	-	33	(33)	(33)	33	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	403	-	(194)	-	(329)	-	(120)
At 31 December 2021	478,024	(1,157)	10,746	(643)	9,031	(3,250)	497,801	(5,050)
Total net income statement charge for the year								(257)

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to customers at amortised cost								
Total								
At 1 January 2021	616,491	(2,076)	61,675	(2,964)	25,663	(10,455)	703,829	(15,495)
New and further lending	248,053	(1,251)	3,515	(606)	1,107	(1,495)	252,675	(3,352)
Repayments and disposals	(124,659)	737	(19,164)	1,531	(3,133)	726	(146,956)	2,994
Transfers of financial instruments								
Stage 1 to Stage 2	(7,033)	18	7,033	(18)	-	-	-	-
Stage 1 to Stage 3	(1,237)	15	-	-	1,237	(15)	-	-
Stage 2 to Stage 1	10,782	(449)	(10,782)	449	-	-	-	-
Stage 2 to Stage 3	-	-	(8,495)	245	8,495	(245)	-	-
Stage 3 to Stage 1	-	-	-	-	-	-	-	-
Stage 3 to Stage 2	-	-	33	(33)	(33)	33	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	434	-	(304)	-	(732)	-	(602)
At 31 December 2021	742,397	(2,572)	33,815	(1,700)	33,336	(12,183)	809,548	(16,455)
Total net income statement charge for the year								(960)

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000
Total loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend								
At 1 January 2021	816,731	(2,215)	67,790	(3,022)	25,996	(10,544)	910,517	(15,781)
New and further lending	406,938	(1,260)	3,718	(687)	1,101	(1,504)	411,757	(3,451)
Repayments and disposals	(229,993)	752	(16,579)	1,470	(3,132)	714	(249,704)	2,936
Transfers of financial instruments								
Stage 1 to Stage 2	(7,793)	20	7,793	(20)	-	-	-	-
Stage 1 to Stage 3	(1,260)	15	-	-	1,260	(15)	-	-
Stage 2 to Stage 1	10,909	(454)	(10,909)	454	-	-	-	-
Stage 2 to Stage 3	-	-	(9,229)	245	9,229	(245)	-	-
Stage 3 to Stage 1	3	-	-	-	(3)	-	-	-
Stage 3 to Stage 2	-	-	33	(33)	(33)	33	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	439	-	(309)	-	(741)	-	(611)
At 31 December 2021	995,535	(2,703)	42,617	(1,902)	34,418	(12,302)	1,072,570	(16,907)
Total net income statement charge for the year								(1,126)

Remeasurement of loss allowance arising from foreign-exchange movements was not considered significant.

3.2.10 Write-off policy

The Bank writes off loans and advances to customers when it determines that these are uncollectible, usually has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 December 2022 amounted to €88,000 (2021: €295,000). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

3.2.11 Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank's Board establishes a policy regarding the acceptability of types of collateral and valuation parameters.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are at times unsecured.

The main types of collateral obtained are as follows:

- For corporate lending: charges over real estate properties, cash or securities;
- For retail lending (including home loans and consumer credit): mortgages over residential properties, cash or securities; and
- For exposures arising from reverse repurchase transactions: a pledge on liquid sovereign debt securities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument, and are generally unsecured.

Management assesses the market value of collateral as part of the loan origination process. This assessment is reviewed periodically through ongoing credit file reviews. The Bank requests additional collateral in accordance with the underlying agreement when necessary.

The Bank's policies regarding obtaining collateral have not changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

A portion of the Bank's loans and advances to customers, secured by cash, have no loss allowance being recognised in accordance with the Bank's expected credit loss model. The carrying amount of such financial assets as at 31 December 2022 was €12,823,000 (2021: €9,622,000).

Loans granted as part of the Malta Development Bank COVID-19 Guarantee Scheme (Note 3.2.8) are secured by guarantees granted as part of this Scheme and included within Other collateral in the following tables.

The extendible value of the collateral is the lower of the fair value of a pledged asset for lending purposes and the gross carrying amount of the secured loans.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and in respect of which related collateral is held in order to mitigate potential losses are shown below:

	As at 31 December 2022			
	Gross carrying amount €000	ECL allowance €000	Carrying amount €000	Extendible value of collateral held €000
Retail				
Credit cards	7	3	4	5
Fixed term loans	1,345	146	1,199	1,298
Mortgages	7,462	1,639	5,823	7,462
Corporate				
Small and medium-sized enterprises (SMEs)	11,838	6,555	5,283	9,380
	20,652	**8,343**	**12,309**	**18,145**

	As at 31 December 2021			
	Gross carrying amount €000	ECL allowance €000	Carrying amount €000	Extendible value of collateral held €000
Retail				
Credit cards	7	4	3	4
Fixed term loans	1,171	198	973	1,133
Mortgages	6,572	1,767	4,805	6,572
Corporate				
Small and medium-sized enterprises (SMEs)	22,018	6,646	15,372	19,636
	29,768	8,615	21,153	27,345

Financial assets that are credit-impaired and in respect of which no collateral is held are shown below:

	As at 31 December 2022		
	Gross carrying amount €000	ECL allowance €000	Carrying amount €000
Retail			
Overdrafts	315	315	-
Credit cards	396	396	-
Fixed term loans	479	479	-
Mortgages	118	118	-
Corporate			
Small and medium-sized enterprises (SMEs)	2,242	2,242	-
Sole traders	14	14	-
	3,564	**3,564**	**-**

	As at 31 December 2021		
	Gross carrying amount €000	ECL allowance €000	Carrying Amount €000
Retail			
Overdrafts	286	286	-
Credit cards	369	369	-
Fixed term loans	491	491	-
Mortgages	137	137	-
Corporate			
Small and medium-sized enterprises (SMEs)	2,276	2,276	-
Sole traders	9	9	-
	3,568	3,568	-

The following tables show the distribution of LTV ratios for the Bank's credit-impaired loans and advances to customers secured by immovable property:

Gross carrying amount of credit-impaired loans and advances to customers as at 31 December 2022

	Corporate exposures €000	Retail mortgages €000	Retail credit cards €000	Retail consumer credit €000
Lower than 25%	202	49	-	45
25 to 50%	2,591	869	-	498
51 to 75%	1,947	3,067	-	534
76 to 100%	37	3,363	1	171
Higher than 100%	6,837	89	-	24
Total	**11,614**	**7,437**	**1**	**1,272**

Gross carrying amount of credit-impaired loans and advances to customers as at 31 December 2021

	Corporate exposures €000	Retail mortgages €000	Retail credit cards €000	Retail consumer credit €000
Lower than 25%	3,126	-	1	51
25 to 50%	10,091	572	-	371
51 to 75%	1,564	2,819	-	482
76 to 100%	425	3,067	-	155
Higher than 100%	6,502	89	-	43
Total	21,708	6,547	1	1,102

It is the Bank's policy to dispose of properties acquired through judicial action in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. Generally, the Bank does not occupy properties acquired through judicial action for business use.

The following is an analysis of the extendible value of the collateral and other credit enhancements held by the Bank against exposures of loans and advances to customers.

	Non-forborne exposures 2022 €000	Forborne Exposures 2022 €000
Performing – Stage 1		
Loans which are not past due		
Total maximum exposure	850,212	-
Extendible value of collateral		
Secured by cash and quasi cash	(32,796)	-
Residential immovable property	(636,498)	-
Commercial immovable property	(139,129)	-
Other collateral	(14,415)	-
Total extendible value of collateral	(822,838)	
Residual exposure	27,374	
Loss allowance	(2,560)	-
Past due by less than 30 days		
Total maximum exposure	11,388	-
Extendible value of collateral		
Secured by cash and quasi cash	(244)	-
Residential immovable property	(7,775)	-
Commercial immovable property	(2,986)	-
Other collateral	(20)	-
Total extendible value of collateral	(11,025)	-
Residual exposure	363	-
Loss allowance	(105)	-

	Non-forborne exposures 2022 €000	Forborne Exposures 2022 €000
Underperforming – Stage 2		
Loans which are not past due		
Total maximum exposure	22,907	2,190
Extendible value of collateral		
Secured by cash and quasi cash	(1,472)	(49)
Residential immovable property	(13,260)	(1,797)
Commercial immovable property	(5,809)	(80)
Other collateral	(192)	-
Total extendible value of collateral	(20,733)	(1,926)
Residual exposure	2,174	264
Loss allowance	(778)	(58)
Past due by less than 90 days		
Total maximum exposure	8,526	45
Extendible value of collateral:		
Secured by cash and quasi cash	(101)	-
Residential immovable property	(6,961)	(24)
Commercial immovable property	(1,192)	(5)
Other collateral	(91)	-
Total extendible value of collateral	(8,345)	(29)
Residual exposure	181	16
Loss allowance	(384)	(4)
Non-performing – Stage 3		
Total maximum exposure	16,994	7,222
Extendible value of collateral:		
Secured by cash and quasi cash	(227)	(1)
Residential immovable property	(10,251)	(2,336)
Commercial immovable property	(1,532)	(3,684)
Other collateral	-	(1)
Total extendible value of collateral	(12,010)	(6,022)
Residual exposure	4,984	1,200
Loss allowance	(9,262)	(2,645)

	Non-forborne exposures 2021 €000	Forborne exposures 2021 €000
Performing – Stage 1		
Loans which are not past due		
Total maximum exposure	733,977	-
Extendible value of collateral		
Secured by cash and quasi cash	(21,484)	-
Residential immovable property	(547,315)	-
Commercial immovable property	(121,275)	-
Other collateral	(16,353)	-
Total extendible value of collateral	(706,427)	-
Residual exposure	27,550	-
Loss allowance	(2,450)	-
Past due by less than 30 days		
Total maximum exposure	8,420	-
Extendible value of collateral		
Secured by cash and quasi cash	(229)	-
Residential immovable property	(5,677)	-
Commercial immovable property	(2,203)	-
Other collateral	-	-
Total extendible value of collateral	(8,109)	-
Residual exposure	311	-
Loss allowance	(122)	-

	Non-forborne exposures 2021 €000	Forborne Exposures 2021 €000
Underperforming – Stage 2		
Loans which are not past due		
Total maximum exposure	29,640	2,440
Extendible value of collateral		
Secured by cash and quasi cash	(1,489)	(25)
Residential immovable property	(11,762)	(1,787)
Commercial immovable property	(12,303)	(337)
Other collateral	(244)	-
Total extendible value of collateral	(25,798)	(2,149)
Residual exposure	3,840	291
Loss allowance	(1,519)	(95)
Past due by less than 90 days		
Total maximum exposure	1,722	13
Extendible value of collateral		
Secured by cash and quasi cash	(37)	(1)
Residential immovable property	(1,493)	-
Commercial immovable property	(119)	-
Total extendible value of collateral	(1,649)	(1)
Residual exposure	73	12
Loss allowance	(85)	(1)
Non-performing – Stage 3		
Total maximum exposure	23,372	9,964
Extendible value of collateral		
Secured by cash and quasi cash	(63)	-
Residential immovable property	(16,026)	(3,823)
Commercial immovable property	(2,317)	(4,963)
Other collateral	(151)	(2)
Total extendible value of collateral	(18,557)	(8,788)
Residual exposure	4,815	1,176
Loss allowance	(9,161)	(3,022)

3.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as prices and interest rates, the correlations between them and their levels of volatility.

Market risk for the Bank comprises of two types of risks, namely:

- Interest rate risk, which results from fluctuations in the future cash flows of financial assets and liabilities and fair value of financial instruments due to interest rate repricing gaps, changes in the yield curves and volatilities in the market interest rates; and
- Foreign exchange risk, which results from exposure to changes in prices, spot or forward, and volatility of currency rates.

3.3.1 Management of market risk

The primary objective of market risk management is to ensure that the risk-reward relationship entrenched in managing the Bank's resources is optimised in a manner that it does not expose the Bank to losses over and above its risk appetite. To achieve this objective, the Bank establishes limits and controls positions rigorously. The Bank carries out regular assessments of how the outcome of business activities in terms of multiple risk metrics impacts financial results.

The Bank´s market risk appetite is defined by the Board of Directors and implemented by the Treasury Department, which coordinates the setup of risk limits and controls the Bank´s market exposures in the financial markets. The Risk function oversees adherence to limits and carries out oversight activity. Exposures and limits are reviewed on a regular basis by senior management in the Executive Committee and in the 'ALCO' (Asset and Liabilities Committee).

3.3.2 Interest rate risk

Interest rate risk arises in the Bank's operations due to interest rate fluctuations resulting from interest-earning assets and interest-bearing liabilities, which mature or are repriced at different times or in different amounts. Floating rate assets and liabilities are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. As outlined previously, the Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice within different time periods or on different terms. The Bank adopts a policy to predominantly match the currency and maturity of transactions through treasury operations, as much as is practicable, to minimise the risk of adverse fluctuations in interest rates affecting financial assets and financial liabilities. The Bank accepts deposits from customers at both fixed and floating rates and for varying terms. This poses a risk to the Bank, which risk is managed by monitoring on a continuous basis the level of mismatch of interest rate repricing taking cognisance of the terms of the Bank's principal assets, loans and advances to customers, that are repriceable at the Bank's discretion. The Bank, through its Treasury function, also invests in highly liquid quality assets, namely listed government and corporate debt securities, for the purposes of mitigating exposures to fluctuations in interest rates.

The Bank has evaluated the extent of the discontinuation of the IBOR rates on local loans and advances granted by the Bank. The Bank does not have any exposure to LIBOR and all loans have been migrated to SONIA accordingly.

The Bank is accordingly in a position to manage the interest rate terms of its financial assets and simultaneously to effect changes to interest terms of liabilities reflecting the Bank's strategy together with market developments. In this manner, the Bank manages the interest repricing gaps highlighted within the tables below. The Bank's ALCO is primarily responsible for oversight over the Bank's interest rate risk management process and monitors actively the interest rate risk measures utilised by the Bank. Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

The following tables summarise the Bank's exposures to interest rate risks. These analyse the Bank's financial instruments, which were interest-bearing, at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2022	Carrying amount €000	Effective interest rate %	Less than 3 months €000	Between 3 months and 1 year € 000	Between 1 year and 5 years €000	More than 5 years €000	Non-interest bearing €000
Financial assets							
Balances with Central Bank of Malta and cash	124,264	2.06%	117,602	-	-	-	6,662
Financial investments	91,420	2.64%	6,380	11,316	70,267	3,457	-
Loans and advances to banks	10,730	2.95%	10,730	-	-	-	-
Loans and advances to customers	903,688	3.69%	885,646	18,042	-	-	-
Total financial assets	1,130,102		1,020,358	29,358	70,267	3,457	6,662
Financial liabilities							
Amounts owed to banks and other institutions	10,168	2.50%	10,020	-	-	-	148
Amounts owed to customers	1,006,416	0.87%	662,769	174,585	167,920	1,142	-
Debt securities in issue	19,775	4.50%	-	-	-	19,775	-
Total financial liabilities	1,036,359		672,789	174,585	167,920	20,917	148
Interest repricing gap			347,569	(145,227)	(97,653)	(17,460)	
Cumulative gap			347,569	202,342	104,689	87,229	

As at 31 December 2021	Carrying amount €000	Effective interest rate %	Less than 3 months €000	Between 3 months and 1 year € 000	Between 1 year and 5 years €000	More than 5 years €000	Non-interest bearing €000
Financial assets							
Balances with Central Bank of Malta and cash	102,410	(0.50%)	96,731	-	-	-	5,679
Financial investments	70,719	0.41%	19,172	8,773	34,289	8,485	-
Loans and advances to banks	11,713	0.07%	11,713	-	-	-	-
Loans and advances to customers	793,093	3.36%	774,393	18,700	-	-	-
Total financial assets	977,935		902,009	27,473	34,289	8,485	5,679
Financial liabilities							
Amounts owed to banks and other institutions	29,436	(0.25%)	15,842	-	13,500	-	94
Amounts owed to customers	859,152	0.46%	588,480	121,736	148,936	-	-
Total financial liabilities	888,588		604,322	121,736	162,436	-	94
Interest repricing gap			297,687	(94,263)	(128,147)	8,485	
Cumulative gap			297,687	203,424	75,277	83,762	

Interest rate profile

The table below analyses interest-earning assets and interest-bearing liabilities between those that have a fixed rate and a variable rate.

	2022		2021	
	Fixed	Variable	Fixed	Variable
	€000	€000	€000	€000
Interest-earning assets				
Balances with Central Bank of Malta	108,552	9,050	-	96,731
Financial investments	69,398	22,022	45,279	25,440
Loans and advances to banks	9,047	1,683	9,546	2,167
Loans and advances to customers	151,840	751,848	46,871	746,222
	338,837	784,603	101,696	870,560
Interest-bearing liabilities				
Amounts owed to banks and other institutions	-	10,020	-	29,342
Amounts owed to customers	476,311	530,105	330,002	529,150
Debt securities in issue	19,775	-		
	496,086	540,125	330,002	558,492

Fair value sensitivity for fixed rate instruments

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Loans and advances to customers and to banks and amounts owed to customers and to banks are measured at amortised cost and are not expected to be disposed of, and are therefore not subject to fair value interest rate risk.

The Bank's instruments exposing the Bank to fair value interest rate risk consist of quoted debt securities measured at FVOCI, as described in Note 7, since these are fair valued with fair value changes recognised in other comprehensive income. At the end of the reporting period, if market prices on fixed rate financial investments measured at fair value had increased by 5%, with all other variables held constant, the fair value of these investments would increase by €2,293,000 (2021: €2,264,000). Likewise, if market prices on fixed rate financial investments measured at fair value had decreased by 5%, with all other variables held constant, the fair value of these investments would decrease by €2,293,000 (2021: €2,264,000)

Cash flow sensitivity for variable rate instruments

The Bank is exposed to cash flow interest rate risk principally in respect of the financial assets and liabilities which are subject to floating interest rates, including financial investments measured at amortised cost

At the end of the reporting period, if interest rates had increased by 200 basis points (assuming a parallel shift of 200 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would increase by €2,900,000 (2021: €5,200,000). Likewise, if interest rates had decreased by 200 basis points (assuming a parallel shift of 200 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would decrease by €2,900,000 (2021: €5,200,000).

In respect of the cash flow sensitivity for variable rate instruments, as a result of the increased interest rate environment, during 2022, a selected number of interest bearing assets were not repriced immediately.

3.3.3 Currency risk

Currency risk is the risk of the exposure of the Bank's financial position and cash flow to adverse movements in foreign exchange rates.

The Bank manages currency risk by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. This mechanism is reflected in the figures reported in the tables below.

The Bank has in place limits on the level of exposure by currency and in total, which are monitored daily, and hedging strategies are used to ensure that positions are maintained within established limits. The Bank does not apply hedge accounting with respect to its derivative contracts such as foreign currency swap agreements.

The table below summarises the Bank's exposures to foreign currency risk. Included in the tables are the Bank's financial instruments at carrying amounts, categorised by currency.

	Total €000	EUR €000	GBP €000	USD €000	Other €000
As at 31 December 2022					
Financial assets					
Balances with Central Bank of Malta and cash	124,264	117,949	6,250	65	-
Financial investments	91,420	78,161	6,331	6,928	-
Loans and advances to banks	10,730	-	10,391	339	-
Loans and advances to customers	903,688	855,477	48,094	117	-
Other assets	7,241	6,588	455	198	-
Total financial assets	1,137,343	1,058,175	71,521	7,647	-
Financial liabilities					
Amounts owed to banks and other institutions	10,168	10,164	-	3	1
Amounts owed to customers	1,006,416	933,234	65,241	7,941	-
Other liabilities	24,000	22,971	371	658	-
Debt securities in issue	19,775	19,775	-	-	-
Total financial liabilities	1,060,359	986,144	65,612	8,602	1
Net currency position			5,909	(955)	(1)
Notional value of derivatives			(7,629)	(469)	-
Residual exposure			(1,720)	(1,424)	(1)

As at 31 December 2021	Total €000	EUR €000	GBP €000	USD €000	Other €000
Financial assets					
Balances with Central Bank of Malta and cash	102,410	102,144	111	74	81
Financial investments	72,135	53,991	9,555	8,589	-
Loans and advances to banks	11,713	-	11,391	322	-
Loans and advances to customers	793,093	752,219	40,390	484	-
Other assets	8,332	7,645	342	345	-
Total financial assets	987,683	915,999	61,789	9,814	81
Financial liabilities					
Amounts owed to banks and other institutions	29,436	29,433	-	2	1
Amounts owed to customers	859,152	808,546	42,753	7,853	-
Other liabilities	17,491	17,194	151	146	0
Total financial liabilities	906,079	855,173	42,904	8,001	1
Net currency position			18,885	1,813	80
Notional value of derivatives			(20,120)	(890)	-
Residual exposure			(1,235)	(923)	80

In view of the levels of net currency positions reflected in the tables above, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting periods would not reflect significant impacts (after hedging transactions).

In fact, under the scenario that the euro appreciates by 20% against all currencies, the effect would be a gain of €629,000 (2021: gain of €47,000) in the carrying amount of financial instruments with the favourable impact recognised in profit or loss. Should the euro depreciate against all currencies by 20%, the effect would be a loss of €629,000 (2021: loss of €47,000) in the carrying amount of financial instruments and the adverse impact would be recognised in profit or loss.

3.4 Liquidity Risk

Liquidity risk is defined as the risk of losses due to:

- The Bank's funding costs increasing disproportionately;
- Lack of funding preventing the Bank from establishing new business; and
- Lack of funding which will ultimately prevent the Bank from meeting its obligations.

Liquidity risk may result from the Bank's inability to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, as well as the inability to sell a financial asset quickly at close to its fair value. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns and guarantees.

Such risk is inherent in all banking operations, which is generally affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. It is the Bank's objective to maintain a diversified and stable funding base with the objective of enabling the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. However, the Bank manages its net interest spread by advancing credit to customers with longer terms to maturity than the liabilities funding such loans. To mitigate exposures arising in this respect, the Bank holds significant liquid assets in the form of listed debt securities, money market placements and other short-term instruments for managing liquidity risk to support payment obligations and contingent funding in a stressed market environment.

As at 31 December 2022, the Bank's advances-to-deposit ratio stood at 89.79% (2021: 92.31%).

i. Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The LCR ratio as at 31 December 2022 was 237.65% (2021: 129.11%).

During the years ended 31 December 2022 and 2021 the LCR ratio was within both the regulatory minimum and the risk appetite set by the Bank.

ii. Net stable funding ratio

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

The NSFR methodology is calculated in line with the amendments of the Capital Requirements Regulation (EU) No 575/2013 (CRR II) with effect from 28 June 2021.

The NSFR ratio as at 31 December 2022 was 139.77% (2021: 130.78%).

During the years ended 31 December 2022 and 2021 the NSFR was within both the regulatory minimum and the risk appetite set by the Bank.

The Bank's ALCO focuses on the Bank's management process with respect to market and funding liquidity risks and adherence to limits. Key Liquidity Risk indicators are also included in the Bank's Risk Appetite.

Accordingly, the Bank's liquidity management process is summarised below:

- Management of day-to-day funding, by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The starting point for projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the Bank against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

The Bank also monitors the level and type of undrawn lending commitments and the impact of contingent liabilities such as guarantees as part of the liquidity management process previously referred to.

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity:

At 31 December 2022	Total €000	Within 3 months €000	Between 3 months and 1 year €000	Over 1 but less than 5 years €000	Over 5 years €000	No maturity date €000
Financial assets						
Balances with Central Bank of Malta and cash	124,264	116,637	-	-	-	7,627
Financial investments	91,420	6,380	11,317	70,267	3,066	390
Loans and advances to banks	10,730	10,730	-	-	-	-
Loans and advances to customers	903,688	25,932	33,649	123,049	721,058	-
Other assets	7,241	4,302	-	-	-	2,939
Total financial assets	1,137,343	163,981	44,966	193,316	724,124	10,956
Financial liabilities						
Amounts owed to banks and other institutions	10,168	10,168	-	-	-	-
Amounts owed to customers	1,006,416	663,420	174,003	167,851	1,142	-
Other liabilities	24,000	8,705	279	1,224	-	13,792
Debt securities in issue	19,775	-	-	-	19,775	-
Total financial liabilities	1,060,359	682,293	174,282	169,075	20,917	13,792
Maturity gap		(518,312)	(129,316)	24,241	703,207	
Cumulative gap		(518,312)	(647,628)	(623,387)	79,820	

Amounts owed to customers of €530,105,000 (2021: €529,150,000) as at 31 December 2022 are repayable on demand and included in the "within 3 months" bucket in the tables. However, the Bank's experience is that a significant portion of such deposits remains stable. Additionally, a significant part of other deposits maturing within 3 months from the end of the reporting period is typically renewed.

No amount was pledged with the Central Bank of Malta in favour of the Depositor Compensation Scheme during 2022 (2021: €3,370,000). An amount of €2,006,000 compromising financial investments measured at FVOCI have been pledged in favour of the Depositor Compensation Scheme during 2022 (2021: nil).

At 31 December 2021	Total €000	Within 3 months €000	Between 3 months and 1 year €000	Over 1 but less than 5 years €000	Over 5 years €000	No maturity date €000
Financial assets						
Balances with Central Bank of Malta and cash	102,410	95,618	-	-	-	6,792
Financial investments	72,135	-	11,472	50,761	8,486	1,416
Loans and advances to banks	11,713	11,713	-	-	-	-
Loans and advances to customers	793,093	34,916	11,748	111,191	635,238	-
Other assets	8,332	3,187	-	-	-	5,145
Total financial assets	987,683	145,434	23,220	161,952	643,724	13,353
Financial liabilities						
Amounts owed to banks and other institutions	29,436	15,936	-	13,500	-	-
Amounts owed to customers	859,152	589,647	120,704	148,801	-	-
Other liabilities	17,491	4,828	-	-	-	12,663
Total financial liabilities	906,079	610,411	120,704	162,301	-	12,663
Maturity gap		(464,977)	(97,484)	(349)	643,724	
Cumulative gap		(464,977)	(562,461)	(562,810)	80,914	

The tables below analyse the Bank's principal non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Total €000	Within 3 months €000	Between 3 months and 1 year €000	Over 1 but less than 5 years €000	Over 5 years €000
At 31 December 2022					
Financial liabilities					
Amounts owed to banks and other institutions	10,168	10,168	-	-	-
Amounts owed to customers	1,016,591	664,378	176,246	174,683	1,284
Lease liabilities	1,676	100	298	1,278	-
Total financial liabilities	**1,028,435**	**674,646**	**176,544**	**175,961**	**1,284**
At 31 December 2021					
Financial liabilities					
Amounts owed to banks and other institutions	29,436	15,936	-	13,500	-
Amounts owed to customers	866,469	590,030	121,832	154,607	-
Lease liabilities	1,930	88	294	1,387	161
Total financial liabilities	897,835	606,054	122,126	169,494	161

Through the ILAAP, the robustness of the Bank's liquidity and funding was assessed using various tools and metrics, including a risk assessment and a stress testing exercise. The ILAAP report concluded that the Bank's liquidity and funding profile is sound, and liquidity controls are sufficiently robust. The ILAAP report was duly submitted to the Regulator.

3.5 Operational risk

Operational risk is broadly defined as the risk of direct or indirect losses or damaged reputation due to failure attributable to technology, employees, processes, procedures, or physical arrangements, including external events and legal risks. Realistically, the Bank cannot be expected to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, such risks can be prudently managed and mitigated. Controls include effective segregation of duties, restricted access, authorisation, reconciliation procedures, staff education and assessment processes, including the judicious disposal of internal audit findings.

The Bank ensures that the operational risk inherent in outsourced services in use are also subjected to adequate assessment procedures. Essentially, there is no distinction between the operational risk management responsibilities of in-house managed activities and outsourced activities.

The Bank actively promotes the overarching concept that operational risk management is not solely confined to the Risk function but is also the responsibility of all the risk and control owners, irrespective of the functional title held. To this end, operational risk managers have been appointed to cover all areas throughout the Bank to ensure better coverage and collation of operational risk events closer to the point of incidence.

The Risk function is responsible for the coordination of all operational risk activities within the Bank as well as their control and oversight. Every effort is made to ensure that operational risks are curtailed, minimised and/or mitigated to inhibit, or at least to significantly reduce, the incidence of operational risks materialising into operational losses.

The Bank's operational risk management applies proactive measures to ensure business continuity, and the accuracy of information used internally and reported externally, availability of competent and well-informed staff, and adherence to established rules and procedures including security arrangements to protect the physical and ICT infrastructure of the Bank.

The Bank categorises operational risk into 7 event types in line with the Basel II taxonomy: Internal Fraud; External Fraud; Employment Practices and Workplace Safety; Damage to Physical Assets; Business Disruption and System Failures; Clients, Products and Business Practices; Execution, Delivery and Process Management.

To ensure proper identification, assessment and mitigation of operational risk the Bank adopts the following principles and measures:

i. Risk Culture

The Bank maintains a clear operational risk culture which is part of the overall risk culture, supported by an adequate 'tone at the top' through strategy, objectives and the setting up of the Bank's risk appetite. Culture practices are implemented through policies, procedures, communication, and staff training.

ii. Adequately trained staff

The Bank ensures that sufficiently trained resources are available.

iii. Risk-averseness

The Bank has well-articulated risk tolerance levels as defined in the Risk Appetite Framework, through the Risk Appetite Statement and selected risk indicators and thresholds. Risk indicators and respective thresholds are characterized by a generally risk-averse approach intended to achieve a reasonable risk/return equilibrium position.

iv. Risk identification and assessment

The Bank identifies and assesses the operational inherent risk in all its activities, processes and systems. Furthermore, the Bank ensures that before new products, activities, processes and systems are introduced or undertaken, the operational inherent risk in them is subject to adequate assessment procedures.

v. Risk mitigation

The Bank endeavours to mitigate operational risk by defining, documenting and updating the relevant business processes. Furthermore, the Bank mitigates operational risk by following strict rules for the assignment of duties and responsibilities among and within the functions and by having in place a system of internal control and supervision.

The Bank applies the Basic Indicator Approach ('BIA') as defined in the CRR in order to quantify the regulatory capital charge. Accordingly, the Bank allocates 15% of the average of gross income over the previous three years as regulatory capital in respect of operational risk. The capital requirement for operational risk under this method was calculated at €3,710,000 as at 31 December 2022 (2021: €3,302,000).

During 2022, the actual level of operational risk materialisation recorded on the Bank's database was again compared to the regulatory capital quantification under the above-mentioned Basic Indicator Approach, which resulted in a low level of operational risk, confirming that the Basic Indicator Approach (Pillar 1) is a useful benchmark to compare actual versus theoretical level of operational risk event materialisation. Such comparison was further reinforced by means of the Operational Risk and Control Self-Assessment (RCSA). The RCSA analysed key risks across the institution and assessed the prevailing risk level, as well as the efficacy and performance of control measures in place. Thus, it was possible to differentiate between inherent and residual risk levels. The final residual risk level was used to allocate Pillar 2 add-ons for sub-categories of operational risk.

A major plank in the Bank's efforts to properly manage and control operational risk remains the Business Continuity Plan (BCP) which is formalised and in place and covers the whole organisation. The BCP is revised regularly.

3.6 Capital risk management

It is the Bank's policy to actively manage its capital base to cover inherent risks in the business and at the same time to support the development of the business, to maximise shareholders' value and to meet all the regulatory requirements. Capital management policy is monitored by the Executive Committee and the ALCO.

Accordingly, the purpose of the Bank's capital management is essentially to ensure an efficient use of capital, taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development. The Bank is a licensed credit institution and must therefore comply with the capital requirements under the relevant laws and regulations. During the years ended 31 December 2022 and 2021, the Bank complied with the imposed regulatory capital requirements.
Further detail on capital risk management and capital adequacy requirements is set out in the 'Additional Regulatory Disclosures' section of this Annual Report.

3.7 Fair values of financial assets and liabilities

The Bank is required to disclose fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the Statement of Financial Position at fair value:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly i.e. as prices, or indirectly i.e. derived from prices (Level 2).
- Inputs for the asset that are not based on observable market data i.e. unobservable inputs (Level 3).

The IFRS 13 hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

The following tables reflect an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 December 2022				
Financial assets				
Derivative financial instruments	-	464	-	464
Financial investments				
Government debt instruments	36,447	-	-	36,447
Corporate debt instruments	22,208	-	390	22,598
Total financial assets	58,655	464	390	59,509
Financial liabilities				
Derivative financial instruments	-	29	-	29
Total financial liabilities	-	29	-	29
At 31 December 2021				
Financial assets				
Derivative financial instruments	-	6	-	6
Financial investments				
Government debt instruments	31,017	-	-	31,017
Corporate debt instruments	39,702	-	170	39,872
Equities	1,246	-	-	1,246
Total financial assets	71,965	6	170	72,141
Financial liabilities				
Derivative financial instruments	-	256	-	256
Total financial liabilities	-	256	-	256

There were no transfers between levels 1, 2 and 3 during the year.

Financial instruments in Level 1

The fair value of instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active 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 quoted market price used for financial instruments held by the Bank is the current bid price at 31 December of the respective year.

Instruments included in Level 1 financial investments consist of held to collect and sell debt securities, composed of government debt issued by the Government of Malta, which is listed on the Malta Stock Exchange, other foreign sovereign listed debt, listed debt instruments issued by local and foreign corporates and equity investments.

Financial instruments in Level 2

Fair values for the Bank's derivative contracts are generally determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to are determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets. The Bank's derivative financial instruments are accordingly typically categorised as Level 2 instruments.

Financial instruments in Level 3

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 instrument's 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.

Instruments included in Level 3 are immaterial in the context of the Bank's Statement of Financial Position.

Financial instruments not measured at fair value

Loans and advances to banks and customers and amounts owed to banks, other institutions and customers are carried at amortised cost in the Statement of Financial Position. The Board considers the carrying amounts of loans and advances to banks and customers to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods. The fair values of fixed interest deposits and amounts owed to banks and other institutions are not deemed to be significantly different from their carrying amounts, based on the discounted cash flows at current market interest rates, particularly due to the relatively short periods to maturity.

Financial investments measured at amortised cost had a fair value of €32,333,000 as at 31 December 2022, compared to the carrying amount of €32,375,000 (2021: nil). Debt securities issued measured at amortised cost had a fair value of €20,000,000 as at 31 December 2022, compared to the carrying amount of €19,775,000 (2021: nil). As at 31 December 2022, financial investments and debt securities in issue were listed on an active market and the fair value was based on the market price at the reporting date.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and judgements in applying the Bank's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Bank's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

4.2 Measurement of the expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3.2.3.

A number of significant judgements are required in the measurement of expected credit loss, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios and associated ECL.

The level of uncertainly in the estimation of the Bank's expected credit loss allowances has remained elevated as a result of the uncertainty arising from geopolitical tensions due to the war in Ukraine and supply chain disruptions causing inflationary pressures. In addition some uncertainty remains surrounding the global recovery from the COVID-19 pandemic. This has caused the ECB and other national central banks to make use of monetary policy tools through an increase in interest rates to combat these inflationary effects, making the underlying models and assumptions highly subjective. Such uncertainty was addressed by means of a temporary post-model adjustment as further explained in Notes 4.3 and 3.2.3.4.

4.3 Assessment of estimates and judgements

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements, which have been highlighted above, are not difficult, subjective or complex to a degree, which would warrant their description as critical in terms of the requirements of IAS 1.

However, the directors would like to draw attention to these accounting judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this respect, these primarily comprise assumptions and estimates relating to the calculation of impairment allowances in respect of loans and advances to customers (see Note 3.2.3).

The geopolitical and macroeconomic events mentioned in Note 4.2, in addition to some uncertainty surrounding the global recovery from the COVID-19 pandemic, have elevated the level of estimation uncertainty and judgement, especially in light of the inability to track observable historical trends which can be reflected in ECL modelling which could accurately represent the financial implications brought about by current economic events.

Hence, the level of subjectivity underlying the ECL model parameters, including how these react to forward-looking economic conditions, remains high. To reflect the volatile economic conditions associated with the current economic environment, judgemental post-model adjustments were applied by management as explained in Note 3.2.3.4.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors are detailed in Note 3.2.3.

A key judgement in the context of the current economic events is whether the heightened level of macroeconomic uncertainty and its effects are more likely to be temporary or prolonged. This in turn increases significantly the level of subjectivity around the estimation of credit loss allowances in respect of loans and advances to customers.

In this regard, management applied a higher level of expert judgement in order to assess the impact of the current economic events on the Bank's level of defaults, including making assumptions about the effect of inflation and rising interest rates, together with the impact of monetary policy tools and the unwinding of such measures. There is an absence of observable historical trends and linkages between economic factors and credit losses which may underestimate or overestimate ECL in these conditions. These uncertainties have been addressed through temporary post-model adjustments

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers. In response to such limitations, management used segmentation techniques for the purposes of identifying indicators of significant increase in credit risk within both corporate and retail portfolios.

In relation to retail portfolios, ECL models are generally reliant on the assumption that default emergence is directly impacted by delinquency related indicators since less information is available at asset level to enable the timely identification of SICR or UTP events. In this respect, the Bank continued to apply rigorously its credit assessment and oversight processes, which include monitoring of arrears and exposure LTV.

Judgement was also required in determining whether corporate loans experienced a SICR or a UTP event. As part of these credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The heightened level of uncertainty within the local property market, driven by current macroeconomic events, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of such macroeconomic events will not be fully known until market conditions stabilise. To reflect the volatile economic conditions associated with current developments, judgemental temporary post-model adjustments were applied by management in order to overcome limitations in respect of determining collateral valuations, and the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

Expert judgement was also applied by management when determining the relevance of selected macroeconomic scenarios and their respective probability weights.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios. The level of expert judgement required is compounded by the heightened level of uncertainty around predictions in respect of the potential impact of the current economic situation on key macroeconomic variables and, as a result on forward-looking PDs and LGDs. There is an absence of an observable historical trend that can accurately represent the severity and speed of the economic impacts brought about by such events, given that such complexities have never been modelled.

These model limitations have been addressed through the enhancements described in Note 3.2.3.4. Management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario. The effect of economic uncertainty on the ECL outcome is disclosed in the sensitivity analysis presented in Note 3.2.3.4 within the section entitled 'Economic scenarios sensitivity analysis of ECL estimates'. The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes as there is a high degree of estimation uncertainty in the numbers representing tail risk scenarios when assigned a 100% weighting.

5. SEGMENTAL REPORTING

The segment reporting of the Bank is made in terms of the business segments which it conducts its business in, as the risks and rates of return are affected predominantly by differences in the products and services produced. The Bank is currently organised into three main business segments:

- Retail banking - Principally handling customers' deposits, providing consumer loans, overdrafts and funds transfer facilities.
- Corporate banking - Principally handling local loans and other credit facilities and deposit and current accounts for corporate and institutional customers as well as the international lending portfolio which represents exposures originated by the Bank's branch in London which finances prime properties in the same city.
- Other - Principally treasury and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income or expense.

No reconciliation is required since there are no differences between the measurements of the reportable segments' profits or losses, assets and liabilities and the entity's profit or loss, assets and liabilities.

The following tables present income, profit and certain asset and liability information regarding the Bank's business segments for the years ended 31 December 2022 and 2021:

	2022			
	Retail banking	Corporate banking	Other	Total
	€000	€000	€000	€000
Net interest income	12,291	12,871	615	25,777
Net fees and commission income	1,804	1,400	84	3,288
Net trading income (including net gains from financial instruments at FVTPL and gains on disposal of debt instruments at FVOCI)	-	-	1,061	1,061
Net operating income	**14,095**	**14,271**	**1,760**	**30,126**
Employee compensation and benefits	(5,546)	(4,101)	(414)	(10,061)
Other administrative expenses	(3,782)	(3,121)	(379)	(7,282)
Depreciation of property and equipment, depreciation of right-of-use assets and amortisation of intangible assets	(824)	(362)	(45)	(1,231)
Credit impairment losses	(6)	606	56	656
Profit before tax				12,208
Income tax expense				(4,135)
Profit for the year				8,073
Assets				
Segment assets	582,071	327,140	235,812	1,145,023
Unallocated assets				17,956
Total assets				1,162,979
Liabilities				
Segment liabilities	674,589	332,203	10,197	1,016,989
Unallocated liabilities				45,701
Total liabilities				1,062,690
Additions to non-current assets	7	-	834	841

During 2022, the Bank through its branch in London, continued to originate secured syndicated loans in the United Kingdom, the purpose of which relates to the financing of prime properties in London. These loans are disclosed within Loans and advances to customers in the Statement of Financial Position and are considered to form part of the corporate portfolio for the calculation of expected credit losses as further detailed in Note 3.2.3. As at 31 December 2022, the carrying amount of loans and advances to customers in the form of secured syndicated loans amounted to €48.4 million (2021: €40.8 million) which generated operating income of €1.2 million (2021: €0.6 million) during the financial year ended 31 December 2022.

During the financial year ended 31 December 2022, total staff costs and administrative expenses incurred by the Bank in connection with the operation of its London branch amounted to €0.3 million (2021: €0.2 million) and €0.3 million (2021: €0.4 million) respectively.

	2021			
	Retail banking	Corporate banking	Other	Total
	€000	€000	€000	€000
Net interest income	11,463	11,183	52	22,698
Net fees and commission income	1,416	1,185	38	2,639
Net trading income (including net gains from financial instruments at FVTPL and gains on disposal of debt instruments at FVOCI)	-	-	1,904	1,904
Net operating income	12,879	12,368	1,994	27,241
Employee compensation and benefits	(4,994)	(3,589)	(447)	(9,030)
Other administrative expenses	(3,586)	(2,804)	(445)	(6,835)
Depreciation of property and equipment, depreciation of right-of-use assets and amortisation of intangible assets	(857)	(346)	(55)	(1,258)
Credit impairment losses	(34)	(1,126)	93	(1,067)
Profit before tax				9,051
Income tax expense				(2,750)
Profit for the year				6,301
Assets				
Segment assets	495,339	303,636	190,043	989,018
Unallocated assets				15,680
Total assets				1,004,698
Liabilities				
Segment liabilities	535,971	323,632	29,691	889,294
Unallocated liabilities				17,693
Total liabilities				906,987
Additions to non-current assets	-	-	595	595

6. BALANCES WITH CENTRAL BANK OF MALTA AND CASH

	2022 €000	2021 €000
Balances with Central Bank of Malta	117,616	96,974
Cash	6,662	5,679
Gross carrying amount	124,278	102,653
Less credit impairment losses	(14)	(243)
Net carrying amount	124,264	102,410

The average balance of the reserve deposit required at year end in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta held with the Central Bank of Malta was €7,627,000 (2021: €6,792,000). No amount was pledged in favour of the Depositor Compensation Scheme during 2022 (2021: 3,370,000).

7. FINANCIAL INVESTMENTS

Financial investments include the following:

	2022 €000	2021 €000
Financial investments measured at FVTPL		
Equities measured at FVTPL	-	1,246
Debt instruments measured at FVTPL	390	170
At 31 December	390	1,416
Debt instruments measured at FVOCI		
Government debt securities		
Local and listed on the Malta Stock Exchange	31,329	23,908
Foreign and listed on other exchanges	5,118	7,109
Other debt securities		
Local and listed on the Malta Stock Exchange	3,066	2,435
Foreign and listed on other exchanges	19,142	37,267
At 31 December	58,655	70,719
Debt instruments measured at amortised cost		
Foreign and listed on other exchanges	32,444	-
Less: Expected credit loss allowances	(69)	-
At 31 December	32,375	-

The movement in the carrying amount of financial investments is summarised as follows:

	2022 €000	2021 €000
Financial investments measured at FVTPL		
At 1 January	1,416	341
Fair value movements	853	1,075
Disposals	(1,879)	-
At 31 December	**390**	1,416
Debt instruments measured at FVOCI		
At 1 January	70,719	78,176
Additions	14,928	25,685
Disposals	(22,640)	(32,506)
Amortisation of premium/discount	(287)	(394)
Changes in fair value	(4,065)	(242)
At 31 December	**58,655**	70,719
Debt instruments measured at amortised cost		
Additions	32,433	-
Amortisation of premium/discount	11	-
Movement in credit loss allowances	(69)	-
At 31 December	**32,375**	-

As at 31 December 2022, the impairment allowance on debt instruments measured at FVOCI was €242,000 (2021: €144,000).

Debt securities pledged in favour of the Depositor Compensation Scheme as at 31 December 2022 amounted to €2,006,000 (2021: nil).

8. LOANS AND ADVANCES TO BANKS

	2022 €000	2021 €000
Repayable on call and at short notice	1,688	2,167
Term placements	9,048	9,547
	10,736	11,714
Less credit impairment losses	(6)	(1)
Net loans and advances to banks	10,730	11,713

9. LOANS AND ADVANCES TO CUSTOMERS

	2022 €000	2021 €000
Repayable on call and at short notice	40,241	41,308
Term loans and advances	879,243	768,240
Gross loans and advances to customers	919,484	809,548
Less expected credit loss allowances	(15,796)	(16,455)
Net loans and advances to customers	903,688	793,093
Impairment allowances		
Stage 1	2,665	2,572
Stage 2	1,224	1,700
Stage 3	11,907	12,183
	15,796	16,455

10. DERIVATIVE FINANCIAL INSTRUMENTS

During 2022, the Bank entered into foreign exchange swap transactions, exchanging a specific amount in one currency with a specific amount in another currency and agreed to re-exchange at a specified exchange rate and date in the future.

The table below shows the fair values of derivative financial assets.

	2022		2021	
	Notional €000	Fair value €000	Notional €000	Fair value €000
Derivative assets				
Foreign exchange swaps	31,413	464	890	6
Derivative liabilities				
Foreign exchange swaps	8,454	29	20,120	256

11. PROPERTY AND EQUIPMENT

	Land and buildings €000	Computer equipment €000	Other equipment €000	Total €000
At 1 January 2021				
Cost	7,862	2,441	2,060	12,363
Accumulated depreciation	(2,811)	(1,900)	(1,755)	(6,466)
Net book amount	5,051	541	305	5,897
Year ended 31 December 2021				
At 1 January 2021	5,051	541	305	5,897
Acquisitions	45	136	91	272
Depreciation charge for the year	(186)	(218)	(125)	(529)
At 31 December 2021	4,910	459	271	5,640
At 31 December 2021				
Cost	7,907	2,577	2,151	12,635
Accumulated depreciation	(2,997)	(2,118)	(1,880)	(6,995)
Net book amount	4,910	459	271	5,640
Year ended 31 December 2022				
At 1 January 2022	4,910	459	271	5,640
Acquisitions	280	102	75	457
Disposals	-	(1)	-	(1)
Depreciation charge for the year	(182)	(212)	(120)	(514)
At 31 December 2022	**5,008**	**348**	**226**	**5,582**
At 31 December 2022				
Cost	8,187	2,678	2,226	13,091
Accumulated depreciation	(3,179)	(2,330)	(2,000)	(7,509)
Net book amount	**5,008**	**348**	**226**	**5,582**

At 31 December 2022, an amount of €25,000 (2021: €14,000) had been contracted but not provided for in the financial statements (Note 25). Property and equipment includes assets amounting to €87,000 (2021: €88,000) which were still not put to use at year end.

12. INTANGIBLE ASSETS

	Computer software €000	Other intangibles €000	Total €000
At 1 January 2021			
Cost	4,091	146	4,237
Accumulated amortisation	(3,329)	-	(3,329)
Net book amount	762	146	908
Year ended 31 December 2021			
At 1 January 2021	762	146	908
Acquisitions	289	-	289
Amortisation for the year	(333)	-	(333)
At 31 December 2021	718	146	864
At 31 December 2021			
Cost	4,380	146	4,526
Accumulated amortisation	(3,662)	-	(3,662)
Net book amount	718	146	864
Year ended 31 December 2022			
At 1 January 2022	718	146	864
Acquisitions	325	-	325
Amortisation for the year	(321)	-	(321)
At 31 December 2022	**722**	**146**	**868**
At 31 December 2022			
Cost	4,705	146	4,851
Accumulated amortisation	(3,983)	-	(3,983)
Net book amount	**722**	**146**	**868**

At 31 December 2022, an amount of €5,000 (2021: €4,000) had been contracted but not provided for in the financial statements (Note 25). Intangible assets include computer software amounting to €64,000 (2021: €165,000) which was still not put to use at year end and accordingly no amortisation is being accounted for.

13. RIGHT-OF-USE ASSETS

The Bank leases its Head Office, three branches and motor vehicles as well as low value items such as photocopiers and note counting machines. Rental contracts are typically made for fixed periods but may have extension options. The lease term reflects the exercise of such options.

Photocopiers and note counting machines, in view of the underlying low value lease arrangement are not deemed to be in scope of IFRS 16.

	Premises €000	Motor Vehicles €000	Total €000
Right-of-use assets			
Opening balance	1,613	217	1,830
Additions	-	59	59
Depreciation for the year	(314)	(82)	(396)
At 31 December 2022	**1,299**	**194**	**1,493**
Right-of-use assets			
Opening balance	1,927	289	2,216
Additions	-	33	33
Lease contracts discontinued during the year	-	(23)	(23)
Depreciation for the year	(314)	(82)	(396)
At 31 December 2021	1,613	217	1,830

	2022 €000	2021 €000
Lease liabilities		
Current	**372**	382
Non-current	**1,224**	1,548
	1,596	1,930

The following table shows the movement in lease liabilities during the year.

	2022 €000	2021 €000
Opening balance	1,930	2,300
Principal payments of lease liabilities	(368)	(410)
Interest expense	34	40
At 31 December 2022	1,596	1,930

The income statement reflects the following amounts relating to leases:

	2022 €000	2021 €000
Depreciation charge of right-of-use assets	396	396
Interest expense on lease liabilities (Note 27)	34	40
Expenses relating to short-term leases	173	166
Expenses relating to leases of low-value assets	19	25

The total cash payments for leases, including short-term and low-value leases, in 2022 was €560,000 (2021: €601,000). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2022 and 2021 are analysed in Note 3.4.

14. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	Assets 2022 €000	Liabilities 2022 €000	Net 2022 €000	Assets 2021 €000	Liabilities 2021 €000	Net 2021 €000
Differences between depreciation and capital allowances	-	(344)	(344)	-	(342)	(342)
Impairment allowances	6,765	-	6,765	7,061	-	7,061
Fair value movements on securities and other investments	1,476	(14)	1,462	52	(14)	38
	8,241	(358)	7,883	7,113	(356)	6,757

Movement in temporary differences during the year 2022 related to:

	At 1 January 2022 €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	**At 31 December 2022 €000**
Differences between depreciation and capital allowances	(342)	(2)	-	**(344)**
Impairment allowances	7,061	(260)	(34)	**6,767**
Fair value movements on securities and other investments	38	-	1,422	**1,460**
	6,757	(262)	1,388	**7,883**

Movement in temporary differences during the year 2021 related to:

	At 1 January 2021 €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At 31 December 2021 €000
Differences between depreciation and capital allowances	(302)	(40)	-	(342)
Impairment allowances	6,657	352	52	7,061
Fair value movements on securities and other investments	(247)	-	285	38
	6,108	312	337	6,757

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax assets/liabilities reflected in other comprehensive income relate to the fair valuation of financial investments measured at FVOCI.

15. PREPAYMENTS AND ACCRUED INCOME

	2022 €000	2021 €000
Prepayments	**2,240**	1,329
Accrued income	**2,563**	1,858
	4,803	3,187

16. OTHER ASSETS

	2022 €000	2021 €000
Current		
Security deposit	**2,939**	2,953
Other	**2,330**	2,783
Other assets	**5,269**	5,736

17. SHARE CAPITAL

	2022		2021	
	No. of shares	€	No. of shares	€
Authorised				
Ordinary shares of €0.7552 each	**132,415,254**	**100,000,000**	132,415,254	100,000,000
Issued and fully paid up				
Ordinary shares of €0.7552 each	**98,707,626**	**74,544,000**	98,707,626	74,544,000

The issued ordinary shares rank *pari passu* for all purposes and, in the event that a poll is demanded, each share entitles the holder thereof to one vote.

18. PERPETUAL CAPITAL NOTES

In October 2016, the Bank issued floating rate perpetual capital notes amounting to an aggregate amount of €5,000,000 at a rate of 6 month Euribor plus 10% paid semi-annually to JUD Investment Group Limited.

In December 2018 and March 2019, the Bank issued two additional fixed rate perpetual capital notes amounting to an aggregate amount of €5,000,000 to JUD Investment Group Limited (€4,882,000) and PG Holdings Limited (€118,000). These notes are subject to an interest rate of 8% paid semi-annually.

All interest payments on perpetual capital notes are cancellable at the discretion of the Bank.

The notes constitute unsecured, undated and subordinated obligations of the Bank; these instruments were redeemable at par at the discretion of the issuer on 31 December 2021 and are also redeemable at six-month intervals thereafter. These capital instruments qualify as Additional Tier 1 instruments in accordance with the requirements of Article 52 of the Regulations (EU) No 575/2013 and are categorised as equity within the Bank's Statement of Financial Position under the requirements of IFRSs as adopted by the EU.

19. RESERVES

Retained earnings

Retained earnings represent earnings not paid out as dividends. Interim profits form part of regulatory Own Funds only once they are verified by an independent external auditor. The Bank may only make distributions out of eligible profits.

Revaluation reserve

The revaluation reserve is used to record movements in the fair value of debt securities measured at FVOCI, net of deferred taxation thereon. The revaluation reserve is not available for distribution.

Reserve for General Banking Risks

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. The methodology for calculating this reserve is in line with the requirements of BR/09/2016 issued by the Malta Financial Services Authority.

20. AMOUNTS OWED TO BANKS AND OTHER INSTITUTIONS

	2022 €000	2021 €000
Term loans and advances	10,000	27,500
Repayable on demand	168	1,936
	10,168	29,436

During 2022, the Bank entered into a Longer-Term Refinancing Operation of €10.0 million (2021: nil). During the same year, the Bank repaid the secured borrowing of €13.5 million to the European Central Bank in relation to the Third Series of Targeted Longer-Term Refinancing Operations (TLTROs-III).

21. AMOUNTS OWED TO CUSTOMERS

	2022 €000	2021 €000
Term deposits	476,311	330,002
Repayable on demand	530,105	529,150
	1,006,416	859,152

Included in 'Amounts owed to customers' are deposits of €32,112,000 (2021: €30,208,000) held as collateral for loan commitments, irrevocable commitments under guarantees and import letters of credit.

22. OTHER LIABILITIES

	2022 €000	2021 €000
Bills payable	7,845	4,831
Accounts payable and sundry creditors	3,197	2,161
Lease liabilities (Note 13)	1,596	1,930
Obligations under guarantees and other documentary credits	5,947	3,290
Expected credit losses arising on off-balance sheet items	375	451
	18,960	12,663

The movement in 'Obligations under guarantees and other documentary credits' is as follows:

	2022 €000	2021 €000
At 1 January	3,290	3,614
Arising during the year	4,474	1,408
Utilised	(1,743)	(1,727)
Unused amounts reversed	(74)	(5)
At 31 December	5,947	3,290

23. ACCRUALS

	2022 €000	2021 €000
Accrued interest	2,166	1,775
Accrued operating expenditure	2,697	2,628
Accrued capital expenditure	187	175
Other accrued income	365	250
	5,415	4,828

Accrued operating expenditure mainly relates to amounts in relation to the provision of day-to-day services and specific non-recurring expenditure.

24. DEBT SECURITIES IN ISSUE

	2022 €000	2021 €000
Debt securities issued	20,000	-
Issue costs incurred	(250)	-
	19,750	-
Amortisation of debt issuance costs during the year	25	-
At 31 December	19,775	-

On 28 June 2022, the Bank announced the issue of €20,000,000 4.5% subordinated unsecured bonds maturing on 29 July 2032 with an early redemption option held by the Bank on 29 July 2027 and annually thereafter. The bonds were issued on the Malta Stock Exchange with a fixed interest rate of 4.5% and which are redeemable at their nominal value.

The subordinated unsecured bonds will, in the event of winding up of the Bank, be subordinated to the claims of depositors and all other creditors. As at 31 December 2022, the contractual amount due at maturity is of €20,000,000 (2021: nil).

25. CONTINGENT LIABILITIES AND COMMITMENTS

As part of its business activities, the Bank enters into various irrevocable commitments and contingent liabilities. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers meeting specific conditions. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Even though these obligations are not recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The total outstanding commitments and contingent liabilities are as follows:

	2022 €000	2021 €000
Contingent liabilities		
Guarantees	9,082	8,241
Documentary credits	650	1,265
	9,732	9,506
Commitments		
Undrawn commitments to lend	255,438	253,516
Capital commitments	30	18
Total commitments	255,468	253,534

Capital commitments as at 31 December 2022 and 2021 mainly relate to the acquisition of property and equipment and intangible assets.

As at 31 December 2022, expected credit losses arising on contingent liabilities and undrawn commitments to lend amounted to €375,000 (2021: €451,000).

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial position. As at the end of the reporting period, there were no significant unresolved legal claims (2021: nil).

26. INTEREST RECEIVABLE AND SIMILAR INCOME

	2022 €000	2021 €000
On loans and advances to banks	142	9
On loans and advances to customers	29,553	26,530
On balances with Central Bank of Malta	95	(227)
	29,790	26,312
On debt and other fixed income instruments:		
Financial investments measured at FVOCI	836	680
Financial investments measured at amortised cost	197	-
Net amortisation of discounts and premiums	(276)	(394)
	757	286
Total interest receivable and similar income	30,547	26,598

27. INTEREST PAYABLE AND SIMILAR EXPENSE

	2022 €000	2021 €000
On amounts owed to banks and other institutions	(87)	(24)
On amounts owed to customers	4,390	3,884
On debt securities in issue	408	-
Amortisation of debt issuance costs	25	-
On lease liabilities (Note 13)	34	40
	4,770	3,900

28. NET FEES AND COMMISSION INCOME

	2022 €000	2021 €000
Fees and commission income		
Credit related fees and commissions	1,916	1,424
Other fees	2,456	2,580
	4,372	4,004
Fees and commission expense		
Credit related fees and commissions	(69)	(299)
Other fees	(1,015)	(1,066)
	(1,084)	(1,365)
Net fees and commission income	3,288	2,639

29. NET TRADING INCOME

	2022 €000	2021 €000
Foreign exchange activities		
From commercial business activities	206	326
	206	326

30. EMPLOYEE COMPENSATION AND BENEFITS

	2022 €000	2021 €000
Directors' and executive officers' remuneration	1,673	1,298
Wages and salaries		
Managerial, supervisory and clerical	8,221	7,595
Others	167	137
Total employee compensation and benefits	10,061	9,030

Total fees payable to non-executive directors amounted to €240,000 during 2022 (2021: €248,226).

The average number of persons employed by the Bank during the years 2022 and 2021 was as follows:

	2022	2021
Managerial, supervisory and clerical	244	220
Others	7	6
	251	226

31. OTHER ADMINISTRATIVE EXPENSES

	2022 €000	2021 €000
Auditors' remuneration – annual statutory audit	98	90
Information systems and communications	1,997	2,311
Business development	563	235
Corporate services	1,139	1,201
Regulatory expenses	1,031	551
Darwin project	452	426
Other	2,002	2,021
	7,282	6,835

Other remuneration payable to the auditors include assurance related and non-audit services of €53,000 (2021: €45,000), of which tax advisory and compliance services provided during 2022 amounted to €6,000 (2021: €8,000).

In total, from incorporation up to 31 December 2022, the Bank has contributed €4,428,000 (2021: €3,692,000) in variable contributions to the Depositor Compensation Scheme. This represents 0.7% (2021: 0.7%) of the eligible deposits at 31 December 2022. The cash contribution paid during 2022 amounted to €736,000 (2021: €335,000) and is included within Regulatory expenses.

32. CREDIT IMPAIRMENT LOSSES

Credit impairment losses during 2022 were as follows:

	Write-downs €000	Reversals of write-downs €000	Total €000
Balances with Central Bank of Malta			
Stage 1	3	(232)	(229)
Financial investments measured at FVOCI			
Stage 1	146	(48)	98
Financial investments measured at amortised cost			
Stage 1	69	-	69
Loans and advances to banks			
Stage 1	5	-	5
Loans and advances to customers			
Stage 1, including off-balance sheet items	1,128	(1,041)	83
Stage 2, including off-balance sheet items	614	(1,165)	(551)
Stage 3, including off-balance sheet items	1,248	(1,516)	(268)
Bad debts written-off	88	-	88
Total loans and advances to customers	3,078	(3,726)	(648)
Other provisions	49	-	49
Credit impairment losses	3,346	(4,002)	(656)

Credit impairment losses during 2021 were as follows:

	Write-downs €000	Reversals of write-downs €000	Total €000
Balances with Central Bank of Malta			
Stage 1	77	(2)	75
Financial investments measured at FVOCI			
Stage 1	56	(206)	(150)
Loans and advances to banks			
Stage 1	-	(16)	(16)
Loans and advances to customers			
Stage 1	1,273	(785)	488
Stage 2	1,054	(2,174)	(1,120)
Stage 3	2,505	(747)	1,758
Bad debts written-off	295	-	295
Total loans and advances to customers	5,127	(3,706)	1,421
Other provisions	(263)	-	(263)
Credit impairment losses	4,997	(3,930)	1,067

33. INCOME TAX EXPENSE

The components of income tax for the years ended 31 December 2022 and 2021 are:

	2022 €000	2021 €000
Income Statement		
Current income tax – current year expense	(3,873)	(3,062)
Deferred tax (credit)/charge	(262)	312
	(4,135)	(2,750)

The tax on profit and the result of accounting profit multiplied by the applicable tax rate in Malta of 35% are reconciled as follows:

	2022 €000	2021 €000
Profit before tax	12,208	9,051
Tax at the applicable rate of 35%	4,273	3,168
Tax effect of:		
Expenses not deductible for tax purposes	182	(98)
Deductibility of return on perpetual capital notes	(320)	(320)
	4,135	2,750

34. EARNINGS PER SHARE

Earnings per share is calculated by dividing net profit attributable to the shareholders of the Bank as shown in the Income Statement divided by the weighted average number of ordinary shares outstanding during the year.

	2022	2021
Net profit attributable to shareholders (€000)	8,073	6,301
Number of ordinary shares in issue	98,707,626	98,707,626
Earnings per share (€ cents)	8c2	6c4

35. CASH AND CASH EQUIVALENTS

Analysis of balances of cash and cash equivalents as shown in the Statement of Cash Flows:

	2022 €000	2021 €000
Statement of Cash Flows		
Cash (Note 6)	6,662	5,679
Balances with Central Bank of Malta (excluding Reserve Deposit - Note 6)	109,989	90,180
Loans and advances to banks (Note 8)	10,736	11,714
Amounts owed to banks and other institutions (Note 20)	(10,168)	(29,436)
Cash and cash equivalents	117,219	78,137
Statement of Financial Position		
Balances with Central Bank of Malta and cash	124,264	102,410
Loans and advances to banks	10,730	11,713
Amounts owed to banks and other institutions	(10,168)	(29,436)
	124,826	84,687
Balances with contractual maturity of more than three months	(7,627)	(6,792)
Add expected credit losses	20	242
Cash and cash equivalents	117,219	78,137

36. RELATED PARTIES

36.1 Identification of related parties

The majority shareholding of the Bank is held by JUD Investment Group Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar.

All entities which are ultimately controlled by Al Faisal International for Investment Company Q.P.S.C., together with the other minority shareholders and entities controlled by them, are considered to be related parties. Key management personnel of the Bank, being the Bank's directors and executive officers, and close family members of key management personnel are also considered to be related parties. The executive officers, which form part of the Bank's Executive Committee, are referred to within the Statement of Compliance with the Principles of Good Corporate Governance.

The Bank's related party transactions mainly comprise transactions with shareholders and other entities controlled by the same shareholders. These transactions principally include loans, deposits and issuance of capital notes.

Related party transactions do not impact the Bank's financial results and financial position taking cognisance of the normal commercial terms and conditions of such transactions.

36.2 Transactions with shareholders

a) Major shareholder

During the year under review, the following transactions were undertaken by the Bank with entities ultimately controlled by Al Faisal International for Investment Company Q.P.S.C.

	2022	2021
	€000	€000
Income Statement		
Interest and similar expense	208	15
Statement of Financial Position		
Other assets	199	199
Amounts owed to parent company	33,350	32,546

Total interest payable on perpetual capital notes during 2022 amounted to €904,000 (2021: €904,000).

b) Other minority shareholders

The following transactions were undertaken by the Bank with its minority shareholders and entities controlled by them:

	2022	2021
	€000	€000
Income Statement		
Interest and similar income	367	295
Interest and similar expense	63	-
Other administrative expenses	92	82
Statement of Financial Position		
Loans and advances to customers	15,111	9,165
Prepayments and accrued income	16	11
Amounts owed to customers	31,857	8,792
Accruals and deferred income	24	5
Other liabilities	4	-

Total interest payable on perpetual capital notes during 2022 amounted to €10,000 (2021: €10,000).

36.3 Transaction arrangements and agreements involving key management personnel

The following banking transactions were carried out with the Bank's directors and executive officers, being the Bank's key management personnel:

	2022	2021
	€000	€000
Income Statement		
Interest and similar income	48	47
Interest and similar expense	1	1
Statement of Financial Position		
Loans and advances to customers	1,195	2,054
Amounts owed to customers	4,508	2,841

The above mentioned outstanding balances arose from 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.

36.4 Compensation to key management personnel

Directors' remuneration and salaries to executive officers, are separately disclosed in Note 30.

37. DIVIDENDS

Subsequent to the end of the reporting period, a net dividend of €0.041 per nominal share of €0.7552, for a total amount of €4,036,726.50, is being proposed by the Bank to be distributed to the shareholders for the twelve months ended 31 December 2022. A resolution to this effect will be proposed at the Annual General Meeting, subject to regulatory approval.

38. SUBSEQUENT EVENTS

On 3 February 2023, the Depositor Compensation Scheme (the "Scheme") formally requested the Bank to settle the amount of €1,080,839 to cover its pro-rata share of the shortfall in the Scheme's available financial means as a result of the pay-out by the Scheme to Nemea Bank plc's eligible depositors. The Bank paid the amount in full on 6 March 2023. The Bank has been notified that the amount is fully refundable in the form in which it was paid, once the Scheme receives the amount of the shortfall from the Controller of Nemea Bank plc. Based on the information made available to the Bank as at the date of authorisation for issuance of these financial statements, it appears to be unlikely that the Controller would not refund the entire amount to the Scheme in the foreseeable future.

39. STATUTORY INFORMATION

BNF Bank p.l.c. is a public limited liability company domiciled and resident in Malta.

The immediate parent company of BNF Bank p.l.c. is JUD Investment Group Limited, a company registered in Malta, with its registered address at 35, St Barbara Bastions, Valletta, Malta.

The ultimate parent company of BNF Bank p.l.c. is Al Faisal International for Investment Company, Q.P.S.C., a Qatari Private Shareholding Company registered under the laws of Qatar with commercial registration number 43094, and with its registered office situated at 17th Floor, Marriot Marquis Centre, Doha, Qatar.

The ultimate controlling party of BNF Bank p.l.c. is H.E. Sheikh Feisal Qassim F. Th. Al-Thani.

Additional Regulatory Disclosures

Additional Regulatory Disclosures

For the year ended 31 December 2022

1. OVERVIEW

These Additional Regulatory Disclosures ('ARD') are prepared by the Bank in accordance with Part Eight of EU Regulation No 575/2013 ('Capital Requirements Regulation' or 'CRR'), and in accordance with Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority ('BR/07').

The Bank publishes these disclosures on an annual basis as part of the Annual Report. These disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank, through its internal verification procedures, is satisfied that these ARD are presented fairly.

These ARDs should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

2. RISK MANAGEMENT FRAMEWORK

The Bank operates a commercial banking model, the main business lines being retail and corporate banking. The Board's risk appetite is to maintain a prudent and risk-averse position, the key financial risks being those set out in the Financial Statements and Notes to the Financial Statements.

The Risk Management Framework is an integral part of the Bank's organisational and governance structure, the details of which are set out in the Statement of Compliance with the Principles of Good Corporate Governance.

The Risk Management Framework has been set out in Note 3.1 to the Financial Statements.

3. CAPITAL MANAGEMENT

The Bank is obliged to comply with regulatory capital requirements emanating primarily from the CRR, and also from various other local and European requirements. Compliance with such requirements is therefore a top priority of the Board, as is efficient capital management.

The Bank manages its capital structure and adjusts it in the light of economic and business conditions, and the risk characteristics of its activities.

3.1 Own funds

The Bank's available capital and reserves for the purposes of capital adequacy is represented by the Bank's Own funds. In July 2013, the European Banking Authority ('EBA') issued its final draft Implementing Technical Standards ('ITS') on own funds disclosures. The disclosure requirements of these technical standards have been integrated within the Bank's disclosures set out below.

The Bank's regulatory Own Funds consist of Common equity Tier 1 ('CET1') capital, Perpetual capital notes and Tier 2 capital, which include the following items:

- ordinary share capital;
- retained earnings;
- revaluation reserve;
- reserve for general banking risks;
- perpetual capital notes;
- subordinated debt; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes, including the treatment of deferred tax assets, deductions relating to amounts pledged in favour of the Depositor Compensation Scheme and deductions relating to intangible assets.

Details of items which make up regulatory Own Funds are set out below:

a) Share capital

The Bank's share capital as at 31 December is analysed as follows:

	2022	
	No. of shares	€
Authorised		
Ordinary shares of €0.7552 each	132,415,254	100,000,000
Issued		
Ordinary shares of €0.7552 each	98,707,626	74,544,000

b) Perpetual capital notes

The Bank’s perpetual capital notes as at 31 December is analysed as follows:

	€000
Perpetual capital notes issued in 2016	5,000
Perpetual capital notes issued in 2018	2,500
Perpetual capital notes issued in 2019	2,500
Total perpetual capital notes	10,000

c) Retained earnings

Retained earnings represent earnings not paid out as dividends. Interim profits form part of regulatory Own Funds only once they are verified by an independent external auditor. The Bank may only make distributions out of eligible profits. Accumulated losses are deducted in full from the Bank’s own funds.

d) Revaluation reserve

This represents the cumulative net change in fair values of equity shares and debt securities measured at FVOCI held by the Bank, net of related deferred tax effects. The revaluation reserve is not available for distribution.

e) Reserve for general banking risks

The Bank is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: ‘Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994’.

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank’s non-performing loans and advances. The allocation to this reserve occurred over a three-year period, of which the Bank allocated 40% during the financial year ended 2013, 30% during the financial year ended 2014, and the remaining allocation of the total estimated amount during the financial year ended 2015.

During 2016 the methodology for calculating this reserve was updated in line with BR/09/2016 issued by the Malta Financial Services Authority.

f) Subordinated debt

During 2022 the Bank issued 4.5% Unsecured Subordinated Bonds which are due to mature in 2032. The bonds are callable and may be redeemed by the Bank on specific dates, subject to MFSA approval and subject to the Bank giving the bondholders at least 30 days’ notice in writing.

3.2 Capital requirements

The Bank's minimum Pillar 1 capital requirements excluding buffer requirements are as follows:

- CET1 ratio of 4.5%;
- Capital Adequacy Ratio (CAR) of 8%.

Pillar 1 capital requirements are based on standard rules which state the minimum Own Funds requirements to cover credit risk, market risk and operational risk. The Bank uses the Standardised Approach to calculate credit risk, the Basic Indicator Approach for operational risk and the Standardised Approach with respect to market risk.

Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', sets out requirements for capital buffers. The two capital buffers applicable to the Bank are the capital conservation buffer and the countercyclical buffer.

The capital conservation requirement is of 2.5%, fully comprised of CET1 capital. The countercyclical buffer requirement ranges between 0 - 2.5%, based on the country's exposure to cyclical risk. The Bank's institution specific countercyclical buffer, as determined by Article 140 (1) of Directive 2013/36/EU stood at 0.102%. The institution specific countercyclical buffer considers exposures outside of Malta and is calculated as the weighted average of the individual countercyclical buffer rates applicable in each country where the Bank's exposures are located.

The Bank's Own Funds and capital ratio calculations are set out as follows:

	As at 31 December 2022 €000
Common Equity Tier 1 (CET1) capital	
Instruments and reserves	
Share capital	74,544
Retained earnings (excluding Depositor Compensation Scheme reserves)	15,402
Funds for general banking risk	992
Accumulated other comprehensive income (and other reserves)	(2,543)
CET1 capital before regulatory adjustments	88,395
Regulatory adjustments	
Intangible assets	(868)
Amounts added back to CET 1 due to IFRS 9 transitional provisions as adjusted for COVID-19 relief measures[4]	672
Total regulatory adjustments to CET1	(196)
CET1 capital	88,199
Perpetual capital notes	10,000
Tier 1 capital	98,199
Subordinated debt	20,000
Tier 2 capital	20,000
Total Own Funds	118,199
Total risk weighted assets	604,115
Capital ratios	
CET1 ratio	14.60%
Tier 1 ratio	16.26%
Total Capital Adequacy Ratio	19.57%
Institution specific buffer requirement	2.6
of which: capital conservation buffer requirement	2.5
of which: institution specific countercyclical capital buffer	0.1
CET 1 available to meet buffers, including Pillar 2	10.10
	€000
Items not deducted from own funds in accordance with Article 48 of the CRR	7,883

[4] Includes more favourable transitional provisions for COVID-19 related ECLs when adding back Stage 1 and Stage 2 loss allowances to CET1. The Capital Adequacy Ratio and CET1 Ratio excluding the impact of transitional provisions would have been 19.47 and 14.50% respectively.

At 31 December 2022	Exposure value €000	Risk weighted assets €000	Capital required €000
Central governments or Central banks	153,998		
Institutions	37,517	14,533	1,163
Corporate	140,681	123,147	9,852
Retail	79,478	55,219	4,417
Secured by mortgages on immovable property	595,852	203,288	16,263
Items associated with particularly high risk	70,424	105,636	8,451
Exposures in default	12,592	12,592	1,007
Equity	8,147	8,147	652
Covered bonds	18,630	1,863	149
Other items	35,708	33,242	2,659
Credit risk	1,153,027	557,667	44,613
Operational risk		46,374	3,710
Foreign exchange risk		74	6
Total capital required		604,115	48,329
Own Funds			
Common equity Tier 1			88,199
Perpetual capital notes			10,000
Tier 2			20,000
Total Own Funds			118,199
Capital Adequacy Ratio			19.57%

4. LEVERAGE

The Leverage Ratio (LR) measures the relationship between the Bank's capital and its total exposure. The minimum LR requirement of 3% is aimed at preventing build-up of excessive leverage.

For the purposes of the LR, capital is defined as Tier 1 capital in line with article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The following table represents the Bank's leverage ratio determined in accordance with the requirements stipulated by Implementing Regulation EU 2021/637.

	2022 €000
Tier 1 capital	98,199
Total exposure	1,213,397
Leverage ratio	**8.09%**

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

	2022 €000
Balance sheet items	1,162,979
Adjustments in determining Tier 1 capital	1,865
On-balance sheet exposure	**1,164,844**
Off-balance sheet exposures at gross notional amount	265,170
Adjustments in determining Tier 1 capital	(216,617)
Off-balance sheet exposure	**48,553**
Total exposure	**1,213,397**

The following table provides a reconciliation of accounting assets and leverage ratio exposures:

	2022 €000
Total assets as per published financial statements	1,162,979
Adjustment for off-balance sheet items	48,553
Other adjustments	1,865
Leverage ratio exposure	**1,213,397**

5. ICAAP AND ILAAP

As part of its risk management the Bank performs an assessment of risks not adequately covered under Pillar 1 of the CRR, with a view to anticipate Pillar 2 requirements. This process is referred to as the ICAAP and ILAAP process. The Bank's ICAAP and ILAAP process is compliant with requirements emanating from MFSA Banking Rule BR/12.

The Bank prepares a report of its ICAAP and ILAAP process annually, or more frequently as may be deemed necessary. ICAAP and ILAAP reporting is subject to Board approval and submitted to the regulator. ICAAP and ILAAP reporting is carried out in addition to regular risk reporting.

All assumptions and methodologies used in the ICAAP and ILAAP process are subject to internal validation by the Bank's Internal Audit Function.

The Bank's Board of Directors is confident that all material risks applicable to the period under review were identified and assessed as part of the ICAAP and ILAAP process. Risks which the Bank considers to be material are described in further detail in the following sections.

6. CREDIT RISK

Note 3.2 to the Financial Statements defines credit risk and discloses detail on the Bank's credit risk management and measurement.

The following tables set out the Bank's maximum exposure to credit risk before consideration of collateral held or other credit enhancements:

	Average Exposure €000	Exposure as at 31 December 2022 €000
As at 31 December 2022		
Central government or central banks	154,989	153,998
Institutions	35,702	37,517
Corporate exposures	136,632	140,681
Retail exposures	77,465	79,478
Secured by mortgages on immovable property	565,565	595,852
Items associated with particularly high risk	64,623	70,424
Exposures in default	13,558	12,592
Equity	7,895	8,147
Covered bonds	5,640	18,630
Other items	31,604	35,708
Total	1,093,673	1,153,027

Reconciliation of exposure to credit risk	2022 €000
Exposure as per Statement of Financial Position	1,162,979
Less: deductions for assets that are not risk-weighted	(32,739)
Statement of Financial Position exposure after deductions	1,130,240
Off-balance sheet exposure before application of the credit conversion factor	265,170
Less: Credit conversion factor adjustment	(242,383)
Off-balance sheet exposure after deductions	22,787
Total maximum exposure to credit risk	1,153,027

The residual maturity breakdown by exposure class at 31 December 2022 was as follows:

At 31 December 2022	Total €000	Less than 1 year €000	Between 1 and 5 years €000	Over 5 years €000	No maturity date €000
Central government or central banks	153,998	118,519	26,427	-	9,052
Institutions	37,517	15,780	20,371	1,366	-
Corporate	140,681	15,973	56,807	67,901	-
Retail	79,478	14,082	11,011	54,385	-
Secured by mortgages on immovable property	595,852	13,936	10,842	571,074	-
Items associated with particularly high risk	70,424	13,991	52,704	3,729	-
Exposures in default	12,592	2,609	1,580	8,403	-
Equity	8,147	2,806	4,951	-	390
Covered bonds	18,630	-	18,630	-	-
Other items	35,708	14,089	7,882	7,075	6,662
Total	1,153,027	211,785	211,205	713,933	16,104

6.1 Credit concentration risk

Note 3.2.5 to the Financial Statements defines credit concentration risk and discloses detail on the Bank's areas of credit concentration.

6.1.1 Credit concentration risk analysed by industry sector

An industry sector analysis of the Bank's exposure amounts split by exposure class is shown in the following table:

At 31 December 2022	Total €000	Manufacturing €000	Financial services €000	Households and individuals €000	Construction €000	Wholesale and retail €000	Other sectors €000
Central government or central banks	153,998	-	153,998	-	-	-	-
Institutions	37,517	-	37,517	-	-	-	-
Corporate	140,681	2,581	22,406	2,497	14,667	8,391	90,139
Retail	79,478	931	2,086	57,844	2,221	8,839	7,557
of which: SME	*24,644*	*245*	*2,086*	*3,696*	*2,221*	*8,839*	*7,557*
Secured by mortgages on immovable property	595,852	345	24,168	529,133	15,122	4,876	22,208
of which: SME	*80,339*	*345*	*24,168*	*13,620*	*15,122*	*4,876*	*22,208*
Items associated with particularly high risk	70,424	-	-	2,684	42,345	358	25,037
of which: SME	*62,399*	-	-	*2,684*	*34,320*	*358*	*25,037*
Exposures in default	12,592	558	1,872	7,561	60	1,427	1,114
Equity	8,147	-	8,147	-	-	-	-
Covered bonds	18,630	-	18,630	-	-	-	-
Other items	35,708	-	35,708	-	-	-	-
Total	1,153,027	4,415	304,532	599,719	74,415	23,891	146,055

6.1.2 Credit concentration risk analysed by geographical region

The geographical concentration of the Bank's exposure classes as at the end of the reporting period are analysed in the following table.

	Total	Malta	Portugal	United Kingdom	Other
	€000	€000	€000	€000	€000
At 31 December 2022					
Central government or central banks	153,998	148,944	5,054	-	-
Institutions	37,517	10,262	-	10,391	16,864
Corporate	140,681	94,683	-	34,818	11,180
Retail exposures	79,478	79,277	-	59	142
Secured by mortgages on immovable property	595,852	593,334	9	922	1,587
Items associated with particularly high risk	70,424	62,400	-	8,024	-
Exposures in default	12,592	12,591	-	-	1
Equity	8,147	-	-	1,375	6,772
Covered bonds	18,630	-	-	-	18,630
Other items	35,708	35,708	-	-	-
Total	**1,153,027**	**1,037,199**	**5,063**	**55,589**	**55,176**

6.2 Credit quality

6.2.1 Balances with banks and debt securities

Note 3.2.6 to the Financial Statements discloses detail on credit quality of balances with banks and debt securities. Further detail on loss allowances is also disclosed in Note 3.2.9 to the Financial Statements.

6.2.2 Loans and advances to customers

Note 3.2.7 to the Financial Statements discloses detail on credit quality of loans and advances to customers and impairment allowances thereon. Further detail on loss allowances is also disclosed in Note 3.2.9 to the Financial Statements.

Stage 3 expected credit losses

	Total €000	Manufacturing €000	Households and individuals €000	Construction €000	Wholesale and retail €000	Other €000
At 1 January 2022	12,302	241	3,649	628	5,466	2,318
Additions	1,248	2	323	43	619	261
Reversals	(1,516)	(134)	(551)	(452)	(32)	(347)
At 31 December 2022	12,034	109	3,421	219	6,053	2,232

Stage 1 & 2 expected credit losses

	Total €000	Manufacturing €000	Households and individuals €000	Construction €000	Wholesale and retail €000	Other €000
At 1 January 2022	4,605	33	2,073	587	382	1,530
Additions	1,715	5	738	471	57	444
Reversals	(2,183)	(13)	(724)	(230)	(199)	(1,017)
At 31 December 2022	4,137	25	2,087	828	240	957

Past due but not impaired loans include loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate based on the stage of collection of amounts owed to the Bank. The Bank accounts for expected credit losses on these balances.

Loans and advances to customers are analysed into impaired, past due and other exposures as follows:

	2022 €000
Gross loans and advances to customers	
Impaired	24,216
Past due but not impaired	19,959
Neither past due nor impaired	875,309
	919,484

The following table analyses the impaired and the past due but not impaired gross loans and advances to customers by industry sector:

	Impaired €000	Past due but not impaired €000
At 31 December 2022		
Gross loans and advances by industry		
Manufacturing	662	-
Households and individuals	10,815	5,032
Construction	267	9,859
Wholesale and retail	7,231	1,591
Other sectors	5,241	3,477
	24,216	19,959

The Bank's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Malta during 2022.

The Bank's write-off policy is disclosed in Note 3.2.10 to the Financial Statements.

6.2.3 Use of External Credit Assessment Institutions (ECAI)

The Bank applies the Standardised Approach for credit risk. The Standardised Approach is defined in the CRR and applies a standardised methodology to calculate credit risk weighted assets under Pillar 1.

Credit risk weighted assets are determined through credit quality steps set out in the CRR. Determining the credit quality step for a particular exposure depends primarily on the type of exposure and whether it is externally rated.

In the case that an exposure is externally rated the Bank determines credit quality steps by applying the most conservative credit rating identified. The Bank only uses widely accepted and recognized ECAIs. The table below sets out credit quality steps for loans and advances to banks and financial investments which are externally rated at 31 December 2022:

At 31 December 2022

Ratings	Credit quality steps	Total Exposure €000
Aaa to Aa3	1	27,288
A1 to A3	2	48,799
Baa1 to Baa3	3	17,706
Ba1 to Ba3	3	4,975
Unrated		3,067
Total		101,835

6.3 Counterparty credit risk on derivatives

The Bank's policies and procedures set out limits on acceptable currencies, maximum transaction size, acceptable counterparties, counterparty creditworthiness, and types of derivative contracts.

Insofar as types of derivative contracts are concerned, the Bank's limits only allow forward contracts or swap transactions. Derivative transactions are governed by the European Market Infrastructure Regulation (EMIR).

6.4 Collateral and other credit enhancements

Note 3.2.11 to the Financial Statements discloses detail on collateral as a credit risk mitigant, and a detailed analysis of collateral held at 31 December 2022.

The table below represents the total exposure value for each exposure class that is covered by eligible collateral, analysed into residential immovable property, commercial immovable property and other eligible collateral. The Bank also holds other eligible collateral classified as funded credit protection, such as cash and life insurance policies, as well as liquid sovereign debt securities held as pledge on reverse repurchase transactions.

The table below discloses total maximum credit exposure by type of collateral held:

At 31 December 2022	Total exposure value €000	Residential immovable property €000	Commercial immovable property €000	Other eligible collateral €000	Residual value €000
Central governments or central banks	153,998	-	-	-	153,998
Institutions	37,517	-	-	-	37,517
Corporate	140,681	3,172	116,213	3,123	18,173
Retail exposures	79,478	39,194	16,302	1,055	22,927
Secured by mortgages on immovable property	595,852	591,652	4,200	-	-
Items associated with particularly high risk	70,424	51,645	17,372	-	1,407
Exposures in default	12,592	8,699	3,742	-	151
Equity exposures	8,147	-	-	-	8,147
Covered bonds	18,630	-	-	-	18,630
Other items	35,708	-	-	-	35,708
Total	**1,153,027**	**694,362**	**157,829**	**4,178**	**296,658**

6.5 Additional regulatory disclosures as a result of COVID-19

During 2020 and 2021, general payment moratoria were granted according to Directive 18 'On Moratoria on Credit Facilities in Exceptional Circumstances' issued by the Central Bank of Malta, in line with European Banking Authority Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis.

The following table include information on loans and advances subject to legislative and non-legislative moratoria in line with European Banking Authority (EBA) Guidelines (EBA/GL/2020/02), which have now matured and customers returned back to pre-moratoria repayment schedules.

		Gross carrying amount							
					Residual maturity of moratoria				
	Number of obligors	Total moratoria	Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
At 31 December 2022		€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances for which a moratorium was requested	440	83,446							
Loans and advances subject to moratorium (granted)	347	64,535	64,535	64,535	-	-	-	-	-
of which: Households		*35,036*	*35,036*	*35,036*	-	-	-	-	-
of which: Collateralised by residential immovable property		*33,742*	*33,742*	*33,742*	-	-	-	-	-
of which: Non-financial corporations		*19,186*	*19,186*	*19,186*	-	-	-	-	-
of which: Small and medium-sized enterprises		*19,186*	*19,186*	*19,186*	-	-	-	-	-
of which: Collateralised by commercial immovable property		*17,952*	*17,952*	*17,952*	-	-	-	-	-

As mentioned in Note 3.2.8 to the Financial Statements, the Bank has participated in the Malta Development Bank COVID-19 Guarantee Scheme which was introduced to assist businesses through the COVID-19 outbreak.

The below table provides information on the gross carrying amount of credit facilities issued under the public guarantee scheme.

	Gross carrying amount	
At 31 December 2022	€000	of which: forborne €000
Newly originated loans and advances subject to public guarantee schemes	3,669	-
of which: Non-financial corporations	*3,669*	-
of which: Small and medium-sized enterprises	*3,669*	-
of which: Collateralised by commercial immovable property	-	-

7. LIQUIDITY RISK

Note 3.4 to the Financial Statements defines liquidity risk and discloses detail on the Bank's liquidity risk management and measurement. Note 3.4 also discloses details of the Bank's regulatory liquidity requirements at 31 December 2022.

Liquidity risk disclosures are also included in this section in respect of asset encumbrance in accordance with Banking Rule 07, which transposes the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

This disclosure is intended to highlight the available and unrestricted assets available to sustain potential funding requirements. An asset is deemed to be encumbered when it is pledged as collateral in respect of an existing liability and consequentially is rendered out of reach to the Bank. The Bank is not able to sell encumbered assets or pledge them as collateral to raise funds.

At 31 December 2022	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000	Total carrying amount €000	Risk weighted encumbered assets €000	Risk weighted unencumbered assets €000	Total risk weighted amount €000
Central governments or central Banks:	9,633	9,633	144,365		153,998			
Reserve deposit	*7,627*	*7,627*						
Securities pledged for DCS	*2,006*	*2,006*						
Institutions			37,517	37,606	37,517		14,533	14,533
Corporate			140,681	215,177	140,681		123,147	123,147
Retail			79,478	253,797	79,478		55,219	55,219
Secured by mortgages on immovable property			595,852	611,489	595,852		203,288	203,288
Items associated with particularly high risk			70,424	85,201	70,424		105,636	105,636
Exposures in default			12,592	24,641	12,592		12,592	12,592
Equity			8,147	8,167	8,147		8,147	8,147
Covered bonds			18,630	18,665	18,630		1,863	1,863
Other items	2,939	2,939	32,769	48,486	35,708	2,939	30,303	33,242
of which: Visa collateral	*2,939*	*2,939*				*2,939*		
Total credit risk	12,572	12,572	1,140,455	1,303,229	1,153,027	2,939	554,728	557,667

8. MARKET RISK

Note 3.3 to the Financial Statements defines market risk and discloses details and analysis on the types of market risk the Bank is exposed to, as well as disclosing details on market risk management.

8.1 Exposure in equities not included in the trading book

The Bank holds shares in one position, the intention of which is not one of profit, but a strategic position which has a bearing on the Bank's operations. Further details on this holding is disclosed in Note 7 to the Financial Statements.

8.2 Securitization position

As at balance sheet date, the Bank did not hold any securitization positions.

8.3 Interest rate risk (IRR)

Note 3.3.2 to the Financial Statements defines and discloses details on interest rate risk.

8.4 Currency risk

Note 3.3.3 to the Financial Statements defines and discloses details on currency risk.

9. OPERATIONAL RISK

Note 3.5 to the Financial Statements defines operational risk and discloses details on the types of operational risk the Bank is exposed to, as well as disclosing details on operational risk management.

The Bank uses the Basic Indicator Approach (BIA) to estimate unexpected losses relating to operational risk. As a matter of good practice, it also simulates the capital charge under a hypothetical, more sophisticated, Standardized Approach (SA).

As at balance sheet date, the following figures applied:

Operational Risk Capital Charge	€000
Standardised Approach (simulation)	3,463
Basic Indicator Approach (actual)	3,710
Difference	247

10. REMUNERATION POLICY

The Bank's Compensation and Nomination Committee is responsible for reviewing the remuneration policy of the Bank and to make any recommendations as the Committee deems appropriate in the light of the general strategic interests of the Bank and the regulations. It also determines and reviews the Remuneration Policy applicable to the Bank's 'Identified Staff' in terms of Commission Delegated Regulation 2021/923.

10.1 Board of Directors

The Bank's Chairman and non-executive Directors are not eligible to receive a performance incentive. Accordingly, none of these directors were entitled to profit sharing, share options, pension benefits, variable remuneration or any other remuneration or related payments in their capacity as Directors of the Bank. The fees paid to non-executive Board members during 2022 amounted to € 258,600 which are analysed as follows:

Chairman	€42,000
Other Members	€216,600
Total Directors' fees	€258,600

10.2 Executive Committee

The Board feels that the current Executive Committee has the necessary skills and qualities to manage the affairs of the Bank and considers the packages offered to its members sufficient to ensure that the Bank attracts and retains senior staff capable of fulfilling their duties. The Bank's policy remains to engage these officials on an indefinite contract of employment, following a period of probation. All contracts are in line with the relevant legislation, with all terms and conditions being specified in the said contracts of employment.

Annual salary increases, which are not performance related, are considered every year for the Executive Committee members, together with annual bonuses, which are generally based on the individual performance during the previous financial year. Any bonus payments made to Executive Committee members do not exceed 100% of their fixed component of total remuneration for each individual.

Share options, share incentive schemes and profit sharing do not feature in the Bank's Remuneration policy. Provisions for termination payments and/or other payments linked to early termination are those determined at Law. Moreover, no pension benefits are currently payable by the Bank.

Non-cash benefits include the service of a company vehicle, life cover, health insurance as well as death-in-service benefits.

Total emoluments received by Senior Management members during the period ended 31 December 2022 are disclosed in the Statement of Compliance with the Principles of Good Corporate Governance.

11. BOARD OF DIRECTORS

11.1 Board Recruitment and Selection Policy

The shareholders appoint or remove directors to the Board in accordance with the Bank's Articles of Association after taking into consideration diversity of knowledge, judgement and experience.

During 2022 the Board of Directors met 15 times. Directors' attendance at Board Meetings during 2022 was as follows:

Members	Attended
Dr Michael Frendo – Chairman	15 out of 15
Sheikh Mohamed Feisal Q.F. Al-Thani – Deputy Chairman	3 out of 15
Sheikh Turki Feisal Q.F. Al-Thani	0 out of 15
Mr Michael Anthony Collis*	14 out of 15
Ms Juanita Bencini	14 out of 15
Mr Charles Borg	13 out of 15
Mr Mario P. Galea	11 out of 15
Mr Paul M. Johnson	12 out of 15
Mr Kenneth C. Mizzi	11 out of 15
Chev. Maurice Mizzi	10 out of 15
Mr Mark Portelli	13 out of 15
Mr Hassan El-Sayed Abdalla*	2 out of 15

* Mr Hassan El-Sayed Abdalla appointed as a Director with effect from 28 June 2022.

* Mr Michael Anthony Collis retired with effect from 31 December 2022

11.2 Board Diversity Policy

The Board adopted a Board Diversity Policy with regards to the selection of the members of the Board of Directors.

The Diversity Policy covers diversity aspects in terms of gender, age, ethnicity and culture.

It is the opinion of the Board of Directors that the diversity objectives set in the Board Diversity Policy are met.

11.3 Number of directorships held by the Board of Directors

Further to article 91 of the CRD IV, the Bank is listing the number of directorships held by the members of the Board of Directors (including those held with the Bank). The number of directorships, both for the Executive Directorship (ED) and Non-Executive Directorship (NED) forming part of the same group are considered as one directorship.

Dr Michael Frendo	1 ED + 1 NED
Sheikh Mohamed Feisal Q.F. Al Thani	1 ED + 1 NED
Sheikh Turki Feisal Q.F. Al-Thani	1 ED + 1 NED
Mr Michael Anthony Collis*	1 ED
Ms Juanita Bencini	8 NED
Mr Charles Borg	1 ED + 16 NED
Mr Mario P Galea	12 NED
Mr Paul Mark Johnson	1 ED + 1 NED
Mr Kenneth Mizzi	3 ED + 2 NED
Chev. Maurice Mizzi	5 ED + 1 NED
Mr Mark Portelli	1 ED + 8 NED
Mr Hassan El-Sayed Abdalla*	4 NED

* Mr Hassan El-Sayed Abdalla appointed as a Director with effect from 28 June 2022.

* Mr Michael Anthony Collis retired with effect from 31 December 2022.

Five Year Summary

Five Year Summary

Statements of Financial Position

As at 31 December

	2022 €000	2021 €000	2020 €000	2019 €000	2018 €000
ASSETS					
Balances with Central Bank of Malta and cash	124,264	102,410	93,262	39,718	99,853
Cheques in course of collection	6,515	1,327	1,138	2,910	677
Financial investments	91,420	72,135	78,517	77,637	68,263
Loans and advances to banks	10,730	11,713	16,061	60,319	57,516
Loans and advances to customers	903,688	793,093	688,334	627,607	520,745
Derivative financial assets	464	6	-	-	122
Property and equipment	5,582	5,640	5,897	6,044	5,995
Intangible assets	868	864	908	1,023	1,044
Right-of-use assets	1,493	1,830	2,216	2,626	-
Deferred tax assets	7,883	6,757	6,108	4,958	5,046
Prepayments and accrued income	4,803	3,187	2,928	2,338	2,583
Other assets	5,269	5,736	5,842	6,400	5,628
TOTAL ASSETS	1,162,979	1,004,698	901,211	831,580	767,472
EQUITY					
Share capital	74,544	74,544	74,544	74,544	67,044
Perpetual capital notes	10,000	10,000	10,000	10,000	7,500
Revaluation reserve	(2,543)	38	663	661	(533)
Reserve for general banking risks	992	992	992	992	992
Retained earnings	17,296	12,137	6,750	3,189	1,460
TOTAL EQUITY	100,289	97,711	92,949	89,386	76,463
LIABILITIES					
Amounts owed to banks and other institutions	10,168	29,436	13,535	203	90
Amounts owed to customers	1,006,416	859,152	776,986	722,920	677,272
Derivative financial liabilities	29	256	-	-	-
Current tax liabilities	1,927	652	389	2,379	1,538
Other liabilities	18,960	12,663	12,031	12,117	8,688
Accruals	5,415	4,828	5,321	4,575	3,421
Debt securities in issue	19,775	-	-	-	-
TOTAL LIABILITIES	1,062,690	906,987	808,262	742,194	691,009
TOTAL EQUITY AND LIABILITIES	1,162,979	1,004,698	901,211	831,580	767,472
Memorandum items					
Contingent liabilities	9,732	9,506	9,650	9,980	11,199
Commitments	255,468	253,534	197,233	161,778	158,607

Income Statement

For the years ended 31 December

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and other instruments	29,790	26,312	24,405	23,075	19,077
- on debt and other fixed income instruments	757	286	358	312	100
Interest payable and similar expense	(4,770)	(3,900)	(4,222)	(4,939)	(3,644)
Net interest income	25,777	22,698	20,541	18,448	15,533
Fees and commission income	4,372	4,004	3,650	4,065	3,629
Fees and commission expense	(1,084)	(1,365)	(1,027)	(1,586)	(912)
Net fees and commission income	3,288	2,639	2,623	2,479	2,717
Net trading income	206	326	491	790	744
Net gains from financial instruments at FVTPL	853	1,075	-	-	-
Gains on disposal of debt instruments at FVOCI	2	399	516	744	60
Other income	-	104	51	274	24
Net operating income	30,126	27,241	24,222	22,735	19,078
Employee compensation and benefits	(10,061)	(9,030)	(8,485)	(7,854)	(7,364)
Other administrative expenses	(7,282)	(6,835)	(6,321)	(6,609)	(5,788)
Depreciation of property and equipment and right-of-use assets	(910)	(925)	(925)	(821)	(447)
Amortisation of intangible assets	(321)	(333)	(365)	(321)	(348)
Movements in expected credit losses	656	(1,067)	(2,815)	(1,749)	(1,572)
Profit before tax	12,208	9,051	5,311	5,381	3,559
Income tax expense	(4,135)	(2,750)	(836)	(2,039)	(1,289)
Profit for the year	8,073	6,301	4,475	3,342	2,270
Earnings per share	8c2	6c4	4c5	3c5	2c9

Statements of cash flows

For the years ended 31 December

	2022 €000	2021 €000	2020 €000	2019 €000	2018 €000
Cash flows from operating activities					
Interest, fees and commission received	33,842	30,560	27,450	27,060	22,374
Interest, fees and commission paid	(5,031)	(5,361)	(5,776)	(5,729)	(5,365)
Net return from trading activities	508	678	537	1,187	652
Payments to employees and suppliers	(18,596)	(16,817)	(13,544)	(14,356)	(12,245)
Cash flows from operating profit before changes in operating assets and liabilities	10,723	9,060	8,667	8,162	5,416
Movement in operating assets:					
Balances with Central Bank of Malta	(834)	(1,050)	(375)	(640)	(1,260)
Loans and advances to customers	(111,007)	(106,225)	(63,556)	(109,095)	(140,974)
Other assets and cheques in course of collection	(4,771)	161	2,526	(2,383)	1,187
Movement in operating liabilities:					
Amounts owed to customers	147,262	82,166	54,066	45,648	163,421
Other liabilities	6,680	1,492	738	1,110	3,869
Net cash flows generated from/(used in) operating activities before tax	48,053	(14,396)	2,066	(57,198)	31,659
Income tax paid	(2,595)	(2,799)	(3,983)	(1,735)	(111)
Net cash flows generated from/(used in) operating activities	45,458	(17,195)	(1,917)	(58,933)	31,548
Cash flows from investing activities					
Net interest on financial assets	780	340	388	507	2,108
Purchase of property, equipment, and intangible assets	(782)	(957)	(1,038)	(788)	(481)
Purchase of financial investments	(47,361)	(25,685)	(51,883)	(59,988)	(20,130)
Proceeds from disposal and redemption of financial investments	24,518	32,727	51,478	53,089	17,141
Net cash flows (used in)/generated from investing activities	(22,844)	6,425	(1,055)	(7,180)	(1,362)
Cash flows from financing activities					
Issue of perpetual capital notes	-	-	-	2,500	2,500
Issue of share capital	-	-	-	7,500	27,500
Return on perpetual capital notes	(914)	(914)	(914)	(863)	(507)
Dividends paid	(2,000)	-	-	(750)	-
Proceeds from issue of debt securities	19,750	-	-	-	-
Principle repayments of lease liabilities	(368)	(409)	(396)	(372)	-
Net cash flows generated from/(used in) financing activities	16,468	(1,323)	(1,310)	8,015	29,493
Net increase/(decrease) in cash and cash equivalents	39,082	(12,093)	(4,282)	(58,098)	59,679
Cash and cash equivalents at beginning of year	78,137	90,230	94,512	152,610	92,931
Cash and cash equivalents at end of year	117,219	78,137	90,230	94,512	152,610

Accounting Ratios

	2022 %	2021 %	2020 %	2019 %	2018 %
Net interest income and other operating income to total assets	2.59	2.71	2.69	2.73	2.49
Operating expenses to total assets	1.60	1.70	1.79	1.88	1.82
Cost to income ratio	61.65	62.86	66.45	68.64	73.10
Profit/loss before tax to total assets	1.05	0.90	0.59	0.65	0.46
Profit/loss before tax to equity	12.17	9.26	5.71	6.02	4.66
Profit/loss after tax to equity	8.05	6.45	4.81	3.74	2.97
Shares in issue (millions)	98.71	98.71	98.71	98.71	88.78
Net assets per share (€0 cents)	102	99	94	91	86
Profit/loss per share (€0 cents)	8.18	6.38	4.53	3.39	2.56

Supplementary Financial Information

Supplementary Financial Information

Shareholding Information

As at 31 December 2022, the issued share capital stood at €74,544,000 (2021: €74,544,000), made up of 98,707,626 (2021: 98,707,626) fully paid up ordinary shares of €0.7552 (2021: €0.7552) each.

The ordinary shares are held as follows:

	No. of shares
JUD Investment Group Limited (C 74331)	91,235,202
PG Holdings Limited (C 8569)	2,222,424
Virtu Investments Limited (C 42860)	1,750,000
Mizzi Organisation Limited (C 813)	1,750,000
SAK Limited (C 3240)	1,750,000
	98,707,626

The percentage holdings stand as follows:

	%
JUD Investment Group Limited (C 74331)	92.44
PG Holdings Limited (C 8569)	2.25
Virtu Investments Limited (C 42860)	1.77
Mizzi Organisation Limited (C 813)	1.77
SAK Limited (C 3240)	1.77
	100.00

Each of the shareholders are entitled to appoint one director in line with the Bank's Articles of Association. Each ordinary share entitles the shareholder to one voting right.

BNF BANK

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Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of BNF Bank p.l.c. (the Bank) as at 31 December 2022, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

BNF Bank p.l.c.'s financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Bank, in the period from 1 January 2022 to 31 December 2022, are disclosed in note 31 to the financial statements.

Our audit approach

Overview

Overall materiality: €1,000,000, which represents 1% of net assets.

Credit loss allowances in respect of loans and advances to customers of the Bank.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	€1,000,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark since, in our view, the actual return payable to the equity holders of the Bank is heavily dependent on the adequacy of the Statement of Financial Position capitalisation given the regulatory considerations arising on dividend distributions. Net assets is also deemed to be an appropriate benchmark given that the Bank is substantially owned by an international Group and given the increasing size of the Statement of Financial Position over the past years. We chose 1% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €100,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 period. 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.

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the Bank	
Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the statement of financial position date. The development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. The outbreak of the COVID-19 pandemic, followed by the ensuing global macroeconomic uncertainties driven by the Russia-Ukraine conflict, have resulted in supply chain disruptions and significant inflationary pressures. These realities have exacerbated the level of uncertainty around the calculation of ECLs, giving rise to heightened subjectivity in the determination of model assumptions used to estimate key model risk parameters and hence necessitating a higher level of expert judgement. Credit loss allowances relating to all loans and advances in the Bank's Corporate and Retail portfolios are determined at an instrument level. In general, the Bank calculates ECLs by multiplying three main components: probability of default (PD), loss given default (LGD) and exposure at default (EAD): i. Probability of default ("PD"): the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. ii. Loss given default ("LGD"): the expected losses taking into account, among other attributes, the mitigating effect of collateral value (if any) at the time it is expected to be realised and the time value of money. The LGD modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by unprecedented economic conditions such as those	During our audit of the financial statements for the year ended 31 December 2022, we continued to focus on the key drivers of the estimation of ECLs, and the continuing appropriateness of management's assumptions. Discussions with the Audit Committee and Management included: • the policies and methodologies used by the Bank in respect of computing ECLs on loans and advances; • inputs, assumptions and adjustments to ECLs, in particular changes to risk factors and other inputs within the Bank's models, including the computation of the historical PDs and how this can be enhanced; • the application of macro-economic scenarios, particularly in the context of the estimated impact of the macroeconomic challenges characterising the aftermath of the COVID-19 pandemic and the escalation of the military conflict between Russia and Ukraine; and • considerations around post model adjustments, mainly in response to the impact of inflationary pressures and interest rate environment being experienced in the aftermath of the COVID-19 pandemic and the escalation of the military conflict between Russia and Ukraine, and the estimation uncertainty involved in determining ECLs on the basis of historical experience. For ECL models the appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9. The more judgemental interpretations of IFRS 9 made by management continued to be discussed during the year, in particular the application, severity and magnitude of forward-looking economic scenarios. We understood and critically assessed the models used for ECL estimation for both Corporate and Retail portfolios. Since modelling assumptions and parameters are based on historic data, we assessed the impact of the unprecedented circumstances we are currently experiencing on the adequacy of key model

currently experienced as a result of the COVID-19 pandemic and the ensuing supply chain disruptions and global inflationary pressures.

iii. Exposure at default ("EAD"): the expected exposure in the event of a default (including any expected drawdowns of committed facilities).

The Bank also applies overlays based on expert judgement where management's view is that the calculated ECLs based on these key inputs do not fully capture the risks within the Bank's loan portfolios.

For both non-defaulted (Stage 1 and 2) and defaulted (Stage 3) exposures, the Bank uses internally developed statistical models. For non-defaulted (Stages 1 and 2) exposures, PDs are estimated using historical model development data based on the Bank's own experience as available at the reporting date. For exposures secured by immovable properties, LGDs are driven by the adjusted loan-to-value ratio of the individual facilities and takes into account other assumptions, including market value haircuts (which includes costs to sell), time to sell and the impact of discounting the collateral from the date of realisation back to the date of default. The maximum period considered when measuring ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Internal credit risk management practices are used to determine when a default has occurred, considering quantitative and qualitative factors where appropriate. Judgement is required to determine when a default has occurred and then to estimate the expected future cash flows related to defaulted (Stage 3) exposures which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows. The Bank is required to assess multiple scenarios in this respect, which scenarios will have probabilities attached.

The local impact of supply chain disruptions and the resultant inflationary pressures being experienced in the local economy has increased the level of uncertainty around judgements made in determining the timing of defaults and the staging of exposures. In this respect, these inflationary pressures might be reasonably expected to impact the affordability of repayments due to the rapid rise in the cost of living being experienced locally together with the potential resultant impact on market interest rates. Such inflationary pressures are deemed to be partially mitigated by government support measures, including subsidies on energy prices and foodstuffs. For the purposes of avoiding the cliff edge effect on ECLs, as well as to capture parameters, since these are based on historical experience that is not necessarily reflective of the current level of credit risk within the portfolios. The appropriateness of management's judgements was also independently considered in respect of the calculation methodologies, calibration of PDs and LGDs, segmentation and selection of macroeconomic variables and post-model overlays.

Substantive procedures which were performed in respect of the ECL model included:

• Performing an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolios, risk profile, credit risk management practices and the macroeconomic environment.

• Testing of a sample of exposures to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management, taking into consideration the impact of the current macroeconomic environment on the repayment capabilities of the sampled borrowers.

• Challenging the criteria used to allocate an exposure to stage 1, 2 or 3 in accordance with IFRS 9 and testing exposures in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage (comprising the determination of significant increase in credit risk and the identification of defaulted exposures).

• Testing the completeness and accuracy of the critical data utilised within the models for the year-end ECL calculations.

• Risk based testing of models, including testing of the assumptions, inputs and formulas used in ECL models on a sample basis. This included assessing the appropriateness of model design, methodology and formulas used, specifically challenging the appropriateness of the methodology and calculations used to derive PDs.

• Reviewing on a sample basis property collateral valuations utilised to determine LGDs applied by the Bank within ECL calculations, using our valuation experts; challenging the application of certain parameters considered in the LGD estimations such as the time to realise the collateral and costs associated with such process, taking into consideration the adequacy of modelled LGDs in light of the potential impact of the current macroeconomic environment on local property prices.

• Recalculating PDs, LGDs and EADs on a sample basis.

risks which are not fully captured by the selected macroeconomic variables applied in the ECL model, the Bank continues to account for a post-model overlay within its expected credit loss provisions.

Under IFRS 9, the Bank is required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables and environments, into the ECL estimates. A number of macro-economic scenarios based on the selected macro-economic variables are considered to capture non-linearity across credit portfolios. The complexity attributable to this factor requires management to develop multiple macroeconomic scenarios involving the use of significant judgements.

The outbreak of COVID-19 and the ensuing macroeconomic uncertainty induced by the Russia-Ukraine conflict and related supply chain disruptions have significantly impacted macroeconomic factors such as the gross domestic product (GDP), unemployment, inflation and interest rates, increasing the uncertainty around judgements made in determining the severity and likelihood of macroeconomic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience. Accordingly, the Bank has applied overlays based on expert judgement to reflect risks that are not fully captured by the ECL models.

Data used in the impairment calculation is sourced from a number of systems, including systems that are not necessarily used for the preparation of accounting records. The ECL models are based on a general-purpose application which requires extensive manual handling of data. This increases risk around the accuracy and completeness of data used to determine assumptions and to operate the ECL models. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed.

Since the estimation of ECLs is subjective in nature and inherently judgemental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus, especially in the context of the unprecedented macroeconomic conditions being experienced, which have significantly increased the level of estimation uncertainty around the calculation of credit loss allowances.

We focused on credit loss allowances due to the subjective nature of specific data inputs into the calculation and the subjective judgements involved

• Reviewing the multiple macro-economic variables and scenarios to assess their reasonableness. We assessed the appropriateness of changes effected during the year to factor the impact of the current macroeconomic environment. We assessed whether the severity of the forecasted macroeconomic variables was appropriate in view of the high level of uncertainty surrounding the current macroeconomic conditions, which is highly characterised by significant inflationary pressures and an increasing interest rate environment. We challenged the correlation and impact of the macroeconomic factors on the ECL.

• Testing independently the model calculations.

Based on the evidence obtained, we found the model assumptions, data used within the models, model calculations and overlays to be reasonable.

For defaulted exposures, the appropriateness of the methodology and policy used to calculate ECL was independently assessed. We understood and evaluated the processes for identifying default events within loan portfolios, as well as the impairment assessment processes.

In respect of defaulted exposures, the design and operating effectiveness of key controls management has established in respect of the determination of which loans and advances are credit-impaired, were tested. We determined that we could rely on these controls for the purposes of our audit.

Substantive procedures were performed in respect of identification of defaults as follows:

• Assessed critically the criteria used by management for identifying borrowers whose financial performance is expected to be particularly susceptible to the potential impact of the significant inflationary pressures being experienced and for determining whether a UTP/default event had occurred by testing a sample of loans to challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner.

• Selected a risk-based sample of performing loans which had not been identified by management as potentially defaulted, to form our own judgement as to whether that was appropriate and to further challenge whether all relevant events had been identified by management.

Substantive procedures were performed on defaulted exposures in respect of the estimation of the size of the respective ECL provisions, as follows:

in both timing of recognition of impairment and the estimation of the size of any such impairment.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: Note 2.6;
- Credit risk: Note 3.2;
- Accounting estimates and judgements: Note 4;
- Note on Credit impairment losses: Note 32; and
- Note on Loans and advances to customers: Note 9.

- Reviewed the credit files of a selected sample of loans to understand the latest developments and the basis of measuring the ECL provisions and considered whether key judgements were appropriate taking cognisance of the current macroeconomic environment, particularly supply chain disruptions, inflationary pressures and an increasing interest rate environment.

- Challenged the severity of the different scenarios applied within the ECL calculation for the exposures in the sample, particularly in respect of the extent to which they consider the potential impact of the current macroeconomic environment on the local property market, together with their respective probability weights by forming an independent view of the recoverability of the selected loans under the different scenarios.

- Tested key inputs and assumptions within the ECL calculations for the sample, including the expected future cash flows and valuation of collateral held, and reperformed the calculations within the discounted cash flow model used to derive expected cash flows under the different scenarios.

- Tested the estimation of the future expected cash flows from customers from realisation of collateral held for the sample of defaulted loans, including assessment of the work performed by external experts used by the Bank to value the collateral. We also used our experts to assess the appropriates of valuations and estimates utilised.

In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.

Other information

The directors are responsible for the other information. The other information comprises all of the information in the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements.*

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and Maltese Companies Act (Cap. 386), and for such internal control as the directors 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's 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 auditor's 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. 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.
- 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- 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.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 auditor's 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.

Report on other legal and regulatory requirements

Report on compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by reference to Capital Markets Rule 5.55.6

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 (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive ("the ESEF Directive 6") on the Annual Report of BNF Bank p.l.c. for the year ended 31 December 2022, entirely prepared in a single electronic reporting format.

Responsibilities of the directors

The directors are responsible for the preparation of the Annual Report, including the financial statements, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibilities

Our responsibility is to obtain reasonable assurance about whether the Annual Report, including the financial statements, complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the Annual Report in XHTML format.
- Examining whether the Annual Report has been prepared in XHTML format.

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

Opinion

In our opinion, the Annual Report for the year ended 31 December 2022 has been prepared in XHTML format in all material respects.

Other reporting requirements

The *Annual Report 2022* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report 2022* and the related Directors' responsibilities	**Our responsibilities**	**Our reporting**
Directors' report The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
Statement of Compliance with the Principles of Good Corporate Governance The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in the Annual Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Capital Markets Rules. The Statement's required minimum	We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements. We are also required to assess whether the Statement of Compliance includes all the other information	In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority. We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

contents are determined by reference to Capital Markets Rule 5.97. The Statement provides explanations as to how the Bank has complied with the provisions of the Code, presenting the extent to which the Bank has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.

required to be presented as per Capital Markets Rule 5.97.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risk and control procedures.

Other matters prescribed by the Maltese Banking Act (Cap. 371)

In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether:

- 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 of those books;
- the Bank's financial statements are in agreement with the books of account;

in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.

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 of those books;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Appointment

We were first appointed as auditors of the Bank on 25 July 2014. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Simon Flynn
Partner

27 March 2023