SPARKASSE
Bank Malta plc

2022
Annual Report

PRIVATE & CORPORATE BANKING / WEALTH MANAGEMENT / FUND CUSTODY

MISSION STATEMENT

Our vision is to grow our enterprise into a European bank recognised for investment and depositary services offering excellence and expertise in all we do.

Our mission is to be an organisation that creates value for customers through a skilled and motivated work force and scalable technology.

Our goal is to deliver highly personalised banking and innovative investment solutions backed by experience, competence and robust support services.

Sparkasse Bank Malta plc has built its reputation on understanding the needs of individuals, whatever their walk of life, developing relationships and responding to them effectively and discreetly.

We believe in relationships – both with our clients as well as with our institutional partners.

GLOSSARY OF ABBREVIATIONS

- AC Amortised Cost
- AR Annual Report
- AVS Anteilsverwaltungssparkasse Schwaz
- BCP Business Continuity Management
- BoD Board of Directors
- CAR Capital Adequacy Ratio
- CBM Central Bank of Malta
- CCR Counterparty Credit Risk
- CET1 Common Equity Tier 1
- CRD Capital Requirements Directive
- CRR Capital Requirements Regulation
- EBA European Banking Authority
- ECL Expected Credit Loss
- FVOCI Fair Value Through Other Comprehensive Income
- FVTPL Fair Value Through Profit and Loss
- IAS International Accounting Standards
- IASB International Accounting Standards Board
- ICAAP Internal Capital Adequacy Assessment Process
- IFRIC International Financial Reporting Interpretations Committee
- IFRS Internal Financial Reporting Standards
- IFSP Institution of Financial Services Practitioners
- ILAAP Internal Liquidity Adequacy Assessment Process
- LCR Liquidity Coverage Ratio
- LSI Less Significant Institution
- NED Non-Executive Director
- MANCO Management Committee
- MFSA Malta Financial Services Authority
- NII Net Interest Income
- NSFR Net Stable Funding Ratio
- ROE Return on Equity
- ROA Return on Assets
- RWA Risk Weighted Assets
- SBM Sparkasse Bank Malta plc
- SEPA Single Euro Payments Area
- SHM Sparkasse (Holdings) Malta Limited
- SIC Standing Interpretations Committee
- SPS Sparkasse Schwaz AG
- T1 Tier 1 Capital
- TIMCO Treasury and Investment Management Committee

CONTENTS

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors of Sparkasse Bank Malta public limited company present their report and the audited annual accounts for the accounting period ended 31st December 2022. The Directors are also presenting the Bank's Pillar 3 disclosures as a separate document to this report.

PRINCIPAL ACTIVITIES

Sparkasse Bank Malta public limited company (the "Bank") is a credit institution established in Malta. The Bank has one (1) branch, established in Dublin, Ireland. It has no subsidiaries.

The Bank is licensed by the Malta Financial Services Authority ("MFSA") to carry out the business of banking in terms of the Banking Act (Chapter 371 of the Laws of Malta), to provide investment services and custody and depositary services in terms of the Investment Services Act (Chapter 370 of the Laws of Malta) and is authorised to act as custodian of retirement schemes in terms of the Retirement Pensions Act (Chapter 514 of the Laws of Malta). In addition, the Bank is authorised by the Central Bank of Ireland to act as depositary to Irish authorised investment funds, through its branch established in Ireland.

The Bank's principal activities comprise:

- Banking: provision of bank accounts and payment services to private and corporate customers in accordance with the Bank's customer acceptance principles.
- Investment services: provision of portfolio accounts to private and corporate customers, including regulated entities, for the purpose of transmission of orders, execution and settlement of trades on the local and international markets.
- Wealth management services: investment advisory services only (the Bank does not provide discretionary portfolio management services).
- Depositary and custody services: provision of depositary services under the AIFMD and UCITS Directive and custody services to various types of customers, including retirement schemes, in line with the Bank's customer acceptance principles.

There were no significant changes in the Bank's principal activities in the course of 2022.

Economic Climate

As the world started to emerge and recover from the preceding two years of the COVID-19 pandemic, it faced yet another crisis as a result of Russia's invasion of Ukraine in February 2022. Global and EU economies were exposed to a complex set of variables involving an energy crisis with continued stresses in global supply chains resulting in hikes in prices for many goods and services. Towards the latter part of the year, central banks broke the decade long experience of a zero and negative -interest rate environment by embarking on an aggressive interest rate increases in a bid to fight inflationary pressures that have not been seen in many years.

2022 also saw Malta being removed from the FATF grey list giving the much needed renewed confidence and encouragement for business development within the sector.

General overview and key notes

Against this backdrop the Bank's business remained resilient and profitable. 2022 was yet another successful year for the Bank in terms of revenue, profitability and customer on boarding. Despite the challenges leading into the year, the Bank recorded strong revenues for the year to the tune of Eur15.7 million compared to Eur13.5 million achieved in the previous year.

Fee income remained the main component of revenue, generating a total of Eur10.4 million derived from the Bank's core business lines and foreign exchange activity. Towards the latter part of the year and due to the change in the interest rate environment, the Bank saw a pick-up in its Net Interest Income (NII) to the tune of Eur5.4 million compared to EUR3.1 million in the previous year.

DIRECTORS' REPORT *(continued)*

Profit before tax for the year was Eur5.3 million, in line with the Bank's forecasts and budgets for the year and up from the previous year's results of Eur4.1 million.

During the year under review, the Bank continued to selectively grow its customer relationships in line with its risk appetite and headroom in terms of regulatory capital requirements. Balance sheet as at year end closed at Eur899.3 million and assets under custody including assets for which the Bank acts as depositary remained constant at Eur8.0 billion.

Risk

The Bank classifies its risks into four main categories that it seeks to mitigate through design of processes, business model, internal controls and internal governance. The Bank's approach to risk is documented in its Risk Appetite Statement, the Risk Management Framework and related policies.

In essence, the Bank seeks to protect against the following risk categories: credit, liquidity, market and operational risk. With less than 1% of total assets exposure to loans and advances to customers, the Bank sees both its credit and liquidity risk as risks that are primarily mitigated as a result of its business model. The Bank is not a lender of funds to the public: credit facilities are granted to customers on an ancillary basis, to complement banking and investment services. Hence, the Bank chooses to hold large cash balances with the Central Bank of Malta as well as in high quality liquid assets. These balances are available at short notice and therefore explain the Bank's high level of liquidity.

Operational risk is an area of risk the Bank seeks to focus on and mitigate through robust internal controls, automation, training and engaging only in customer relationships that are aligned with its risk appetite.

As a result the Bank is proud to present key ratios for the year showing strong and sustainable profits with a Capital Adequacy Ratio ("CAR") of 34.1%, a Cost to Income Ratio of 66.2% and a Return on Equity ("ROE") of 7.92%. These positive figures further confirm the Bank's sound business model and its capability of operating within its key strategic ratios.

Own Funds	Eur45.7 million
Common Equity Tier 1 Ratio	34.09%
Total Risk Weighted Assets	Eur134.2 million
Leverage Ratio	4.92%
Liquidity Coverage Ratio	324.57%
Net Stable Funding Ratio	416.67%

Throughout the year, the Bank continued to pursue a conservative approach to new business in line with its risk appetite and customer acceptance principles, while continuing to monitor existing relationships and improve its internal controls in an effort to mitigate ICT risk, ML/TF risk and (other) operational risk.

Focus and resources were invested in the implementation of more automated processes, strengthening of controls at the first line of defence, training and developing the Bank's organisational structure in a manner that is conducive to functionality, effectiveness and control.
Environmental, Social and Governance (ESG) principles were also introduced in various policies within the Bank primarily related to credit facilities and customer on-boarding.

As technology continues to play a significant role in banking, the Board has continued to support further investment in this area, both in terms of infrastructure, as well as with the recruitment of further expertise for its IT Department. The Board continues to identify its IT capabilities and security as critical for the Bank's growth and sustainability. Investment in this area has reached circa 17% of total costs.

DIRECTORS' REPORT *(continued)*

Internal Governance

The key responsibilities of the Bank's Board of Directors consist of setting, approving and overseeing the implementation of the overall business strategy and key policies of the Bank, its overall risk strategy and internal governance and internal control framework.

The Bank continued to focus and strengthen its overall internal governance in 2022, through various policies and the establishment of new management committees while continuing to perfect its overall organisational structure.

The Audit Committee and Risk Committee continued supporting the Board in its oversight function. The Bank's joint Audit and Risk Committee were separated in 2022 to establish two stand-alone board committees chaired by INEDs.

Senior management, vested in the Managing Director (CEO) and, from January 2022, the Chief Technology Officer, is responsible for the implementation of the strategies and policies set by the Board of Directors and is accountable to the Board of Directors for the day-to-day running of the Bank. Senior management is supported in this task by management committees and sub-committees, with the aim to ensure effective communication, coordination and continuity between senior management and the departments, units and functions within the Bank, top-down and bottom-up, as well as between the various departments, units and functions themselves. The management committees referred to are:-

- The Management Committee in Malta and its three (3) sub-committees, namely the Credit Review Committee, the Treasury and Investment Management Committee and the Customer Account Evaluation Committee;
- The Ireland Branch Committee and its two (2) sub-committees, namely, the On-boarding Committee for the approval of new customers of the Ireland Branch, and the Depositary Committee for the internal evaluation of the Branch's depositary function.

The Bank's SREP team was involved in communications with the MFSA and coordinated the submission of documentation and information requested by the MFSA as part of the supervisory review and evaluation process (SREP).

A new management committee was created in March 2022 to support and assist the Managing Director in managing and coordinating the Bank's internal resolution planning and resolvability work programme.

The Bank's internal control framework is based on the "three lines of defence" model for risk management:

- The business units act as a first line of defence: they take risks and are responsible for their operational management on a day-to-day basis.
- The risk management and compliance functions (regulatory compliance and AML / CTF compliance) form the second line of defence. The risk management function facilitates the implementation of the Bank's risk management framework and has responsibility for further identifying, monitoring, measuring, managing and reporting on risks and forming a holistic view on all risks. The compliance function monitors compliance with legal and regulatory requirements and internal policies and provides advice on compliance to the Board of Directors and staff. This function is also responsible for establishing policies and processes to manage compliance risks and to ensure compliance.
- Internal Audit acts as the third line of defence. The internal audit function conducts risk-based and general audits and is in charge of the independent review of the first two lines of defence.

The Bank is organised so that the internal control functions (second and third lines of defence) are independent from the business and support units they control, with an appropriate segregation of duties and reporting lines.

DIRECTORS' REPORT *(continued)*

The composition of the Board of Directors during the accounting period under review was as follows:

– Harald Wanke	Chairperson of the Board of Directors
– Paul Mifsud	Managing Director
– James Bonello	Independent Non-Executive Director
– Serge D'Orazio	Independent Non-Executive Director
– Andrew Manduca	Independent Non-Executive Director and Chairperson of the Audit & Risk Committee
– Mark Curmi	Independent Non-Executive Director and Chairperson of the Risk Committee

Mr Manduca resigned with effect from 31st December 2022. The Board of Directors selected Mr Conor Molloy as an independent non-executive director to replace Mr Manduca on the Board and as Chair of the Audit Committee. Mr Molloy's appointment was approved by the MFSA and took effect on 22nd March 2023.

Attendance of the Directors at Board meetings held in 2022 was 98%: only one (1) of the Directors was excused at one (1) of the eleven (11) Board meetings held. Attendance of the members of the Board Committees was 100%: all members of the relevant Committee attended three (3) meetings of the joint Audit and Risk Committee, two (2) meetings of the stand-alone Audit Committee and two (2) meetings of the stand-alone Risk Committee in 2022.

Capital – Dividends and Reserves

In line with the Bank's dividend policy and capitalisation of profits, the Bank will continue with its strategy to strengthen the Bank by reinvesting its profits for the year, subject to MFSA approval.

This will be through the distribution of Eur5.0 million as a dividend to the shareholding company Sparkasse (Holdings) Malta Limited that shall in turn re-invest the sum of Eur6.0 million back into the Bank as additional share capital, subject to MFSA approval. This will increase the Bank's share capital from Eur40.2 million to Eur46.2 million.

This additional capital demonstrates the shareholder's commitment to the Bank and to provide the Bank with additional capital to support and continue to develop its business locally.

Corporate Social Responsibility

As part of the Bank's corporate social responsibility programme, the Bank continues to support the local heritage in Malta through sponsorship programs offered by "Din L-Art Helwa" for the restoration of Maltese heritage and culture, whereby it continued to support the restoration of the Saint Nicholas and Saint Michael the Archangel painting by Mattia Preti located at the Sarria Church. The Bank also supports several other initiatives of a cultural and charitable nature and local NGOs.

DIRECTORS' REPORT *(continued)*

Projects and Going Forward

The Bank remains committed to its business in Malta and Ireland and the development and strengthening of its business model. In so doing, the Bank intends to continue investing in its staff complement and the scalability of its IT infrastructure.

In the previous Directors' Report, the Bank disclosed that a share purchase agreement between Merkanti Holding plc and the Bank's parent company, Anteilsverwaltungssparkasse Schwaz ("AVS") was signed in March 2022. Merkanti Holding plc announced that it had entered into the said share purchase agreement to acquire the shares in Sparkasse (Holdings) Malta Limited, and its intention to merge its subsidiary Merkanti Bank Ltd with the Bank. The transactions are subject to regulatory approval. In the meantime, the Bank carried on uninterruptedly with its ordinary course of business.

While the Bank remains vigilant on the developments with the Russia/Ukraine crisis it is also monitoring closely any contagion in the market with regard to the US regional bank crisis as well as the consequences of the collapse of Credit Suisse in March 2023. The Bank has not been adversely impacted by these events due to its non-exposure to any of these entities.

Standard License Conditions

Under applicable Rules issued by the MFSA, the Bank is required to include a statement regarding breaches of standard licence conditions (SLCs) or other regulatory requirements which occurred during the reporting period and which were subject to an administrative penalty or other regulatory sanction.

In this respect the Bank declares that it did not receive any notification of such breaches in 2022.

Auditors

PwC Malta was appointed as statutory auditor for the financial year ending 2022 at the annual general meeting held on 21st April 2023.

Approved by the Board of Directors on the 21 April 2023 and signed on its behalf by its Directors:

James Bonello	**Paul Mifsud**
Non-Executive Director	Managing Director

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Harald Wanke

Chairman of the Board / Audit & Risk Committee Member

Was born and resides in Austria. He graduated in economics after which he joined the bank of Sparkasse Schwaz AG as a senior manager within the Marketing Department. He was then appointed member of the Managing Board, a post he retained until 1988. Prior to his election as Chairman on the board of Sparkasse Schwaz he held the post of Assistant Chairman for a number of years. In 2000, Sparkasse Bank Malta plc started its operation and Mr. Wanke has been Chairman on the local board ever since. During this time, he widened his experience in numerous other functions including manager and later Chairman of the board of various investment funds in Luxembourg, member of the Supervisory Board of S Bausparkasse and S-Insurance, President of Landesverband TuV, member of the Board of the Austrian Savings Banks Association, President of the Regional Savings Banks in Austria, Spokesman of Banks and Insurances in Tirol.

Paul Mifsud

Managing Director

Attended Downside School, a Benedictine school in Bath (UK). Gained his experience in finance through his education at the Centre International De Glion, in Switzerland where he graduated in Management and Finance. He furthered his education in securities from The Chartered Institute for Securities & Investment in London. In 2015, he completed his Masters as a Chartered Banker from Bangor University, Wales.

Joined the Bank in 2006 as Managing Director after the acquisition of Quest Investment Services – a company he was a Senior Partner in, performing Investment Advisory Services. Mr. Mifsud is responsible for the implementation of company strategy and overall management of the Bank's business. He was instrumental in developing the Bank's business and presence in Malta, developing the investment services and wealth management division at the Bank, as well as steering the Bank to becoming a major player in fund custody in Malta. His areas of expertise are securities related, including trading, settlements, advisory, custody and Fund depositary services (AIFs and UCITs).

Andrew Manduca (resigned effective from 31 December 2021)

Non-Executive Director / Audit & Risk Committee Chairman

Mr. Manduca joined the Board of Directors in June 2016. He is also the Chairman of the audit committee of the Bank.

Mr. Manduca was the founder partner in 1980 of a small Maltese accounting firm that went on to become the member firm of Deloitte in 1989. He was also the firm's International Services Coordinator and oversaw the operations of both the Corporate and Tax Compliance departments. He retired as Chairman and Senior Partner of Deloitte Malta in December 2015. He is a Certified Public Accountant and a fellow of the Chartered Association of Certified Accountants (UK). He is a former President of the Malta Institute of Accountants, a former President of the Institute of Financial Services Practitioners ("IFSP") and also served as a Governor of Finance Malta.

He was educated at St Edwards College and subsequently served on the Board of Governors of this school for 21 years. Mr. Manduca has over 25 years experience in international tax matters across a wide range of industry sectors. During his time at Deloitte Malta, Mr. Manduca's focus was in the field of corporate taxation and he worked primarily with clients who established a base in Malta in order to conduct their international operations.

BOARD OF DIRECTORS *(continued)*

Serge D'Orazio

Non-Executive Director / Audit & Risk Committee Member

Was born and resides in Luxembourg. He graduated in Economics at Panthéon Sorbonne in Paris after which he joined the KBL European Private Bankers in Luxembourg, working within the securities, depositary and fund business.

Between 1997 and 2015, he held positions as Head of Relationship Management of Institutional Clients and Head of Investment Funds & Global Custody Services. From January 2015 to December 2017, he held the position of General Manager of Institutional & Professional Services (Luxembourg), directly reporting to the Bank's Executive Committee.

After retiring from KBL, he was appointed as Non-Executive Director at Sparkasse Bank Malta plc while also holding other independent directorships with various other Investment Funds and Fund Management Companies, all domiciled in Luxembourg.

Mr. D'Orazio also sat on the Board of Directors of EFA (European Fund Administration), a leading service provider of central administration and transfer agent services in Luxembourg. Mr. D'Orazio was formerly a member of various working groups and committees within the Luxembourg financial centre (ALFI, ABBL) and the coordinator of ALFI's Conferences Advisory Committee. He was also a visiting Professor at the Université de Liège in Belgium.

James Bonello

Non-Executive Director

Mr. Bonello was appointed to the Board of Directors in July 2020.

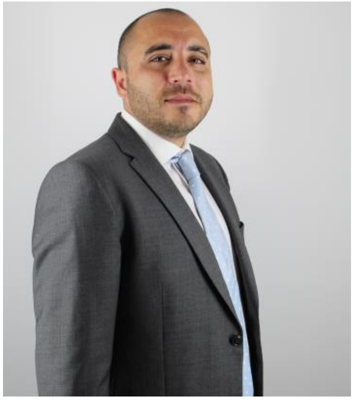
He started his banking career with Barclays Bank D.C.O. in 1965, and held various senior management positions within Mid-Med Bank Ltd, which took over the business of Barclays Bank in Malta in 1975. Between 1989 and 1993, he was seconded by the bank to the Malta International Business Authority (now the Malta Financial Services Authority) where he served as Chief Executive. In 1998, he resumed his duties within the bank and was appointed General Manager Operations with responsibility for Credit and Finance.

Upon HSBC's acquisition of Mid-Med Bank in 1999, Mr Bonello was appointed Head of Commercial Banking within HSBC Bank Malta p.l.c. He was also appointed Executive Director on the bank's Board in 2002. In 2004, he retired from the bank and took over as Secretary General of the Malta Bankers' Association, which position he held until his retirement in 2018.

Mr. Bonello is a Fellow of the Institute of Financial Services, Malta, and served for ten years on the Institute's Council, the last two years as President.

Mark Curmi

Non-Executive Director/ Audit & Risk Committee Member



Mr. Curmi is an experienced banking, risk and regulatory advisory services professional, holding in excess of eighteen years of experience in the Banking, Payment Services and FinTech/PayTech sectors, locally and internationally.

Mr. Curmi is a former Director at KPMG Malta, responsible for the firm's Banking and Fintech Regulatory Advisory services arm of the Malta practice. He was one of the firm's first cross-functional financial services industry specialists responsible for commercials, business development and regulatory compliance mandates. His portfolio of clients included Significant and Less-Significant (including high-priority) credit institutions as well as the large payment services players operating in Malta.

Amongst other key roles, Mr. Curmi sat on the KPMG ECB Office Team (Frankfurt) and the KPMG Global DLT Working Group. He also co-led the firm's EmTech and FinTech regulatory teams. Prior to joining KPMG, Mr. Curmi spent nine years in the Commercial and Corporate Banking Units for the global Significant Credit Institution, HSBC Bank.

Mr. Curmi holds the post of Chief Risk Officer at an international financial technology firm and holds a number of advisory roles to Corporates and MMEs operating in Malta. Mr. Curmi is a Member of the Institute of Financial Services Practitioners, is a Board Member of the Financial Institution Malta Association, and is a Member of the Malta Chamber of Commerce and the Malta Chamber of SMEs.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORT

The Companies Act (Cap. 386) (the "Act") requires the directors of Sparkasse Bank Malta plc (the "Bank") to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank 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 European Union;
- Selecting appropriate accounting policies and applying them consistently;
- Making accounting judgments and estimates that are reasonable in the circumstances;
- 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 controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act (Cap.386) and the Banking Act (Cap. 371). 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 Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act (Cap. 386) and the Banking Act (Cap. 371).

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

The Directors, through oversight of management, are responsible to ensure that the Bank establishes and maintains internal controls to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement in order to prevent and detect fraud, Management considers the risks that the financial statements may be materially misstated as a result of fraud.

AUDITOR'S REPORT

Independent auditor's report

To the Shareholders of Sparkasse Bank Malta plc

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 Sparkasse Bank Malta plc (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

Sparkasse Bank Malta plc's financial statements, set out on pages 32 to 125, comprise:

- the statement of comprehensive income for the year ended 31 December 2022;
- the statement of financial position as at 31 December 2022;
- 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.

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Independent auditor's report - continued

To the Shareholders of Sparkasse Bank Malta plc

Independence

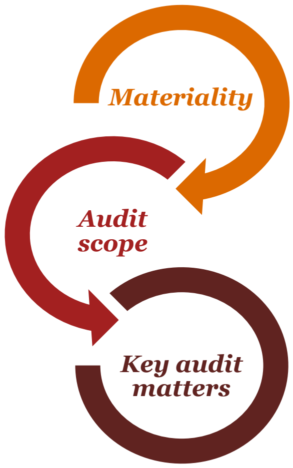
We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (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 13 to the financial statements.

Our audit approach

Overview



- Overall materiality: €268,000, which represents approximately 5% of profit before tax.

- Credit loss allowances in respect of loans and advances to customers

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	€268,000
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose the profit before tax as the benchmark because in our view it is the benchmark against which the performance of the Bank is most commonly measured by users and is a generally accepted benchmark. We chose 5% 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 €13,400 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report *- continued*

To the Shareholders of Sparkasse Bank Malta plc

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 Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within this portfolio at the balance sheet date. Loans and advances to customers principally comprise settlement lines and overdraft facilities offered to licenced entities for the financing of acquisition of financial instruments or discharging obligations in respect of foreign exchange forward transactions, as well as loans and overdraft facilities offered to private banking clients. In general, the Bank calculates ECL by using the following key inputs: probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). The maximum period considered when measuring ECL is the maximum period over which the Bank is exposed to credit risk. Credit loss allowances relating to loans and advances to customers are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, PDs are determined by reference to historical market default data sourced from external credit rating agencies, taking into consideration the nature and seniority of the facility, as well as the industry in which the borrower operates.	During our audit of the financial statements for the year ended 31 December 2022, we focused on the key drivers of the estimation of ECL. In this respect, we evaluated and tested the appropriateness of policies, methodologies, management assumptions and key parameters used in the estimation of ECLs on loans and advances to customers. Substantive procedures were performed as follows: • Tested a sample of exposures classified within loans and advances to customers to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the internal credit rating assigned by management. • Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. • Tested the completeness and accuracy of key data inputs utilised for the purposes of the year end ECL calculation. • Reviewed and assessed the appropriateness of assumptions, inputs and formulas used in the ECL calculation. This included assessing the appropriateness of the methodology used to derive PDs. • Assessed reasonableness of PDs by reference to publicly available market data. • Obtained evidence of pledged collateral by agreeing collateral details with signed agreements.

Key audit matter	How our audit addressed the Key audit matter
Loans and advances to customers are primarily secured by pledges over cash balances and portfolios of liquid securities. The LGD used for secured loans and advances to customers is driven by the fair value of the pledged collateral adjusted for market value haircuts. In view of the elevated level of collateralisation, no ECL is typically attributed to secured loans and advances to customers, whereas a LGD of 100% is attributed to unsecured loans and advances to customers. Defaulted (Stage 3) loans and advances to customers are typically fully provided for. The Bank's internal credit risk management framework designed to identify significant increase in credit risk ('SICR') or unlikeliness-to-pay ('UTP') events in respect of loans and advances to customers is based on credit risk assessments performed at individual borrower level. In this respect, staging of loans and advances to customers is determined by reference to delinquency status and, for unauthorised facilities (overdrawn deposit facilities), the number of times when the facility was overdrawn during the previous 12 months. The Bank also performs borrower-specific credit risk assessments by reference to the customer's financial performance and financial position. Judgement is required to determine a) whether a SICR has occurred since initial recognition of the instrument; or b) when a default has occurred. Under IFRS 9, the Bank is also required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables, into the ECL estimates.	• Assessed reasonableness of haircuts applied to pledged collateral. • Performed a recalculation of the ECL for a sample of exposures. Our testing did not highlight material differences. Based on the evidence obtained, we found that the assumptions and data used within the ECL calculation are reasonable.

Key audit matter	How our audit addressed the Key audit matter
The current macroeconomic environment, highly characterised by significant inflationary pressures and an increasing interest rate environment, increased the uncertainty around judgements made in determining macroeconomic forecasts. Given the short-term nature of the Bank's lending facilities, the impact of forward-looking information on the estimation of ECL in respect of these exposures is not deemed to be significant. Since the estimation of ECLs is subjective in nature and inherently judgemental, the application of IFRS 9 impairment requirements is deemed to be an area of focus. Relevant references in the financial statements: • Accounting policies: Note 4; • Credit risk management: Note 5; • Note on Changes in expected credit losses and other credit impairment charges: Note 10; • Note on Loans and advances to customers: Note 19; and • Critical accounting estimates and judgements: Note 6.	

Other information

The directors are responsible for the other information. The other information comprises all of the information presented in the 2022 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 the 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.

Independent auditor's report - *continued*

To the Shareholders of Sparkasse Bank Malta plc

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

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 (on pages 7 to 12) 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.

pwc

Independent auditor's report - continued

To the Shareholders of Sparkasse Bank Malta plc

Area of the Annual Report 2022 and the related Directors' responsibilities	Our responsibilities	Our reporting
	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 matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.	We have nothing to report to you in respect of these responsibilities.

Independent auditor's report - continued

To the Shareholders of Sparkasse Bank Malta plc

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 by the shareholders at the annual general meeting held on 21 April 2022 for the period ended 31 December 2022.

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

Fabio Axisa
Partner

21 April 2023

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2022 EUR	2021 - Restated EUR
Interest and similar income	7	6,927,753	5,474,754
Interest expense	7	(1,516,962)	(2,418,264)
Net interest income		**5,410,791**	**3,056,490**
Fees and commission income	8	10,415,290	9,982,580
Fees and commission expense	8	(1,341,819)	(1,414,931)
Net fee and commission income		**9,073,471**	**8,567,649**
Net trading income	9	1,280,611	1,542,332
Changes in expected credit losses and other credit impairment charges	10	(137,147)	340,930
Other operating income	11	33,573	36,924
		1,177,037	**1,920,186**
Results from operating activities		**15,661,299**	**13,544,325**
Employee compensation and benefits	12	(5,224,227)	(4,715,297)
Depreciation of property, plant and equipment and right-of-use assets	23,24	(783,998)	(756,949)
Amortisation of intangible assets	25	(290,891)	(330,096)
Other operating costs	13	(4,069,151)	(3,652,197)
		(10,368,267)	**(9,454,539)**
Profit before income tax		**5,293,032**	**4,089,786**
Income tax expense	14	(1,377,905)	(1,822,542)
Profit for the year		**3,915,127**	**2,267,244**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Financial investments measured at fair value through other comprehensive income		-	27,057
- net gains/losses reclassified to profit or loss on disposal	29	-	41,626
- income taxes		-	(14,569)
Items that will not be reclassified to profit or loss			
Freehold Premises			1,393,361
- surplus arising on revaluation	30	-	2,143,633
- income taxes		-	(750,272)
Other comprehensive income (net of income tax)		-	1,420,418
Total comprehensive income for the year		**3,915,127**	**3,687,662**
Earnings per share	15	**97**	**56**

STATEMENT OF FINANCIAL POSITION

	Note	2022	2021 (Restated)	2020 (Restated)
		EUR	EUR	EUR
Assets				
Cash and balances held with Central Bank of Malta	17	469,753,718	620,939,597	574,370,802
Loans and advances to banks	18	60,813,111	46,117,911	65,255,102
Loans and advances to customers	19	4,836,026	10,234,303	17,975,029
Financial investments measured at amortised cost	20.1	343,368,400	283,800,803	202,941,373
Financial investments measured at fair value through profit or loss	20.2	1,510,379	2,447,619	68,460
Derivative financial assets	21	2,071,554	2,290,411	1,428,694
Prepayments and accrued income	22	1,454,460	1,729,258	1,168,144
Right-of-use assets	23	996,289	853,706	1,052,955
Property, plant and equipment	24	10,424,308	10,827,720	9,036,800
Intangible assets	25	3,962,417	3,397,072	2,756,137
Deferred tax assets	26	10,274	1,284,004	1,172,451
Other assets	27	121,673	4,903	229,682
Total Assets		**899,322,609**	**983,927,307**	**877,455,629**
Equity and Liabilities				
Equity				
Called up share capital	28	40,200,000	40,200,000	34,000,000
Investment fair value reserve	29	-	-	(27,057)
Property revaluation reserve	30	3,826,693	3,826,693	2,433,332
Retained earnings		5,683,537	1,768,410	2,501,166
Total Equity		**49,710,230**	**45,795,103**	**38,907,441**
Liabilities				
Amount owed to banks	31	4,030,042	2,400,110	910,662
Amount owed to customers	32	838,407,468	924,610,618	829,036,641
Derivative financial liabilities	21	2,071,554	2,290,411	1,428,694
Current tax liabilities		103,575	1,947,465	2,527,449
Provisions	33	1,035,306	1,129,337	1,011,600
Deferred tax liabilities	26	2,060,527	2,060,527	1,310,255
Lease liabilities	34	1,046,115	922,539	1,093,385
Accruals and deferred income	35	719,906	694,349	666,980
Other liabilities	36	137,886	2,076,848	562,522
Total liabilities		**849,612,379**	**938,132,204**	**838,548,188**
Total equity and liabilities		**899,322,609**	**983,927,307**	**877,455,629**
Memorandum items				
Contingent liabilities	37	**15,222,606**	-	-
Commitments	38	**33,399,688**	**24,509,772**	**24,064,019**

The accounting policies from pages 40 to 57 and the notes from pages 37 to 125 are an integral part of these financial statements. The financial statements from pages 32 to 125 were approved and authorised for issue by the Board of Directors on 21st April 2023 and signed on its behalf by:

James Bonello
Non-Executive Director

Paul Mifsud
Managing Director

STATEMENT OF CHANGES IN EQUITY

	Note	Share Capital	Investment Fair Value Reserve	Property Revaluation Reserve	Retained Earnings	Total
		EUR	EUR	EUR	EUR	EUR
At 1 January 2021 - as previously stated		34,000,000	(27,057)	3,444,100	3,326,987	40,744,030
Impact arising on correction of prior year errors	47	-	-	(1,010,768)	(825,821)	(1,836,589)
At 1 January 2021 - as restated		34,000,000	(27,057)	2,433,332	2,501,166	38,907,441
Transactions with owners						
Issue of Bonus Shares		3,000,000	-	-	(3,000,000)	-
Increase in Share Capital		3,200,000	-	-	-	3,200,000
Transactions with owners recognised directly in equity		6,200,000	-	-	(3,000,000)	3,200,000
Profit for the year - restated		-	-	-	2,267,244	2,267,244
Other comprehensive income, net of income tax:						
Freehold premises						
- surplus arising on property revaluation	30	-	-	1,393,361	-	1,393,361
Financial investments measured at fair value through other comprehensive income						
- net gain/loss reclassified to profit or loss on disposal	29	-	27,057	-	-	27,057
Total comprehensive income		-	27,057	1,393,361	2,267,244	3,687,662
At 31 December 2021		40,200,000	-	3,826,693	1,768,410	45,795,103
At 1 January 2022		40,200,000	-	3,826,693	1,768,410	45,795,103
Total comprehensive income for the year						
Profit for the year		-	-	-	3,915,127	3,915,127
At 31 December 2022		40,200,000	-	3,826,693	5,683,537	49,710,230

The accounting policies from pages 40 to 57 and the notes from pages 37 to 125 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	The Holding 2022 EUR	The Holding 2021 EUR	The Group 2022 EUR	The Group 2021 EUR
Cash flows from operating activities:					
Ordinary profit before working capital changes	**39**	**(31,540)**	**871,224**	**6,360,243**	**5,053,028**
Movement in operating assets and liabilities					
- Amounts owed to banks		-	-	1,629,932	1,489,448
- Amounts owed to customers		-	-	(86,203,150)	95,693,747
- Deposit held with Central Bank of Malta		-	-	20,838,647	100,523,718
- Loans and advances to banks		-	-	-	8,148,047
- Loans and advances to customers		-	-	5,314,330	7,636,390
- Other assets		995,769	904,176	1,153,798	567,840
- Other liabilities		(3,400)	(28,640)	(1,983,806)	1,511,022
		992,369	**875,536**	**(59,250,249)**	**215,570,212**
Cash flows from operating activities before tax		**960,829**	**1,746,760**	**(52,890,006)**	**220,623,241**
Taxation paid		-	(60)	(1,948,065)	(2,528,709)
Net cash generated from operating activities		**960,829**	**1,746,700**	**(54,838,071)**	**218,094,532**
Cash flows from investing activities:					
- Disposal of securities		-	-	25,290,382	92,237,774
- Increase in investment in subsidiary		-	(3,200,000)	-	-
- Disposal of tangible and intangible assets		-	-	-	-
- Purchase of securities		-	-	(81,713,138)	(149,469,639)
- Recovery of written-off security		-	-	-	(623,494)
- Purchase of tangible fixed assets		-	-	(224,792)	(211,136)
- Purchase of intangible assets		-	-	(857,588)	(972,383)
Net cash used in investing activities		**-**	**(3,200,000)**	**(57,505,137)**	**(59,038,877)**
Cash flows from financing activities:					
- Lease Liability Payments		-	-	(183,865)	(219,403)
- Issue of shares		-	-	-	-
- Dividends paid		-	(180,000)	-	(180,000)
Net cash used in financing activities		**-**	**(180,000)**	**(183,865)**	**(399,403)**
Movement in cash and cash equivalents		**960,829**	**(1,633,300)**	**(112,527,073)**	**158,656,251**
Cash and cash equivalents at beginning of year		210,968	1,844,268	574,003,526	417,472,837
Effects of exchange rate changes on cash and cash equivalents		-	-	(2,159,472)	(2,125,562)
Cash and cash equivalents at 31 December	**40**	**1,171,798**	**210,968**	**459,316,981**	**574,003,526**

The accounting policies from pages 40 to 57 and the notes from pages 37 to 125 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Sparkasse Bank Malta plc (the "Bank") is a public limited company incorporated and domiciled in Malta, whose shares are not publicly listed. The principal activities of the Bank are disclosed on the Directors' Report on page 8.

2. Parent and ultimate parent company

Sparkasse (Holdings) Malta Limited, a company registered in Malta (C 35408), owns 99.99% of the issued share capital of the Bank. The ultimate parent company is Anteilsverwaltungssparkasse Schwaz which owns 99.99% of Sparkasse (Holdings) Malta Limited. Sparkasse (Holdings) Malta Limited prepares consolidated financial statements.

3. Basis of preparation

3.1 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following:

a. Financial investments measured at fair value through profit or loss and derivative assets and liabilities – measured at fair value; and
b. Property within property, plant and equipment – measured at revalued amount.

3.2 Statement of Compliance with IFRSs as adopted by the EU

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. The financial statements have also been drawn up in accordance with the provisions of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), to the extent that such provisions do not conflict with the applicable framework.

The preparation of financial statements in conformity with IFRS 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. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Notes 5 and 6.8.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Basis of preparation *(continued)*

3.3 Statement of Compliance with IFRSs as adopted by the EU

The following new standards, amendments and interpretations are effective for the first time in these financial statements, but none have had a material effect on the Bank:

	Issued on	Effective from financial years beginning on or after
Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020	28/06/2021	01/01/2022

The applications of these new standards and amendments have had no impact on the disclosures or amounts recognised in the Bank's financial statements.

3.4 New standards, interpretations and amendments as adopted by EU but not yet effective

The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Bank's future financial statements:

	Issued on	Effective from financial years beginning on or after
IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17	19/11/2021	01/01/2023
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	02/03/2022	01/01/2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies	02/03/2022	01/01/2023
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	11/08/2022	01/01/2023
Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	08/09/2022	01/01/2023

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Basis of preparation *(continued)*

3.5 New standards, interpretations and amendments issued by IASB but not yet adopted by EU

	Issued on	Effective from financial years beginning on or after
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	22/09/2022	01/01/2024

The Bank has not early adopted all these revisions to the requirements of IFRSs and the Bank's management is of the opinion that there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

3.6 New standards, interpretations and amendments issued by IASB but not adopted by EU

- IFRS 14 Regulatory Deferral Accounts (issued on 30/01/2014, effective from the year beginning 01/01/2016) – European Commission has decided not to endorse the standard
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between Investor and its Associate or Joint Venture (issued on 11/09/2014, effective from the year beginning 01/01/2016) – postponed indefinitely by European Commission

3.7 Functional and presentation currency

These financial statements are presented in Euro (€), which is the Bank's functional currency.

3.8 Going Concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the current macroeconomic environment, characterised by inflationary pressures and an increasing interest rate environment, has had on the Bank's operations, as well as considering potential impacts on profitability, capital, and liquidity.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

4.1 Functional and presentational 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').

Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency using the exchange rate as at reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.2 Financial assets

Initial recognition and measurement

The Bank initially 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 trade date, being the date on which the Bank commits to purchase or sell the asset. Loans and advances to customers are initially recognised on the date on which they are originated.

Upon initial recognition, the Bank measures financial assets at fair value plus or minus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of such financial instruments, including fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Immediately after initial recognition, an allowance for expected credit losses ('ECL') is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ('FVOCI'), which results in a loss being recognised in profit or loss when an asset is newly originated.

Classification and subsequent measurement

At initial recognition, the Bank classifies its financial assets in the following measurement categories:

c. Financial assets measured at fair value through profit or loss ('FVTPL');
d. Financial assets measured at fair value through other comprehensive income ('FVOCI'); and
e. Financial assets measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government or corporate bonds. 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 Banks 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 FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any allowance for ECL recognised and measured as described in note XX. 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: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instruments amortised cost, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading income'. 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 instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises.

Business model assessment: The business model reflects how the Bank manages the assets 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, such as in the case of financial assets held for trading purposes, the financial assets are measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and 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 arrangement. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, credit risk, other basic lending risks and 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. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- variable interest rates and features that modify consideration of the time value of money.

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 financial years ended 31 December 2022 and 31 December 2021.

Debt instruments measured at amortised cost

The Bank classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

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

Such financial assets comprise primarily 'Balances with Central Bank of Malta', 'Loans and advances to banks', 'Loans and advances to customers', and 'Financial investments measured at amortised cost'.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

The Bank invests its excess liquidity in a portfolio of debt securities which it holds until maturity. Accordingly, these are classified at amortised cost.

Debt instruments measured at fair value through other comprehensive income

On the other hand, the Bank classifies its debt securities at FVOCI if both of the following conditions are met:

- the asset is held within a business model with an objective to collect contractual cash flows and sell financial assets; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

As at 31 December 2022 and 31 December 2021, the Bank did not hold any debt instruments that are classified and measured at fair value through other comprehensive income.

Debt instruments measured at fair value through profit or loss

Debt instruments that do not meet the criteria for amortised cost or FVOCI are automatically classified and measured at FVTPL. The Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

As at 31 December 2022, the Bank did not hold any debt instruments that are classified and measured at fair value through profit or loss. As at 31 December 2021, the Bank held one debt security with the intention to sell in the short-term to profit from price movements and, as a result, this debt security was classified and measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

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.

The Bank subsequently measures all equity investments at FVTPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains or losses are recognised in other comprehensive income 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, 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 or losses on equity investments measured at FVTPL are included in 'Net trading income' line item in the Statement of comprehensive income.

The Bank invests in units in collective investment undertakings, all of which are redeemable. Accordingly, these instruments meet the definition of a puttable instrument in accordance with IAS 32, meaning that the Bank cannot avail itself of the irrevocable election allowable under IFRS 9 to classify and measure equity instruments at FVOCI upon initial recognition.

The Bank classifies and measures all its equity investments at FVTPL.

<u>Derecognition</u>

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the contractual rights have been transferred and either (i) substantially all the risks and rewards of ownership of the financial asset are transferred, or (ii) the Bank neither transfers nor retains substantially all risks and rewards of ownership nor does it retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed), and any cumulative gain or loss that had been recognised in other comprehensive income, is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of the financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

Modification of terms

If the contractual terms of a financial asset are modified, the Bank evaluates whether the cash flows arising from the modified asset are substantially different than those arising from the original contractual terms of the asset. The Bank applies judgement in assessing whether a change in contractual terms (such as a change in interest rates or the remaining term of the loan) is substantial enough to represent an expiry of the original instrument by considering, among others:

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

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

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 borrower being unable to make the originally agreed payments.

If the modification of a financial asset measured at amortised cost or FVOCI is not deemed to be substantial and therefore does not result in the derecognition of the financial asset, the Bank recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Modification gains or losses are presented within 'Interest receivable and similar income' in profit or loss.

If cash flows are modified in view of concessions granted to borrowers experiencing financial difficulties, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the modification of the financial asset results in the forgiveness of cash flows, the Bank considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative assessment and means that the derecognition criteria are not usually met in such cases. Modification gains or losses arising as a result of renegotiations in response to financial difficulties experienced by a borrower are presented together with impairment losses in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

Impairment

The Bank assesses the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments, including:

- Loans and advances to banks;
- Financial investments measured at amortised cost; and
- Loans and advances to customers.

The Bank recognises credit loss allowances in respect of the above portfolios of financial assets at each reporting date. No credit loss allowances are recognised in respect of equity investments.

The Bank measures credit loss allowances at an amount equal to lifetime ECL except for the following financial instruments, in respect of which credit loss allowances are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- financial instruments that have not had a significant increase in credit risk ("SICR") since initial recognition.

Balances held with the Central Bank of Malta and other credit institutions in reputable jurisdictions classified within 'Loans and advances to banks', as well as debt securities measured at amortised cost are considered to have low credit risk when the financial instrument is assigned an 'investment-grade' credit risk rating. The Bank does not apply the low credit risk exemption to any other financial instrument.

Refer to Note 5 for further detail in respect of the Bank's impairment loss methodology for each category of financial assets.

Staging

On initial recognition, an allowance for ECL (or provision in the case of loan commitments and financial guarantees) is estimated, representing the lifetime cash shortfalls resulting from default events that are possible in the next 12 months, or less assuming that the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk since initial recognition, an allowance for ECL (or provision) is estimated, representing the lifetime cash shortfalls resulting from all possible default events over the expected life of the financial instruments ('lifetime ECL'). Financial assets where 12-month ECL is recognised are classified as 'Stage 1' financial assets, while financial assets which are considered as having experienced a significant increase in credit risk and for which lifetime ECL is recognised, are classified as 'Stage 2' financial assets. Financial assets for which there is objective evidence of impairment and which are considered to be in default, or otherwise credit-impaired, are classified as 'Stage 3'.

Stage 1 – Unimpaired and without significant increase in credit risk

ECL resulting from default events that are possible within the next 12-months are recognised for financial instruments that are classified in Stage 1.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

Stage 2 – Significant increase in credit risk

IFRS 9 requires institutions to assess whether there has been a significant increase in credit risk since initial recognition, as least at each reporting date. This is done by considering the change in the risk of default over the remaining life of a financial instrument. This assessment compares the risk of default occurring at the reporting date with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. Amongst other criteria, the Bank considers the following as representing a significant increase in credit risk:

- Actual or expected significant adverse change in the financial position and/or financial performance of the borrower;
- Signs of cash flow or liquidity problems; and
- Significant credit risk downgrades for rated exposures.

All financial assets which are more than 30 days past due are deemed to have suffered a significant increase in credit risk.

Stage 3 – Credit-impaired

The Bank considers financial instruments as being credit-impaired when the borrower is considered as unlikely to pay. When an exposure is more than 90 days past due, it is considered as being credit-impaired.

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt instruments classified within 'Financial investments' and measured at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is classified as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable information:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In assessing whether a financial investment is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in bond yields;
- The rating agencies' assessments of creditworthiness, if available; or
- The issuer's ability to access the capital markets for new debt issuance.

Transfers between stages

Financial assets can be transferred between different staging categories. Financial assets are transferred out of Stage 2 and into Stage 1 if their credit risk is no longer considered to be significantly increased when compared to initial recognition. Financial assets are transferred out of Stage 3 when they are no longer considered as credit-impaired.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.2 Financial assets *(continued)*

Renegotiation and forbearance

A loan is defined as renegotiated or forborne where the contractual payment terms have been renegotiated or modified due to significant concerns about the borrower's ability to meet the contractual payments when due. Renegotiated loans are classified as credit-impaired, unless derecognised, until there is sufficient evidence to demonstrate a significant decrease in the risk of non-payment of future cash flows. Renegotiated loans could be transferred out of Stage 3 and into Stage 2 or Stage 1 in line with the Bank's staging mechanism described above, by comparing the risk of default occurring at the reporting date based on the modified contractual terms, with the risk of default occurring at initial recognition, based on the original contractual terms.

A renegotiated loan is derecognised if the existing agreement is cancelled and a new agreement entered into, the latter made on substantially different terms. The renegotiated loan is also derecognised if the same agreement is maintained but the modified contractual terms are such that the renegotiated loan is a substantially different financial instrument. Loans that arise following derecognition events may be considered as purchased or originated credit impaired.

Purchased or originated credit impaired ('POCI')

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. POCI assets include the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty, where the Bank's assessment is such that the repayments according to the modified contractual terms are still doubtful.

Write-off policy

Financial assets (and related impairment allowances) are normally written off, either partially or in full, when there is no reasonable prospect of recovery. Where loans are secured, this is generally after the receipt of any proceeds from the realisation of the collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Recoveries of amounts previously written off are presented within 'Change in expected credit losses and other credit impairment charges' in profit or loss.

4.3 Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as currency forwards or interest rates swaps. Derivatives are initially recognised at fair value on the date at which the derivative contract is entered into and are subsequently measured at their fair value, with changes in fair value recognised in profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Fair values of derivatives are determined by reference to the forward exchange rates at the end of the reporting period. The Bank enters into short-term contracts and therefore the time value of money does not have a significant effect on the fair value of these instruments. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

As at 31 December 2022 and 31 December 2021, derivatives comprise forward foreign exchange contracts entered into with the Bank's customers, which are hedged through the use of mirror trades with other counterparties. In this respect, a derivative asset would result in a corresponding derivative liability.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.4 Financial liabilities

The Bank recognises a financial liability 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.

The Bank classifies its financial liabilities, other than derivative liabilities, financial guarantees and loan commitments, as subsequently measured at amortised cost. Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, and accruals.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. In addition, the Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.
If the modification of a financial liability is not deemed to be substantial and therefore does not result in the derecognition of the original financial liability, the amortised cost of the financial liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

4.5 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, unrestricted balances held with banks or financial institutions, as well as highly liquid financial assets, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position and comprise:

- cash in hand and deposits repayable on demand or with a contractual period to maturity of less than ninety days, with any bank or financial institution;
- short term highly liquid investments which are readily convertible into known amounts of cash without notice, subject to an insignificant risk of changes in value and with a contractual period to maturity of less than three months, such as treasury bills;
- loans and advances from banks repayable within three months from the date of the advance.

4.6 Leases

At the inception of a contract, the Bank assesses whether a contract is or contains a lease. IFRS 16 states that a contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. In making such an assessment, a contract is considered as conveying the right to control the use of an identified asset, if the Bank has both of the following:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.6 Leases *(continued)*

An asset is identified either by being explicitly specified in the contract or implicitly identified at the time the asset is made available for use by the Bank. Despite an asset being specified, the Bank is only considered as having the right to use an identified asset if the supplier does not have the substantive right to substitute the asset throughout the period of use. In addition, the Bank has the right to direct the use of the identified asset only if:

- It has the right to direct how and for what purpose the asset is used, or
- The relevant decisions about how and for what purpose the asset is used are predetermined and the Bank has the right to operate the asset without interference from the supplier or the Bank has designed the asset in a way that predetermines how and for what purpose the asset shall be used.

At the inception of the contract, the Bank is required to separate lease components from non-lease components and account for them separately.

<u>As a lessee</u>

At the commencement date of the lease, the Bank recognises a right-of-use asset and a lease liability. Upon initial recognition, the right-of-use asset is measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Lease payments made at or before the commencement date less any incentives received;
- Any initial direct costs incurred by the Bank as the lessee; and
- An estimate of the costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequent to initial measurement, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of lease payments that are not paid as at the commencement date, discounted at the interest rate implicit in the lease, or the Bank's incremental borrowing rate if the latter is not readily available.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate. The lease liability is therefore increased to reflect the interest thereto and reduced to reflect lease payments made. The lease liability is remeasured to reflect any reassessment or lease modifications. In the event that the lease liability is remeasured, any adjustments are set off against the carrying amount of the right-of-use asset, with any excess over the carrying amount of the right-of-use asset being accounted for in profit or loss.

The Bank has elected to apply the recognition exemptions as outlined in IFRS 16 for short-term leases with a lease term of 12 months or less. Accordingly, the Bank recognises lease payments in respect of such leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.6 Leases *(continued)*

The sections below summarise the lease agreements applicable for the year ended 31 December 2022.

Lease of property

The Bank leases various offices for its own use, in Malta, Austria and the Republic of Ireland. In Malta, the Bank leases out one office which it uses as an emergency off-site office space as part of its Business Continuity Plan ("BCP") and a car park for its staff personnel. The BCP lease agreement was renewed during 2020 for an additional lease term of three years. Similarly, the amended lease agreement for the staff car park expired in 2022 and was extended for an additional three-year term. During 2022, the Bank also entered into additional lease agreements, one for an additional garage to be used for storage purposes and one for a small office intended to be used for own use. The Bank recognises a right-of-use asset and lease liability in the statement of financial position in respect of these lease agreements, as well as depreciation and interest expense in the statement of comprehensive income.

The Bank also leases floor space in a warehouse which it uses as an archive and a four-car garage. For both these assets, the lease term is for a period of 12 months, and therefore the Bank applies the recognition exemption and accounts for the lease payments on a straight-line basis over the lease term. The Bank also applies the recognition exemption in respect of the office located in Austria for the development of the self-developed software since the lease term is for a period of 12 months and the rental expense of such an office space is capitalised.

In the Republic of Ireland, the Bank rents outs the office premises used for the Branch operations, which lease is subject to a 10-year lease term, subject to a rent review after the lapse of the first five years. The Bank accounts for such lease by recognising a right-of-use asset, which asset is depreciated over the ten-year lease term. The Bank also recognises a corresponding lease liability and the related interest expense.

Finally, the Bank also rents an apartment in the Republic of Ireland which serves as accommodation for the Republic of Ireland Branch staff. Given that the lease term for this apartment spans for 12 months, the Bank has elected to apply the recognition exemption and recognise the lease payments as an expense in profit or loss.

Lease of equipment

The Bank leases photocopiers from third parties, the lease term of which varies from three to five years. The lease agreements contain a lease component, whereby the Bank leases the photocopier for a fixed consideration, as well as a non-lease component, whereby the supplier agrees to charge the Bank a fixed price for each print, as agreed in the lease agreement. The Bank has decided to separate the lease and non-lease components and account for these separately.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.7 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Freehold premises are subsequently measured at revalued amount, based on periodic valuations carried out by independent professional valuers, less accumulated depreciation.

Valuations are carried out on a regular basis such that the carrying amount of freehold premises does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is subsequently stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset, previously recognised in profit or loss. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the property revaluation reserve. All other decreases are charged to profit or loss. Upon disposal of the premises, the realised portion of the revaluation reserve is released and transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on a straight-line basis, to allocate the cost or revalued amounts of the assets to their residual values over their estimated useful lives, as follows:

- Freehold Premises — 25 years (4% per annum)
- Furniture, fixtures and fittings — 10 years (10% per annum)
- Air conditioning — 5 years (20% per annum)
- Office equipment — 5 years (20% per annum)
- Computer equipment — 4 years (25% per annum)
- Motor vehicles — 5 years (20% per annum)

In the year of acquisition, the charge is calculated on a monthly basis. Land is not depreciated as it is deemed to have an indefinite useful life. Assets in the course of construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. On disposal of a tangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in other operating income in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.8 Intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives, from the date on which they are available for use.

The significant intangibles recognised by the Bank and their useful economic lives are as follows:

• Bavaria Banken Software	2 years (17% per annum) – the remaining life
• Self-developed software	10 years (10% per annum)
• Other software	4 years (25% per annum)

In the year of acquisition, the amortisation charge is calculated on a monthly basis. On disposal of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in "other operating income" in the statement of comprehensive income.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

As from 2013, the Bank decided to commence a project entailing the creation of a core banking software built in-house by specially hired I.T. employees. The Board of Directors determined that, in accordance with IAS 38, all assets bought by the Bank and any expenses incurred for the creation of the core banking software are capitalized and added to the value of the intangible asset. This will also include the depreciation of any fixed assets acquired immediately for the sole purpose of the generation of the said software. Such intangible assets will only start being amortised in line with the Bank's accounting policies described above once the core banking software goes live, allowing the Bank to start generating income from such an investment. Subsequently, any expenses incurred by the Bank due to the maintenance of the software will not be capitalized but charged to profit or loss.

4.9 Impairment of non-financial assets

Non-financial assets are tested 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 of disposal 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 which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.10 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.10 Provisions *(continued)*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

4.11 Share Capital and Dividends

Financial instruments issued by the Bank are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Bank's ordinary shares are classified as equity instruments. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

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

4.12 Financial guarantee contracts and loan commitments

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

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

Liabilities arising from financial guarantees and loan commitments are included within provisions.

4.13 Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on financial assets at fair value through other comprehensive income; and
- interest expense on lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.14 Fee and commission income and expense

Net fee and commission income

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed. 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.

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with the customer. The Bank recognises revenue when it transfers control over a service to a customer. The table below provides information about the nature, timing of satisfaction of the performance obligations and significant payment terms of contracts with customers.

Service Line	Nature, timing of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Custody & Depositary Services	The Bank provides custody and depositary services primarily to Alternative Investment Funds, Professional Investor Funds and UCITS. When acting as custodian, the Bank holds in custody the financial instruments that can be held in custody for its customers through its custody network. When acting as depositary, the Bank will perform the prescribed depositary functions including ensuring that the fund's cash flows are properly monitored, safekeeping the assets of the Fund and the related oversight duties. Custody and depositary fees are levied on a quarterly basis based on the average monthly closing balance for the quarter.	Custody and depositary fees are recognised over time, as the services are provided.
Payments	The Bank offers payment services to its customers including SWIFT transfers, SEPA and Target 2 payments. Fees for payment services are charged when the payment is affected, either at a flat fee or as a percentage of the payment amount.	Fees for payment services are recognised at a point in time when the transaction takes place.
Securities	The Bank offers a variety of investment services to individual and institutional customers including receipts and transmission and execution services, settlement services (only to institutional customers), as well as transition services. The Bank also offers the services of corporate actions whereby it communicates corporate event details to the customer in respect of an entity issuing a corporate action. Transaction fees for the purchase, sale or transfer of securities are charged by the Bank when the transaction takes place and are levied either at a flat fee per transaction or as a percentage of the market value. The Bank charges safekeeping fees at a percentage of the total value of the portfolio per annum, with fees levied quarterly.	Transaction fees are recognised at a point in time, when the transaction takes place. Safekeeping fees are recognised over time as the services are provided.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.14 Fee and commission income and expense *(continued)*

Service Line	Nature, timing of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Account On-Boarding	The Bank charges its customers a quarterly account administration fee payable quarterly in arrears. Fees are fixed per account depending on the type of customer (that is individuals versus corporate customers) and customer typology. Customers are charged a fixed fee for specific requests including statements and advice, bank references, bank reports for audit purposes and changes requiring updates for due diligence purposes. Fees are charged once a request takes place.	Account administration fees are recognised over time, as the account service is provided. Fees charged for requests made by the customer are recognised at a point in time, when the request is initiated.

IFRS 15 requires entities to disclose information on transaction price allocated to the remaining performance obligations. However, as at year end, the Bank has applied the practical expedient in IFRS 15, since the Bank's contracts with customers all have an original maturity of one year or less.

IFRS 15 also requires entities to capitalise incremental costs of obtaining a contract with a customer, provided that the entity expects such costs to be recovered. Capitalised costs are then amortised over the contract term. Since the Bank enters into contracts having an original maturity of one year or less, the amortisation period of any contract asset would be equal to one year or less. Accordingly, the Bank has availed itself of the practical expedient in IFRS 15, and therefore recognises such costs as an expense when incurred.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.15 Net Trading Income

Net trading income comprises realised and unrealised fair value movements in respect of financial instruments measured at FVTPL, income recognised upon the inception of forward foreign exchange derivative contracts, as well as realised and unrealised foreign exchange differences.

4.16 Other operating income

Other operating income comprises gains or losses on disposal of items of property, plant and equipment as well as intangible assets, if any.

4.17 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.18 Employee Benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

The Bank contributes towards the state pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense during the year in which these are incurred.

Post-employment benefit obligations

The Bank operates a post-employment scheme which meets the definition of a defined benefit plan in accordance with IAS 19. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

In view of the insignificant impact of the post-employment benefit obligations on the Bank's income statement charge for the financial years ended 31 December 2022 and 31 December 2021, the IAS 19 disclosure requirements attributable to defined benefit plans are not being presented in these financial statements.

Other long-term employee benefit obligations

The group also has liabilities in respect of deferred remuneration schemes that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Principal accounting policies *(continued)*

4.18 Employee Benefits *(continued)*

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

In view of the insignificant impact of the deferred remuneration scheme on the Bank's income statement charge for the financial years ended 31 December 2022 and 31 December 2021, the IAS 19 disclosure requirements attributable to other long-term employee benefit obligations are not being presented in these financial statements.

4.19 Income tax expense

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 and does not give rise to equal taxable and deductible temporary differences.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management

5.1 Introduction

This note explains the Bank's exposure to financial risks and how these risks could affect its future financial performance. The Bank's risk management is predominantly controlled by the Risk Committee under policies approved by the Board of Directors. The Bank's Board of Directors is primarily responsible for setting, approving and overseeing the implementation of the overall business strategy and the key policies of the Bank, as well as the overall risk strategy and internal governance and internal control framework. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, and investment of excess liquidity.

The Board of Directors challenges and periodically reviews the Bank's Risk Management Framework to ensure that the attainment of strategic objectives is not at the expense of the viability or sustainability of the Bank. The Board of Directors is supported in its supervisory function by the Risk Committee.

Senior management, vested in the Managing Director (CEO) and the Chief Technology Officer, is responsible for the implementation of the strategies and policies set by the Board of Directors and is accountable to the Board of Directors for the day-to-day running of the Bank. In performing its risk management duties, Senior management is also assisted by the Management Committee ('MANCO') whose functions include assisting and supporting senior management in the implementation and monitoring of the Bank's business strategy and policies and procedures established by the Board of Directors, and the implementation and monitoring of the Bank's risk strategy, including the risk appetite and risk management framework established by the Board of Directors.

The Management Committee is supported by its three sub-committees, namely the Credit Review Committee, the Treasury and Investment Management Committee ('TIMCO') and the Customer Account Evaluation Committee, and reports regularly to the Board of Directors on its activities.

Further information in respect of the Bank's risk management framework, objectives, policies and governance arrangements can be located in the Directors' Report and the Bank's Pillar 3 Disclosures document.

The main categories of risk which the Bank faces, and thus are given importance in this report are the following:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

The Board is responsible for defining the Bank's risk appetite towards each risk category identified as part of the risk assessment process. The risk appetite of the Bank is determined by a series of indicators set out in the Bank's Risk Appetite Statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.2 Key risk components

- Credit Risk: Credit risk can be defined as the risk of suffering financial loss, due to the failure of the Bank's customers or counterparties to meet and fulfil their obligations to the Bank. In determining the extent of its exposure to credit risk, the Bank assesses the credit quality of its financial assets. The Bank's business model does not feature a significant activity in the provision of credit to the general economy, focusing instead on investment services activities. In this respect, the Bank's credit risk exposure predominantly stems from its proprietary portfolio of debt securities, liquidity held with the Central Bank of Malta and other banks, as well as loans and advances to customers. The lending activity is not substantial when compared to total assets. When granting credit to customers, the Bank does so almost invariably in a fully secured manner, with exposures fully collateralised by pledges on cash balances or high quality liquid assets, and for short maturities with terms usually not exceeding one year.
- 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 interest rates, foreign exchange risk and share prices. Consequently, market risk comprises the following sub-categories of risk, namely:
  - Interest rate risk, which is brought about by changes in interest rates.
  - Exchange rate risk, which is brought about by changes in respect of financial instruments denominated in a foreign currency.
  - Investments price risk, which is the risk of incurring losses due to the changes in the prices of investments.
  - Credit valuation adjustment risk, defined as the risk of changes in the mark-to-market value of the Bank's exposure to its derivative transaction counterparties.
  - Credit spread risk in the banking book, which refers to the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments, which is not explained by Interest Rate Risk in the Banking Book ('IRRBB') or by expected credit default risk.
- Liquidity Risk: Liquidity risk is the risk that an entity will encounter difficulty in meeting expected or unexpected current and future cash flow needs without affecting daily operations or the financial condition of the entity. Liquidity risk may also result from the inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk can arise from two particular sub-categories, namely:
  - Market liquidity risk: Risk of losses being incurred due to being unable to access a product or market at any required time.
  - Funding liquidity risk: The loss faced due to a timing mismatch which would eventually lead to missing settlement date or the obligation met at a premium price which would mean higher cost for the Bank.
- Operational Risk: Operational Risk is the non-financial risk of loss arising from failed internal processes or systems as well as from external events. Operational risks are mitigated by a system of controls, policies, procedures and random checks. In addition, risk is mitigated through adequate back up sites and systems and the continuous maintenance of the business continuity plan.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk

i. Credit Risk Management

Credit risk is defined as the potential for loss due to failure of a borrower to meet its contractual obligation to repay a debt in accordance with the agreed terms. The Bank has policies and procedures for accepting, measuring and managing credit risk. The objective of credit risk management is to achieve an appropriate balance between risk and return, and to minimise potential adverse effects of credit risk on the Bank's financial performance.

Credit risk is the primary risk category to which the Bank is exposed, namely through investment in debt securities (2022: EUR343,368,400), balances held with the Central Bank of Malta (2022: EUR469,748,796) and balances held with other institutions (2022: EUR60,813,111). The Bank is not heavily involved in the business of lending, with credit facilities and financial guarantees representing a less significant credit risk exposure. In fact, credit facilities amounted to EUR4,836,026 as of the end of 2022, representing less than 1% of the Bank's total assets.

The Bank's credit exposures policy defines the Bank's credit risk exposures arising from both on-balance sheet and off-balance sheet exposures. The policy also describes how the Bank manages its exposure to credit risk, including the allocation of roles and responsibilities within the three lines of defence.

The Bank's Board of Directors is responsible for setting, approving and overseeing the implementation of the Bank's Credit Exposures Policy, including approval and annual review of the Credit Exposures Policy, setting the credit risk strategy and appetite and approving certain credit facilities and guarantees in line with the limits defined in the Credit Exposures policy. In turn, Senior Management is responsible for the implementation of credit risk management targets and ensuring that the Bank operates within the defined credit risk limits.

The Bank has two management sub-committees, namely the Treasury and Investment Management Committee ('TIMCO') and the Credit Review Committee, which support Senior Management in the exercise of its duties in relation to credit risk management. Firstly, TIMCO is primarily responsible for managing credit risk exposures emanating from the Bank's investments portfolio. Its functions include:

i. Overseeing and monitoring the performance of the Bank's investment portfolio
ii. Monitoring the risk exposure from the portfolio, including potential breaches to early warning signals and investment limits, and taking corrective actions where necessary
iii. In relation to credit risk mitigation, reviewing the initial pool of static collateral at loan origination and monitoring the said pool over the life of the facility

The Credit Review Committee, on the other hand, focuses on the Bank's credit facilities and guarantees, including:

i. Approving of new or renewed credit facilities, within the limits defined in the Credit Exposures Policy
ii. Making recommendations for the approval of credit facilities and guarantees for Board approval, where these require Board approval
iii. Monitoring and reviewing credit facilities and guarantees on a regular basis

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The Risk Management function is responsible for facilitating the implementation of the Bank's Credit Exposures Policy. The Risk Management function is represented on both the TIMCO and the Credit Review Committee, by the Risk Manager. The Risk Management function acts as the second line of defence by consulting the first line of defence in the day-to-day implementation of the Credit Exposures Policy, as well as fulfilling its oversight role by ensuring that the risk management policies are followed and the risk appetite limits are adhered to. The Risk Management function may carry out its own independent analysis on investment positions, credit facilities and guarantees, on the basis of which it would advise on the credit risk exposure emanating from such positions or facilities.

ii. Credit Risk Measurement

Measurement of credit risk is complex and requires the use of models, as the credit risk exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures expected credit losses using Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters.

(a) Financial investments and other financial assets

The majority of the Bank's balance sheet comprises financial investments measured at amortised cost, balances held with the Central Bank of Malta and loans and advances to banks. The Bank considers public credit ratings determined by external credit rating agencies to assess the probability of default of individual counterparties. Such public credit ratings are continuously monitored and updated. The Bank applies PDs determined by external credit rating agencies by reference to historical default rates observed in the market, with different PDs being associated with different public credit ratings. In determining the probability of default of individual counterparties, the Bank distinguishes between investment-grade and sub-investment grade counterparties.

Before investing in a debt security, the Bank performs an assessment of the creditworthiness of the issuer and determines whether this falls within the Bank's risk appetite. The assessment performed can take on various forms including discussions held during TIMCO meetings. The limits established within the Bank's Risk Appetite Statement govern investment decisions. In this respect, TIMCO ensures that all investment decisions are aligned with the defined risk appetite. Subsequent to acquisition date, TIMCO and the Risk function monitor position prices and market news on a regular basis to identify adverse price movements in its portfolio and changes in the perceived credit risk posed by the issuer on a timely basis.

(b) Loans and advances to customers

The Bank has defined maximum risk exposures limits for its lending products, which principally comprise settlement lines offered to corporate clients, overdraft facilities offered to licenced entities for the financing of the acquisition of financial instruments or to discharge obligations in respect of foreign exchange forward transactions, as well as loans and overdraft facilities offered to private banking clients. The Bank uses internal credit risk grades (refer to Note 5.3.vi) to reflect its assessment of the probability of default of individual counterparties or facilities. Internal credit risk grading is based on payment behaviour, loan specific information and expert judgement of the Bank's Credit Review Committee.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Information considered by the Bank when determining the internal credit risk grades includes the payment behaviour of the borrower as well as historical information in respect of its financial performance and financial position. Management also takes into consideration non-financial indicators in the performance of credit risk assessments, such as the timeliness of the provision of financial information, borrower-specific risk profile, the quality of management, forecast market growth, the economic sectors / activities to which the borrower is exposed, the industry-specific outlook and the impact of general macroeconomic conditions on the borrower's financial performance. The internal credit risk grades are calibrated such that they reflect the increased risk of default at each higher risk grade. The rating is determined at the borrower level through the performance of a creditworthiness assessment of the borrower in each periodic review, which is performed at least on an annual basis.

iii. 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 5.3.iii for a description of how the Bank determines when a SICR has occurred.
- If the financial instrument becomes credit-impaired, the financial instrument is moved to 'Stage 3'. Refer to Note 5.3.iii 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 5.3.iii for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired upon initial recognition. The ECL in respect of POCI exposures is always measured on a lifetime basis ('Stage 3').

The expected credit loss requirements apply to financial assets measured at amortised cost and loan commitments. At initial recognition, a credit loss allowance (or provision in the case of loan commitments) 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").

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The Bank recognises credit loss allowances at an amount equal to 12-month ECL for debt 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', as defined by external credit rating agencies. The following diagram summarises the impairment requirements under IFRS 9 (other than POCI financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Significant increase in credit risk

When determining whether the risk of default 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. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

For exposures classified within 'Loans and advances to customers', the Bank primarily identifies whether a SICR has occurred since initial recognition by reference to delinquency status, as well as the internal risk gradings determined on an individual borrower level. For deposit facilities which have been overdrawn at any point in time, referred to as 'unauthorised facilities', the Bank also takes into consideration the number of times when the facility was overdrawn during the previous 12 months.

The Bank allocates each exposure to an internal credit risk grade based on financial and non-financial information which is deemed to be predictive of the risk of default. Amongst other things, reference is made to audited financial statements and financial projections. Management applies expert credit judgement in assessing the level of credit risk attributable to specific borrowers. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different internal rating grade (refer to Note 5.3.vi).

Unless additional UTP events have been identified, the Bank classifies non-defaulted exposures into 'Stage 2' when the borrower is classified within the 'Watch' or 'Probable' internal credit risk grade, which means that the exposure is more than 30 days past due or, in the case of unauthorised facilities, the account was overdrawn at least twice during the last 12 months. Internal credit risk grades used by the Bank are defined in Note 5.3.vi.

In the case of other financial assets, including balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost, the Bank applies the low credit risk simplification to exposures having an 'investment grade' public credit rating. In this respect, exposures having an 'investment grade' public credit rating are not subject to the SICR assessment. Moving from 'investment-grade' to 'sub-investment grade' does not automatically trigger a SICR. In this respect, public credit ratings assigned to each investments, as well as the relative movements in market prices, are monitored on a periodic basis in order to assess the level of credit risk attributable to each investment.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

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 exposures classified within loans and advances to customers are credit-impaired or in default (and accordingly classified as Stage 3) 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; and
- there are other indicators that the borrower is unlikely to pay without realisation of collateral, such as an observed deterioration in the financial performance and / or financial position of the borrower.

The default definition is applied consistently when modelling PD, EAD and LGD parameters throughout the Bank's expected credit loss calculations. An instrument is considered to have cured from defaulted status when it no longer meets any of the default criteria for a period of three consecutive months and, in case of forborne exposures, a period of 12 consecutive months.

The Bank considers other financial assets, comprising balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost, to be in default when a payment (including a coupon payment) becomes overdue by 1 day or more.

Measurement of ECL

The key inputs into the measurement of ECL comprise the PD, LGD and EAD, with the term structure being determined in respect of each parameter.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by 12-month LGD and 12-month EAD. Lifetime ECL is calculated by multiplying the lifetime PD by lifetime LGD and lifetime EAD.

ECL are determined by projecting the PD, LGD and EAD for each future period until maturity 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.

Probability of default

The PD represents the likelihood of a borrower defaulting on its financial obligation (as defined in Note 4.3.2.2), either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The PD of financial investments is determined by reference to publicly available market information. Specifically, PDs for rated counterparties, principally relating to exposures classified within 'Balances with Central Bank of Malta', 'Loans and advances to banks' and 'Financial investments measured at amortised cost', reflect historical market default data sourced from external credit rating agencies. PDs used in the ECL calculation therefore reflect default rates for comparable issuers assigned an equivalent credit rating as at the date of the assessment. If a counterparty or exposure migrates between external credit ratings, this will lead to a change in PD.

In the case of loans and advances to customers, PDs are similarly sourced from publicly available market information sourced from external credit rating agencies. However, in view of the fact that counterparties within this portfolio are typically unrated, the Bank estimates PDs by reference to historical market default data sourced from external credit rating agencies taking into consideration the nature and seniority of the facility, as well as the industry in which the borrower operates.

Loss given default

The LGD represents the Bank's expectation of the extent of the loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGDs are determined based on the factors which impact the recoveries made in the event of default and, as a result, vary by product type.

Loans and advances to customers are typically secured by pledges on cash balances and portfolios of financial investments. In this respect, the LGD takes into consideration the current fair value of pledged collateral and haircuts to market values to reflect potential losses in value in a forced sale scenario. A key determinant for the LGD applied to such exposures is therefore the Loan to-Value ratio of individual facilities.

For unsecured exposures, comprising balances held with Central Bank of Malta, loans and advances to banks, financial investments measured at amortised cost, and unauthorised facilities classified within loans and advances to customers, a 100% LGD is assumed by the Bank.

Exposure at default

EAD represents the expected exposure in the event of a default. For balances held with Central Bank of Malta, loans and advances to banks and loans and advances to customers, the EAD is equivalent to the gross carrying amount at the reporting date. For lending commitments, the EAD is determined by reference to the excess, if any, of the undrawn amount as at reporting date over the estimated fair value of collateral adjusted by a market value haircut.

For financial investments measured at amortised cost, the Bank estimates the EAD by reference to the sum of the interest receivable from reporting date until maturity and the nominal amount receivable upon maturity.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Period over which ECL is measured

The Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk (including any extension options), even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment.

However, for revolving facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and the Bank can cancel them with immediate effect. Albeit, this contractual right is not enforced in the normal day-to-day management unless the Bank becomes aware of an increase in credit risk at facility level. This longer period is estimated considering the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

iv. Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements. For financial instruments recognised on the statement of financial position, the maximum credit risk exposure is equal to the carrying amount. For loan commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. The maximum credit risk exposure for financial guarantees is the maximum amount that the Bank would have to pay if the guarantees were called upon.

	2022 EUR	2021 EUR
Credit risk exposures relating to on-balance sheet instruments		
Balances held with the Central Bank of Malta	469,748,796	620,936,983
Loans and advances to banks	60,813,111	46,117,911
Loans and advances to customers	4,836,026	10,234,303
Debt securities measured at amortised cost	343,368,400	283,800,803
Derivative financial assets	2,071,554	2,290,411
Accrued income	859,514	1,427,386
Total on-balance sheet credit risk exposures	**881,697,401**	**964,807,797**
Credit risk exposures relating to off-balance sheet instruments		
Loan commitments	33,399,688	24,509,772
Financial guarantees	15,222,606	-
Total off-balance sheet credit risk exposures	**48,622,294**	**24,509,772**
Total credit risk exposures	**930,319,695**	**989,317,569**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The table below presents the gross carrying amount and nominal amount of financial instruments measured at amortised cost, to which IFRS 9 impairment requirements apply, and the associated allowance for ECL. As at the end of December 2022 and 2021, the Bank did not hold any financial instruments measured at fair value through other comprehensive income.

	31 December 2022		31 December 2021	
	Gross carrying amount/ Nominal amount	Allowance for ECL	Gross carrying amount/ Nominal amount	Allowance for ECL
	EUR	EUR	EUR	EUR
Credit risk exposures relating to on-balance sheet instruments				
Balances held with the Central Bank of Malta	469,748,796	-	620,936,983	-
Loans and advances to banks	60,887,477	74,366	46,187,621	69,710
Loans and advances to customers	4,894,594	58,568	14,063,122	3,828,819
Debt securities measured at amortised cost	343,472,134	103,734	283,855,863	55,060
Accrued income	859,514	-	1,427,386	-
Total on-balance sheet credit risk exposure	**879,862,515**	**236,668**	**966,470,975**	**3,953,589**
Credit risk exposures relating to off-balance sheet instruments				
Loan commitments	33,399,688	-	24,509,902	130
Financial guarantees	15,222,606	-	-	-
Total off-balance sheet credit risk exposure	**48,622,294**	**-**	**24,509,902**	**130**
Total credit risk exposure	**928,484,809**	**236,668**	**990,980,877**	**3,953,719**

The Bank is also exposed to credit risk arising from financial instruments for which IFRS 9 impairment requirements do not apply. As at 31 December 2022, these include financial investments mandatorily measured at fair value through profit or loss amounting to EUR1,510,379 (2021: EUR2,447,619) and derivative assets amounting to EUR2,071,554 (2021: EUR2,290,411).

v. Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Bank's policies regarding obtaining collateral have not significantly changed during the financial year ended 31 December 2022 and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The principal collateral types for secured loans and advances to customers and related loan commitments are pledges held in respect of cash balances and charges over portfolios of liquid financial instruments, such as debt securities and equities. Financial guarantees are fully cash collateralised, with the cash collateral being held at the Bank.

The table overleaf presents the Bank's gross carrying amount of loans and advances to customers and the gross off-balance sheet exposure relating to loan commitments and financial guarantees, together with the total amount of collateral held, analysed by type of collateral. The net maximum exposure would then be equivalent to the gross exposure less the collateral value as at each respective reporting date. The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed on a periodic basis in order to ensure that adequate collateral coverage is maintained at all times. The collateral amounts shown in the tables below are presented net of applicable haircuts.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

2022

	Gross on-balance sheet exposures	Gross off-balance sheet exposure	Total gross exposure	Collateral held		Net maximum exposure
				Cash	Securities	
	EUR	EUR	EUR	EUR	EUR	EUR
Stage 1	4,558,021	48,622,294	53,180,315	32,528,581	399,298,148	-
Stage 2	278,569	-	278,569	-	-	278,569
Stage 3	58,004	-	58,004	-	-	58,004
	4,894,594	**48,622,294**	**53,516,888**	**32,528,581**	**399,298,148**	**336,573**

2021

	Gross on-balance sheet exposures	Gross off-balance sheet exposure	Total gross exposure	Collateral held		Net maximum exposure
				Cash	Securities	
	EUR	EUR	EUR	EUR	EUR	EUR
Stage 1	9,943,830	24,509,902	34,453,732	20,307,510	377,222,619	-
Stage 2	294,352	-	294,352	-	-	294,352
Stage 3	3,824,940	-	3,824,940	-	-	3,824,940
	14,063,122	**24,509,902**	**38,573,024**	**20,307,510**	**377,222,619**	**4,119,292**

As outlined earlier, all secured loans and advances to customers, referred to as 'authorised credit facilities', are required to be fully collateralised at all times, resulting in a nil net exposure. In this respect, secured loans and advances to customers have sufficiently low LTV ratios resulting in no credit loss allowances being recognised in accordance with the Bank's ECL model. The carrying amount of such assets as at 31 December 2022 is EUR4,518,475 (2021: EUR9,266,343).

In contrast, unauthorised facilities, relating to cases where deposit balances are overdrawn resulting in unauthorised overdraft facilities, are fully unsecured. Stage 2 and Stage 3 exposures presented in the tables above relate to such unauthorised facilities. As at 31 December 2022, Stage 1 exposures amounting to EUR39,546 (2021: EUR677,487) and included in the table above are unsecured. As at 31 December 2022, the allowance for ECL in respect of unauthorised facilities classified as Stage 1, Stage 2 and Stage 3 amounted to EUR93 (2021: EUR2,846), EUR471 (2021: EUR1,033), and EUR58,004 (2021: EUR3,824,940) respectively.

The following table shows the distribution of LTV ratios in respect of the Bank's authorised loans and advances to customers as at 31 December 2022 and 31 December 2021:

	Stage 1	
	Gross Carrying Amount	Allowance for ECL
	EUR	EUR
As at 31 December 2022		
Authorised credit facilities - LTV distribution		
- Less than 10%	1,522,213	-
- 10% to 50%	895,146	-
- 50% to 100%	2,101,116	-
Total authorised credit facilities	**4,518,475**	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

	Stage 1 Gross Carrying Amount EUR	Allowance for ECL EUR
As at 31 December 2021		
Authorised credit facilities - LTV distribution		
- Less than 10%	5,734,189	-
- 10% to 50%	1,350,307	-
- 50% to 100%	2,181,846	1,134
Total authorised credit facilities	**9,266,342**	**1,134**

The Bank closely monitors collateral held for secured loans and advances to customers considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. As at 31 December 2022 and 31 December 2021, all credit-impaired loans and advances to customers are unsecured and, as a result, are provided for in full.

No collateral is held in respect of Balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost.

vi. Credit quality analysis

As described in Note 5.3.iii, the Bank's internal credit risk grades are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss. The credit quality of the Bank's portfolios of financial instruments is assessed by reference to the Bank's standard credit rating system, as described below:

Grade	Stage	Balances held with Central Bank of Malta Loans and advances to banks Financial investments	Loans and advances to customers	
			Authorised facilities	Unauthorised facilities
Regular	1	Investment grade	Not past due; 1 to 30 days past due	Overdrawn once during the previous 12 months
Watch	2	Sub-investment grade	31 to 60 days past due	Overdrawn twice during the previous 12 months
Probable	2	Sub-investment grade	61 to 90 days past due	Overdrawn three times during the previous 12 months
Default	3	Default	More than 90 days past due	Overdrawn four times during the previous 12 months

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The following table presents the distribution, by stage, of the financial instruments to which IFRS 9 impairment requirements apply, and the associated allowance for ECL, as at 31 December 2022 and 31 December 2021. The financial instruments classified in each stage have the following characteristics:

i. Stage 1 – unimpaired and without significant increase in credit risk and on which a 12-month allowance for ECL is recognised.
ii. Stage 2 – a significant increase in credit risk has been experienced since initial recognition and on which lifetime ECL is recognised.
iii. Stage 3 – objective evidence of impairment and therefore considered as credit impaired and on which lifetime ECL is recognised.

The determination of the staging in respect of exposures classified within loans and advances to customers is linked to the Bank's internal credit grading classification. Any exposure which is assigned an internal credit grading of 'Regular' and which is hence less than 30 days past due, is mapped to Stage 1, and hence is considered as unimpaired and without significant increase in credit risk since initial recognition. 12-month ECL is measured in respect of such exposures.

Exposures which are assigned an internal credit grading of 'Watch' or 'Probable', and which would hence be more than 30 days past due but less than 90 days past due, are classified to Stage 2. These exposures are considered to have experienced a significant increase in credit risk since initial recognition, but they are not credit-impaired. Accordingly, a lifetime ECL is measured in respect of these exposures.

Finally, defaulted exposures, comprising exposures which are more than 90 days past due, are considered as Stage 3 exposures and are fully provided for. As a result, the Bank assumes that these exposures are fully irrecoverable.

For other financial assets, comprising balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost, staging is determined by reference to public credit ratings, as described in the table presented on the previous page.

2022	Gross carrying amount/Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Credit risk exposures relating to on-balance sheet instruments								
Balances held with the Central Bank of Malta	469,748,796	-	-	469,748,796	-	-	-	-
Loans and advances to banks	60,887,477	-	-	60,887,477	74,366	-	-	74,366
Loans and advances to customers	4,558,021	278,569	58,004	4,894,594	93	471	58,004	58,568
Debt securities measured at amortised cost	343,472,134	-	-	343,472,134	103,734	-	-	103,734
Accrued income	859,514	-	-	859,514	-	-	-	-
Total on-balance sheet credit risk exposure	**879,525,942**	**278,569**	**58,004**	**879,862,515**	**178,193**	**471**	**58,004**	**236,668**
Credit risk exposures relating to off-balance sheet instruments								
Loan commitments	33,399,688	-	-	33,399,688	-	-	-	-
Financial guarantees	15,222,606	-	-	15,222,606	-	-	-	-
Total off-balance sheet credit risk exposure	**48,622,294**	-	-	**48,622,294**	-	-	-	-
Total credit risk exposure	**928,148,236**	**278,569**	**58,004**	**928,484,809**	**178,193**	**471**	**58,004**	**236,668**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

2021	Gross carrying amount/Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Credit risk exposures relating to on-balance sheet instruments								
Balances held with the Central Bank of Malta	620,936,983	-	-	620,936,983	-	-	-	-
Loans and advances to banks	46,187,621	-	-	46,187,621	69,710	-	-	69,710
Loans and advances to customers	9,943,830	294,352	3,824,940	14,063,122	2,846	1,033	3,824,940	3,828,819
Debt securities measured at amortised cost	283,855,863	-	-	283,855,863	55,060	-	-	55,060
Accrued income	1,427,386	-	-	1,427,386	-	-	-	-
Total on-balance sheet credit risk exposure	**962,351,683**	**294,352**	**3,824,940**	**966,470,975**	**127,616**	**1,033**	**3,824,940**	**3,953,589**
Credit risk exposures relating to off-balance sheet instruments								
Loan commitments	24,509,902	-	-	24,509,902	130	-	-	130
Total off-balance sheet credit risk exposure	**24,509,902**	**-**	**-**	**24,509,902**	**130**	**-**	**-**	**130**
Total credit risk exposure	**986,861,585**	**294,352**	**3,824,940**	**990,980,877**	**127,746**	**1,033**	**3,824,940**	**3,953,719**

Balances held with Central Bank of Malta and Loans and advances to banks

The Bank holds significant liquidity with the Central Bank of Malta. In this respect, the credit rating assigned to balances held with the Central Bank of Malta reflect the credit rating of the Maltese government. As at 31 December 2022, Maltese sovereign debt was 'A' rated (2021: 'A') and, in this respect, such balances are deemed to be investment-grade exposures and are accordingly classified as 'Regular' in line with the Bank's internal credit rating classification.

In this respect, the ECL in respect of balances with Central Bank of Malta was deemed to be insignificant as at 31 December 2022 and 31 December 2021.

The Bank also holds liquidity with other correspondent banks. The Bank ensures that correspondent banks with which it transacts are of good repute and of good credit standing. As at 31 December 2022, 96% (2021: 96%) of loans and advances to banks are rated 'BBB' and above, thereby being assigned an investment-grade rating, with only one correspondent bank being unrated. In this respect, a 12-month allowance for ECL was recognised in respect of loans and advances to banks given that the majority of counterparties were assigned an investment grade credit rating as at 31 December 2022 and 31 December 2021.

The Bank also recognised a 12-month allowance for ECL in respect of counterparties which were not assigned an investment-grade credit rating or were unrated as at 31 December 2022 and 31 December 2021, since these exposures are withdrawable on demand and, as a result, the 12-month ECL would be equivalent to the lifetime ECL.

As described previously, PDs are determined using historical market default data sourced from external credit rating agencies, by reference to the credit rating assigned to each respective counterparty as at year end. In view of the assumed 12-month ECL horizon, the macroeconomic modelling aspect of IFRS 9 is deemed to be insignificant.

The tables overleaf present an analysis of loans and advances to banks by external credit rating as at 31 December 2022 and 2021.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

31.12.2022			
Rating	**PD**	**Gross carrying amount**	**Allowance for ECL**
		EUR	**EUR**
AAA to AA+	0.06%	4,124,142	2,268
AA to AA-	0.06%	2,259,065	1,354
A+ to A-	0.03%	52,149,011	16,719
BBB+	0.00%	-	-
BBB	0.15%	105,511	158
BBB- and lower	0.32%	43,298	139
Unrated	2.44%	2,206,450	53,728
		60,887,477	**74,366**

31.12.2021			
Rating	**PD**	**Gross carrying amount**	**Allowance for ECL**
		EUR	**EUR**
AAA to AA+	0.06%	2,478,926	1,453
AA to AA-	0.01%	4,099,322	410
A+ to A-	0.04%	37,753,150	15,767
BBB+	0.00%	-	-
BBB	0.11%	44,971	48
BBB- and lower	0.28%	191,481	529
Unrated	3.18%	1,619,771	51,503
		46,187,621	**69,710**

An analysis of movements in allowances for ECL in respect of loans and advances to banks during the financial years ended 31 December 2022 and 31 December 2021 is presented below.

	EUR
Opening allowance for ECL as at 1 January 2022	**69,710**
Increase in impairment loss allowance	4,656
- Increase due to increase in credit risk	1,971
- Increase due to increase in balance	24,846
- Decrease due to decrease in balance	(9,545)
- Change due to update in default rates	(12,616)
Closing allowance for ECL as at 31 December 2022	**74,366**

	EUR
Opening allowance for ECL as at 1 January 2021	**51,253**
Increase in impairment loss allowance	18,457
- Increase due to increase in credit risk	129
- Increase due to increase in balance	55,618
- Decrease due to decrease in balance	(37,298)
- Change due to update in default rates	8
Closing allowance for ECL as at 31 December 2022	**69,710**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Loans and advances to customers and Off-balance sheet exposures

In assessing its exposure to credit risk from loans and advances to customers and off-balance sheet exposures, the Bank uses an internal grading structure whereby a credit risk grade is assigned to each counterparty primarily by reference to delinquency status, as described in more detail in a previous section.

For authorised facilities, management deems it highly unlikely that a credit loss can occur since such exposures are highly collateralised by liquid assets. The Bank regularly monitors the market value of pledged securities, applying a haircut to assess the adequacy of collateral coverage under stress. In this respect, the Bank performs a daily assessment of collaterals held, including market prices and value of securities following the application of haircuts, to ensure that the total collateral value remains in excess of the carrying amount of the exposure. As a result, the ECL in respect of such facilities is deemed to be immaterial.

Since the Bank's loans and advances to customers are predominantly composed of overdraft facilities that are renewable on an annual basis, the Bank calculates 12-month ECLs in respect of loans and advances to customers.

In view of the assumed 12-month ECL horizon, as well as the high level of collateralisation of exposures classified within loans and advances to customers, the macroeconomic modelling aspect of IFRS 9 is deemed to be insignificant.

The tables below present the Bank's loans and advances to customers by credit risk grading, as at 31 December 2022 and 31 December 2021.

	As at 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at amortised cost	EUR	EUR	EUR	EUR
Grade 1: Regular	4,558,021	-	-	4,558,021
Grade 2: Watch	-	68,375	-	68,375
Grade 3: Probable	-	210,194	-	210,194
Grade 4: Default	-		58,004	58,004
Gross carrying amount	**4,558,021**	**278,569**	**58,004**	**4,894,594**
Allowance for ECL	(93)	(471)	(58,004)	(58,568)
Net carrying amount	**4,557,928**	**278,098**	**-**	**4,836,026**
Off-balance sheet exposure - undrawn credit exposures				
Grade 1: Regular	48,622,294	-	-	48,622,294
Gross exposure amount	**48,622,294**	**-**	**-**	**48,622,294**
Allowance for ECL	-	-	-	-
Net exposure amount	**48,622,294**	**-**	**-**	**48,622,294**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

	As at 31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers measured at amortised cost	**EUR**	**EUR**	**EUR**	**EUR**
Grade 1: Regular	9,943,830	-	-	9,943,830
Grade 2: Watch	-	290,667	-	290,667
Grade 3: Probable	-	3,686	-	3,686
Grade 4: Default	-		3,824,940	3,824,940
Gross carrying amount	**9,943,830**	**294,352**	**3,824,940**	**14,063,122**
Allowance for ECL	(2,846)	(1,033)	(3,824,940)	(3,828,819)
Net carrying amount	**9,940,984**	**293,319**	**-**	**10,234,303**
Off-balance sheet exposure - undrawn credit exposures				
Grade 1: Regular	24,509,902	-	-	24,509,902
Gross exposure amount	**24,509,902**	**-**	**-**	**24,509,902**
Allowance for ECL	(130)	-	-	(130)
Net exposure amount	**24,509,772**	**-**	**-**	**24,509,772**

The tables below present the transfers between stages for the Bank's loans and advances to customers. All other financial assets are classified as Stage 1 and no movement between staging was experienced in the current and previous financial years.

	Non-credit impaired				Credit Impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying Amount	Allowance for ECL	Gross Carrying Amount	Allowance for ECL	Gross Carrying Amount	Allowance for ECL	Gross Carrying Amount	Allowance for ECL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2021	**9,943,830**	**(2,846)**	**294,352**	**(1,033)**	**3,824,940**	**(3,824,940)**	**14,063,122**	**(3,828,819)**
New and further lending	1,466,785	48	25,956	94	117,076	(39,898)	1,609,817	(39,756)
Repayments and disposals	(6,854,307)	2,752	(38,716)	407	(31,124)	30,725	(6,924,147)	33,884
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(24,424)	77	24,424	(77)	-	-	-	-
- Transfers from Stage 2 to Stage 1	26,362	(71)	(26,362)	71	-	-	-	-
- Transfers from Stage 2 to Stage 3	-	-	(1,616)	12	1,616	(12)	-	-
- Transfers from Stage 3 to Stage 2	-	-	531	(531)	(531)	531	-	-
-Transfers from Stage 1 to Stage 3	(447)	17	-	-	447	(17)	-	-
-Transfers from Stage 3 to Stage 1	222	(222)	-	-	(222)	222	-	-
Net remeasurement of ECL arising from stage transfer and changes in risk parameters		152		586		(78,813)	-	(78,075)
Write off	-	-	-	-	(3,854,198)	3,854,198	(3,854,198)	3,854,198
As at 31 December 2022	**4,558,021**	**(93)**	**278,569**	**(471)**	**58,004**	**(58,004)**	**4,894,594**	**(58,568)**
Total income statement charge for the year								**3,770,251**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying Amount	Allowance for ECL	Gross Carrying Amount	Allowance for ECL	Gross Carrying Amount	Allowance for ECL	Gross Carrying Amount	Allowance for ECL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2020	**17,880,114**	**(265)**	**95,718**	**(538)**	**3,723,680**	**(3,723,680)**	**21,699,512**	**(3,724,483)**
New and further lending	4,218,083	(2,320)	232,018	(509)	194,133	(195,861)	4,644,234	(198,690)
Repayments and disposals	(11,906,896)	(258)	(314,864)	221	(58,864)	58,730	(12,280,624)	58,693
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(263,234)	67	263,234	(67)	-	-	-	-
- Transfers from Stage 2 to Stage 1	14,822	(67)	(14,822)	67	-	-	-	-
- Transfers from Stage 2 to Stage 3	-	-	(1,213)	11	1,213	(11)	-	-
- Transfers from Stage 3 to Stage 2	-	-	34,281	(34,282)	(34,281)	34,282	-	-
-Transfers from Stage 1 to Stage 3	(751)	3	-	-	751	(3)	-	-
-Transfers from Stage 3 to Stage 1	1,692	(1,692)	-	-	(1,692)	1,692	-	-
Net remeasurement of ECL arising from stage transfer and changes in risk parameters	-	1,686	-	34,064	-	(89)	-	35,661
As at 31 December 2021	**9,943,830**	**(2,846)**	**294,352**	**(1,033)**	**3,824,940**	**(3,824,940)**	**14,063,122**	**(3,828,819)**
Total income statement charge for the year								**(104,336)**

Financial investments measured at amortised cost

In accordance with its approved risk appetite, the Bank invests its excess funding in a portfolio of high-quality liquid assets, specifically debt securities which are assigned an investment grade credit rating by at least one major credit rating agency. In this respect, debt securities measured at amortised cost are deemed by management to expose the Bank to a low level of credit risk and are accordingly classified as 'Regular' in line with the Bank's internal credit rating classification. As a result, 12-month allowances for ECL are recognised in respect of these instruments as at 31 December 2022 and 31 December 2021.

As described previously, PDs are determined using historical market default data sourced from external credit rating agencies, by reference to the credit rating assigned to each respective counterparty as at year end. In view of the assumed 12-month ECL horizon, the macroeconomic modelling aspect of IFRS 9 is deemed to be insignificant.

The table below presents an analysis of financial investments measured at amortised cost by external credit rating as at 31 December 2022 and 2021.

		31.12.2022	
Rating	**PD**	**Gross carrying amount**	**Allowance for ECL**
		EUR	**EUR**
AAA to AAA-	0.01%	145,723,468	15,050
AA+ to AA-	0.02%	113,414,249	23,453
A+ to A-	0.06%	73,473,625	41,898
BBB+ to BBB-	0.21%	10,860,792	23,333
		343,472,134	**103,734**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

		31.12.2021	
Rating	**PD**	**Gross carrying amount**	**Allowance for ECL**
		EUR	**EUR**
AAA to AAA-	0.01%	134,052,263	11,917
AA+ to AA-	0.01%	76,793,869	8,500
A+ to A-	0.04%	68,013,142	24,827
BBB+ to BBB-	0.19%	4,996,589	9,816
		283,855,863	**55,060**

An analysis of movements in allowances for ECL in respect of debt securities measured at amortised cost during the financial years ended 31 December 2022 and 31 December 2021 is presented below.

	EUR
Opening allowance for ECL as at 1 January 2022	**55,060**
Increase in impairment loss allowance	48,674
- Acquisitions	31,218
- Maturities or Disposals	(6,035)
- Decrease due to decrease in LGD	(2,247)
- Change due to change in default rates	17,200
- Increase due to increase in credit risk	8,538
Closing allowance for ECL as at 31 December 2022	**103,734**

	EUR
Opening allowance for ECL as at 1 January 2021	**34,990**
Increase in impairment loss allowance	20,070
- Acquisitions	24,392
- Maturities or Disposals	(5,515)
- Decrease due to decrease in LGD	(9,625)
- Change due to change in default rates	4,105
- Increase due to increase in credit risk	6,713
Closing allowance for ECL as at 31 December 2021	**55,060**

vii. Write-off policy

The Bank writes off a loan, security and/or other receivable balances (and any related credit loss allowances) when management determines that the amounts due are uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the current year, amounts receivable of EUR3.85million (2021: nil) were written off by the Bank.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

viii. Credit concentration risk

Credit concentration risk is analysed into three different sub-risks, including:

i. Name concentration risk, which refers to the risk of imperfect diversification in the Bank's financial asset exposures because of large exposures to specific individual issuers, correspondent banks or borrowers;

ii. Sectoral concentration risk, which refers to the risk of imperfect diversification of the Bank's financial asset exposures due to uneven distribution amongst sectors or industries; and

iii. Country concentration risk, which refers to the risk of default arising from political or economic events in a specific country or region, including political or social unrest, exchange controls, moratoria, currency devaluation, nationalisation, and expropriation of assets.

The Bank mitigates its exposure to such risks through various mitigating techniques embedded in the day-to-day processes, which help align the Bank's residual risk exposure to its risk appetite. Specifically, name concentration risk is regulated by large exposure rules in terms of the Capital Requirements Regulation. Limits are also defined for country and sectoral concentration risk, the latter being applicable to corporate debt securities.

The Bank's Risk Appetite Statement and Liquidity Management Policy determine the level of risk which the Bank deems to be acceptable. This is expressed in terms of various factors including the sector of the issuer or borrower, the country of risk, the term to maturity and the credit rating of the issuer or borrower, amongst others. In terms of the latter, the Bank makes reference to major credit rating agencies including Fitch, Moody's and Standard and Poor's.

The tables below present the Bank's counterparty concentration in terms of loans and advances to customers and financial investments.

Loans and advances to customers

	Gross Carrying Amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2022								
Other financial corporations	4,459,150	270,584	47,517	4,777,251	50	379	47,517	47,946
Non-financial corporations	3,629	6,868	7,681	18,178	42	79	7,681	7,802
Households	95,242	1,117	2,806	99,165	1	13	2,806	2,820
	4,558,021	**278,569**	**58,004**	**4,894,594**	**93**	**471**	**58,004**	**58,568**

	Gross Carrying Amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2021								
Other financial corporations	9,765,387	284,416	3,818,257	13,868,060	1,588	654	3,818,258	3,820,500
Non-financial corporations	3,335	7,732	3,222	14,289	127	295	3,222	3,644
Households	175,108	2,204	3,461	180,773	1,131	84	3,460	4,675
	9,943,830	**294,352**	**3,824,940**	**14,063,122**	**2,846**	**1,033**	**3,824,940**	**3,828,819**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Financial investments measured at amortised cost

	Stage 1	
	Gross carrying amount	Allowance for ECL
	EUR	EUR
2022		
Central governments or central banks	90,597,757	-
Supranational organisations	102,542,289	-
Credit institutions	79,044,748	65,437
Other non-bank financial institutions	2,937,291	2,588
Foreign and listed corporates	68,350,049	35,709
	343,472,134	**103,734**

	Stage 1	
	Gross carrying amount	Allowance for ECL
	EUR	EUR
2021		
Central governments or central banks	79,119,697	-
Supranational organisations	98,602,061	-
Credit institutions	70,743,812	42,085
Foreign and listed corporates	35,390,293	12,975
	283,855,863	**55,060**

The Bank also looks at sectoral concentration risk, primarily in relation to its loans and advances to customers and its portfolio of financial investments. The following tables analyse the Bank's loans and advances to customers by business sector and stage.

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2022								
Fund management activities	2,091,268	259,029	28,421	2,378,718	38	363	28,421	28,822
Activities of holding companies	1,167,558	7,213	5,184	1,179,955	5	10	5,184	5,199
Activities of insurance agents and brokers	800,000	-	-	800,000	-	-	-	-
Other financial and insurance activities	402,777	5,925	18,828	427,530	35	24	18,828	18,887
Non-financial corporations	1,176	5,285	2,765	9,226	14	61	2,765	2,840
Households	95,242	1,117	2,806	99,165	1	13	2,806	2,820
	4,558,021	**278,569**	**58,004**	**4,894,594**	**93**	**471**	**58,004**	**58,568**

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2021								
Fund management activities	8,247,182	273,042	31,314	8,551,538	900	628	31,314	32,842
Activities of holding companies	181,965	6,995	1,715	190,675	6	16	1,715	1,737
Activities of insurance agents and brokers	1,040,000	-	-	1,040,000	-	-	-	-
Activities auxiliary to financial services, except insurance and pension funding	-	-	3,775,384	3,775,384	-	-	3,775,384	3,775,384
Other financial and insurance activities	296,978	4,955	11,168	313,101	709	32	11,168	11,909
Non-financial corporations	2,597	7,156	1,899	11,652	100	273	1,899	2,272
Households	175,108	2,204	3,460	180,772	1,131	84	3,460	4,675
	9,943,830	**294,352**	**3,824,940**	**14,063,122**	**2,846**	**1,033**	**3,824,940**	**3,828,819**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

In line with the main customer base of the Bank, most authorised credit facilities are granted to customers operating in the financial services industry, including fund management activities, insurance and other financial activities. Nevertheless, this is not deemed to give rise to heightened concentration risk, given that customers within this segment invest in various sectors, and as a result, the Bank's risk exposure is determined by the fund's underlying instruments.

The following tables illustrate the sectoral concentration of financial investments measured at amortised cost as at 31 December 2022 and 31 December 2021.

2022

	Stage 1	
	Gross carrying amount EUR	Allowance for ECL EUR
Supranational organisations	102,542,289	-
Sovereigns	90,597,757	-
Credit institutions	79,044,748	65,436
Healthcare and pharma	14,954,813	9,600
Energy & natural resources	11,878,056	7,606
Retail and consumer products	11,768,851	4,982
Manufacturing - motor vehicles	10,501,494	5,431
Technology	8,264,291	3,270
Insurance	5,052,608	769
Asset management	4,955,472	3,158
Non-bank financial institutions	2,937,291	2,588
Industrials and transportation	974,464	894
	343,472,134	103,734

2021

	Stage 1	
	Gross carrying amount EUR	Allowance for ECL EUR
Supranational organisations	98,602,061	-
Sovereigns	79,119,697	-
Credit institutions	70,743,812	42,085
Healthcare and pharma	2,976,567	1,832
Energy & natural resources	3,012,826	780
Retail and consumer products	7,960,061	3,400
Manufacturing - motor vehicles	9,528,455	4,048
Technology	5,836,151	1,806
Insurance	5,065,178	515
Asset management	1,011,055	594
	283,855,863	55,060

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The table below illustrates the Bank's exposure to country concentration risk.

2022	Carrying amount EUR	Malta EUR	Austria EUR	United States EUR	Other EUR
Balances held with Central Bank of Malta	469,748,796	469,748,796	-	-	-
Loans and advances to banks	60,813,111	5,299,946	6,571,539	-	48,941,626
Loans and advances to customers	4,836,026	4,802,996	-	-	33,030
Debt securities measured at amortised cost	343,368,400	1,555,141	10,051,229	91,622,574	240,139,456
Derivative financial assets	2,071,554	1,184,219	887,335	-	-
Accrued income	859,514	859,514	-	-	-
	881,697,401	**483,450,612**	**17,510,103**	**91,622,574**	**289,114,112**

2021	Carrying amount EUR	Malta EUR	Austria EUR	United States EUR	Other EUR
Balances held with Central Bank of Malta	620,936,983	620,936,983	-	-	-
Loans and advances to banks	46,117,911	1,389,274	16,425,446	-	28,303,191
Loans and advances to customers	10,234,303	10,217,629	-	-	16,674
Debt securities measured at amortised cost	283,800,803	649,493	10,065,043	62,036,627	211,049,640
Derivative financial assets	2,290,411	78,874	1,428,917	-	782,620
Accrued income	1,427,386	1,427,386	-	-	-
	964,807,797	**634,699,639**	**27,919,406**	**62,036,627**	**240,152,125**

Refer to Notes 18 and 20.1 for a more detailed analysis of country concentration risk in respect of loans and advances to banks and debt securities measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.4 Market risk

Market risk for the Bank consists of three elements:

- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of exchange rate movements.
- Investment price risk, which is the risk of losses because of changes in investment prices.
- Interest rate risk, which is the risk of losses because of interest rate movements.

The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

Exchange Rate Risk

Exchange rate risk is mainly driven by positions held and transactions executed which are not denominated in the Bank's functional currency, the Euro.

The Bank operates primarily in EUR, United States Dollar ('USD') and Pound Sterling ('GBP'), accepting deposits in a number of different currencies and also processing foreign exchange payment transactions on behalf of customers. The Bank maintains liquidity balances in foreign currency with counterparty banks or acquires financial investments denominated in a foreign currency in order to manage mismatches in its foreign currency profile, which expose the Bank to movements in exchange rates. The Bank attempts to attain natural hedging by matching asset and liability positions denominated in the same currency, as much as is practicable.

The Bank monitors the exchange rate risk on a frequent basis through the Asset and Liability Management Report, which is prepared by the Finance Department and presented to the Board of Directors. Through this tool, the Board is kept updated in respect of the Bank's net exposures to foreign currencies.

The Bank does not take speculative positions in foreign exchange and maintains foreign currency balances in line with deposit currencies to enable business-as-usual transactions by customers. In order to manage exchange rate risk, the Bank has established risk limits in respect of open foreign exchange positions, with any open positions exceeding this limit being reduced by buying or selling the respective foreign currency. The Bank monitors its foreign exchange position on a daily basis and executes transactions accordingly.

As part of its portfolio of services, the Bank also offers foreign exchange forward contracts to its customers. In this respect, the Bank eliminates its exposure to foreign exchange risk by entering into 'back-to-back' transactions with counterparties to perfectly hedge any foreign exchange forward contract entered into with its customers.

In certain instances, the Bank may hold balances in foreign currencies in excess of risk limits for the purpose of facilitating settlement of customer transactions in the said currencies. Exchange rate risk exposure resulting from settlement of customer transactions may be unhedged up to the duration of the settlement cycle, up to a determined limit.

In the scenario whereby all foreign currencies fluctuate upwards or downwards by 20% against the Euro, the carrying amounts of financial assets and liabilities would fluctuate upwards or downwards by EUR26,822,331 and EUR26,536,173 (2021: EUR38,865,320 and EUR38,643,697) respectively, with the net impact amounting to EUR286,158 (2021: EUR221,623).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.4 Market risk *(continued)*

The tables below present the open positions in respect of all currencies to which the Bank is exposed to as of 31 December 2022, and comparative figures for 2021.

2022	Reporting currency EUR	USD EUR	GBP EUR	Other EUR	Total EUR
Assets denominated in foreign currencies					
Cash and balances held with Central Bank of Malta	435,870,072	16,369,521	17,514,125	-	469,753,718
Loans and advances to banks	16,147,857	22,841,022	11,982,574	9,841,658	60,813,111
Loans and advances to customers	4,264,054	544,931	21,267	5,774	4,836,026
Debt securities measured at amortised cost	315,526,840	27,841,560	-	-	343,368,400
Derivative financial assets	2,071,554	-	-	-	2,071,554
Accrued income	859,514	-	-	-	859,514
	774,739,891	**67,597,034**	**29,517,966**	**9,847,432**	**881,702,323**
Liabilities denominated in foreign currencies					
Amounts owed to banks	32,389	353,716	2,818,111	825,826	4,030,042
Amounts owed to customers	736,185,387	66,944,626	26,639,621	8,637,834	838,407,468
Derivative financial liabilities	2,071,554	-	-	-	2,071,554
	738,289,330	**67,298,342**	**29,457,732**	**9,463,660**	**844,509,064**
Net exposure	**36,450,561**	**298,692**	**60,234**	**383,772**	**37,193,259**

2021	Reporting currency EUR	USD EUR	GBP EUR	Other EUR	Total EUR
Assets denominated in foreign currencies					
Cash and balances held with Central Bank of Malta	539,061,618	53,301,992	28,575,987	-	620,939,597
Loans and advances to banks	11,102,322	13,228,899	11,197,175	10,589,515	46,117,911
Loans and advances to customers	3,934,846	5,973,520	28,865	297,072	10,234,303
Debt securities measured at amortised cost	252,344,370	31,456,433	-	-	283,800,803
Derivative financial assets	2,290,411	-	-	-	2,290,411
Accrued income	1,427,386	-	-	-	1,427,386
	810,160,953	**103,960,844**	**39,802,027**	**10,886,587**	**964,810,411**
Liabilities denominated in foreign currencies					
Amounts owed to banks	458,844	383,979	1,362,551	194,736	2,400,110
Amounts owed to customers	772,489,155	103,282,303	38,379,696	10,459,464	924,610,618
Derivative financial liabilities	2,290,411	-	-	-	2,290,411
	775,238,410	**103,666,282**	**39,742,247**	**10,654,200**	**929,301,139**
Net exposure	**34,922,543**	**294,562**	**59,780**	**232,387**	**35,509,272**

The exchange rates used as at end of each respective year are presented hereunder:

	2022	2021
USD to EUR	1.0691	1.1350
GBP to EUR	0.8850	0.8399
CAD to EUR	1.4482	1.4383
CZK to EUR	24.1458	24.8597

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.4 Market risk *(continued)*

Investment Price Risk

The Bank is exposed to investment price risk is respect of financial investments measured at fair value through profit or loss. The Bank frequently monitors its portfolio and comes up with solutions and decisions where deemed fit should it decide on acquiring or disposing of any investments. Nevertheless, the Bank maintains its stance on investing in high quality financial assets with a healthy credit rating.

The Bank mitigates its exposure to investment price risk primarily by setting risk limits in respect of the maximum exposure to investments measured at fair value subsequent to initial recognition. In addition, the risk appetite statement also defines specific loss limits in this respect, which are monitored by the Treasury and Investment Management Committee ('TIMCO') members on a regular basis. TIMCO also monitors position prices and news on a regular basis to identify adverse price movements in its portfolio and changes in the perceived credit risk posed by the issuer, enabling management to take corrective action on a timely basis.

Financial investments measured at FVTPL represent a minor portion of the Bank's total financial assets and, as a result, the Bank's exposure to investment price risk is deemed to be immaterial. In addition, the Bank is not exposed to commodity price risk.

Credit Valuation Adjustment ('CVA') Risk

The Bank's exposure to CVA risk arises from the forward foreign exchange transactions contracted by Bank both with its clients as well as with other counterparties to fully hedge client positions. As at 31 December 2022 and 31 December 2021, the Bank's position in forward foreign exchange contracts represents a minimal portion of the Bank's total assets and, in this respect, this risk is not deemed to be significant.

Credit Spread Risk in the Banking Book ('CSRBB')

CSRBB arises from banking book positions that meet the following conditions:

- Are actively traded on a deep and large market
- Are held in a business model envisaging a possible sale before maturity under business-as-usual conditions
- The market value of which is affected by credit-spread risk component

Based on the above conditions, the risk would be limited to the Bank's positions held in the portfolio of financial investments measured at fair value through profit or loss. As at 31 December 2022 and 31 December 2021, these financial assets represent a minimal portion of the total assets and, in this respect, this risk is deemed to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk

Interest rate risk in the banking book ('IRRBB') is defined as the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, basis risk and option risk.

Gap risk refers to the risk resulting from the term structure of interest-rate sensitive instruments that arises from differences in the timing of rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (also referred to as parallel risk) or differentially by period (also referred to as non-parallel risk).

Since the Bank does not enter into interest-rate hedging nor does it offer or hold interest-rate sensitive instruments with optionality, the Bank is not deemed to be exposed to basis risk or option risk. As a result, exposure to IRRBB is limited to gap risk.

Balances held with the Central Bank of Malta and loans and advances to banks are remunerated by reference to prevailing market interest rates during the reference period, given that these are held in call accounts.

The Bank grants loans and advances to customers with a limited maturity, with the maximum maturity for loans and overdraft facilities being restricted to 5 years and 12 months respectively. Loans and advances to customers are subject to variable interest rates, thereby ensuring that any changes to market interest rates are reflected in the interest rates charged in respect of the Bank's loan portfolio.

Financial investments measured at amortised cost are subject to fixed interest rates. Fluctuations in market interest rates could result in movements in the fair value of these instruments. However, such movements would not impact the carrying amount of such instruments since these are measured at amortised cost.

Financial assets measured at fair value through profit or loss are susceptible to interest rate movements in that movements in market interest rates would result in movements in their fair values, which movement is accounted for directly in profit or loss.

The Bank does not pay interest on customer deposits repayable on demand meaning that movements in market interest rates will not have a significant impact on the Bank's cost of funding. During the latter part of 2022, the Bank introduced the Liquidity Management Account, which acts as an overnight deposit for institutional clients and is remunerated at a positive interest. The Bank also pays interest on term customer deposits.

The Finance department monitors key interest rates on an ongoing basis to identify developments in the current and future interest rate environment, which are then reported to the Credit Review Committee. The Bank adjusts its balance sheet composition accordingly depending on interest rate expectations.

In addition, the Finance department performs a gap analysis on a monthly basis to assess the sensitivity of the Bank's interest-bearing assets and liabilities to a 200 basis point change in interest rates. This assessment is performed separately for each major currency of operation, namely EUR, USD and GBP.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk *(continued)*

The table below presents the Bank's interest-bearing assets and liabilities, analysed by instruments subject to fixed and floating rates.

2022	**Fixed EUR**	**Floating EUR**	**Total EUR**
Interest-bearing assets			
Balances held with Central Bank of Malta	-	469,748,796	469,748,796
Loans and advances to banks	22,486	60,790,625	60,813,111
Loans and advances to customers	317,550	4,518,476	4,836,026
Debt securities measured at amortised cost	343,368,400	-	343,368,400
	343,708,436	**535,057,897**	**878,766,333**
Interest-bearing liabilities			
Amount owed to customers	36,749,724	-	36,749,724
	36,749,724	**-**	**36,749,724**
Net exposure	**306,958,712**	**535,057,897**	**842,016,609**

2021	**Fixed EUR**	**Floating EUR**	**Total EUR**
Interest-bearing assets			
Balances held with Central Bank of Malta	-	620,936,983	620,936,983
Loans and advances to banks	22,486	46,095,425	46,117,911
Loans and advances to customers	969,094	9,265,209	10,234,303
Debt securities measured at amortised cost	283,800,803	-	283,800,803
	284,792,383	**676,297,617**	**961,090,000**
Interest-bearing liabilities			
Amount owed to customers	2,412,930	-	2,412,930
	2,412,930	**-**	**2,412,930**
Net exposure	**282,379,453**	**676,297,617**	**958,677,070**

Financial instruments issued at fixed interest rates potentially expose the Bank to fair value interest rate risk. Balances with Central Bank of Malta, loans and advances to customers and to banks, financial investments held within a 'Hold-to-Collect' business model, and amounts owed to customers and banks are measured at amortised cost and are therefore not subject to fair value interest rate risk. The Bank's financial investments measured at FVTPL are equity instruments and are therefore not subject to interest rates.

In addition, given that the Bank hedges all forward foreign exchange contracts entered into with clients by entering into mirror trades with another counterparty, any movement in the fair value of derivative assets and derivative liabilities driven by interest rate movements is deemed to be fully hedged.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk *(continued)*

The Bank is exposed to cash flow interest rate risk principally in respect of financial assets and liabilities subject to variable interest rates. Taking cognisance of the nature of the Bank's financial assets and liabilities, a sensitivity analysis in respect of interest rate changes in relation to the Bank's variable rate financial assets is presented hereunder in line with the requirements emanating from IFRS 7.

The sensitivity of interest rate gaps to various interest rate scenarios is monitored by management. Standard scenarios that are considered on a quarterly basis include a 200-basis point (bp) parallel rise or fall in all the yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates is presented below. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	Impact on	
	Profit or loss	Equity
	EUR	EUR
2022		
+ 200 basis points	5,198,441	5,198,441
- 200 basis points	(2,404,851)	(2,404,851)
2021		
+ 200 basis points	13,025,898	13,025,898
- 200 basis points	(14,032,207)	(14,032,207)

The following tables summarise the mismatch of repricing dates for interest-bearing financial assets and financial liabilities that reprice, which reflect the date upon which interest rates are next reset to market rates as per the contractual agreement or, if earlier, the dates on which the instruments mature.

2022	Less than 3 months EUR	Between 3 months and 1 Yeyar EUR	Between 1 year and 5 years EUR	More than 5 years EUR	Total EUR
Interest-bearing assets					
Balances held with Central Bank of Malta	469,748,796	-	-	-	469,748,796
Loans and advances to banks	60,813,111	-	-	-	60,813,111
Loans and advances to customers	317,550	4,518,476	-	-	4,836,026
Debt securities measured at amortised cost	3,009,188	22,019,873	199,859,529	118,479,810	343,368,400
	533,888,645	**26,538,349**	**199,859,529**	**118,479,810**	**878,766,333**
Interest-bearing liabilities					
Amount owed to customers	30,676,124	153,600	5,920,000	-	36,749,724
	30,676,124	**153,600**	**5,920,000**	**-**	**36,749,724**
Interest repricing gap	**503,212,521**	**26,384,749**	**193,939,529**	**118,479,810**	
Cumulative gap		**529,597,270**	**723,536,799**	**842,016,609**	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk *(continued)*

2021	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	More than 5 years EUR	Total EUR
Interest-bearing assets					
Balances held with Central Bank of Malta	620,936,983	-	-	-	620,936,983
Loans and advances to banks	46,117,911	-	-	-	46,117,911
Loans and advances to customers	987,831	7,855,848	1,390,624	-	10,234,303
Debt securities measured at amortised cost	3,002,758	3,771,512	140,853,868	136,172,665	283,800,803
	671,045,483	**11,627,360**	**142,244,492**	**136,172,665**	**961,090,000**
Interest-bearing liabilities					
Amount owed to customers	1,146,031	6,899	1,260,000	-	2,412,930
	1,146,031	**6,899**	**1,260,000**	**-**	**2,412,930**
Interest repricing gap	**669,899,452**	**11,620,461**	**140,984,492**	**136,172,665**	
Cumulative gap		**681,519,913**	**822,504,405**	**958,677,070**	

5.6 Liquidity risk

Liquidity risk is the risk that the Bank's obligations to repay liabilities or fund lending commitments exceeds the Bank's ability to raise funds from either the liquidation of assets or the acceptance of new deposits. Liquidity risk arises primarily due to mismatches in the maturity profile of a bank's financial assets and liabilities, which expose a bank to the risk that it might not be able to meet its liabilities as they become due or will have to do so at excessive cost. Liquidity risk may also be affected by the depth of the market in which the Bank operates.

Liquidity risk may also result from the inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management involves the ongoing maintenance of sufficient cash and marketable securities in order to ensure that sufficient liquidity is available to meet commitments.

Liquidity risk is divided into two categories:

- Market liquidity risk: risk of losses arising from difficulties in accessing a product or market at the required time, price and volume.
- Funding liquidity risk: risk of losses arising from a timing mismatch in respect of the maturities of financial assets and liabilities, resulting in a risk that the Bank does not meet obligations when due or will have to raise funding at higher-than-normal rates.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- Monitoring liquidity balances held at counterparties and the fair value of financial investments on a daily basis, to assess the need to increase the Bank's holdings of high-quality liquid assets.
- Maintaining sufficient liquidity balances in approved currencies to enable the execution of payments in different currencies, and restricting execution of foreign exchange transactions in exotic currencies.
- Negotiating settlement lines with different counterparties, to be used in case of liquidity shortfalls.
- Carrying a portfolio of high-quality liquid assets, diversified by currency and maturity, which can also be used as collateral in order to raise funding.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

- Hedging all forward foreign exchange contracts entered into with clients by entering into mirror trades with another counterparty, thereby ensuring that all liquidity inflows and outflows are hedged.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent of asset encumbrance which might prevent financial assets from being used as collateral to obtain further funding.
- Stress testing of the Bank's liquidity position against various exposures and global, country-specific and Bank-specific events.

The Bank's liquidity and funding risk management framework employs two key measures to define, monitor and control the liquidity and funding risk:

- The Liquidity Coverage Ratio ('LCR') measures an institution's holdings of liquid assets enabling it to cover its net liquidity outflows under stressed conditions, thus ensuring that institutions have liquidity buffers which are adequate to address any possible imbalances between liquidity inflows and outflows under stressed conditions over a 30-day period. The LCR is computed by dividing the Bank's liquidity buffer (composed of the HQLAs) by the net liquidity outflow (composed of the Bank's liquidity outflows less liquidity inflows over the next 30 days). The Bank uses the LCR to monitor its short-term liquidity on an ongoing basis and to gauge the short-term resilience of its liquidity profile in terms of the requirements emanating from European Commission ('EC') Delegated Regulation 2015/61.
- The Net Stable Funding Ratio ('NSFR'), on the other hand, measures the amount of available stable funding relative to the amount of required stable funding. The Bank's available stable funding consists of the portion of capital and liabilities expected to be stable over one year. Required stable funding, on the other hand, refers to the funding which the Bank is required to hold in respect of its assets and off-balance sheet commitments. The Bank uses this ratio to monitor its funding requirements over the longer term.

The Board, with the assistance of the Finance department, is responsible for ensuring that the Bank holds sufficient liquidity that is commensurate to the Bank's projected level of operating activity. In this respect, the Bank ensures that both LCR and NSFR meet the minimum regulatory requirement and that liquidity levels are enough to enable the Bank to achieve the target return on equity.

Through the liquidity contingency plan, the Bank also determines options which may be resorted to when the Bank's recovery indicators are triggered. These include the sale of high-quality liquid assets ('HQLAs') when permitted by market conditions, the utilisation of settlement lines with other correspondent banks, and the utilisation of emergency funding from the European Central Bank.

The tables below present a summary of the Bank's LCR and NSFR for the financial years ended 31 December 2022 and 31 December 2021.

	As at 31 December	Average for the year	Maximum for the Year	Minimum for the Year
2022				
LCR	325%	327%	351%	233%
NSFR	415%	407%	432%	369%
2021				
LCR	356%	372%	399%	341%
NSFR	504%	495%	518%	471%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

The minimum regulatory requirement for both the LCR and NSFR ratios amounts to 100%. In line with the figures presented above, the Bank exceeded this regulatory requirement for both ratios during the current and previous financial years.

The Bank's liquidity profile is generally made up of deposits and a sizeable portfolio of financial investments which are eligible for use as collateral to raise ECB funding. In this respect, the Bank typically invests in sovereign bonds issued by countries having an investment-grade credit rating, including Malta, the Netherlands, Luxembourg, the United States of America, France, Finland, Canada and Austria amongst others.

TIMCO monitors maturity profiles through the implementation of a laddered portfolio maturity approach, in an attempt to manage the Bank’s exposure to interest rate changes, investment price risk, liquidity risk and re-investment risk. This approach ensures that the Bank avoids situations where a significant percentage of the portfolio matures in the same year.

The table below analyses the Bank's financial assets and liabilities by contractual maturity.

2022	Total	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	No maturity
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Cash and balances held with Central Bank of Malta	469,753,718	431,158,928	-	-	-	38,594,790
Loans and advances to banks	60,813,111	60,813,111	-	-	-	-
Loans and advances to customers	4,836,026	641,854	2,101,451	2,092,721	-	-
Debt securities measured at amortised cost	343,368,400	3,009,188	22,019,873	199,859,529	118,479,810	-
Equity securities measured at FVTPL	1,510,379	-	-	-	-	1,510,379
Derivative financial assets	2,071,554	2,071,554	-	-	-	-
Accrued income	859,514	859,514	-	-	-	-
Other assets	121,673	121,673	-	-	-	-
	883,334,375	**498,675,822**	**24,121,324**	**201,952,250**	**118,479,810**	**40,105,169**
Liabilities						
Amounts owed to banks	4,030,042	4,030,042	-	-	-	-
Amounts owed to customers	838,407,468	832,333,868	153,600	5,920,000	-	-
Derivative financial liabilities	2,071,554	2,071,554	-	-	-	-
Lease liabilities	1,046,115	-	231,049	773,155	41,911	-
Accruals and deferred income	719,906	719,906	-	-	-	-
Other liabilities	137,886	137,886	-	-	-	-
	846,412,971	**839,293,256**	**384,649**	**6,693,155**	**41,911**	**-**
Maturity gap		**(340,617,434)**	**23,736,675**	**195,259,095**	**118,437,899**	
Cumulative gap		**(340,617,434)**	**(316,880,759)**	**(121,621,664)**	**(3,183,765)**	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

2021	Total	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	No maturity
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Cash and balances held with Central Bank of Malta	620,939,597	620,939,597	-	-	-	-
Loans and advances to banks	46,117,911	46,117,911	-	-	-	-
Loans and advances to customers	10,234,303	987,831	7,855,848	1,390,624	-	-
Debt securities measured at amortised cost	283,800,803	3,002,758	3,771,512	140,853,868	136,172,665	-
Equity securities measured at FVTPL	2,447,619	-	-	-	-	2,447,619
Derivative financial assets	2,290,411	2,290,411	-	-	-	-
Accrued income	1,427,386	1,427,386	-	-	-	-
Other assets	4,903	4,903	-	-	-	-
	967,262,933	**674,770,797**	**11,627,360**	**142,244,492**	**136,172,665**	**2,447,619**
Liabilities						
Amounts owed to banks	2,400,010	2,400,010	-	-	-	-
Amounts owed to customers	924,610,618	923,343,719	6,899	1,260,000	-	-
Derivative financial liabilities	2,290,411	2,290,411	-	-	-	-
Lease liabilities	922,539	-	142,642	737,986	41,911	-
Accruals and deferred income	694,349	694,349	-	-	-	-
Other liabilities	2,076,978	2,076,978	-	-	-	-
	932,994,905	**930,805,467**	**149,541**	**1,997,986**	**41,911**	**-**
Maturity gap		**(256,034,670)**	**11,477,819**	**140,246,506**	**136,130,754**	
Cumulative gap		**(256,034,670)**	**(244,556,851)**	**(104,310,345)**	**31,820,409**	

As illustrated in the tables above, the Bank's loans and advances to banks have been included in the 'Less than 3 Months' category given that these are held in call accounts and are therefore withdrawable on demand. However, in practice, these balances are maintained by the Bank for longer periods.

Financial investments measured at amortised cost mature primarily in the 'Between 1 year and 5 years' and 'Over 5 years' buckets. Nevertheless, financial investments with a gross carrying amount of EUR264,389,088 as at 31 December 2022 (2021: EUR213,099,076) form part of the Bank's HQLA portfolio and can therefore be liquidated within one month or less, even under stressed conditions. The remainder of the portfolio is composed of debt securities issued by credit institutions which are considered to be liquid, despite the fact that these do not meet the definition of HQLAs in terms of the LCR regulation.

In addition, financial investments with a gross carrying amount of EUR236,780,780 as at 31 December 2022 (2021: EUR218,835,919) are eligible to be pledged as collateral for the purpose of participating in ECB open market operations. As at 31 December 2022 and 2021, none of the Bank's financial investments are encumbered.

Financial assets measured at FVTPL primarily include investments in UCITs and ETFs, which are highly liquid and which do not have a maturity date.

Amounts owed to customers primarily include customer deposits which are repayable on demand. However, in practice, the Bank has determined that most of these deposits are sticky and are held with the Bank for longer periods.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

The table below presents the Bank's undiscounted cash flows payable under non-derivative and derivative financial liabilities, grouped by reference to the residual period to the contractual maturity date.

2022	Carrying amount	Gross nominal outflow	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Non-derivative financial liabilities						
Amounts owed to banks	4,030,042	4,030,042	4,030,042	-	-	-
Amounts owed to customers	838,407,468	839,442,774	833,369,174	153,600	5,920,000	-
Lease liabilities	1,046,115	1,163,820	-	275,911	845,998	41,911
Accruals and deferred income	719,906	719,906	719,906	-	-	-
Other liabilities	137,886	137,886	137,886	-	-	-
	844,341,417	**845,494,428**	**838,257,008**	**429,511**	**6,765,998**	**41,911**
Derivative financial liabilities						
Derivative financial liabilities	2,071,554	2,071,554	2,071,554	-	-	-
	2,071,554	**2,071,554**	**2,071,554**	-	-	-

2021	Carrying amount	Gross nominal outflow	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Non-derivative financial liabilities						
Amounts owed to banks	2,400,010	2,400,010	2,400,010	-	-	-
Amounts owed to customers	924,610,618	924,610,618	923,343,719	6,899	1,260,000	-
Lease liabilities	922,539	1,064,046	-	183,865	838,270	41,911
Accruals and deferred income	694,349	694,349	694,349	-	-	-
Other liabilities	2,076,848	2,076,848	2,076,848	-	-	-
	930,704,364	**930,845,871**	**928,514,926**	**190,764**	**2,098,270**	**41,911**
Derivative financial liabilities						
Derivative financial liabilities	2,290,411	2,290,411	2,290,411	-	-	-
	2,290,411	**2,290,411**	**2,290,411**	-	-	-

5.7 Operational risk

Operational Risk is the non-financial risk of loss arising from failed internal processes or systems as well as from external events. Such risk can take various forms in such as Sanctions Risk, Anti-Money Laundering Risk, Internal Fraud Risk, External Fraud Risk, Conduct Risk, Systems ICT Risk, Business Process Risk, Reputational Risk and also Key Staff Dependency Risk. Such risks can be driven by various risk drivers which are all a threat to the Bank's operations.

The Bank mitigates its exposure to operational risk through the implementation of a number of automated and manual controls, which controls are documented in detailed risk registers. Operational risk losses in excess of EUR5,000 are documented in Operational Risk Reports, which reports are reviewed by the Risk Manager.

The Bank calculates Pillar I capital requirement for Operational Risk using the Basic Indicator, which requires the Bank to allocate a capital requirement equal to 15% of the average over three years of the relevant indicator. The Bank's operational risk capital requirement for 2022 amounted to EUR1,906,194 (2021: EUR1,858,805).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.7 Operational risk *(continued)*

Following the conclusion of the SREP review concluded by the MFSA in 2021, the MFSA imposed a 5% Pillar 2 capital requirement on the Bank, which requirement was attributable to the under-capitalisation of operational risk under Pillar 1. This Pillar 2 requirement has been implemented by the Bank as from March 2021 onwards. On an annual basis as part of its ICAAP, the Bank assesses the Pillar 2 capital requirement for operational risk using an internally-developed model. The resulting capital requirement is compared to the 5% capital requirement imposed by the MFSA. To date, the Bank's internal assessment in respect of operational risk has always fell within the 5% capital requirement imposed by the MFSA.

5.8 Capital risk management

The Bank is a licenced credit institution and must therefore comply with the minimum capital requirements prescribed by the Capital Requirements Regulation. The Bank has adopted the Standardised Approach to calculate its capital requirements for credit risk and the Basic Indicator Approach for operational risk and foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements.

Own Funds represents the Bank's available capital and reserves measured in line with the CRR. During the financial years ended 31 December 2022 and 31 December 2021, the Bank always managed to maintain its capital ratios above minimum regulatory requirements as well as internal risk appetite thresholds. The Bank's capital base is made up exclusively of Common Equity Tier 1 (CET1) capital, comprising the following items:

- Share capital - The Bank's Share Capital as at 31 December 2022 is analysed in Note 23;
- Retained earnings – The Bank's retained earnings is composed of opening Retained Earnings, the current year profit after tax (post verification) less the dividend pay-out to the shareholder, if any;
- Property revaluation reserve – the movement in the revalued amount of the Bank's freehold premises, net of deferred tax, as presented in Note 25; and
- Other regulatory adjustments including deductions for intangible assets and prudential filters for financial assets in accordance with CRD IV.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.8 Capital risk management *(continued)*

The following is an analysis of the Bank's capital base in accordance with CRR requirements.

	2022 EUR	2021 (restated) EUR
Own Funds		
Common Equity Tier 1 (CET1)		
Paid up share capital	40,200,000	40,200,000
Retained earnings	5,683,537	1,768,410
Property revaluation reserve	3,826,693	3,826,693
CET 1 Capital before regulatory adjustments	**49,710,230**	**45,795,103**
Deductions and Adjustments		
Adjustment to CET 1 due to prudential filters	(1,510)	(2,448)
Intangible assets	(3,962,417)	(3,397,072)
Total deductions and adjustments	**(3,963,927)**	**(3,399,520)**
Total Tier 1 after prudential filters and deductions and total own funds	**45,746,303**	**42,395,583**

5.9 Fair value measurement of financial instruments

i. Fair value hierarchy

The Bank measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements. The different levels of the fair value hierarchy are defined below:

i. Level 1 – valuation techniques based on quoted prices in active markets for identical assets or liabilities
ii. Level 2 – valuation techniques based on directly and indirectly observable inputs other than quoted prices included in Level 1
iii. Level 3 – valuation techniques based on inputs that are not based on observable market data

ii. Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- For financial assets that are traded in an active market – the use of quoted market prices or dealer quotes for similar instruments;
- For foreign currency forwards – the present value of future cash flows based on the forward exchange rates as at the balance sheet date; and
- For other financial instruments - discounted cash flow analysis.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.9 Fair value measurement of financial instruments *(continued)*

iii. Financial instruments measured at fair value

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Bank has classified its financial instruments into the three levels prescribed under the accounting standards.

The Bank's financial instruments measured at fair value consist solely of financial investments measured at fair value through profit or loss, which include investments in equity securities and units in collective investment undertakings. Investments in collective investment undertakings are classified as Level 1 financial instruments since their fair value is based on quoted prices in active markets.

Derivative assets and liabilities comprise forward foreign exchange contracts valued using discounted cash flow techniques, based on forward foreign exchange rates quoted at the end of the financial reporting period. As a result, these are classified as Level 2 instruments.

The financial assets within Level 3 comprise holdings of unlisted equity securities. In view of the absence of quoted market prices or observable inputs for modelling the fair value of these instruments, the fair value of the equity securities is derived by reference to prices sourced from the issuer, which are based on unobservable inputs. In view of the insignificance of the Level 3 assets in the context of the Bank's total assets, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2022 and 2021. The following table provides an analysis of the fair value hierarchy classification in respect of financial instruments measured at fair value.

2022	**Total EUR**	**Level 1 EUR**	**Level 2 EUR**	**Level 3 EUR**
Equity securities measured at FVTPL	1,510,379	1,423,079	-	87,300
Derivative financial assets	2,071,554	-	2,071,554	-
Total financial assets measured at fair value	**3,581,933**	**1,423,079**	**2,071,554**	**87,300**
Derivative financial liabilities	2,071,554	-	2,071,554	-
Total financial liabilities measured at fair value	**2,071,554**	**-**	**2,071,554**	**-**

2021	**Total EUR**	**Level 1 EUR**	**Level 2 EUR**	**Level 3 EUR**
Equity securities measured at FVTPL	2,447,619	2,374,959	-	72,660
Derivative financial assets	2,290,411	-	2,290,411	-
Total financial assets measured at fair value	**4,738,030**	**2,374,959**	**2,290,411**	**72,660**
Derivative financial liabilities	2,290,411	-	2,290,411	-
Total financial liabilities measured at fair value	**2,290,411**	**-**	**2,290,411**	**-**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.9 Fair value measurement of financial instruments *(continued)*

iv. Financial Instruments not measured at fair value

All other financial assets and liabilities of the Bank are measured at amortised cost, including cash balances held with the Central Bank of Malta, loans and advances to banks and to customers, financial investments, prepayments and accrued income and amounts owed to other banks and customers.

Financial investments include investments in debt securities amounting to EUR343,368,400 (2021: EUR283,800,803). The fair value of these instruments is determined using quoted prices in active markets, thus resulting in a Level 1 fair value classification. As at 31 December 2022, the fair value of the Bank's financial investments measured at amortised cost amounted to EUR297,947,689 (2021: EUR284,787,627).

The carrying amount of balances held with the Central Bank of Malta, loans and advances to banks, and amounts owed to banks is deemed to be a reasonable approximation of their fair value, since these balances are predominantly short term in nature.

Fair values in relation to loans and advances to customers, which mainly comprise short-term facilities repayable on demand, are deemed to be fairly close to carrying amounts principally in view of the fact that the Bank has the ability to re-price the majority of the exposures at its discretion within a period of short notice of up to a maximum of 12 months.

The carrying amount of amounts due to customers, which predominantly represent amounts which are repayable on demand, is considered to be a reasonable approximation of their fair value, in light of the short-term nature of customer deposits. Customer term deposits have a maturity ranging between one year and eighteen months and, as a result, the fair value is also deemed to be closely approximated by the amortised cost, due to the relatively short-term nature.

v. Non-financial instruments measured at fair value

The Bank measures its property at fair value. The fair value is determined based on periodic valuations carried out by professional valuers. Such valuations are based on market values, taking into account the location of the property, its size and the availability of similar properties in the area. As a result of the significant unobservable inputs to these valuations, property is classified under Level 3 within the fair value hierarchy.

The external valuations of the Level 3 property have been performed using predominantly the traditional investment method of valuation based on the capitalised rentals approach. In view of the limited market information available, the valuations have been performed using unobservable inputs. In relation to the capitalised rentals approach, the significant unobservable inputs include a capitalisation rate representing the discount rate adjusted for anticipated growth and the expected annual rental value ("ERV") taking into account the rental rate per square metre for comparable properties located in proximity to the Bank's property with adjustments for differences in the size, age, exact location and condition of the property.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.9 Fair value measurement of financial instruments *(continued)*

The property was last revalued during 2021. The Directors have reviewed the carrying amounts of the properties, and have confirmed that the carrying amount as of the end of 2022 closely approximates the property's fair value. Valuations are performed on a periodic basis unless there is reasonable ground to believe that the current carrying amount significantly deviated from the fair value.

Market activity has been impacted in a number of sectors, which has led to a heightened level of uncertainty within the local property market. The real impact of the current macroeconomic environment on property prices, characterised by significant inflationary pressures and an increasing interest rate environment, will not be fully known until market conditions stabilise.

6. Judgements applied in the determination of accounting estimates and sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that potentially involve a higher degree of judgement or complexity, and potential major sources of estimation uncertainty that have a potential significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis for calculation of each affected line item in the financial statements.

<u>Measurement of ECL in respect of financial assets measured at amortised cost</u>

The measurement of allowances for ECL for financial assets measured at amortised cost is an area that requires the use of models and assumptions about future economic conditions and credit behaviour, including the likelihood of customers or counterparties defaulting and the measurement of the resulting losses. An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is presented in further detail in note 5.

A number of judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The ECL models are reviewed regularly in light of differences between loss estimates and actual loss experience, although available information in respect of the Bank's historical loss experience since the initial adoption of IFRS 9 is still contained. The level of estimation uncertainty and judgement has increased as a result of the current macroeconomic environment, which is highly characterised by significant inflationary pressures as well as an increasing interest rate environment. Since there is no observable historical trend, which can be reflected within the models, that will accurately represent the effects of the economic changes brought about by the current macroeconomic environment, the measurement of ECL remains highly subjective.

In this respect, management considers reasonable and supportable information that is relevant and reliable and based on the Bank's historical experience and expert credit assessment including forward looking information.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. Judgements applied in the determination of accounting estimates and sources of estimation uncertainty *(continued)*

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty requires judgement. For loans and advances to customers, staging is predominantly determined on the basis of delinquency status. In addition, the Bank performs periodic credit assessments at borrower level by reference to recent historical management information and financial forecasts, where available. 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.

In relation to financial investments measured at amortised cost, as well as balances held with Central Bank of Malta and loans and advances to banks, the Bank applies the low credit risk exemption since most of these financial instruments are assigned an investment-grade credit rating by reputable external credit rating agencies.

In the opinion of the Directors, the estimates and judgments applied in preparing these financial statements are not overly difficult, subjective or complex, especially in view of the fact that:

- The level of collateralisation in respect of a significant proportion of loans and advances to customers is elevated, which minimises the risk of misstatement in the measurement of ECL;
- The size of the portfolio of loans and advances to customers is limited in the context of the size of the balance sheet, given that the lending activity is deemed to represent an ancillary service offered to the Bank's clients;
- The majority of financial investments measured at amortised cost and other financial assets are assigned an investment-grade credit rating by reputable external credit rating agencies, thereby limiting the possibility of unidentified SICR or UTP trigger events; and
- With the exception of financial investments measured at amortised cost, the Bank's portfolios of financial assets are either repayable on demand or have very short maturities, thereby limiting the extent of judgement which would have been required in terms of the application of forward-looking information within the ECL calculation for financial assets with longer term maturities.

In this respect, the Directors believe that the judgment applied in the measurement of ECL is not expected to have a significant impact on the amounts recognised in the financial statements. A detailed description of the inputs, assumptions and estimation techniques used in measuring ECL in respect of financial assets measured at amortised cost is disclosed in Note 5.3.iii.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Net interest income

	2022	2021
	EUR	EUR
Interest income		
On balances held with Central Bank of Malta	2,664,043	295,374
On amounts owed to customers	1,962,299	2,628,606
On loans and advances to banks	367,351	-
On loans and advances to customers	236,966	553,442
	5,230,659	**3,477,422**
On debt and other fixed income instruments	1,484,801	2,094,328
Net amortisation of premiums and discounts	212,293	(96,996)
	1,697,094	**1,997,332**
Total interest income	**6,927,753**	**5,474,754**
Interest expense		
On balances held with Central Bank of Malta	1,249,307	2,106,350
On amounts owed to banks	138,728	251,670
On amounts owed to customers	84,763	11,687
On lease liabilities	44,164	48,557
Total interest expense	**1,516,962**	**2,418,264**
Net interest income	**5,410,791**	**3,056,490**

Until September 2022, negative interest rates were applicable to balances held with Central Bank of Malta. In this respect, negative interest payable in respect of balances held with Central Bank of Malta is presented within ‘Interest expense’. Similarly, high balance maintenance fees were charged by the Bank in respect of amounts owed to customers are presented within ‘Interest income’.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. Net fee and commission income

	2022	2021
	EUR	EUR
Fee and commission income		
Portfolio and management fees	6,016,924	5,882,559
Credit related fees and commissions - retail banking	4,398,366	4,100,021
	10,415,290	**9,982,580**
Fee and commission expense		
Portfolio and management fees	(808,177)	(914,113)
Other fees paid	(533,642)	(500,818)
	(1,341,819)	**(1,414,931)**
Net fee and commission income	**9,073,471**	**8,567,649**

	At a point in Time		Over Time		Total	
	2022	2021	2022	2021	2022	2021
	EUR	EUR	EUR	EUR	EUR	EUR
Custody & Depositary	130,942	111,836	4,533,175	4,607,693	4,664,117	4,719,529
Securities	1,190,577	1,366,115	293,172	294,783	1,483,749	1,660,898
Payments	1,731,286	1,320,558	-	-	1,731,286	1,320,558
Account On-Boarding	303,741	133,113	2,231,527	2,148,482	2,535,268	2,281,595
Other fees	870	-	-	-	870	-
Fee and Commission Income from Contracts with Customers	**3,357,416**	**2,931,622**	**7,057,874**	**7,050,958**	**10,415,290**	**9,982,580**

9. Net trading income

	2022	2021
	EUR	EUR
Net income from foreign exchange activities	1,345,294	1,540,531
Fair value movements in respect of financial investments measured at FVTPL	(64,683)	1,801
	1,280,611	**1,542,332**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Changes in expected credit losses and other credit impairment charges

	2022 EUR	2021 EUR
Change in expected credit losses:		
- loans and advances to customers	3,770,251	(104,466)
- loan commitments	130	2,163
- loans and advances to banks	(4,656)	(18,457)
- debt securities measured at amortised cost	(48,674)	461,690
Other credit impairment charges:		
- bad debts written off	(3,854,198)	-
	(137,147)	**340,930**

During the financial year ended 31 December 2022, the Bank wrote off a defaulted exposure with a gross carrying amount of EUR3,854,198, which was fully provided for as at 31 December 2021. In this respect, the Bank reversed the allowance for ECL in respect of this exposure and wrote off the gross carrying amount during the financial year ended 31 December 2022, as per the table above.

11. Other operating income

Other operating income, comprising rental income received by the Bank in respect of the lease of car spaces to third parties, amounted to EUR33,573 during the financial year ended 31 December 2022 (2021: EUR36,924).

12. Employee compensation and benefits

	2022 EUR	2021 EUR
Employee compensation and benefits include the following:		
Wages, salaries and allowances	3,662,286	3,337,640
Directors' remuneration	555,427	592,849
Post employment and other long-term employee benefits	400,670	347,511
Social security costs	250,827	242,151
Other staff costs	355,017	195,146
	5,224,227	**4,715,297**

Post employment and other long-term employee benefits

The Bank has liabilities for post employment and other long-term employee benefits arising out of the provisions of the Bank's Remuneration Policy. Refer to Note 33 for further detail in respect of the nature of these liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12. Employee compensation and benefits *(continued)*

The weekly average number of persons employed by the Bank during the year amounted to 94 (2021: 94) as follows:

	2022	2021
Weekly average:		
Executive and senior managerial	2	1
Other managerial and clerical	89	91
Other	3	2
	94	**94**

The headcount, including persons employed as part-time, as at end of year is as follows:

Executive and senior managerial	2	1
Other managerial and clerical	98	91
Other	4	4
	104	**96**

13. Expenses by nature

	2022 EUR	2021 EUR
I.T. expenses	1,734,982	1,533,866
Regulatory fund contributions	935,393	935,221
Legal and consultancy expenses	674,245	609,340
Marketing expenses	205,434	195,633
Operational expenses	178,370	203,457
Auditor's remuneraton	146,320	55,885
Premises related expenses	105,194	91,445
Travel expenses	69,388	27,177
Other administrative expenses	19,825	173
	4,069,151	**3,652,197**

The auditor's remuneration comprises fees charged in relation to the annual statutory audit of the Bank's financial statements, amounting to EUR110,000; other fees charged by the appointed independent auditors to the Bank relating to (i) other assurance services in respect of Investor Services Rules and the Calculation of Contributions to the Single Resolution Fund, amounting to EUR10,000; and (ii) non-assurance services, amounting to EUR26,320. All fees are exclusive of value added tax.

The auditor's remuneration in respect of the financial year ended 31 December 2021 amounted to EUR55,885.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14. Taxation

	2022 EUR	2021 (restated) EUR
Current tax:		
- for this year	103,575	1,947,465
- adjustments in respect of prior years	600	1,200
Deferred tax:		
- origination and reversal of temporary differences	1,273,730	(111,553)
- adjustments in respect of prior years	-	(14,570)
	1,377,905	**1,822,542**

The tax recognised in profit or loss on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2022 EUR	2021 (restated) EUR
Profit before tax	5,293,032	4,089,786
Tax thereon at 35%	1,852,561	1,431,425
Tax effect of:		
Current tax adjustments in respect of prior years	600	1,200
Non-deductible expenses	234,443	417,765
Disallowed expense arising from depreciation of property, plant and equipment	204,469	133,931
Non-taxable income	(12,407)	(211)
Notional interest deduction	(901,761)	-
Deferred tax not previously recognised	-	(161,568)
Tax charge for the year	**1,377,905**	**1,822,542**

15. Earnings per share

The calculation of basic earnings per share as at 31 December 2022 was based on profit attributable to ordinary shareholders of EUR3,915,127 (2021: EUR2,267,244) and the weighted average number of outstanding ordinary shares of 40,200 (2021: 40,200).

16. Dividends per share

No dividends were paid or proposed in respect of the financial year ended 31 December 2021, and no interim dividends were paid during the financial year ended 31 December 2022.

On 30 January 2023, the Board of Directors proposed a final net dividend of €5,000,000 reflecting a dividend per ordinary share of EUR124.38, in respect of the financial year ended 31 December 2022, which will be paid out to the shareholders during the financial year ending 31 December 2023 subject to approval by the Annual General Meeting scheduled for 21 April 2023.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17. Cash and balances held with Central Bank of Malta

	2022 EUR	2021 EUR
Balances with Central Bank of Malta	469,748,796	620,936,983
Cash	4,922	2,614
	469,753,718	**620,939,597**

Balances held with the Central Bank of Malta include an amount of EUR37,057,922 (2021: EUR9,902,235) representing mandatory reserve deposits in terms of Article 37 of the Central Bank of Malta Act, which amounts are not available for use in the Bank's day-to-day operations. These balances also comprise an amount of EUR1,531,946 (2021: EUR1,531,946) pledged in favour of the Depositor Compensation Scheme. Any excess balances are maintained for liquidity purposes together with foreign currency denominated placements, to maximise interest income. Credit loss allowances in respect of balances with the Central Bank of Malta are deemed to be negligible.

18. Loans and advances to banks

	2022 EUR	2021 EUR
Repayable at call or short notice	60,864,977	46,165,121
Current term loans and advances	22,500	22,500
Gross carrying amount	60,887,477	46,187,621
Allowance for ECL	(74,366)	(69,710)
	60,813,111	**46,117,911**

All term loans and advances to banks have a residual maturity of 3 months of less.

By currency:	2022 EUR	2021 EUR
United States Dollar	22,841,022	13,228,899
Euro	16,147,857	11,102,322
UK Pound	11,982,574	11,197,175
Canadian Dollar	4,090,090	966,221
Czech Koruna	1,437,301	2,249,130
Swedish Krona	1,043,070	3,857,595
Swiss Franc	653,315	654,362
Hong Kong Dollar	68,794	208,066
Other currencies	2,549,088	2,654,141
	60,813,111	**46,117,911**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. Loans and advances to banks *(continued)*

	2022 EUR	2021 EUR
By country:		
Guernsey	35,062,626	5,384,940
Austria	6,571,539	16,425,446
Malta	5,299,946	1,389,274
Switzerland	4,755,947	-
Denmark	3,737,082	102,312
France	645,298	2,477,473
Belgium	2,255,349	4,606,574
Puerto Rico	2,152,723	1,619,771
Luxembourg	2,374	13,829,964
Other countries	330,227	282,157
	60,813,111	**46,117,911**

19. Loans and advances to customers

	2022 EUR	2021 EUR
Repayable at call and short notice	376,118	8,073,224
Term loans and advances	4,518,476	5,989,898
Gross carrying amount	4,894,594	14,063,122
Allowance for ECL	(58,568)	(3,828,819)
	4,836,026	**10,234,303**
Remaining maturity of loan and advances:		
1 to 5 years	2,092,721	1,390,624
1 year or less but over 3 months	2,101,451	7,855,848
3 months or less but not repayable on demand	641,854	987,831
	4,836,026	**10,234,303**

	2022 EUR	2021 EUR
By currency:		
Euro	4,264,054	3,934,846
United States Dollar	544,931	5,973,520
UK Pound	21,267	28,865
Other currencies	5,774	297,072
	4,836,026	**10,234,303**
By country:		
Malta	4,802,996	10,217,629
United Kingdom	3,931	6,855
British Virgin Islands	3,894	3,402
Other countries	25,205	6,417
	4,836,026	**10,234,303**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. Financial investments

	2022 EUR	2021 EUR
Measured at amortised cost		
- debt securities	343,368,400	283,800,803
Measured at fair value through profit or loss		
- equity and other non-fixed income securities	1,510,379	2,447,619
	344,878,779	**286,248,422**

20.1 Financial investments measured at amortised cost

	2022 EUR	2021 EUR
At 1 January	283,855,863	202,976,364
Acquisitions	79,801,217	129,287,877
Disposals and redemptions	(22,258,970)	(50,496,760)
Amortisation of premium/discount	68,170	(219,629)
Exchange adjustments	2,005,854	2,308,011
At 31 December	343,472,134	283,855,863
Allowance for ECL	(103,734)	(55,060)
	343,368,400	**283,800,803**

By currency:

	2022	2021
Euro	315,526,840	252,344,370
United States Dollar	27,841,560	31,456,433
	343,368,400	**283,800,803**

By country:	2022 EUR	2021 EUR
Luxembourg	91,991,113	86,001,122
United States of America	91,622,574	62,036,627
France	35,960,879	32,047,163
Netherlands	32,393,490	32,462,851
Finland	13,298,669	13,323,402
Canada	11,860,883	-
Austria	10,051,229	10,065,043
Norway	9,947,361	9,940,390
United Kingdom	7,995,242	7,000,636
New Zealand	7,917,162	1,976,633
Germany	2,956,784	1,000,279
Switzerland	5,919,091	-
Malta	1,555,141	649,493
Sweden	-	5,993,844
Other Countries	19,898,782	21,303,320
	343,368,400	**283,800,803**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. Financial investments *(continued)*

20.1 Financial investments measured at amortised cost *(continued)*

	2022 EUR	2021 EUR
Issued by Public Bodies:		
- Supranational organisations	101,559,066	98,602,061
- Foreign sovereigns	90,597,757	79,119,697
	192,156,823	177,721,758
Issued by Public Issuers:		
- Foreign banks	77,424,171	70,052,234
- Foreign corporates	72,232,265	35,377,318
- Local banks	1,555,141	649,493
	151,211,577	106,079,045
Total financial investments measured at amortised cost	**343,368,400**	**283,800,803**

	2022 EUR	2021 EUR
Listing status:		
Listed on the Malta Stock Exchange	1,555,141	649,493
Listed on other recognised exchanges	341,813,259	283,151,310
	343,368,400	**283,800,803**

A sectoral analysis in respect of financial investments measured at amortised cost is presented within Note 5.3.viii.

20.2 Financial investments measured at fair value through profit or loss

	2022 EUR	2021 EUR
At 1 January	2,447,619	55,980
Acquisitions	1,911,921	4,617,705
Disposals	(2,876,594)	(2,133,220)
Exchange adjustments	183,085	41,678
Net fair value movement	(155,652)	(134,524)
	1,510,379	**2,447,619**

	2022	2021
By currency:		
Euro	1,203,407	1,779,343
United States Dollar	306,972	668,276
	1,510,379	**2,447,619**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20.2 Financial investments measured at fair value through profit or loss *(continued)*

By country:

Ireland	1,116,107	743,183
United States of America	306,972	1,631,776
Belgium	87,300	72,660
	1,510,379	**2,447,619**

21. Derivative financial instruments

	Notional contract amount	Fair value - Assets	Fair value - Liabilities
	EUR	EUR	EUR
Forward foreign exchange derivatives:			
- as at 31 December 2022	138,926,874	2,071,554	(2,071,554)
- as at 31 December 2021	258,906,773	2,290,411	(2,290,411)

The Bank transacts derivatives primarily to create risk management solutions for clients, referred to as 'trading derivatives', enabling customers to take, transfer, modify or reduce current or expected foreign exchange risks. All of the positions held for trading purposes are covered by back-to-back derivative transactions with other counterparties, managing the market risk arising from these positions.

The notional contract amounts of derivatives held for trading purposes indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk. Foreign exchange derivatives represent commitments to purchase and sell pre-established amounts of currencies and are gross settled.

22. Prepayments and accrued income

	2022	2021
	EUR	EUR
Accrued interest income	859,514	1,427,386
Prepayments	594,946	301,872
	1,454,460	**1,729,258**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Right-of-use assets

The Bank leases property, plant and equipment, which lease agreements are accounted for in line with Note 4.6. The table below illustrates a breakdown of the right-of-use assets as at 31 December 2021 and 31 December 2022, respectively.

	Property	Equipment	Total
	EUR	EUR	EUR
Right-Of-Use Assets			
Cost			
At 1 January 2021	1,357,406	16,764	1,374,170
At 31 December 2021	**1,357,406**	**16,764**	**1,374,170**
At 1 January 2022	1,357,406	16,764	1,374,170
Additions	297,072	16,371	313,443
At 31 December 2022	**1,654,478**	**33,135**	**1,687,613**
Depreciation			
At 1 January 2021	319,948	1,267	321,215
Charge for the year	190,204	9,045	199,249
At 31 December 2021	**510,152**	**10,312**	**520,464**
At 1 January 2022	510,152	10,312	520,464
Charge for the year	162,248	8,612	170,860
At 31 December 2022	**672,400**	**18,924**	**691,324**
Net book value			
At 31 December 2020	**1,057,458**	**15,497**	**1,052,955**
At 31 December 2021	**847,254**	**6,452**	**853,706**
At 31 December 2022	**982,078**	**14,211**	**996,289**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

24. Property plant and equipment

	Freehold Premises	Computer Hardware	Furniture & Fittings	Motor Vehicles	Total
	EUR	EUR	EUR	EUR	EUR
Cost or valuation					
At 1 January 2021	8,803,500	882,502	945,382	41,000	10,672,384
Additions	10,599	168,465	42,670	-	221,734
Revaluation	1,504,900	-	-	-	1,504,900
At 31 December 2021	**10,318,999**	**1,050,967**	**988,052**	**41,000**	**12,399,018**
At 1 January 2022	10,318,999	1,050,967	988,052	41,000	12,399,018
Additions	-	180,917	43,875	-	224,792
At 31 December 2022	**10,318,999**	**1,231,884**	**1,031,927**	**41,000**	**12,623,810**
Depreciation					
At 1 January 2021	459,545	706,838	459,634	9,567	1,635,584
Charge for the year	382,684	102,718	80,845	8,200	574,447
Adjustment upon revaluation	(638,733)	-	-	-	(638,733)
At 31 December 2021	**203,496**	**809,556**	**540,479**	**17,767**	**1,571,298**
At 1 January 2022	203,496	809,556	540,479	17,767	1,571,298
Charge for the year	412,782	123,109	84,113	8,200	628,204
At 31 December 2022	**616,278**	**932,665**	**624,592**	**25,967**	**2,199,502**
Net book value					
At 31 December 2020	**8,343,955**	**175,664**	**485,748**	**31,433**	**9,036,800**
At 31 December 2021	**10,115,503**	**241,411**	**447,573**	**23,233**	**10,827,720**
At 31 December 2022	**9,702,721**	**299,219**	**407,335**	**15,033**	**10,424,308**

During 2021, the Bank engaged an independent external expert to perform a revaluation exercise for its freehold premises. This exercise revealed an increase in the value of the Bank's premises of EUR2,143,633. Given that the Bank accounts for freehold premises using the revaluation model, this increase was reflected as an increase in the book value of freehold premises as illustrated in the table above.

During the financial year ended 31 December 2022, depreciation charges attributable to computer hardware and furniture and fittings amounting to EUR15,066 (2021: EUR16,747) are deemed to be directly attributable to the design and testing of software under development. In this respect, these amounts were capitalised as part of intangible assets (refer to Note 25).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25. Intangible assets

	Bavaria Banken Software	Self Developed Software	Software Under Development	Other Software	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
At 1 January 2021	1,013,298	1,139,955	1,869,156	912,925	4,935,334
Additions	-	-	-	247,665	247,665
Capitalisation	-	42,167	682,551	-	724,718
At 31 December 2021	**1,013,298**	**1,182,122**	**2,551,707**	**1,160,590**	**5,907,717**
At 1 January 2022	1,013,298	1,182,122	2,551,707	1,160,590	5,907,717
Additions	33,571	-	-	77,593	111,164
Capitalisation	-	81,808	664,616	-	746,424
At 31 December 2022	**1,046,869**	**1,263,930**	**3,216,323**	**1,238,183**	**6,765,305**
Amortisation					
At 1 January 2021	980,905	457,068	-	741,224	2,179,197
Charge for the year	27,108	156,085	-	148,255	331,448
At 31 December 2021	**1,008,013**	**613,153**	**-**	**889,479**	**2,510,645**
At 1 January 2022	1,008,013	613,153	-	889,479	2,510,645
Charge for the year	13,548	168,037	-	110,658	292,243
At 31 December 2022	**1,021,561**	**781,190**	**-**	**1,000,137**	**2,802,888**
Net book value					
At 31 December 2020	**32,393**	**682,887**	**1,869,156**	**171,701**	**2,756,137**
At 31 December 2021	**5,285**	**568,969**	**2,551,707**	**271,111**	**3,397,072**
At 31 December 2022	**25,308**	**482,740**	**3,216,323**	**238,046**	**3,962,417**

The Bank has continued to invest in its I.T. infrastructure and in line with previous years, software under development has not been amortised in accordance with the Bank's accounting policies and in line with IAS 38 - Intangible Assets. This is due to the fact that the Board of Directors of Sparkasse Bank Malta plc firmly believes that once the software under development goes live, an economic benefit will flow to the Bank, at which point the Bank will classify this software under “Self Developed Software” and amortise it accordingly.

During the financial year ended 31 December 2022, amortisation charges attributable to other software and amounting to EUR1,352 (2021: EUR1,352) are deemed to be directly attributable to the design and testing of software under development. In this respect, these amounts were capitalised as part of intangible assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

26. Deferred tax assets and liabilities

Deferred 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 taxes relate to the same fiscal authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	31 December 2022	31 December 2021 - restated	1 January 2021 - restated
	EUR	EUR	EUR
Deferred tax assets	10,274	1,284,004	1,172,451
Deferred tax liabilities	(2,060,527)	(2,060,527)	(1,310,255)
	(2,050,253)	**(776,523)**	**(137,804)**

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rate used is 35% (2021: 35%).

The Bank has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Bank. The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than 12 months from the end of the reporting period.

The following table analyses the deferred tax balances by source of temporary differences:

	31 December 2022	31 December 2021 - restated	1 January 2021 - restated
	EUR	EUR	EUR
Depreciation of property, plant and equipment and amortisation of intangible assets	(152,937)	(155,832)	(171,842)
Expected credit loss allowances	82,833	1,383,802	1,334,511
Fair valuation of properties	(2,060,527)	(2,060,527)	(1,310,255)
Fair value movements on financial instruments measued at fair value through profit or loss	62,940	31,942	(4,368)
Others	17,438	24,092	14,150
	(2,050,253)	**(776,523)**	**(137,804)**

The movement in deferred tax assets and liabilities during the year is as follows:

	At 1 January 2022 - restated	Recognised in profit or loss	Recognised in OCI	At 31 December 2022
	EUR	EUR	EUR	EUR
Depreciation of property, plant and equipment and amortisation of intangible assets	(155,832)	2,895	-	(152,937)
Expected credit loss allowances	1,383,802	(1,300,969)	-	82,833
Fair valuation of properties	(2,060,527)	-	-	(2,060,527)
Fair value movements on financial instruments measued at fair value through profit or loss	31,942	30,998	-	62,940
Others	24,092	(6,654)	-	17,438
	(776,523)	**(1,273,730)**	-	**(2,050,253)**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

26. Deferred tax assets and liabilities *(continued)*

	At 1 January 2021 - restated	Recognised in profit or loss	Recognised in OCI	At 31 December 2021 - restated
	EUR	EUR	EUR	EUR
Depreciation of property, plant and equipment and amortisation of intangible assets	(171,842)	16,010	-	(155,832)
Expected credit loss allowances	1,334,511	49,291	-	1,383,802
Fair valuation of properties	(1,310,255)	-	(750,272)	(2,060,527)
Fair value movements on financial instruments measued at fair value through profit or loss	(4,368)	36,310	-	31,942
Others	14,150	9,942	-	24,092
	(137,804)	**111,553**	**(750,272)**	**(776,523)**

27. Other assets

	2022	2021
	EUR	EUR
Variation margin	110,000	-
Other	11,673	4,904
	121,673	**4,904**

28. Called-up share capital

	2022	2021
	EUR	EUR
Authorised:		
25,000 *(2021: 25,000)* Ordinary 'A' voting shares of €1,000 each	25,000,000	25,000,000
25,000 *(2021: 25,000)* Ordinary 'B' non-voting shares of €1,000 each	25,000,000	25,000,000
	50,000,000	**50,000,000**
Issued and fully paid:		
20,100 *(2021: 20,100)* Ordinary 'A' voting shares of €1,000 each	20,100,000	20,100,000
20,100 *(2021: 20,100)* Ordinary 'B' non-voting shares of €1,000 each	20,100,000	20,100,000
	40,200,000	**40,200,000**

During the year ended 31 December 2021, the Bank's issued share capital increased by EUR6.2million as a result of a bonus share issue of EUR3million during July 2021 and a share capital injection of EUR3.2million from the Bank's immediate parent company, Sparkasse (Holdings) Malta Limited, during August 2021.

29. Investment fair value reserve

The revaluation reserve comprised the cumulative net change in fair value of financial investments measured at fair value through other comprehensive income held by the Bank, net of deferred taxation. The reserve is not available for distribution. As at 31 December 2022 and 31 December 2021, the Bank did not hold any investments measured at fair value through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

30. Property revaluation reserve

	EUR
Freehold Premises	
At 1 January 2021 - as restated	2,433,332
- surplus arising on revaluation	2,143,633
- deferred tax on revaluation gain	(750,272)
At 31 December 2021 - as restated	**3,826,693**
At 1 January 2022 - as restated	3,826,693
- surplus arising on revaluation	-
- deferred tax on revaluation gain	-
At 31 December 2022	**3,826,693**

In line with the requirements of IAS 16 – Property, Plant and Equipment, the value of any immovable property accounted for at fair value should be reviewed periodically. In accordance with this, the Bank engaged an independent architect to review the value of the property during 2021, which resulted in an increase in the fair value of the said property by EUR2.1million, as illustrated in the table above.

31. Amounts owed to banks

	2022 EUR	2021 EUR
Repayable at call or short notice	4,030,042	2,400,110
	4,030,042	**2,400,110**
By currency:		
British Pound	2,818,112	1,362,551
United States Dollar	353,716	383,979
Euro	32,389	458,844
Other currencies	825,825	194,736
	4,030,042	**2,400,110**
By country:		
Austria	2,992,802	-
Luxembourg	982,703	169,248
Malta	-	5,000
Belgium	-	1,943,167
Other countries	54,537	282,695
	4,030,042	**2,400,110**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

32. Amounts owed to customers

	2022	2021
	EUR	EUR
Repayble at call or short notice	831,390,846	922,197,688
Term deposits	7,016,622	2,412,930
	838,407,468	**924,610,618**
By residual maturity (contractual maturity dates or notice period):		
More than 1 to 5 years	5,920,000	1,260,000
1 year or less but over 3 months	153,600	6,899
3 months or less but not repayable on demand	943,022	1,146,031
	7,016,622	**2,412,930**
By currency:		
Euro	736,185,387	772,489,155
United States Dollar	66,944,626	103,282,303
British Pound	26,639,621	38,379,696
Canadian Dollar	4,039,835	919,208
Czech Koruna	1,385,180	2,252,718
Swedish Krona	1,030,465	3,809,687
Hong Kong Dollar	10,366	174,921
Other currencies	2,171,988	3,302,930
	838,407,468	**924,610,618**
By country:		
Malta	627,626,772	787,888,427
Great Britain	114,283,749	53,976,112
Ireland	24,890,682	29,269,609
Isle of Man	19,540,181	16,436,910
Cyprus	11,819,097	7,422,088
Switzerland	6,948,375	2,198,311
Montenegro	6,488,271	6,500,821
Gibraltar	6,186,565	4,154,880
Cayman Islands	3,851,332	2,549,579
British Virgin Islands	2,085,884	3,448,938
Austria	60,836	47,416
Other countries	14,625,723	10,717,527
	838,407,468	**924,610,618**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

33. Provisions

Post employment and other long-term employee benefits

The Bank has liabilities for long-term employee benefits, treated as defined benefit obligations, arising out of the provisions of the Bank's Remuneration Policy. This provision is principally non-current in nature, with the maturity profile of the obligation spanning over the estimated remaining working life.

In this respect, the Bank has a present obligation towards its employees in respect of long service bonuses in terms of its savings plan, which are payable to eligible employees upon completion of employment subject to vesting conditions, thereby meeting the definition of a defined benefit plan in accordance with IAS 19.

In addition, the Bank's Remuneration Policy also determines the structure of a deferred remuneration scheme, which benefit is awarded to eligible employees in respect of service received by the Bank in each financial year and payable over a three-year period subject to vesting conditions. In this respect, the deferred remuneration scheme meets the definition of Other long-term employee benefits in accordance with IAS 19.

In view of the insignificant impact of the post-employment and other long-term employee benefit obligations on the Bank's income statement charge for the financial years ended 31 December 2022 and 31 December 2021, the IAS 19 disclosure requirements attributable to defined benefit plans and other long-term employee benefit obligations are not being presented in these financial statements.

Expected credit loss provision

The Bank measures ECL in respect of loan commitments as at each reporting date, with the resulting credit loss allowances classified as 'Provisions' within the statement of financial position. As at 31 December 2022, credit loss allowances in respect of loan commitments amount to nil (2021: EUR130).

In addition, no ECL is deemed to arise in respect of financial guarantee contracts since all outstanding guarantees are fully cash secured as at 31 December 2022. No financial guarantees were outstanding as at 31 December 2021.

34. Lease liabilities

IFRS 16 requires the Bank to recognise lease liabilities in respect of its lease agreements. The table below illustrates the maturity breakdown of the Bank's lease liabilities as at 31 December 2022.

	2022 EUR	2021 EUR
As at 1 January	922,539	1,093,385
Additions	263,277	-
Interest expense	44,164	48,557
Payments made	(183,865)	(219,403)
	1,046,115	**922,539**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

34. Lease liabilities *(continued)*

Maturity analysis of contractual undiscounted cash flows

By period:

	2022 EUR	2021 EUR
Less than one year	275,911	183,865
One to five years	845,998	838,270
More than five years	41,911	41,911
	1,163,820	**1,064,046**

By liability term (discounted)

	2022 EUR	2021 EUR
Current	231,049	142,642
Non-current	815,066	779,897
	1,046,115	**922,539**

During 2022, the Bank effected payments for leases amounting to EUR183,865 (2021: EUR219,403).

The income statement reflects the following amounts relating to leases:

	2022 EUR	2021 EUR
Depreciation charge of right-of-use assets	170,860	199,249
Interest expense	44,164	48,557
Expenses relating to short-term leases (included in other operating costs)	39,174	30,654
Expenses relating to variable leases (included in other operating costs)	2,181	-
	256,379	**278,460**

35. Accruals and deferred income

	2022 EUR	2021 EUR
Accrued expenses	661,268	618,976
Accrued interest payable	58,638	75,373
	719,906	**694,349**

36. Other liabilities

	2022 EUR	2021 EUR
Withholding tax	70,842	57,975
Other creditors	56,618	555,306
Government grant	736	1,339
VAT payable	9,690	42,228
Variation margin	-	1,420,000
	137,886	**2,076,848**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37. Contingent liabilities

The Bank provides guarantees on behalf of third party corporate customers in the normal course of the Bank's business. Such guarantees are fully secured by pledges on cash collateral. The majority of these guarantees have no fixed maturity date. As at 31 December 2022, total guarantees amounted to Eur15,222,606 (2021: nil).

38. Commitments

	2022 EUR	2021 EUR
Credit facilities and other commitments to lend	**33,399,688**	**24,509,772**

39. Operating profit before changes in operating assets and liabilities

	The Holding		The Group	
	2022	2021	2022	2021
	EUR	EUR	EUR	EUR
Profit on ordinary activities before tax	(31,540)	5,486,609	5,261,492	6,576,394
Adjustment for:				
Government grant	-	-	(603)	(603)
Gain on disposal of securities	-	-	(9,235)	(1,279,003)
Interest Expense on Leased Assets	-	-	44,164	48,557
Bad debts written off	-	-	3,854,198	-
Increase in Provision on loans and advances to customers	-	-	(3,717,052)	140,829
Amortisation of securities	-	-	(212,293)	96,995
Net Fair Value Movement on Financial Assets at FVTPL	-	-	64,683	(1,801)
Depreciation	-	-	1,074,888	1,087,045
Bonus share issue	-	(4,615,385)	-	(1,615,385)
Ordinary profit before working capital changes	**(31,540)**	**871,224**	**6,360,243**	**5,053,028**

40. Cash and cash equivalents

	2022 EUR	2021 EUR
Balances at Central Bank of Malta (Note 17)	397,275,283	527,624,823
Loans and advances to banks (Note 18)	60,864,977	46,165,121
Cash in hand (Note 17)	4,922	2,614
	458,145,182	**573,792,558**

41. Investor Compensation Scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations issued under the Investment Services Act, license holders are required to transfer a variable contribution to an Investor Compensation Scheme and place the equivalent amount with a bank, pledged in favour of the Scheme. This amounted to EUR4,970 for the year under review (2021: EUR3,896).

42. Investment Services License Related Income

Net Income derived during the current year from activities for which an Investment Services Licence has been issued to the Bank, amounted to EUR5,208,747 (2021: EUR4,968,446).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

43. Related party transactions

Related parties include persons or entities related to Sparkasse Bank Malta plc. With respect to natural persons, a person is considered to be a related party to the Bank if that person is a person that fulfils one of the following criteria or is a close family member to such person:

- Has control or joint control over the Bank;
- Has significant influence over the Bank; or
- Is a member of the key management personnel of the Bank or its parent company

As of 31 December 2022 and 2021, the natural persons who met the definition of a related person include members of the Board of Directors, key management personnel and their close family members. Key management personnel comprises the Managing Director (CEO) and the members of the Management Committee ('MANCO').

An entity is considered to be a related party if it meets any of the following conditions:

- The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
- The entity is an associate or joint venture of the Bank
- Both entities are joint ventures of the same third party
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity
- The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- The entity is controlled or jointly controlled by a person identified in (a)
- A person identified as a related parson has significant influence over the Bank or is a member of the key management personnel of the Bank (or of a parent of the entity)
- The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or its parent company

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

43. Related party transactions *(continued)*

Related party transactions include the below:

	2022 EUR	2021 EUR
Interest receivable and similar income (Note 7)	4,547	-
Interest payable on deposits (Note 7)	3,859	-

Year end balances with related parties are as follows:

	2022 EUR	2021 EUR
Loans and advances to related parties (Note 19)	129,157	-
Amounts owed to related parties (Note 32)	2,262,230	210,968

Key management personnel compensation:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. Key management personnel compensation is disclosed below:

	2022 EUR	2021 EUR
Salary and bonuses	360,451	455,248
Defined plan contribution and other variable remuneration	267,227	135,000
Social security contributions	19,834	2,602
	647,512	**592,850**

44. Registered address

Sparkasse Bank Malta plc is a public limited company domiciled and incorporated in Malta. Its registered office is 101, Townsquare, Qui-Si-Sana Seafront, Sliema, SLM 3112, Malta.

Sparkasse Bank Malta plc has a branch in the Republic of Ireland situated in Fleming Court, 3rd Floor, Fleming Place, Ballsbridge, Dublin 4. During March 2023, the branch relocated its offices to 9, Windsor Place, First Floor, Dublin 2, D02 YF30, Ireland.

The Ireland branch is not considered as a separate business line from the Malta Head Office.

In addition, the financial information of the branch is not considered material so as to warrant separate disclosures and presentation.

45. Ultimate parent company

The parent company of the Bank is Sparkasse (Holdings) Malta Limited, bearing Company registration number C35408, which acts as a holding company, The ultimate parent company is Anteilsverwaltungssparkasse Schwaz, which owns 99.99% of the shares in Sparkasse (Holdings) Malta Limited. In the opinion of the Directors, there is no ultimate controlling party of the Group.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

46. Subsequent Events

Notification of additional contributions payable to the Depositor Compensation Scheme

On 3 February 2023, the Depositor Compensation Scheme (the "Scheme") formally requested the Bank to settle the amount of EUR635,529. 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, 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.

Assessment of emerging risks in relation to events occurring after year end

Many central banks have raised their benchmark interest rates at a significant and rapid pace over the past year. This significantly reduced the value of fixed rate investments and produced "unrealised losses" on the balance sheets of banks (either recognised in accumulated other comprehensive income for portfolios held at fair value through OCI, or unrecognised but disclosed for portfolios held at amortised cost).

These interest rate increases have also driven customers of banks to shift bank deposits to other products like money market funds in search of higher yields. This dynamic as well as customers' increased spending of cash accumulated during the pandemic has culminated in a loss of funding for many banks.

This combination of reduced values in investment portfolios and increased pressures from deposit outflows has led to challenges in managing liquidity risk, particularly as selling lower-yielding investments at a loss to cover deposit outflows erodes capital. The liquidity risk is heightened when the deposits are larger, concentrated or shorter-term and are not covered by a protected deposit guarantee scheme, which might give rise to an asset-liability mismatch.

The recent events experienced in the global banking sector subsequent to 31 December 2022 demonstrate the potentially critical impact of increased deposit outflows surpassing existing liquidity buffers held in the form of cash and highly liquid investments that decline in value and highlight the need for all banks to continuously evaluate and adapt their liquidity risk and interest rate risk management practices.

In this respect, the Bank took cognisance of the ongoing developments occurring subsequent to the reporting date, particularly in view of the financial difficulties experienced by Silicon Valley Bank, Signature Bank and Credit Suisse Group AG, and performed an assessment to evaluate the Bank's ability to withstand liquidity pressures triggered by a potential deposit run.

In view of the elevated level of unencumbered liquidity balances held with the Central Bank of Malta and other banks, as well as the holdings of debt securities which are predominantly listed and rated as 'investment grade' securities by external credit rating agencies, the Bank deems that it holds sufficient high quality liquid assets to withstand pressures arising from a hypothetical stress on its liquidity. The Bank continues to report healthy levels of liquidity in its Liquidity Coverage Ratio, which is well above both internal thresholds as well as minimum legal / regulatory requirements, subsequent to reporting date. In this respect, no material uncertainties to the use of the going concern assumption are deemed to arise.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

47. Correction of prior period errors

47.1 Recognition of derivative financial assets and liabilities

As part of its service offering, the Bank offers forward foreign exchange contracts to its clients. In order to hedge the foreign exchange risk exposure emanating from these contracts, the Bank enters into back-to-back transactions with one of its correspondent banks, mirroring the contractual features of the client exposure.

In all financial reporting periods up to and including the financial year ended 31 December 2021, these exposures were erroneously treated as off-balance sheet items on the premise that the hedging structure described above would result in a net foreign exchange exposure of nil. However, the position was revisited during the financial year ended 31 December 2022, whereby it was concluded that i) these instruments meet the definition of derivative financial instruments emanating from IFRS 9; and ii) unrealised fair value movements arising in respect of forward exchange contracts entered into with clients cannot be offset against unrealised fair value movements arising in respect of the mirror trades, given that credit risk arising to such contracts is attributable to different counterparties and no netting agreement is in place in respect of such exposures.

In this respect, the Bank is restating its statement of financial position as at 1 January 2021 and 31 December 2021 in order to recognise the derivative assets and liabilities arising as a result of these contracts, as shown below:

		Impact of correction of error	
	As previously reported EUR	Adjustment EUR	As restated EUR
1 January 2021			
Derivative Asset	-	1,428,694	1,428,694
Derivative Liability	-	1,428,694	1,428,694
31 December 2021			
Derivative Asset	-	2,290,411	2,290,411
Derivative Liability	-	2,290,411	2,290,411

The impact of the error on the income statement is negligible in view of the fact that realised / unrealised gains in respect of derivative assets is virtually offset by equivalent realised / unrealised losses in respect of the corresponding derivative liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

47. Correction of prior period errors *(continued)*

47.2 Recognition of deferred tax assets and liabilities

Deferred tax liability measured in respect of the property revaluation reserve

In accordance with the requirements emanating from IAS 12, the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In all financial reporting periods up to and including the financial year ended 31 December 2021, deferred tax in respect of the property revaluation reserve was measured at an amount equivalent to 8% of the property revaluation surplus. However, since the carrying amount of the property in question is expected to be recovered through use (Bank offices are classified as Property, Plant and Equipment and accounted for in accordance with IAS 16), the applicable rate for the measurement of the deferred tax liability is 35%, which is equivalent to the income tax rate.

In this respect, the Bank remeasured the deferred tax liability in respect of the unrealised fair value movements in the property revaluation reserve as at 1 January 2021 and 31 December 2022, thereby restating the deferred tax liability in the statement of financial position as at these dates, as well as the deferred tax expense recognised in other comprehensive income, accordingly.

Deferred tax measured in respect of financial investments measured at amortised cost

In all financial reporting periods up to and including the financial year ended 31 December 2021, the Bank recognised a deferred tax asset in respect of financial investments measured at amortised cost, on the basis of an assumption that a temporary difference, estimated as the difference between the nominal amount and the amortised cost, arises in respect of such instruments.

During the financial year ended 31 December 2022, the Bank revised its position in respect of the above following a reassessment of the deferred tax recognition requirements emanating from IAS 12. In this respect, no temporary difference is deemed to arise in respect of financial investments measured at amortised cost in view of the fact that these are expected to be held until maturity and no tax implications are deemed to arise as at that date, thereby falling outside the scope of deferred tax.

Reversal of deferred tax measured in respect of amounts previously written off

During the financial year ended 31 December 2011 the Bank had written off a debt security with a carrying amount of EUR648,227 in view of the fact that these amounts were deemed to be unrecoverable. In this respect, this would not have any deferred tax implications given that bad debts written off are eligible as deductions from taxable profit for tax purposes.

However, in all financial reporting periods up to and including the financial year ended 31 December 2021, the Bank recognised a deferred tax asset in respect of the amounts written off, treating the write-off as a credit loss allowance, which would have given rise to a temporary difference.

During the financial year ended 31 December 2022, the Bank revised its position in respect of the above following a reassessment of the deferred tax recognition requirements emanating from IAS 12. In this respect, the Bank reversed the deferred tax asset recognised in respect of amounts written off in prior years given that no temporary difference is deemed to arise in respect of bad debts written off.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

47. Correction of prior period errors *(continued)*

47.3 Presentation of impact of correction of prior period errors on affected financial statement line items

The impact of the correction of the prior period errors described above, as well as other prior period errors which are deemed to be immaterial for disclosure purposes, on affected financial statement line items in the comparative periods presented in this annual report is being presented hereunder. In this respect, the following table presents the impact of prior period errors described in Note 47.2 above.

	31 December 2021	Increase / (Decrease)	31 December 2021	31 December 2020	Increase / (Decrease)	01 January 2021
	As previously reported EUR	Impact of correction of prior period errors EUR	As restated EUR	As previously reported EUR	Impact to correction of prior period errors EUR	As restated EUR
Statement of financial position (extract)						
Deferred tax asset:						
- on financial investments measured at amoritsed cost	176,506	(176,506)	-	180,627	(180,627)	-
- on bad debt written-off	226,879	(226,879)	-	226,879	(226,879)	-
- other impacts	1,544,873	(260,869)	1,284,004	1,590,766	(418,315)	1,172,451
Total assets	**1,948,258**	**(664,254)**	**1,284,004**	**1,998,272**	**(825,821)**	**1,172,451**
Deferred tax liability:						
- on the property revaluation reserve	419,879	1,417,091	1,836,970	299,487	1,010,768	1,310,255
- on the elimination of accumulated depreciation upon property revaluation	-	223,557	223,557	-	-	-
Total liabilities	**419,879**	**1,640,648**	**2,060,527**	**299,487**	**1,010,768**	**1,310,255**
Property revaluation reserve	4,828,608	(1,001,915)	3,826,693	3,444,100	(1,010,768)	2,433,332
Retained earnings	2,432,663	(664,253)	1,768,410	3,326,987	(825,821)	2,501,166
Total equity	**7,261,271**	**(1,666,168)**	**5,595,103**	**6,771,087**	**(1,836,589)**	**4,934,498**

	2021 EUR	Movement EUR	2021 - restated EUR
Statement of comprehensive income (extract)			
Profit for the year	2,105,676	161,568	2,267,244
Other comprehensive income (net of income tax)	1,384,508	35,910	1,420,418
Total comprehensive inocme for the year	**3,490,184**	**197,478**	**3,687,662**

<u>Elimination of accumulated depreciation upon property revaluation</u>

During the financial year ended 31 December 2021, the Bank revalued its freehold property by reference to a valuation report obtained from an independent architect. IAS 16 offers a policy choice in respect of the treatment of accumulated depreciation on revaluation date. In accordance with the Bank's accounting policies, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

However, on the revaluation date, the Bank erroneously did not eliminate the accumulated depreciation, amounting to EUR638,733, against the gross carrying amount of the property. In this respect, the carrying amount of property, plant and equipment as at 31 December 2021 was understated by an equivalent amount.

The property revaluation reserve as at the same date was understated by EUR415,176, which represents the uplift of the revaluation surplus adjusted for deferred tax. Consequently, this also gave rise to an understated deferred tax liability of EUR223,557 as at the same date.

Since the error occurred during the financial year ended 31 December 2021, no impact is deemed to arise in respect of the statement of financial position as at 1 January 2021.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

48. Comparative figures

Selected comparative figures for the financial year ended 31 December 2021 have been reclassified to align with the presentation and classification for the financial year ended 31 December 2022.

Provisions

The Bank previously presented its liabilities for post-employment and other long-term employee benefit obligations as amounts due to customers in the balance sheet. However, management considers it to be more relevant if all employee benefit obligations are presented in one separate line item as provisions in the balance sheet. Prior year comparatives as at 31 December 2021 have been restated by reclassifying EUR1,129,337 from amounts owed to customers to provisions (EUR1,009,436 as at 1 January 2021).

Deferred tax

The Bank previously presented its deferred tax liability arising from property revaluation gains as part of deferred tax assets in the balance sheet. However, in view of the fact that this deferred tax liability cannot be offset against other deferred tax assets / liabilities in accordance with IAS 12, management considers it to be more accurate if this deferred tax liability is presented separately in the balance sheet. Prior year comparatives as at 31 December 2021 have been restated by reclassifying EUR419,879 from deferred tax assets to deferred tax liability in the statement of financial position (EUR299,487 as at 1 January 2021).

5 YEAR SUMMARIES

INCOME STATEMENT - 5 YEAR SUMMARY

	2022	2021	2020	2019	2018
	€'000	€'000	€'000	€'000	€'000
Interest receivable and similar income	6,928	5,475	6,840	7,449	3,434
Interest payable and similar charges	(1,517)	(2,418)	(1,880)	(1,369)	(1,069)
Net interest income	5,411	3,057	4,960	6,081	2,365
Fee and commission income	10,415	9,983	8,613	8,240	7,562
Fee and commission expense	(1,342)	(1,415)	(1,188)	(1,334)	(1,182)
Net fee and commission income					
Net trading income	1,281	532	284	586	141
Changes in expected credit losses and other credit impairment charges	(137)	341	(2,097)	(1,332)	121
Other operating income	34	1,047	1,267	961	2,441
Total Operating Profit	15,661	13,545	11,839	13,201	11,447
Operating expenses					
Employee compensation and benefits	(5,224)	(4,715)	(4,300)	(3,914)	(3,065)
Depreciation of property, plant and equipment and right-of-use assets	(784)	(757)	(710)	(597)	(393)
Amortisation of intangible assets	(291)	(330)	(316)	(285)	(282)
Other operating costs	(4,069)	(3,652)	(2,873)	(2,561)	(1,997)
Profit on ordinary activities before taxation	5,293	4,090	3,640	5,844	5,711
Tax on ordinary activities	(1,378)	(1,823)	(2,025)	(1,960)	(2,132)
Profit on ordinary activities after taxation	3,915	2,267	1,615	3,884	3,578
Earnings per 1000 shares	**97**	**56**	**54**	**199**	**140**

STATEMENT OF FINANCIAL POSITION - 5 YEAR SUMMARY

	2022	2021	2020	2019	2018
	€'000	€'000	€'000	€'000	€'000
		(As Restated)	(As Restated)		
Assets					
Cash and Balances held with Central Bank of Malta	469,754	620,940	574,371	442,219	279,856
Loans and advances to banks	60,813	46,118	65,255	93,466	132,639
Loans and advances to customers	4,836	10,234	17,975	18,708	12,963
Financial investments measured at amortised cost	343,368	283,801	202,941	183,272	193,900
Financial investments measured at fair value through other comprehensive income	-	-	-	54,640	86,972
Financial investments measured at fair value through profit or loss	1,510	2,448	68	3,169	2,969
Derivative financial assets	2,072	2,290	1,429	-	-
Prepayments and accrued income	1,454	1,729	1,168	1,387	876
Right-Of-Use Assets	996	854	1,053	1,153	-
Investment Property	-	-	-	-	2,310
Property, plant and equipment	10,424	10,828	9,037	9,240	3,333
Intangible Assets	3,962	3,397	2,756	2,326	2,054
Deferred tax	10	1,284	1,172	1,119	704
Other assets	122	5	230	38	481
Total assets	899,323	983,927	877,456	810,737	719,057
Equity					
Called up share capital	40,200	40,200	34,000	30,000	26,000
Fair Value reserve	-	-	(27)	116	211.00
Property Revaluation Reserve	3,827	3,827	2,433	3,444	-
Retained Earnings	5,684	1,768	2,501	5,712	1,129
Total Equity	49,710	45,795	38,907	39,272	27,340
Liabilities					
Amount owed to banks	4,030	2,400	911	1,078	7,404
Amount owed to customers	838,407	924,611	829,037	763,351	678,568
Derivative liabilities	2,072	2,290	1,429	-	-
Current tax liability	104	1,947	2,527	2,624	1,781
Provisions	1,035	1,129	1,012	-	-
Deferred tax liabilities	2,061	2,061	1,310	-	-
Lease Liabilities	1,046	923	1,093	1,198	-
Accruals and deferred income	720	694	667	926	789
Other liabilities	138	2,077	563	2,288	3,175
Total liabilities	849,612	938,132	838,548	771,465	691,717
Total Equity and Liabilities	899,323	983,927	877,456	810,737	719,057

STATEMENT OF CASH FLOWS - 5 YEAR SUMMARY

	2022	2021	2020	2019	2018
	€'000	€'000	€'000	€'000	€'000
Net Cash from operating activities	(51,838)	216,348	8,080	(80,339)	29,818
Cash Flows from investing activities					
Disposal of securities	25,290	92,238	125,207	341,114	286,314
Disposal of tangible assets	-	-	-	2	-
Purchase of securities	(81,713)	(149,470)	(105,784)	(296,738)	(387,749)
Recovery of written-off security	-	(623)	-	-	-
Purchase of tangible assets	(225)	(211)	(322)	(255)	(217)
Purchase of intangible assets	(858)	(972)	(746)	(558)	(554)
Proceeds from Government Grant	-	-	2	-	-
Net Cash used in investing activities	(57,505)	(59,039)	18,357	43,565	(102,206)
Cash Flows from financing activities					
Lease Liability Payments	(184)	(219)	(264)	-	-
Issue of shares	-	3,200	-	4,000	2,000
Dividends paid	-	-	-	(3,000)	(3,000)
Net Cash from used in financing activities	(184)	2,981	(264)	1,000	(1,000)
Movements in cash and cash equivalents	(109,527)	160,290	26,173	(35,774)	(73,388)
Cash and Cash Equivalents at beginning of the year	573,793	415,629	390,010	124,271	196,503
Effects of exchange rate changes on cash and cash equivalents	(2,159)	(2,126)	(554)	(509)	1,156
Cash and Cash Equivalents at close of the year	462,107	573,793	415,629	87,988	124,271

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