BNF BANK

Annual Report

2021

BNF BANK P.L.C.

Company Registration No. C 41030 | Annual Report and Financial Statements

31 December 2021

Contents

General Information

General Information

Directors

The directors who served throughout the year were as follows:

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

***Mr Mohamed Ahmed Shafiek Mohamed Ahmed resigned with effect from 9 March 2021.**

Company Secretary
Dr Jennifer Shaw (resigned with effect from 1 February 2021)

Dr Jean Noel Cutajar (appointed with effect from 1 February 2021)

Registered office
Level 2, 203, Rue D'Argens, Gżira, GŻR 1368, Malta

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

Chairman's Statement

"We continue to incorporate sustainability into our daily business."

The COVID-19 pandemic continued to put a strain on businesses throughout 2021, particularly for those operating in industries such as the hospitality sector, which were directly affected. This was the reality, notwithstanding that 2021 was the year of the COVID-19 vaccine and the year when we started to see initial signs of a possible end to the pandemic. Business also suffered due to supply chain disruptions amidst, in some sectors, a surge in consumer demand. Supply chain disruptions have led to an increase in inflation which could continue to impact the global economy for the months and years to come.

While Malta continued to be impacted by global events, we still observed numerous optimistic indicators in the second half of the year. Tourism picked up as expected throughout the summer and continued well into autumn, and many individuals and businesses who required financial assistance in 2020 were able to go without extended assistance in 2021.

In 2021 Malta was unfortunately added to the FATF Grey List, underscoring the need for further focus, as a country, on combatting financial crime. At BNF we consider financial crime compliance to be of utmost importance, and we continue to urge our valued customers and suppliers to support us in this endeavour.

During 2021, our top priority continued to be the safety of our staff and customers whilst making extra efforts to retain the seamless operation of our Bank.

I am extremely proud of how our Bank, through the dedication of its management and staff, has met the challenges of these extraordinary times. Our staff are also owed heartfelt gratitude for their incredible efforts over the past two years.

Despite the macroeconomic challenges, BNF Bank continued to grow in a prudent and sustainable manner. The Bank's total assets grew by 11.5% during 2021 and exceeded €1 billion for the first time in the Bank's history. Profit before tax also increased from €5.3 million in 2020 to €9.1 million in 2021. More detailed analysis of our financial performance can be found in the CEO's Statement and in the Directors' Report.

In recognition of the fact that technology is a crucial component of modern banking, BNF has invested heavily in this area and has embarked on a three-year digital banking strategy with significant investment in new technology, strengthening and further automating internal controls and facilitating an enhanced customer experience. BNF Bank's strategy is to offer a service to meet our customers' varied preferences, maintaining a significant branch network whilst developing our online offering.

During this past year, we have continued to be present in the community, not only by holding a prominent position as a trusted provider of financial services, but also through actions and engagements with a positive environmental and social impact. Through our CSR activities, we have been able to provide both tangible and immediate contributions to the community's welfare. See page 42 for more detail on the Bank's CSR activities.

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

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

Michael Frendo
Chairman

Chief Executive Officer & Managing Director's Review

In 2021, BNF Bank once again demonstrated financial and operational resilience, in what proved to be another challenging year. Aside from the continuing pandemic, the Bank was faced with uncertainty brought about by Malta's greylisting.

Strategic objectives achieved in 2021

Notwithstanding this environment, we continued to work toward our 'Vision 2023' strategy and achieved the objectives set out for 2021.

Key strategic achievements included growth in the Bank's commercial assets, booking our first facilities in our UK branch, and progressing with the first phase of our core technology transformation. The Bank's UK branch currently participates in secured syndications with conservative loan-to-value ratios, with the underlying security being central and prime immovable property.

During the second half of 2021 the Bank initiated a first phase of implementation of a new core system. This project was largely on track by the end of the year and is expected to go live at the beginning of the second quarter of 2022. Go-live of the first phase will further facilitate day-to-day transactions and will improve services to our customers in this respect. It will also strengthen financial crime compliance through enhanced monitoring.

Financial performance

The Bank reported a profit before tax of €9.1 million, a 70% increase over 2020. Higher profitability in 2021 was primarily due to an increase in net interest income which amounted to €22.7 million (2020: €20.5 million) and fair value gains of €1.1 million (2020: nil). The increase in net interest income resulted from growth in the Bank's loans and advances to customers and prudent liability management.

In addition to net interest income, net fees and commission income and other ancillary income totalling €4.5 million (2020: €3.7 million) contributed to a net operating income for 2021 of €27.2 million (2020: €24.2 million).

The Bank's cost-to-income ratio highlights the positive jaws generated between net operating income and general administrative expenses. A cost-to-income ratio of 62.9% (2020: 66.5%) reflects the Bank's prudent stance toward cost control without conceding our priorities of safety of customers and staff, and investment in technology and operations.

The vast majority of the Bank's credit customers who made use of COVID-19 assistance in 2020 did not require further assistance in 2021 and reverted to their revised normal repayment schedules. For this reason, a number of downgrades to IFRS 9 Stage 2 in 2020 migrated back to Stage 1 in 2021. The resulting impact on our financial performance was a lower credit impairment provision of €1.1 million in 2021 (2020: €2.8 million). All but a minor portion of the Bank's credit exposure is secured and most of the credit impairment provisions taken in 2020 and 2021 were in anticipation of possible future losses and not due to actual defaults.

Net loans to customers at year end were €793 million, a 15% increase over 2020, whilst the Bank's Capital Adequacy Ratio stood at a healthy 17.5%.

Subsequent to the end of the reporting period, a net dividend of €0.01 per nominal share of €0.7552, for a total amount of €1,000,000, is being proposed by the Bank to be distributed to the shareholders for the twelve months ended 31 December

2021. In addition, the Bank is also proposing a bonus share issue of 0.05 shares per ordinary share for a total amount of 5,296,611 shares with a total value of €4,000,000. A resolution to this effect will be proposed at the Annual General Meeting, subject to regulatory approval.

A strong 2021 financial performance was once again underpinned by focused and rigorous risk management based on both sound analytics and adherence to regulatory requirements.

Outlook for 2022

The first quarter of 2022 brought about new global challenges with a continued increasing inflationary environment and Russia's invasion of Ukraine at the end of February. We constantly monitor global and local events and regularly reassess our strategy to confirm its relevance in an ever-changing macro scenario. As at the date of this report, the Bank had no customers with direct exposure to Russia and no customers residing in Russia or Belarus. Russia's invasion of Ukraine is not expected to significantly impact the Bank's outlook.

Our intention is to continue working on the key pillars of our 'Vision 2023' strategy of financially sustainable growth, internationalisation by means of our UK branch, and technology transformation. Our core objective remains to keep the customer at the centre of everything we do - to provide a full suite of products delivered through an omnichannel approach.

Conclusion

For the second year running our staff rose to the challenges which were put before them, always keeping our customers at the centre of the Bank's activities. For this reason, we were able to achieve another strong performance in 2021, with the groundwork being laid for 2022.

As a Bank, we pride ourselves on our community initiatives, undertaken through our Branch network and framed by our Corporate and Social Responsibility strategy. Our objective is to be fully connected with the communities we work in, not just through the banking services we offer but also by supporting worthy causes by providing both financial and human resources. More details of these initiatives can be found on page 42.

Michael A Collis

Michael Anthony Collis
Chief Executive Officer and Managing Director

Core Values

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

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

Ambition

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

Responsibility

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

Empathy

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

BNF BANK

Malta's
Bank of the Year 2021

Malta | London

Growth is a journey. We're ready to take you further.

We're building a future that's banking on numbers but built on real stories. Because we believe that while numbers are a good measure, it's actually through conversations that opportunities come to life.

Proud winners of

Board of Directors

Michael Frendo
Non-Executive Chairman

Chairman of the Board since May 2013. A former Speaker of the House of Representatives, Parliament of Malta (2010-2013) and a former Minister for Foreign Affairs (2004-2008). Dr Michael Frendo also held various other Ministerial portfolios including Information and Communication Technologies, Transport and Civil Aviation, and Culture, Broadcasting and Consumer Protection.

Dr Frendo is a lawyer with a postgraduate specialisation in European Union law who has also worked in the private sector in both Malta and the UK. Dr Michael Frendo is a signatory of the Treaty of Lisbon and was a member of the European Convention on the Future of Europe. He has published widely including a number of books and articles on European, diplomatic and legal issues.

Michael Anthony Collis
Chief Executive Officer & Managing Director

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

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

Sheikh Mohamed Faisal Q.F. Al Thani
Non-Executive Deputy Chairman

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

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

Sheikh Turki Faisal Q.F. Al Thani
Non-Executive Director

Sheikh Turki Faisal Q.F. Al Thani is the Chairman of Al Sawari Holding Company and is also a member of the Board of Al Faisal Holding since 2014. He is also the Founder and the CEO of Catalyst Company. He holds a Bachelor's Degree in Economics from Georgetown University Qatar.

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Mario P. Galea

Non-Executive Director

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

Kenneth Mizzi

Non-Executive Director

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

Maurice Mizzi

Non-Executive Director

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

Mark Portelli

Non-Executive Director

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

Charles Borg
Non-Executive Director

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

Juanita Bencini
Non-Executive Director

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

Paul Johnson
Non-Executive Director

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

Executive Committee

Michael Anthony Collis
Chief Executive Officer & Managing Director

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

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

George Debono
Chief Commecial Officer

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

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

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Mark Micallef
Chief Financial Officer

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

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

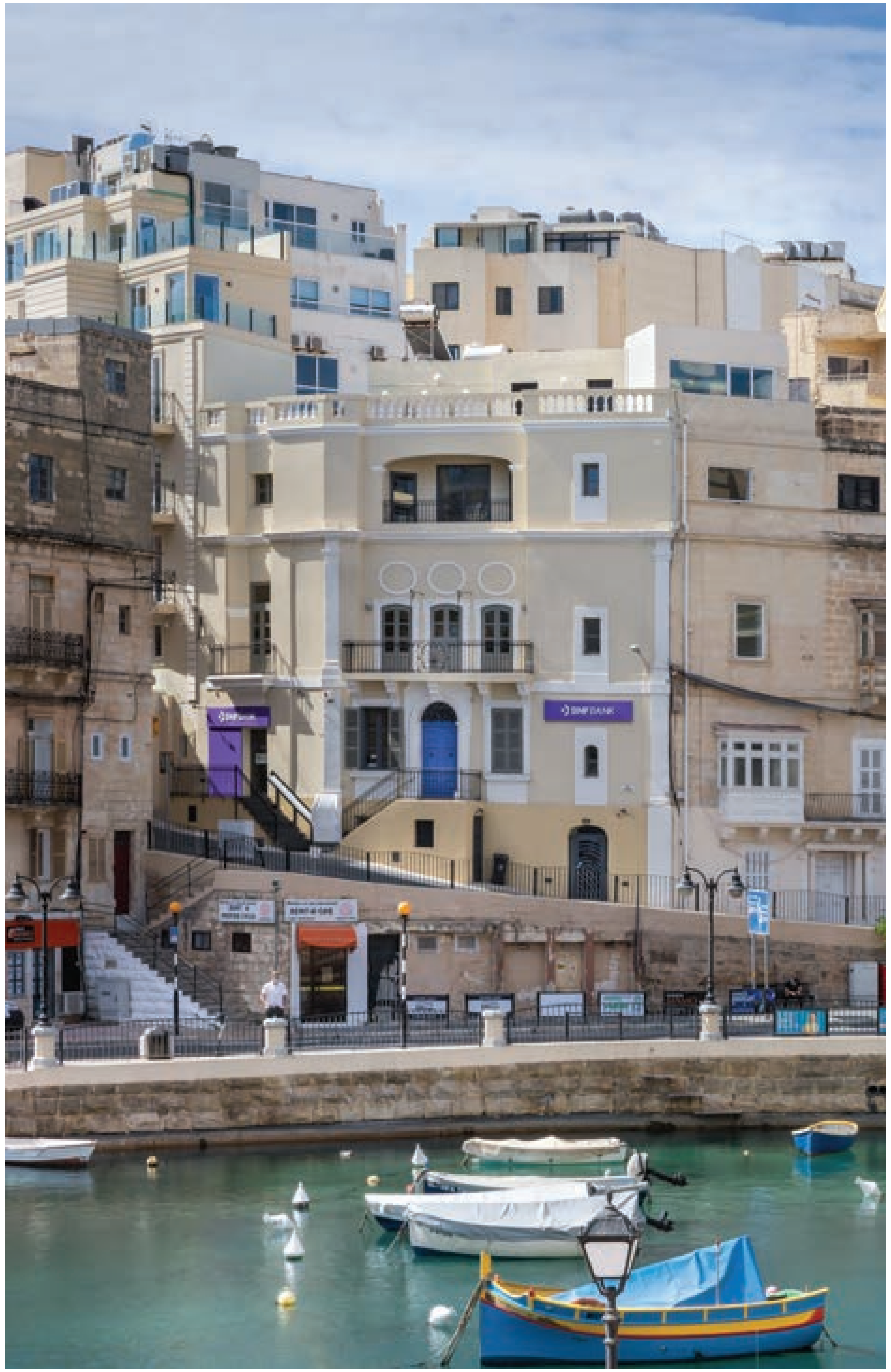
In the role of Chief Finance Officer, Mark is responsible for the financial governance of BNF Bank together with statutory and regulatory reporting, management reporting, budgets and forecasts, investment appraisal, taxation and investment operations.

Maruska Buttigieg Gili
Chief Risk Officer

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

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

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



Directors' Report

Directors' Report

The Directors present their annual report together with the audited financial statements of the Bank for the year ended 31 December 2021.

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

PRINCIPAL ACTIVITIES

BNF Bank p.l.c. (the "Bank", "BNF Bank") was incorporated as Banif Bank (Malta) p.l.c. and licenced to operate as a credit institution in terms of the Banking Act, Cap. 371 of the Laws of Malta on 27 March 2007. On 4 October 2016, following the non-objection of the European Central Bank by virtue of a decision dated 12 August 2016 made pursuant to Articles 4(1)(c) and 15(3) of Council Regulation EU no. 1024/2013, Article 87 of Regulation (EU) no. 468/2014 of the European Central Bank (EC/2014/17) and Article 13(1) and Article 13A of the Banking Act (Cap. 371 of the laws of Malta), a controlling stake was purchased by Al Faisal International for Investment Malta Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar. The Bank's name was subsequently changed to BNF Bank p.l.c. On 3 July 2018 Al Faisal International for Investment Malta Limited changed its name to JUD Investment Group Limited. As of 31 December 2021, JUD Investment Group Limited owned 92.4% of the ordinary shares of BNF Bank.

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

BNF Bank employed an average of 226 people throughout 2021 and served around 40,000 customers. The Bank's long-term strategic objective continues to be that of conservative, robust, and profitable growth.

As always, BNF remains committed to offering its customers the best possible standard of service, and peace of mind that their finances are in good hands.

Good governance remains a top priority for BNF Bank; the Statement of Compliance with the Principles of Good Corporate Governance in this Annual Report details the Bank's governance structures.

Subsequent to the end of the reporting period, a net dividend of €0.01 per nominal share of €0.7552, for a total amount of €1,000,000, is being proposed by the Bank to be distributed to the shareholders for the twelve months ended 31 December 2021. In addition, the Bank is also proposing a bonus share issue of 0.05 shares per ordinary share for a total amount of 5,296,611 shares with a total value of €4,000,000. A resolution to this effect will be proposed at the Annual General Meeting, subject to regulatory approval.

A review of the Bank's financial performance for 2021 is set out overleaf.

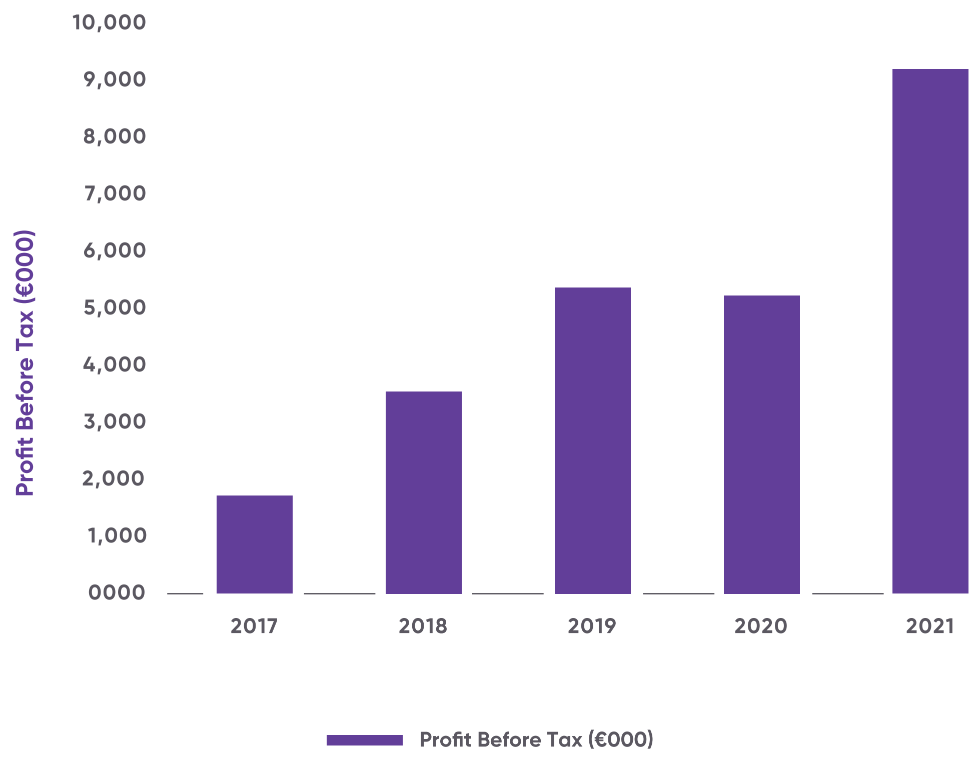
PROFITABILITY

Profitability for 2021 continued the upward trend experienced in recent years, with a profit before tax of €9.1 million (2020: €5.3 million). The main contributors to increased profitability in 2021 were net interest income, which was 11% higher in 2021 than 2020, and fair value gains of €1.1 million (2020: nil). The former items contributed to a net operating income of €27.2 million (2020: €24.2 million).

The increase in net operating income of €3 million was combined with controlled operating expenses of €17.1 million in 2021 (2020: €16.1 million), and the resulting cost-to-income ratio stood at 62.9% (2020: 66.5%).

Lower credit impairment losses of €1.1 million in 2021 (2020: €2.8 million) were required due to a cautious provisioning stance in recent years which permitted the Bank to absorb any known or expected impact of the pandemic to date. For detail on 2021 and 2020 IFRS 9 staging and expected credit losses refer to the financial risk management disclosures in Note 3 to the Financial Statements.

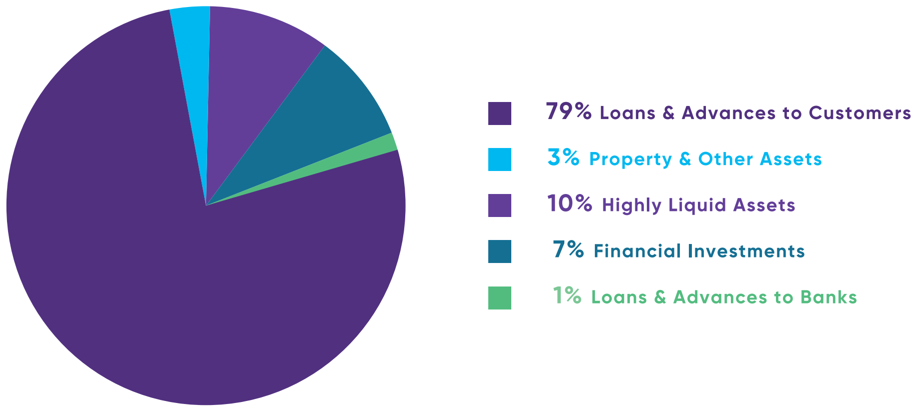
Profit Before Tax



FINANCIAL POSITION

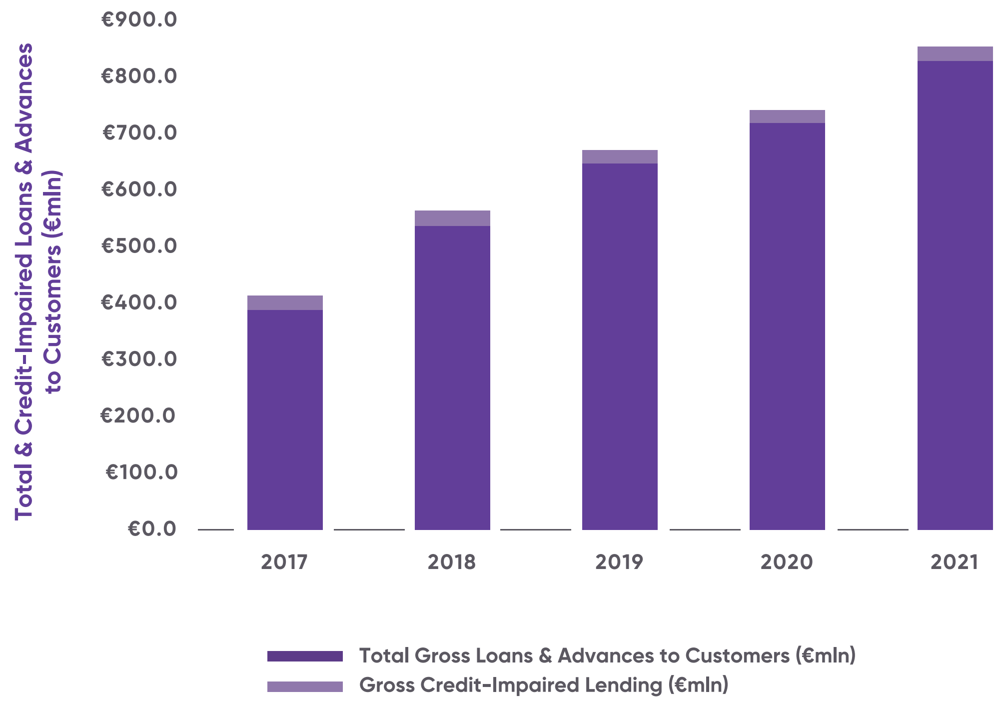
Total assets grew by 11.5% in 2021 and totalled €1,004.7 million as of 31 December 2021 (2020: €901.2 million). Total asset growth of €103.5 million was funded primarily with an increase in amounts owed to customers of €82.2 million, an increase in amounts owed to banks and other institutions of €15.9 million, and an increase in retained earnings of €5.4 million.

Split of Total Assets



The largest and main income-producing asset portfolio on 31 December 2021 remained loans and advances to customers, which made up 79% of total assets. Loans and advances to customers comprised of net corporate lending amounting to €300.3 million (2020: €276.6 million) and net retail lending amounting to €492.8 million (2020: €411.8 million). During 2021 the percentage of total loans and advances to customers which were credit-impaired increased marginally from 3.7% to 4.1%, and the total credit-impaired exposure amounted to €33.3 million (2020: €25.7 million). Exposure to credit-impaired loans and advances to customers was mitigated with collateral amounting to €27.3million (2020: €20.5 million), and loss allowances of €12.2 million (2020: €10.5 million).

Lending Portfolio: Asset Quality



BNF Bank Annual Report 2021 | Directors' Report

As disclosed in further detail in Note 3 to the Financial Statements on financial risk management, loans and advances to customers on 31 December 2021 and 31 December 2020 were classified as follows under IFRS 9 staging criteria:

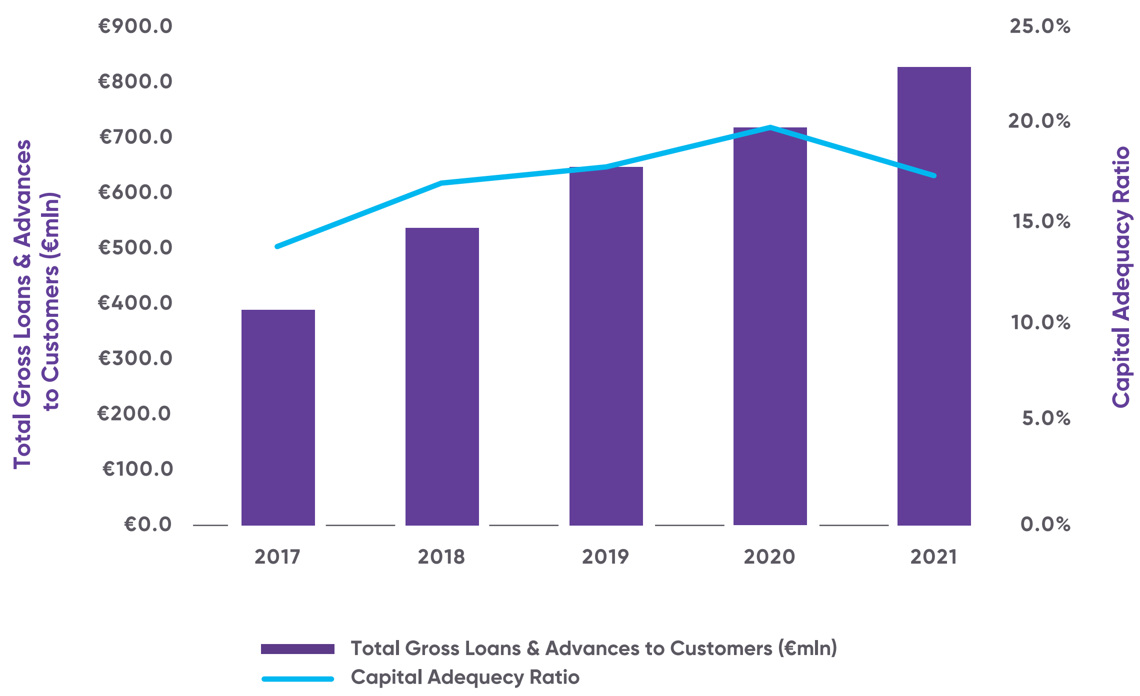
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
2021				
Gross carrying amount	742,397	33,815	33,336	809,548
Loss allowance	(2,572)	(1,700)	(12,183)	(16,455)
Carrying amount	739,825	32,115	21,153	793,093
Coverage ratio	**0.3%**	**5.0%**	**36.5%**	**2.0%**
2020				
Gross carrying amount	616,491	61,675	25,663	703,829
Loss allowance	(2,076)	(2,964)	(10,455)	(15,495)
Carrying amount	614,415	58,711	15,208	688,334
Coverage ratio	**0.3%**	**4.8%**	**40.7%**	**2.2%**

During 2021 loss allowance coverage ratios remained cautious and the Bank retained a temporary conservative overlay in provisioning by means of a post-model adjustment. For further detail on the post-model adjustment refer to Note 3. As of 31 December 2021, the distribution of the Bank's loans and advances to customers staging, and loss allowance coverage per stage, were in line with Malta's averages as published in the latest EBA Risk Dashboard.

BNF Bank's liquidity position remained robust throughout 2021, and the Bank continued to operate diversified sources of funding. The Liquidity Coverage Ratio (LCR) as of 31 December 2021 was 129.11% (2020: 231.07%), and the Net Stable Funding Ratio (NSFR) was 130.78% (2020: 135.69%). The Bank's main source of funding remained retail and commercial deposits from the Maltese market throughout 2021, although the Bank also continued to strengthen its partnership with online deposit platforms to raise Euro and Pounds Sterling funding from German and UK retail depositors respectively.

The Bank's Capital Adequacy Ratio as of 31 December 2021 was 17.5% (2020: 19.2%) and the Common Equity Tier 1 Ratio was 15.6% (2020: 17.1%), both well above overall capital requirements and pillar two guidance buffers.

Lending Portfolio vs Capital Adequecy



RISK MANAGEMENT

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

DISCLOSURE IN TERMS OF THE SIXTH SCHEDULE TO THE COMPANIES ACT, CAP. 386 OF THE LAWS OF MALTA

During the year ended 31 December 2021, no shares in the Bank were:

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

PREPARATION OF FINANCIAL STATEMENTS AND DIRECTORS' RESPONSIBILITIES

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

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

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

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

The financial statements of BNF Bank plc for the year ended 31 December 2021 are included in the Annual Report 2021, which is published in hard-copy printed form and may be made available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

AUDITORS

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

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF ON 23 MARCH 2022 BY:

MICHAEL ANTHONY COLLIS
Chief Executive Officer
and Managing Director

MICHAEL FRENDO
Chairman

Statement of Compliance with the Principles of Good Corporate Governance

Statement of Compliance with the Principles of Good Corporate Governance

BNF Bank p.l.c. (the 'Bank') believes that good corporate governance should be the basis of every decision and action taken by the Bank. Despite the fact that The Code of Principles of Good Corporate Governance (the 'Code') contained in Appendix 5.1 to Chapter 5 of the Listing Rules, as issued by the Malta Financial Services Authority is not mandatory upon the Bank given that the Bank is not listed on the Malta Stock Exchange, the Bank has endorsed the Code and is committed to implementing high standards of corporate governance.

This statement is divided into three sections with the first section indicating the extent to which the Bank has adopted the Code, and the second section identifying a specific divergence from the Code and reasons for such. The third section provides details of the Bank's internal control system.

Section 1 - Compliance with the code

PRINCIPLE 1 – THE BOARD

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

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

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

PRINCIPLE 2 - CHAIRMAN AND CHIEF EXECUTIVE

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

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

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

The Chief Executive Officer (CEO) is a member of the Board of Directors and is responsible for executing the strategy set by the Board. The CEO leads the Executive Committee and acts as the link between the Board of Directors and the Executive Committee.

PRINCIPLE 3 - COMPOSITION OF THE BOARD

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

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

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

**Mr Mohamed Ahmed Shafiek Mohamed Ahmed resigned with effect from 9 March 2021.*

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

PRINCIPLE 4 - RESPONSIBILITIES OF THE BOARD

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

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

BOARD COMMITTEES

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

The Audit Committee

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

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

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

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

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

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

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

Members

The Audit Committee is composed of the following members:

- Mr Mario P. Galea – Chairperson
- Mr Charles Borg (appointed with effect from 29 March 2021 and resigned with effect from 10 August 2021)
- Ms Juanita Bencini (resigned with effect from 29 March 2021)
- Mr Paul M. Johnson (appointed with effect from 10 August 2021)
- Mr Mark Portelli (appointed with effect from 29 March 2021)
- Mr Mohamed Ahmed Shafiek Mohamed Ahmed (resigned with effect from 9 March 2021)

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

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

The Risk Committee

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

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

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

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

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

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

Members

- Ms Juanita Bencini - Chairperson
- Mr Mario P. Galea
- Mr Charles Borg (appointed with effect from 10 August 2021)
- Mr Mark Portelli (resigned with effect from 10 August 2021)

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

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

The Compensation and Nomination Committee

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

The Credit Approval Committee

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

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

Members

- Mr Charles Borg - Chairperson
- Mr Michael Anthony Collis
- Mr Mark Portelli

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

MANAGEMENT COMMITTEES

The Executive Committee

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

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

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

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

The Assets and Liabilities Committee

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

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

The Investments Committee

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

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

The Credit Committees

These Committees are responsible for assessing credit facilities and taking credit decisions within certain monetary and risk bands. The Committees are coordinated at three different levels, each assigned a sanctioning limit under which they operate. If a divergence in the respective committee level exists, the lending decision would need to be taken one authorisation level upwards. The Committees meet as frequently as necessary and comprise of officials from the Commercial Function and the Credit Analysis Function. Each Committee is chaired by the Credit Analysis Function member.

The Products Oversight Committee

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

The Committee is made up of senior members from a number of functions, mainly Product Strategy, Corporate Banking, Retail Banking, Regulatory Compliance, Risk Control and Oversight, Credit Operations, Credit Analysis, Financial Management, Treasury and Information Systems. The Product Strategy function is responsible for the chairing and steering of this Committee. With effect from January 2021, the Legal function also joined this committee.

The Environmental, Social and Governance Committee

The Environmental, Social and Governance (ESG) committee's main purpose is to define the Bank's practices relating to ESG matters. The committee is made up of the Chief Risk Officer (Chairperson), Chief Commercial Officer (Deputy Chairperson), Head of Risk Control and Oversight Unit, Head of Financial Management Department, Head of Business Development Department, Head of Corporate Services, and Senior Manager Regulatory Compliance.

PRINCIPLE 5 - BOARD MEETINGS

The Board meets as often as necessary, at least quarterly, in order to discharge its duties effectively. The Chairman sets and circulates the agenda to all directors. The Chairman, in collaboration with the Company Secretary, also ensures that all supporting material is circulated to all directors well in advance of Board meetings, to give time to consider the information therein. The Chairman also ensures that directors participate actively in all Board meetings. During 2021, the Board of Directors met 11 times (refer to Note 11.1 in the Additional Regulatory Disclosures).

PRINCIPLE 6 - INFORMATION AND PROFESSIONAL DEVELOPMENT

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

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

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

PRINCIPLE 7 - EVALUATION OF THE BOARD'S PERFORMANCE

The Board of Directors undertook a self-assessment in line with the Joint EBA and ESMA Guidelines (EBA/CP/2016/17). The individual and collective scores of the Board of Directors were analysed by the Compensation and Nomination Committee, and discussed at Board level. The suitability evaluation reflected the following:

- The Board of Directors is strong, diverse and well-balanced, having the necessary skills, knowledge and varying levels of professional experience to carry out its mandate;
- The members of the Board Committees have the necessary competence and expertise to perform their delegated roles and report back fully and clearly to the Board of Directors; and
- The self-assessment identified required areas of training to Board members.

PRINCIPLE 8 - COMPENSATION AND NOMINATION COMMITTEE

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

(a) Sets the over-arching principles and parameters of the remuneration policy;

(b) Considers and approves remuneration arrangements of senior executives and highly paid persons;

(c) Monitors and reviews remuneration paid to the Chairman and other members of the Board of Directors, and makes recommendations to shareholders in General Meetings;

(d) Approves annual pay increases and bonuses as recommended by Management;

(e) Oversees any remuneration matters; and

(f) Exercises the functions of a Board Nomination Committee.

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

MEMBERS	ATTENDED
Mr Mohamed Ahmed Shafiek Mohamed Ahmed – Chairperson (resigned with effect from 9 March 2021)	
Dr Michael Frendo	1 out of 1
Mr Kenneth Mizzi	1 out of 1
Mr Paul Mark Johnson – Chairperson (appointed with effect from 29 March 2021)	1 out of 1

Further information on the Bank's Remuneration Policy can be found in Section 3 of the Statement of Compliance with the Principles of Good Corporate Governance.

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

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

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

PRINCIPLE 11 - CONFLICTS OF INTEREST

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

PRINCIPLE 12 - CORPORATE SOCIAL RESPONSIBILITY

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

- Ethical business practices: BNF is in the business of corporate and retail banking, and therefore occupies a role which is ingrained within society. BNF endeavours to operate ethically in all that it does;
- Investing in its people: The Bank invests in training and career development and believes in providing equal opportunities and desirable working conditions;

- Communication: BNF fosters a culture of open communication and inclusion;
- Maintaining a role in the development and progress of the local community: The Bank undertakes initiatives to contribute towards sections of society that are lacking in education, opportunity and inclusion. This value is observed through the Bank's product offerings and through the Bank's CSR Policy, which apportions a fund toward supporting various CSR projects; and
- Minimising carbon footprint: The Bank regularly reviews its purchasing policies and physical infrastructures to determine opportunities to minimise any environmental impact.

SECTION 2 – NON-COMPLIANCE WITH THE CODE

PRINCIPLE 4 (Code provision 4.2.7)

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

The Bank's succession policy is set out in the Board Suitability Policy which establishes that the Compensation and Nomination Committee is to, when carrying out the Board suitability assessment, consider the results of such an assessment and make appropriate recommendations to the Board, on an annual basis, for the succession of the Board over the longer term to maintain the appropriate balance of knowledge, skills, diversity and experience on the Board. Any gaps in knowledge, skills, diversity and experience on the Board are identified by the Compensation and Nomination Committee. The Compensation and Nomination Committee puts forward recommendations to the Board on how any identified gaps are to be addressed.

The Board Suitability Policy also sets out that the Compensation and Nomination Committee is to keep under review the leadership needs of the Bank, and on an annual basis consider the adequacy of succession of key positions and roles.

PRINCIPLE 7

Principle 7 "Evaluation of the Board's Performance" recommends that "the board should undertake an annual evaluation of its own performance and that of its committees". During the year under review the Board of Directors did not formally undertake the self-assessment in line with the Joint EBA and ESMA Guidelines.

SECTION 3 – REMUNERATION POLICY

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

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

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

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

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

The strategy of the Bank is to offer low levels of variable compensation in comparison to the employee's fixed pay. This is intended to ensure that risks taken are within acceptable parameters and that employees follow the Bank's values and vision. Individual targets are set out in a way that encourages employees to achieve individual and group targets whilst improving personal skills and competencies.

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

Non-executive directors

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

Remuneration paid to Non-Executive Directors during 2021 was as follow:

	CHAIRMAN	OTHER MEMBERS
Compensation	€42,000	€206,226

Executive Committee

The Bank's Executive Committee was made up of one Executive Director and three Chief Officers during 2021.

Material Risk Takers (MRT) Remuneration

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

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

	SENIOR MANAGEMENT	MRTs
Number of Employees	14*	12*
Fixed	€1,060,274	€709,018
Variable	€216,000	€74,316

*as of December 2021

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

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

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

SECTION 4 – INTERNAL CONTROL

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

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

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

SECTION 5 – CORPORATE PHILANTHROPY AND COMMUNITY RELATIONS

Growing our business responsibly

The pandemic has brought to the fore the undeniable fact that businesses are inextricably connected to wider social contexts. It has highlighted the extent of global interconnectedness and the huge impact that responsible action can have.

In the wake of an extraordinary year, we increased our commitment to social initiatives and focused on community projects that yield long-term sustainable results. Our corporate responsibility is aligned with our culture of customer service excellence, the highest standards of governance and the continual investment in people and relationships. We believe the combination of all these elements makes us a distinct player in the industry.

We, backed by our shareholders, are driven by our core values that are an intrinsic part of who we are. We operate responsibly to support people and businesses, act with empathy with individual clients, and champion integrity. For us, being responsible means operating ethically, meeting our legal and regulatory requirements and considering our impact on the community, society and the environment.

Like our discerning customers, who have increasing expectations of the role the Bank should play in Malta, we look forward to a post-Covid world of recovery and optimism, so that our plans for development, be they personal or business-related, can move forward unshackled, in a more inclusive society.

MICHAEL ANTHONY COLLIS
Chief Executive Officer
and Managing Director

FIVE MAJOR PILLARS

Our success is tied to the progress of our communities. It is on this tenet that we implement a robust, win-win social strategy, as we recognise that a solid community presence strengthens customer loyalty, long-term stability and brand equity.

We operate our CSR arm across five major pillars that we believe are essential building blocks for the development of communities and the prerequisite for economic growth. These are education, health, the environment, philanthropy and culture and heritage.

EMPLOYEE ENGAGEMENT REACHES FAR AND WIDE

#YourCause

Through our monthly #YourCause initiative led by our employees, we seek to enable a number of non-profit organisations to continue providing their much-needed services across various sectors. Through this scheme, which sees team members wear casual attire on Fridays, employees donate personal funds for causes they themselves identify and are passionate about.

Autism Parents Association (APA)

We supported the Autism Parents Association which seeks to assist families and individuals affected by the condition, which has been exacerbated by these trying times. Through this initiative we helped spread awareness, promote acceptance and further shape people's non-judgmental perceptions of autism.

Assosciation for Abandoned Animals (AAA)

Support was also extended to our four-legged friends through the Association for Abandoned Animals (AAA). We sought to assist AAA with their promise to rescue and nurse strays from injuries or illness as a result of abandonment and neglect. Sadly, animal shelters are facing a new crisis due to a substantial increase in surrender calls. As part of the Bank's initiative, our employees were welcomed to experience a day in the life of a volunteer at the shelter and assist with the day-to-day running of the sanctuary.

Ronald McDonald House Charities (RMHC)

Supporting children and young people in attaining an adequate level of education and improving their ability to participate fully in society is a cause close to our heart. To make a difference in this area, we reached out to Ronald McDonald House Charities, Malta (RMHC), who through their Learning Centre located in Qawra, provide free specialised services to children and young people with diverse needs with the aim of improving their overall quality of life.

Fondazzjoni Sebħ

Our team also upheld the long-held commitment to Fondazzjoni Sebħ who provide for children, young people and survivors of domestic violence in a safe, structured, and loving environment empowering them with emotional growth and resilience.

Fondazzjoni Suret il-Bniedem

Homelessness is a growing concern in Malta as social circumstances drive vulnerable people out of their homes. Our support of Fondazzjoni Suret il-Bniedem went towards helping create a secure home for men, women and their children so that they can maintain a well-adjusted independent life through the provision of accommodation and rehabilitation services. Our generosity was also extended to Dar Hosea for the provision of basic needs such as food, clothing, medical and housing assistance for vulnerable women subjected to sexual exploitation.

Foodbank Lifeline Foundation Malta

For the third year running, we endeavoured to assist with the supply of emergency food packs to families who, as a result of benefit delays, low income, illness and housing issues, experience the most elemental of needs – the need for food. Through the Foodbank Lifeline Foundation Malta we continued our modest mission of ensuring that those in need do not suffer the plight of hunger.

Rotary Malta

More of our donations were directed towards care and education. Through Rotary Malta, we contributed towards the organisation's efforts in building a school and an orphanage in a community in India. No society can function adequately and have a future without basic care for the most vulnerable and an education programme that augurs for fully developed citizens who can participate actively in society.

Action for Breast Cancer Foundation & Men's Health Awareness

Management and staff continued to support breast and prostate cancer patients through Action for Breast Cancer Foundation and Men's Health Awareness which have become mainstays for diagnosed patients needing psychological aid. Our support helps these organisations in continuing to provide holistic and sustainable services for patients and their families while helping cancer survivors reclaim a positive body image and a healthy lifestyle. In the drive towards also raising awareness among the team and fostering a health-conscious workplace, management offered free mammograms and prostate screenings to all employees in risk age brackets.

Children's Dreams Malta

During the month of December, we pursued our desire to spread holiday cheer to those who needed it most. The team got busy organising and delivering gifts to children growing up in difficult contexts and were rewarded with wide smiles and happy faces. We also made significant and meaningful contributions to Children's Dreams Malta who, in turn, purchased gifts to help brighten up the lives of children in need and keep the magic of Christmas alive.

MANAGING OUR ENVIRONMENTAL IMPACT

Our dedication towards reducing the environmental impact of our operations has led us to make considerable progress in expanding our environmental agenda. Our commitment includes a continuous assessment of our environmental footprint and our role in a rapidly changing society.

Responding to climate change challenges, we have set short-, medium- and long-term targets on the consumption and conservation of natural resources such as water and paper whilst also intensifying our efforts in waste reduction, recycling, energy efficiency and restricting our carbon footprint.

In what has become an annual March appointment, ancillary lights across our branch network were switched off for **Earth Hour** while, during the yearly **EU Mobility Week,** employees ditched their cars and opted for alternative and greener modes of transport for their work commute. This initiative is aimed at promoting sustainable transportation with the use of low-or zero-emission mobility options for a healthier world.

With a view to always offer both employees and customers the most comfortable and welcoming environment, our Corporate Services team launched a project to ensure a pleasant environment across the BNF branch network and head office – one which respects the local fibre and heritage. The restoration project of the façade of our St Julian's branch located in the heart of the picturesque Spinola Bay is the most recent project to reach completion.

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CORPORATE ACTION FOR SOCIAL CHANGE

Hospice Malta

Aligning ourselves with the drive of our employees towards social action, management continued to support a number of organisations it believes are key in filling in gaps of vulnerability. We backed Hospice Malta in their mission to provide and promote the highest standard of palliative care for patients together with proper support to their families. We highly value the work of Hospice Malta which truly makes a significant difference in people's lives. This year we specifically contributed towards the newly refurbished St. Michael Hospice, which is set to be fully equipped with all the necessary medical apparatus.

Malta Community Chest Fund Foundation

Another organisation very dear to us is the Malta Community Chest Fund Foundation (MCCFF). During the 26th edition of the annual charity event L-Istrina - the MCCFF's flagship event held under the auspices of His Excellency, the President of Malta - we once again made a significant donation towards MCCFF's cause. Being part of the annual overwhelming display of solidarity on the Island comes as second nature. We also extended our support via a commitment towards the Ball of the August Moon. Funds ensure that the organisation continues to meet an increasing number of requests for aid in meeting expensive cancer treatment abroad.

Malta Bankers Association

Joining forces with the Malta Bankers Association and various agencies such as the Malta Police Force and Aġenzija Appoġġ, we supported the production of a video aimed at increasing awareness locally of the International Stop Trafficking of Persons Day. Supported also by the British High Commission, the US Embassy and the Association of Certified Anti-Money Laundering Specialist (ACAMS) the video featured modern slavery and human trafficking (MSHT) and highlighted what the public, as well as operators in financial services, can and should do to minimise MSHT.

Inħobb il-Futbol Foundation

A new commercial partnership with Inħobb il-Futbol Foundation enables us to highlight the importance of physical and psychological health through sport. The partnership is a tangible means of reinforcing our values of ambition and responsibility, whilst contributing to shaping the future of sports in Malta. This first commercial sponsorship for the Foundation since its creation, embodies our shared mission for youth development, to create a pathway for talented young players towards the elite level and to make football more inclusive by promoting diversity. By becoming the official sponsors of the national junior competitions for the next two years, we remain firmly on track with our commitment towards youth development.

A COMMUNITY-FOCUSED BANK

Our twelve retail branches serve as an important vehicle for social action and positive change, as staff engage with customers and through the fostering of strong relationships become aware of projects where the Bank can step in and participate in transformative community work.

We thrive when our customers and communities flourish.

One such instance is our work on the Xemxija Flour Mill Room which was an opportunity for employees to help look after an important piece of Maltese heritage. The Mill Room was conceived for the survival of the Maltese community in years gone by and was in dire need of upkeep. Staff volunteered their time for an extensive clean-up of this historical site. In collaboration with the St. Paul's Bay Local Council, this initiative was driven by the St. Paul's Bay Branch with the aim of safeguarding our heritage as our legacy for future generations.

ADDRESSING A GLOBAL PANDEMIC

Supporting our Personal and Business Customers to recover, adapt and grow.

To say that the past two years have been challenging for everybody is an understatement. But, while we soldiered on and employed agility, flexibility and resilience, we also understood our customers' plights and sought to relieve their financial pressure. Our value-based efforts were designed to help people cope with various challenges that presented clear risks to personal well-being and business success. We are very proud to have walked in our customers' shoes and uplifted their personal journey and their businesses' success in these unprecedented circumstances, making it easy for them to find financial support, extending deadlines, respecting social distancing and deploying digital solutions. Our website featured a regularly updated dedicated pandemic support section and a new direct messaging system through Internet Banking.

The pandemic magnified existing business challenges and some businesses found difficulty in keeping up with critical running costs and payment commitments like salaries, acquisition of stock, rent and energy and fuel expenses. In conjunction with the **Malta Development Bank** and as an extension of the collaboration set up in 2020 through the Working Capital Guarantee Scheme we continued to offer financial assistance to businesses, adapting our support and proactively seeking to understand our customers' specific needs.

ROBUST RELATIONSHIPS IN THE CORPORATE WORLD

Malta Business Network (MBN)

With the objective of strengthening the Bank's links in the corporate world, our collaboration with the Malta Business Network (MBN) seeks to reinforce and expand the existing good relations with the business community, and in so doing, position the Bank as a trusted partner that seeks to support commercial customers grow and prosper, both in Malta and the UK, where we have a presence with a branch in London. The collaboration allows us to continue developing products and services that are aligned to entrepreneurial aspirations while promoting business opportunities and facilitating knowledge exchange. With a vested interest in the local property industry, we teamed up with MBN counterparts to host a webinar on 'The Property Market Triumphs and Tensions, Trends and Themes'. This initiative served as an open discussion on solutions to pressing concerns in the industry.

KPMG

We also collaborated with KPMG and the Malta Developers Association (MDA) for the preparation of the National Construction Industry and Property Market Report, seeking to establish a broader definition of a key pillar in the Maltese economy as it analyses demand and supply patterns for real estate in Malta. Our interests in the industry include the environmental, social and economic challenges of the sector-important factors in the decision-making processes of key stakeholders.

Ernst & Young (EY)

Teaming up with Ernst & Young via a sponsorship of the Malta Future Realised Week 2021 held virtually in October, we had the opportunity to help shape the national discussion on society's future in an ever-developing new norm. Our CEO and Managing Director Michael Anthony Collis also contributed towards a panel discussion focusing on attractiveness and recovery within the context of Covid-19.

Malta Chamber of Commerce, Enterprise and Industry

Through a strategic collaboration with the Malta Chamber of Commerce, Enterprise and Industry which sees our participation in the Entrepreneurship and Family Business Committee, we endeavour to facilitate mentorship structures to assist companies on issues specifically related to family businesses. The generation of discussions and of policy propositions through this committee are in the best interest of family run businesses in the country, of which there are a significant number.

DEVELOPING OUR BUSINESS

An Unparalleled Banking Service with a Customer-Centric Approach

To accelerate the Bank's strategy in providing enhanced digital banking services to discerning customers, our collaboration with Temenos, one of the leading vendors in the global retail core-banking market, will propel a major revamp of our core-banking system. It will unlock access to the innovations and functionalities of the cutting-edge Temenos Transact and Temenos Infinity, the world's most widely used digital core-banking solution. Customers will enjoy the benefits of the first core systemic bank in Malta that can access all cloud-native and cloud-agnostic technologies, and the most extensive and richest set of banking functionalities across retail, corporate, treasury, wealth and payments sectors.

Ultimately, in our journey to become the Bank of Choice, we have embarked on a sustainable growth trajectory, which sees further significant investment in client-facing technology that promises a seamless customer experience. The technology pivots on scalability, speed, security and stability.

By combining market-leading technology solutions with the human element of our people, drawing on experience, expertise and insights, together with the unwavering commitment of our shareholders, we strive relentlessly for ever-higher levels of service excellence and customer experience.

The Bank's values of ambition, responsibility and empathy drive the team to take on challenges, look for solutions and achieve results, while delivering the quality service the Bank is distinguished for.

As we continued to invest in technology, we spearheaded the expansion programme of our 24/7 Express Deposit Machines in four of our main branches. And to facilitate further the shift to a more digital economy we continued to upgrade our online platform and introduced the new **BNF Mobile App** tailored for handheld devices.

Our venture of taking our business experience overseas and opening a branch in London will offer opportunities to local investors seeking opportunities in the UK. This expansion is part of the Bank's strategy to grow offshore and sustain its retail and corporate arms.

The core of our customer proposition is our flagship portfolio of products – a varied yet simple-to-understand suite of products and services that cater for both personal and business clients. To provide further assistance to our customers in helping them grow their hard-earned savings without locking funds for years on end whilst benefitting from advantageous interest rates, we offered customers a range of **Term Deposit** accounts to suit different needs.

Whether our clients are looking to buy their first property, change their existing primary residence, leveraging their home's value or buying to invest, we extended and enhanced our **Home Loan Solutions** to cater for specific requirements.

To give customers added value, our **BNF Credit Cards Cash Back Scheme** rewarded new and loyal Classic and Gold credit card customers. Through this scheme, customers making use of BNF credit cards earned automatic cash backs when shopping online and in-store. All our debit cards and credit cards are now issued contactless, as this has now become a minimum standard for BNF.

As we pursued to strengthen our core product suite ensuring that all our clients are well served throughout life's journey, we further extended our offering to cater for study years that can be challenging for a student's lifestyle. We made sure that the **BNF Students Package** is the ideal choice for students who are seeking a more flexible approach to banking while enjoying preferential rates on a wide range of financial services.

OUR PEOPLE

Engaged employees create great customer experiences

Our people lie at the heart of our business strategy and are major contributors to the Bank's achievements. We support their health and wellbeing and we enable them to grow in their careers, whilst empowering and motivating them to provide exceptional customer service with integrity and commitment. As a Bank that recognises, rewards and takes pride in exemplary employees who set new benchmarks, our aspiration is to make BNF Bank an inspiring workplace wherein our people can enjoy the best work environment built on inclusivity and diversity and allowing them to realise their full professional potential in a meaningful and rewarding manner.

BNF Bank Annual Report 2021 | Statement of Compliance with the Principles of Good Corporate Governance

During the pandemic we made sure we protected our people's health and safety, by strictly following health authority guidelines. The team benefitted from remote work possibilities while those who needed to be on site adhered to the strictest of measures and safeguards for their safety and the safety of customers.

BNF is committed to providing an exciting, ethical and safe working environment that enables its people to achieve their true potential and contribute to their holistic growth – both on a professional and personal level.

To strengthen our image and brand identity, we introduced a new BNF Uniform. By engaging top-quality Maltese manufacturers and designers and ensuring comfort and practicality, we now greet customers with a fresh image that embodies our values and the promise to provide a superior service. The uniform's new design sports our distinct and recognisable brand colour palette and is part of our ongoing journey to provide a top-notch customer experience.

By continuously engaging our people, we encourage innovation, accountability, retention, and business performance whilst allowing them the opportunity to develop their capabilities and be in the driving seat of their careers. This culture, paired with the commitment to provide continuous learning opportunities, encourages and rewards personal initiative.

Best Performing Branch Award 2021

Investing in our people through continuous training and career development is vital to our sustainable business growth. Training, coupled with the provision of equal opportunities, ensures that our diverse 200+ team has the capabilities to stay a step ahead on the professional ladder. We deliver through tools and services such as the BNF eLearning Platform, our online career development tool developed to complement the traditional classroom training and on-the-job learning.

In the course of building high competence teams that are empathic and passionate about establishing great customer experiences, our employees enjoy a number of benefits while being recognised for their efforts throughout the year.

The CEO Prize Award 2021

BNF Bank Annual Report 2021 | Statement of Compliance with the Principles of Good Corporate Governance

Employee of the Year Award 2021

Best Performing Corporate Banking Team Award 2021

Internal Service Excellence Award 2021

Drawbridge Award 2021

CULTIVATING A CULTURE OF WELLBEING

With a view to foster a mental health-conscious and positive workplace, we partnered with Richmond Foundation to offer an invaluable psychological support service to staff - **The Richmond Foundation Staff and Organisation Support Programme.** Through this programme, our team enjoys a confidential space where they can feel empowered to take positive steps to improve and maintain wellbeing and resilience at the workplace and beyond. We are now recognised by Richmond as an organisation that puts the employee's wellbeing at the forefront, promotes mental health and encourages employees to respond to mental health issues at the workplace in an effective and efficient manner. For this we have been awarded Silver Certification.

RESPONSIBLE GOVERNANCE

Our corporate governance structures, policies and processes in place ascertain a culture of accountability and ethical conduct across our organisation that ultimately serves all our stakeholders. Our values of ambition, responsibility and empathy are cogs in the mechanism of our moral compass. They inform our operations and are the milestones in our journey as we move to the next phases of our business growth and fulfil our obligations to our shareholders, colleagues, customers, and wider society. A number of committees are set up specifically to aid management with responsible governance.

BOARD COMMITTEES

Audit Committee

Entrusted with the protection of shareholder interests and with assisting the Board in effectively conducting its role, the Audit Committee ensures the Bank's optimal decision-making capability, and that the accuracy of its reporting and financial results is maintained at all times. It holds responsibility for ensuring and overseeing the integrity, independence, and effectiveness of our internal and external audit practices across the bank.

Risk Committee

The role of the Risk Committee is to recommend proposals to the Board with respect to the Bank's overall risk appetite and risk tolerance limits when determining strategy for market, credit, operational and reputational risks, while considering current and prospective financial environments. Through this Committee, we remain focused on continual improvement of risk mitigation with an emphasis on enhancing governance and management information that identifies risk at early stages.

Compensation and Nomination Committee

As the Compensation and Nomination Committee is assigned to approve reward and performance appraisal structures, it further ensures that the Bank is adopting a coherent approach to remuneration in respect of all employees. The role extends to exercising judgment in the application of remuneration policies to promote fair and equitable rewards.

MANAGEMENT COMMITTEES

Environmental, Social and Governance (ESG) Committee

The Environmental, Social and Governance (ESG) Committee assists the Executive Committee in defining the Bank's practices in ESG. This Committee also proposes ESG practices and strategies to ensure they are in line with

the Bank's core values and any applicable legal and regulatory requirements, while it monitors and reviews their ongoing relevance, effectiveness and further development.

Credit Committee

The Credit Committee's mandate is to make recommendations on, and approve, credit applications received by the Bank for individual and connected exposures. It further liaises with the Risk Function specifically with reference to credit risk and mitigation. This Committee is empowered to oversee the credit and lending strategies and objectives of the Bank whilst also entering into new credit exposures.

Assets and Liabilities Committee

The Assets and Liabilities Committee which sets the Interests Rates Strategy is an integral management committee. It provides a structured and systematic process to manage the Bank's Balance Sheet and achieve better performance consistent with the Bank's liquidity, capital adequacy, growth, risk and profitability goals.

Product Oversight Committee

The Product Oversight Committee's main objective is to discuss and implement projects in relation to new products, services and channels as well as changes to existing products. Serving as an integral part of the Bank's product oversight and governance arrangements, it provides recommendations on the products portfolio to the Executive Committee based on feedback obtained across various functions within the Bank.

Investment Committee

The Investment Committee reviews changes to the Bank's proprietary investments portfolio, discussing and approving new investment strategies and opportunities that are within the Bank's risk appetite and in line with the overall proprietary investments policy. Whilst it fulfils its role of reviewing the investment portfolio, it further ensures that capital optimisation is considered in every activity.

CODE OF CONDUCT

Although we've been forced to adapt to new ways of working and delivering for our clients since COVID-19 first emerged, our commitment to the highest standards of ethics and integrity remains unwavering. In our business, trust means everything, and it serves as the foundation of every relationship with our clients, colleagues, regulators, and shareholders. Whilst promoting accurate, clear, and consistent communications based on sound sustainable financial solutions, we firmly believe in the notion that without confidentiality there can be no trust. And for this reason, we treat data and information with the greatest possible care.

Our Code of Conduct establishes general guidelines for professional ethics applicable to all employees at all levels. It is based on our core values and principles, functioning as an important resource to help employees make the right decisions and take actions consistent with our mission and values.

The Code guides us in our daily behaviour on the job, promoting high ethical standards. Our employees are expected to act with diligence, loyalty, respect, discretion and impartially in their relationships with clients. Personal integrity involves respecting client interests, providing transparent and clear information on products and services. By adhering to our code, we treat our customers, each other and the community we operate in fairly – an important element in our long-term objective of business success and customer service.

A WINNING BANK

As a bank with the ambition of building a new future in a dynamic environment, we strive to make a positive difference for our employees and our communities. Our strategy is to develop an environment conducive to competition and innovation in the financial services sector. The awards we have been bestowed with are testimony to this, while they continue to motivate us to keep on raising the bar.

These latest accolades reflect our sustained commitment towards our vision of becoming the Bank of Choice in Malta, which we will continue to pursue. The awards also recognise the development of the Bank over the recent years and the importance we give to four solid operational value-added elements – a focused banking model, a personalised customer service, a visible and trustworthy brand, and the perseverance, dedication and resilience of our staff.

THE EUROPEAN SOCIETY FOR QUALITY RESEARCH (ESQR) FOR THE QUALITY ACHIEVEMENT AWARD 2021

BNF Bank was awarded the Quality Achievement Award 2021 by the European Society of Quality Research (ESQR). ESQR promotes quality awareness, recognises good business practices, technological innovation and quality achievements in organisations worldwide. This award highlights our strong and long-standing relationships with our customers based on trust and loyalty, underpinned by a boutique approach and valuing each and every customer, whether business or individual.

BANK OF THE YEAR 2021 – THE BANKER

For the second consecutive year, BNF Bank was awarded with the coveted 'Bank of the Year Malta 2021' by The Banker, published by the Financial Times, which celebrates the best in global banking – a testimony to our firm commitment to providing our clients with excellence in financial services, and an acknowledgement of our strategic efforts and successful positioning. Whilst the judges continued to focus on resilience and service to customers in the face of the global pandemic, emphasis was given to our sustainable and long-term growth and digital drive.

Through the dedication of our team, we can continue to ensure a seamless, modern and personalised banking experience for our customers.

EMBRACING THE FUTURE

The volatility of the future is a constant. As we move from pandemic to geo-political instability, we recognise that our future success is based on foresight, the agility of our business, rapid reactions to trends, customised solutions and unwavering customer service.

We will keep building on the sustainable progress achieved in recent years, leveraging our customer-centric business model and our leading multi-channel propositions, and becoming the Bank of Choice in Malta.

As we promise open conversations with all our customers that enable us to truly offer solutions that work for themselves, their families and businesses, we pledge to continue working within the community in an effort to eradicate the remaining weak spots in our society. This is our promise for 2022 and beyond.

Our aspiration to 'build a new future' for the Bank and our customers remains our strong brand promise that drives us forward.

GOING CONCERN

Having taken into consideration the Bank's performance and its future strategic goals, the Directors declare that the Bank is able to continue operating as a going concern for the foreseeable future. In making this assessment, a wide range of information was taken into consideration, including both present and future conditions. These conditions include stressed scenarios reflecting the persistent uncertainty resulting from the COVID-19 pandemic as well as other potential impacts from top and emerging risks and their related impact on the Bank's profitability, capital and liquidity.

Approved by the Board of Directors and signed on its behalf on 23 March 2022 by:

Michael A Collis

MICHAEL ANTHONY COLLIS
Chief Executive Officer
and Managing Director

Afrendo

MICHAEL FRENDO
Chairman

Independent Auditor's Report

Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of BNF Bank p.l.c. (the Bank) as at 31 December 2021, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and

- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

BNF Bank p.l.c.'s financial statements, set out on pages 80 to 247, comprise:

- the statement of financial position as at 31 December 2021;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independent auditor's report - continued

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

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 2021 to 31 December 2021, are disclosed in note 30 to the financial statements.

Our audit approach

Overview

Overall materiality: €967,000, which represents approximately 1% of net assets

Credit loss allowances in respect of loans and advances to customers of the Bank.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Independent auditor's report - continued

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

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	€967,000
How we determined it	Approximately 1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark since, in our view, the actual return payable to the equity holders of the Bank is heavily dependent on the adequacy of the Statement of Financial Position capitalisation given the regulatory considerations arising on dividend distributions. Net assets is also deemed to be an appropriate benchmark given that the Bank is substantially owned by an international Group and given the increasing size of the Statement of Financial Position over the past years. We chose 1% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €97,000 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 BNF Bank p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current 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 matters	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the Bank Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. The development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. The outbreak of the COVID-19 pandemic has exacerbated the level of uncertainty around the calculation of ECLs, giving rise to heightened subjectivity in the determination of model assumptions used to estimate key model risk parameters and hence necessitating a higher level of expert judgement. Credit loss allowances relating to all loans and advances in the Bank's Corporate and Retail portfolios are determined at an instrument level. In general, the Bank calculates ECLs by multiplying three main components: probability of default (PD), loss given default (LGD) and exposure at default (EAD): i. Probability of default ("PD"): the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. ii. Loss given default ("LGD"): the expected losses taking into account, among other attributes, the mitigating effect of collateral value (if any) at the time it is expected to be realised and the time value of money. The LGD modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by unprecedented economic	During our audit of the financial statements for the year ended 31 December 2021, we continued to focus on the key drivers of the estimation of ECLs. Apart from assessing the continuing appropriateness of management assumptions, updates to key parameters and model enhancements, largely driven by the outbreak of the COVID-19 pandemic, were evaluated and tested. Discussions with the Audit Committee and Management included: • the policies and methodologies used by the Bank in respect of computing ECLs on loans and advances; • inputs, assumptions and adjustments to ECLs, in particular changes to risk factors and other inputs within the Bank's models; • the application of macro-economic scenarios, including the severity and magnitude of modelled scenarios, particularly in the context of the potential future impacts of the COVID-19 pandemic; and • considerations around post model adjustments, mainly in response to the impact of COVID-19 and Malta's grey listing, and the estimation uncertainty involved in determining ECLs on the basis of historical experience. For ECL models the appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9. The more judgemental interpretations of IFRS 9 made by management continued to be discussed during the year, in particular the application, severity and magnitude of forward-looking economic scenarios.

pwc

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

Key audit matters	How our audit addressed the Key audit matter
conditions such as those currently experienced as a result of the COVID-19 pandemic. iii. Exposure at default ("EAD"): the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Bank also applies overlays based on expert judgement where management's view is that the calculated ECLs based on these key inputs do not fully capture the risks within the Bank's loan portfolios. For both non-defaulted (Stage 1 and 2) and defaulted (Stage 3) exposures, the Bank uses internally developed statistical models. For non-defaulted (Stages 1 and 2) exposures, PDs are estimated using historical model development data based on the Bank's own experience as available at the reporting date. For exposures secured by immovable properties, LGDs are driven by the adjusted loan-to-value ratio of the individual facilities and takes into account other assumptions, including market value haircut (which includes costs to sell), time to sell and the impact of discounting the collateral from the date of realisation back to the date of default. The maximum period considered when measuring ECLs is the maximum contractual period over which the Bank is exposed to credit risk. Internal credit risk management practices are used to determine when a default has occurred, considering quantitative and qualitative factors where appropriate. Judgement is required to determine when a default has occurred and then to estimate the expected future cash flows related to defaulted (Stage 3) exposures which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows. The Bank is required to assess multiple scenarios in this respect, which scenarios will have probabilities attached. The local impact of the pandemic has been mitigated by a number of government programmes and measures, including	We understood and critically assessed the models used for ECL estimation for both Corporate and Retail portfolios. Since modelling assumptions and parameters are based on historic data, we assessed the impact of the unprecedented circumstances we are currently experiencing on the adequacy of key model parameters, since these are based on historical experience that is not necessarily reflective of the current level of credit risk within the portfolios. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, calibration of PDs and LGDs, segmentation and selection of macroeconomic variables and post-model overlays. Substantive procedures which were performed in respect of the ECL models included: • Performing an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolios, risk profile, credit risk management practices and the macroeconomic environment. • Testing of a sample of exposures to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management, taking into consideration the impact of COVID-19 on the repayment capabilities of the sampled borrowers. • Challenging the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and testing assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage (comprising the determination of significant increase in credit risk and the identification of defaulted exposures) taking cognisance of the potential postponement in timing of defaults due to government support programmes and measures. • Testing the completeness and accuracy of the critical data utilised within the models for the year-end ECL calculations.

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

Key audit matters	How our audit addressed the Key audit matter
general payment moratoria which have given rise to the deferral of payments of capital and/or interest over time periods that potentially extend until the end of the current financial reporting period. This factor has increased the level of uncertainty around judgements made in determining the timing of defaults and in respect of staging, particularly within the mortgage portfolio. For the purposes of avoiding the cliff edge effect on ECLs upon expiry of the moratoria, the Bank reassessed the internal credit risk ratings of all exposures with approved moratoria on the basis of quantitative and qualitative characteristics to enable the identification of significant increase in credit risk (SICR) or Unlikeliness-to-Pay (UTP) events as early as possible. Under IFRS 9, the Bank is required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables and environments, into the ECL estimates. A number of macro-economic scenarios based on the selected macro-economic variables are considered to capture non-linearity across credit portfolios. The complexity attributable to this factor requires management to develop multiple macro-economic scenarios involving the use of significant judgements. The outbreak of COVID-19 and the government support and relief measures adopted to mitigate it have significantly impacted macroeconomic factors such as the gross domestic product (GDP) and unemployment, increasing the uncertainty around judgements made in determining the severity and likelihood of macroeconomic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience. The level of uncertainty has been exacerbated by Malta's inclusion in the list of jurisdictions under increased monitoring, referred to as the grey-list, by the Financial Action Task Force ('FATF') during the year ended 31 December 2021. This gave rise to an elevated level of uncertainty in respect of judgements made in determining macroeconomic forecasts underlying the different economic scenarios used in ECL models. The Bank has applied overlays based on expert judgement to	• Risk based testing of models, including testing of the assumptions, inputs and formulas used in ECL models on a sample basis. This included assessing the appropriateness of model design, methodology and formulas used, specifically challenging the appropriateness of the methodology and calculations used to derive PDs. • Reviewing on a sample basis property collateral valuations utilised to determine LGDs applied by the Bank within ECL calculations, using our valuation experts; challenging the application of certain parameters considered in the LGD estimations such as the time to realise the collateral and costs associated with such process, taking into consideration the adequacy of modelled LGDs in light of the potential impact of the pandemic and Malta's grey listing by the FATF on local property prices. • Recalculating PDs, LGDs and EADs on a sample basis. • Reviewing the multiple macro-economic variables and scenarios to assess their reasonableness. We assessed the appropriateness of changes effected during the year to factor the impact of the pandemic. We assessed whether the severity of the forecasted macroeconomic variables was appropriate in view of the pandemic and the high level of uncertainty surrounding the economic conditions. We challenged the correlation and impact of the macroeconomic factors on the ECL. • Testing independently the model calculations. Based on the evidence obtained, we found the model assumptions, data used within the models, model calculations and overlays to be reasonable. For defaulted exposures, the appropriateness of the methodology and policy used to calculate ECL was independently assessed. We understood and evaluated the processes for identifying default events within loan portfolios, as well as the impairment assessment processes.

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

Key audit matters	How our audit addressed the Key audit matter
reflect risks that are not fully captured by the ECL models. Data used in the impairment calculation is sourced from a number of systems, including systems that are not necessarily used for the preparation of accounting records. The ECL models are based on a general-purpose application which requires extensive manual handling of data. This increases risk around the accuracy and completeness of data used to determine assumptions and to operate the ECL models. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed. Since the estimation of ECLs is subjective in nature and inherently judgemental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus, especially in the context of COVID-19, which has an unprecedented impact on the economy and has significantly increased the level of estimation uncertainty around the calculation of credit loss allowances. We focused on credit loss allowances due to the subjective nature of specific data inputs into the calculation and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 2.6; • Credit risk management: Note 3.2; • Critical accounting estimates and judgements: Note 4.1; • Note on Credit impairment losses: Note 31; and • Note on Loans and advances to customers: Note 9.	In respect of defaulted exposures, the design and operating effectiveness of key controls management has established in respect of the determination of which loans and advances are credit-impaired, were tested. We determined that we could rely on these controls for the purposes of our audit. Substantive procedures were performed in respect of identification of defaults as follows: • Assessed critically the criteria used by management for identifying borrowers whose financial performance is expected to be particularly impacted by COVID-19 and for determining whether a UTP/default event had occurred by testing a sample of loans with characteristics that might imply a default event had occurred (for example a customer experiencing financial difficulty or material sector disruption) to challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner. • Selected a sample of performing loans, including from within those sectors that we consider to have been significantly impacted by the pandemic, which had not been identified by management as potentially defaulted, to form our own judgement as to whether that was appropriate and to further challenge whether all relevant events had been identified by management. Substantive procedures were performed on defaulted exposures in respect of the estimation of the size of the respective ECL provisions, as follows: • Reviewed the credit files of a selected sample of loans to understand the latest developments and the basis of measuring the ECL provisions and considered whether key judgements were appropriate taking cognisance of the pandemic. • Challenged the severity of the different scenarios applied within the ECL calculation for the exposures in the sample, particularly in respect of the extent to which they consider the potential impact of the pandemic on the local property market, together with their respective probability

BNF Bank Annual Report 2021 | Independent Auditor's Report

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

Key audit matters	How our audit addressed the Key audit matter
	weights by forming an independent view of the recoverability of the selected loans under the different scenarios. • Tested key inputs and assumptions within the ECL calculations for the sample, including the expected future cash flows and valuation of collateral held, and reperformed the calculations within the discounted cash flow model used to derive expected cash flows under the different scenarios. • Tested the estimation of the future expected cash flows from customers from realisation of collateral held for the sample of defaulted loans, including assessment of the work performed by external experts used by the Bank to value the collateral and challenged management to demonstrate that the valuations were up to date. We also used our experts to assess the appropriates of valuations and estimates utilised. In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.

pwc

Independent auditor's report - continued

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

Other information

The directors are responsible for the other information. The other information comprises all of the information in the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, 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.

pwc

Independent auditor's report - continued

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

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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Bank's business, assets and liabilities, and the disruption to its business and the overall economy.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report - continued

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

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2021* 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 and Financial Statements 2021* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 23 to 29) 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.

BNF Bank Annual Report 2021 | Independent Auditor's Report

Independent auditor's report - continued

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

Area of the *Annual Report and Financial Statements 2021* 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.

pwc

Independent auditor's report - continued

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

Other matter - use of this report

Our report, including the opinions, has been prepared for and only for the Bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Appointment

We were first appointed as auditors of the Bank on 25 July 2014. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

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

Simon Flynn
Partner

23 March 2022

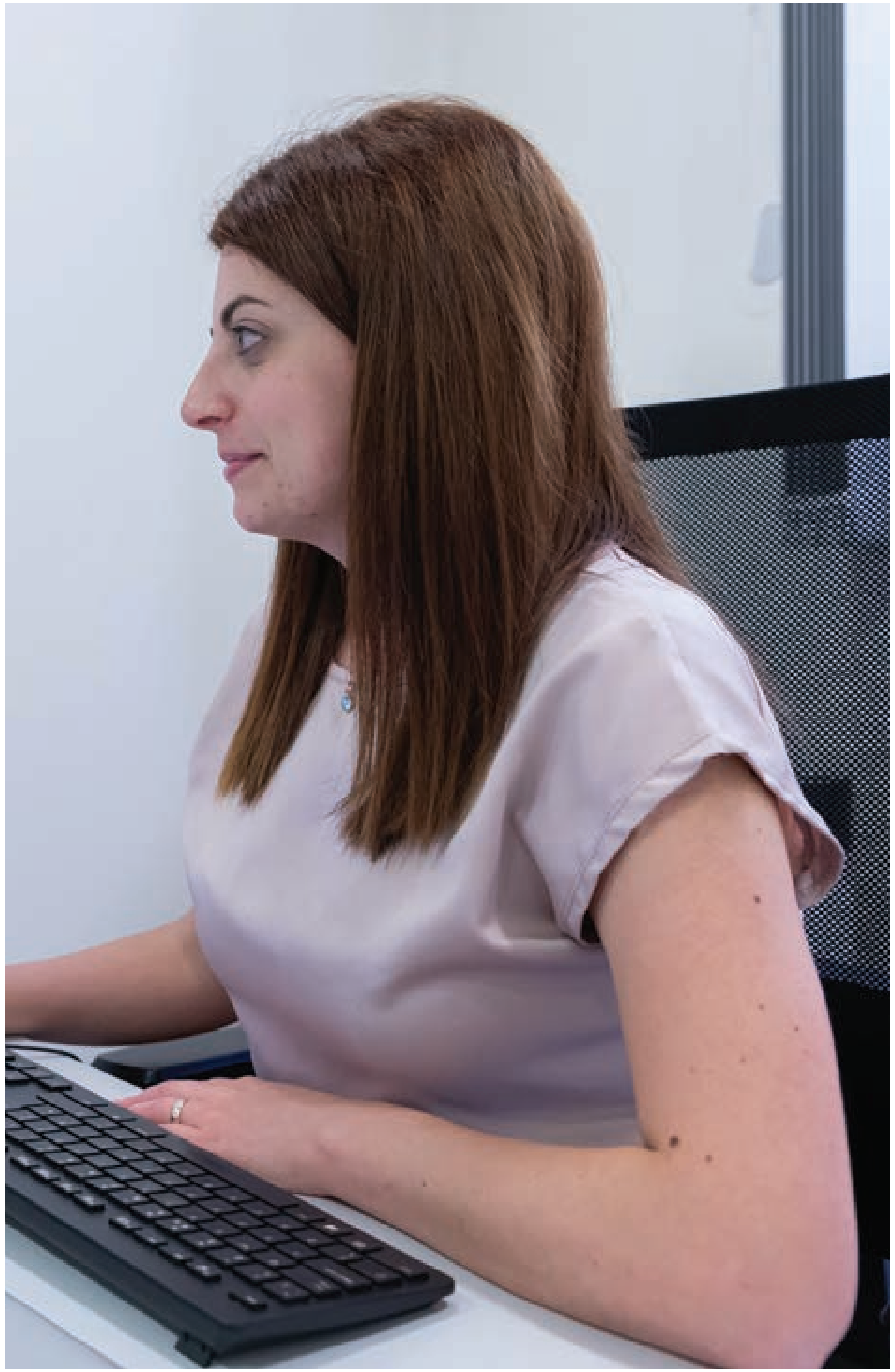
Statement of Financial Position

Income Statement

Statement of Comprehensive Income

Statement of Changes in Equity

Statement of Cash Flows



STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	2021 €000	2020 €000
Assets			
Balances with Central Bank of Malta and cash	6	**102,410**	93,262
Cheques in course of collection		**1,327**	1,138
Financial investments	7	**72,135**	78,517
Loans and advances to banks	8	**11,713**	16,061
Loans and advances to customers	9	**793,093**	688,334
Property and equipment	10	**5,640**	5,897
Intangible assets	11	**864**	908
Right-of-use assets	12	**1,830**	2,216
Derivative financial instruments	13	**6**	-
Deferred tax assets	14	**6,757**	6,108
Prepayments and accrued income	15	**3,187**	2,928
Other assets	16	**5,736**	5,842
Total Assets		**1,004,698**	901,211
Equity			
Share capital	17	**74,544**	74,544
Perpetual capital notes	18	**10,000**	10,000
Revaluation reserve	19	**38**	663
Reserve for General Banking Risks	19	**992**	992
Retained earnings	19	**12,137**	6,750
Total Equity		**97,711**	92,949

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	2021 €000	2020 €000
Liabilities			
Amounts owed to banks and other institutions	20	**29,436**	13,535
Amounts owed to customers	21	**859,152**	776,986
Derivative financial instruments	13	**256**	-
Current tax liabilities		**652**	389
Other liabilities	22	**12,663**	12,031
Accruals and deferred income	23	**4,828**	5,321
Total Liabilities		**906,987**	808,262
Total Equity and Liabilities		**1,004,698**	901,211
Memorandum Items			
Contingent liabilities	24	**9,506**	9,650
Commitments	24	**253,534**	197,233

The accounting policies and explanatory notes on pages 80 to 247 form an integral part of the financial statements. The financial statements on pages 92 to 247 were approved and authorised for issue by the Board of Directors and signed on its behalf on 23 March 2022 by:

MICHAEL ANTHONY COLLIS
Chief Executive Officer
and Managing Director

MICHAEL FRENDO
Chairman

INCOME STATEMENT For the year ended 31 December 2021	Notes	2021 €000	2020 €000
Interest receivable and similar income			
• on loans and advances, balances with Central Bank of Malta and other instruments	25	26,312	24,405
• on debt and other fixed income instruments	25	286	358
Interest payable and similar expense	26	(3,900)	(4,222)
Net interest income		22,698	20,541
Fees and commission income	27	4,004	3,650
Fees and commission expense	27	(1,365)	(1,027)
Net fees and commission income		2,639	2,623
Net trading income	28	326	491
Net gains from financial instruments at FVTPL	7	1,075	-
Gain on disposal of investments measured at FVOCI	7	399	516
Other Income		104	51
Net operating income		27,241	24,222
Employee compensation and benefits	29	(9,030)	(8,485)
Other administrative expenses	30	(6,835)	(6,321)
Depreciation of property and equipment and right-of-use assets	10,12	(925)	(925)
Amortisation of intangible assets	11	(333)	(365)
Credit impairment losses	31	(1,067)	(2,815)
Profit before tax		9,051	5,311
Income tax expense	32	(2,750)	(836)
Profit for the year		6,301	4,475
Earnings per share	33	6c4	4c5

The accounting policies and explanatory notes on pages 92 to 247 form an integral part of the financial statements

STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2021	2021 €000	2020 €000
Profit for the year	6,301	4,475
Other comprehensive income Items that may be subsequently reclassified to profit or loss		
Investments measured at FVOCI:		
• Net (losses)/gains in fair value, before tax	(414)	466
• Net gains on financial assets reclassified to profit or loss on disposal, before tax	(399)	(516)
• Net (gains)/losses attributable to change in credit risk, before tax	(149)	59
Income taxes	337	(7)
Other comprehensive income for the year, net of tax	(625)	2
Total comprehensive income for the year, net of tax	5,676	4,477

The accounting policies and explanatory notes on pages 92 to 247 form an integral part of the financial statements.

BNF Bank Annual Report 2021 | Statement of Changes in Equity

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	NOTES	SHARE CAPITAL €000	PERPETUAL CAPITAL NOTES €000	REVALUATION RESERVE €000	RESERVE FOR GENERAL BANKING RISKS €000	RETAINED EARNINGS €000	TOTAL €000
At 1 January 2020		74,544	10,000	661	992	3,189	89,386
Comprehensive income							
Profit for the year		-	-	-	-	4,475	4,475
Other comprehensive income							
Fair valuation of financial assets measured at FVOCI:							
• net movement in fair value arising during the year	7	-	-	303	-	-	303
• reclassifications - net amounts re-classified to profit or loss		-	-	(339)	-	-	(339)
• net gain attributable to change in credit risk	7	-	-	38	-	-	38
Total other comprehensive income for the year		-	-	2	-	-	2
Total comprehensive income		**-**	**-**	2	-	4,475	4,477
Transactions with owners							
Distribution to owners:							
Interest on perpetual capital notes		**-**	**-**	**-**	**-**	(914)	(914)
Total transactions with owners		-	-	-	-	(914)	(914)
At 31 December 2020		74,544	10,000	663	992	6,750	92,949

STATEMENT OF CHANGES IN EQUITY **For the year ended 31 December 2021**	**NOTES**	**SHARE CAPITAL €000**	**PERPETUAL CAPITAL NOTES €000**	**REVALUATION RESERVE €000**	**RESERVE FOR GENERAL BANKING RISKS €000**	**RETAINED EARNINGS €000**	**TOTAL €000**
At 1 January 2021		74,544	10,000	663	992	6,750	92,949
Comprehensive income							
Profit for the year		-	-	-	-	6,301	6,301
Other comprehensive income							
Fair valuation of financial assets measured at FVOCI:							
• net movement in fair value arising during the year	7	-	-	(269)	-	-	(269)
• reclassifications - net amounts classified to profit or loss		-	-	(259)	-	-	(259)
• net gain attributable to change in credit risk	7	-	-	(97)	-	-	(97)
Total other comprehensive income for the year		-	-	(625)	-	-	(625)
Total comprehensive income		-	-	(625)	-	6,301	5,676
Transactions with owners							
Distribution to owners:							
Interest on perpetual capital notes		-	-	-	-	(914)	(914)
Total transactions with owners		-	-	-	-	(914)	(914)
At 31 December 2021		74,544	10,000	38	992	12,137	97,711

The accounting policies and explanatory notes on pages 92 to 247 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 €000	2020 €000
Cash flows from operating activities			
Interest, fees and commission received		**30,560**	27,450
Interest, fees and commission paid		**(5,361)**	(5,776)
Net return from investment and trading activities		**1,753**	537
Payments to employees and suppliers		**(16,817)**	(13,544)
Net interest on financial assets		**340**	388
Cash flows from operating profit before changes in operating assets and liabilities		**10,475**	9,055
Increase/(decrease) in operating assets:			
• Balances with Central Bank of Malta		**(1,050)**	(375)
• Loans and advances to customers		**(106,225)**	(63,556)
• Other assets		**161**	2,526
Increase in operating liabilities:			
• Amounts owed to customers		**82,166**	54,066
• Other liabilities		**1,082**	342
Net cash flows (used in)/ generated from operating activities before tax		**(13,391)**	2,058
Income tax paid		**(2,799)**	(3,983)
Net cash flows used in operating activities		**(16,190)**	(1,925)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 €000	2020 €000
Cash flows from investing activities			
• Purchase of property, equipment and intangible assets		**(957)**	(1,038)
• Purchase of financial investments	7	**(25,685)**	(51,883)
• Proceeds from disposal and redemption of investments		**31,653**	51,478
Net cash flows generated from/(used in) investing activities		**5,011**	(1,443)
Cash flows from financing activities			
• Interest on perpetual capital notes		**(914)**	(914)
Net cash flows used in financing activities		**(914)**	(914)
Net decrease in cash and cash equivalents		**(12,093)**	(4,282)
Cash and cash equivalents at beginning of year		**90,230**	94,512
Cash and cash equivalents at end of year	34	**78,137**	90,230

The accounting policies and explanatory notes on pages 92 to 247 form an integral part of the financial statements.

Notes to the Financial Statements

Notes to the Financial Statements

For the year ended 31 December 2021

1. STATUTORY INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

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

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

2.2. Standards, interpretations and amendments to published standards effective in 2021

In 2021, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2021. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Bank's accounting policies impacting the Bank's financial performance and position.

Interest Rate Benchmark Reform Phase 2

The IASB published 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' in August 2020, which became effective from 1 January 2021. These amendments represent the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows as a result of the reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark.

The Bank has evaluated the extent of the discontinuation of the IBOR rates on local loans and advances granted by the Bank. The Bank's exposure in this respect is insignificant and expects to migrate all loans by July 2023, in line with the deadline set by the EU.

Additionally, the Bank has limited exposure to GBP LIBOR reference rates through its participation in international secured syndicated lending. The Bank's assets repricing to GBP LIBOR have migrated to SONIA within the stipulated timelines, in line with the guidelines issued by the UK Financial Conduct Authority.

The Bank holds a significant amount of local corporate loans and advances that re-price to the EURIBOR reference rate, which are not impacted by the benchmark rate regulation. Albeit, going forward, the Bank will be including a fallback provision to these facilities that will safeguard the Bank and its clients in the unlikely event of a cessation of the EURIBOR reference rate, in line with the recommendations issued by the ECB Working Group on Risk-free Rates.

Taking into account the Bank's insignificant and limited exposure to IBOR rates, the transition is not expected to have a material impact on the Bank's operations and financial position. The Bank will continue to monitor the regulatory developments in this respect, with a particular focus on developments relating to the EURIBOR reference rate.

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

There were no new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2022 that were published by the date of authorisation for issue of this financial information and which could have a possible significant impact on the Bank's financial statements in the period of initial application.

2.4. Segment reporting

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

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

2.5. Foreign currency translation

2.5.1 Functional and presentation currency

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

2.5.2 Transacations and balances

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

2.6. Financial assets

2.6.1 Initial recognition and measurement

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

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. At initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

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

2.6.2 Classification and subsequent measurement

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

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

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

2.6.2.1 Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

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

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 3.2.3. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss within 'Gains on disposal of financial investments at FVOCI'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the Income Statement in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately within 'Net investment income'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

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

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

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

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

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

a. Business Model

Key management personnel determine the Bank's business model by considering the way financial instruments are managed in order to generate cash flows, that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management. The information that will be considered in such assessment includes:

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

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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

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

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

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

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

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

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

2.6.2.2 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares or additional tier 1 instruments of banks.

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

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

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

2.6.3 Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and on the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for ECL at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3.2.3 provides more detail of how the ECL allowance is measured. ECL allowances are presented in the Statement of Financial Position as follows:

- **Financial assets measured at amortised cost:** as a deduction from the gross carrying amount of the assets;

- **Loan commitments and financial guarantee contracts:** generally, as a provision;
- **Financial Instrument with both a drawn and undrawn component, whereby the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:** the Bank presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- **Debt instruments measured at FVOCI:** no loss allowance is recognised in the Statement of Financial Position against the carrying amount of the asset since the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented in the Statement of Comprehensive Income.

2.6.4 Modification of loans and advances to customers

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

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

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

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

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

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

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

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

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

2.7 Derivative financial instruments

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

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

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

2.8 Offsetting financial instruments

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

2.9 Property and equipment

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

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

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

	Years
Land and Buildings	
Freehold	20-50
Leasehold	10
Computer Equipment	4
Other Equipment	3-10

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

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

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

2.10 Intangible assets

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

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

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

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

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

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

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

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

2.11 Impairment of non-financial assets

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

when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Property acquired through judicial action

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

2.13 Current and deferred income tax

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

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

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

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

2.14 Share capital

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

2.15 Perpetual capital notes

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

2.16 Financial liabilities

2.16.1 Initial recognition and measurement

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

2.16.2 Classification and subsequent measurement

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

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

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

2.16.3 Derecognition

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

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

2.17 Repurchase and reverse repurchase agreements

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

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

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

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

2.18 Trade and other payables

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

2.19 Provisions for legal and other claims

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

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

2.20 Provisions for pension obligations

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

2.21 Interest income and expense

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

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

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

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

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

2.22 Fees and commissions

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

Fees and commissions income, comprising account servicing fees, investment management fees, placement fees and other similar fees, are recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period. Fees and commissions expense, relating mainly to transaction and service fees, are expensed as the services are received.

2.23 Dividend income

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

2.24 Net trading income

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

2.25 Leases

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

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

The Bank leases a number of properties and motor vehicles as well as low-value items such as photocopiers and note counting machines. Rental contracts are typically made for fixed periods but may have extension options. The lease term reflects the exercise of such options.

2.26 Financial guarantee contracts and loan commitments

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

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

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

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

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

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

2.27 Cash and cash equivalents

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

2.28 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction

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

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

  Credit risk could impair the quality and hence the value of the Bank's lending assets. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country of origination of an asset. Settlement risk refers to the risk of losses through failure of a counterparty to settle outstanding dues on the settlement date.
- **Market risk:** The risk of losses arising from fluctuations in fair value or future cash flows of financial instruments, due to changes in market variables such as prices and interest rates, the correlations between them, and their levels of volatility.
- **Liquidity risk:** The risk of losses due to:
  i. the Bank's funding costs increasing disproportionately;
  ii. lack of funding preventing the Bank from establishing new business; and
  iii. lack of funding which will ultimately prevent the Bank from meeting its obligations.

  Liquidity risk arises from:

  - **Market (product) liquidity risk:** risk of losses arising from the inability to easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption; and
  - **Funding liquidity risk:** risk of losses arising from a timing mismatch between investing, placements and fundraising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- **Operational risk:** Operational risk is the risk of direct or indirect losses arising from inadequate or failed internal processes, system failure, human error, fraud or from external events (including legal risk). When controls fail to perform or underperform, operational risks can cause damage to reputation, have legal or regulatory implications, and/or lead to financial loss.
- **Environmental, Social and Governance (ESG) risks:** ESG risks refer to the risks of any negative financial impact on the Bank stemming from the current or prospective impacts of ESG factors on its counterparties or invested assets. ESG factors refer to environmental, social and governance factors that may have a positive or negative impact on the financial performance or solvency of the Bank.

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

Three lines of defence

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

- **The first line of defence**

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

- **The second line of defence**

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

- **The third line of defence**

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

Risk Culture

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

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

Risk Appetite

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

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

Risk Management Process

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

- **Identification and assessment of material risks and controls**

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

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

- **Risk measurement and mitigation**

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

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

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

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

- **Monitoring and Reporting**

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

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

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

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

3.2 Credit Risk

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

- **Credit Analysis Department (CAD):** responsible for credit risk management activities by way of analysis of credit requests, implementation of credit policies, and participation in credit committees where credit decisions are taken by consensus; and
- **Risk Control & Oversight Unit:** responsible for credit, concentration, and correlation risk control and oversight activities. This unit does not actively participate in credit decisions, and is responsible for the maintenance of credit policies, risk models, metrics, tools, and reporting on adherence or otherwise to the Bank's Risk Appetite Framework on credit and other risks.

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

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

The Bank's Credit Committees' structure is composed of various levels ranging from Level 1 to Level 3, Executive Committee (EC), the Credit Approval Committee and the Board of Directors. The Board of Directors acts as the highest approval body within the Bank whilst the Credit Approval Committee is a Board Committee. The role of the Credit Approval Committee is to approve credit applications within an established range, and to make recommendations to the Board in respect of credit applications that fall within the approval range of the Board of Directors.

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

3.2.1 Credit risk management

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

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

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

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

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

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

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

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

The current financial year continued to be characterised by extraordinary economic conditions because of the COVID-19 outbreak, which conditions have impacted the Bank's customers' business models, income levels or cash flow generation. In response to the COVID-19 pandemic, the Bank continued to adapt its credit risk management processes for the purposes of identifying deterioration in credit risk within its portfolios and estimating expected credit loss allowances using the best possible judgement.

In this respect, the Bank continued to increase the depth of monitoring activities on its loan portfolios. On those customers that requested moratoria or that operate in industries which have been negatively impacted by

COVID-19, the Bank carried out assessments to determine whether the COVID-19 induced shock may transform into long-term financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to Stage 2 or Stage 3 to reflect the change in the level of credit risk as appropriate. The identification of customers experiencing a significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers. This is particularly relevant in those instances where customers have accepted payment deferrals and other relief designed to address short-term liquidity issues or have extended those deferrals. To address such uncertainty, sectorial reviews were performed to identify customers or groups of customers who were experiencing, or were likely to experience, financial difficulty as a result of the COVID-19 outbreak.

The COVID-19 pandemic and the economic distress it created have elevated the level of estimation uncertainty and judgement, especially in light of the inability to track observable historical trends which reflected in ECL modelling which could accurately represent the financial implications brought about by the pandemic. The unprecedented nature of the pandemic induced an elevated level of uncertainty in respect of the economic outlook. Whilst economic forecasts have stabilised during 2021, the extent to which these forecasts accurately reflect the effects of restrictions, the distribution of vaccines, boosters, new variants and eventual business recovery still remains somewhat uncertain. As variants of COVID-19 continued to emerge, it is difficult to have stabilised economic forecasts for the long term, that is for more the one year. Hence, the level of subjectivity underlying the ECL model parameters, including how these react to forward-looking economic conditions remains high. This necessitates more regular monitoring and rigorous evaluation of forecast economic conditions, together with heightened expert judgement, in order to best determine the range of possible economic outcomes used for the purposes of estimating ECL. Further information in respect of macroeconomic forecasts reflected within the ECL calculations is provided in Note 3.2.3.4.

3.2.2 Credit risk measurement

Measurement of credit risk considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The Bank's internal models measure expected credit losses by portfolio using probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters. Refer to Note 3.2.2 for more details.

(a) Loans and advances to customers

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

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

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

Corporate

For corporate business, the rating is determined at the borrower level. A Bank official will incorporate any

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updated or new information/credit assessments into the Bank's credit system on an ongoing basis. In addition, a Bank's official will also update information about the creditworthiness of the borrower from sources such as financial statements.

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

Retail

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

(b) Other financial assets

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

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

3.2.3 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired upon initial recognition is classified in 'Stage 1'.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to Note 3.2.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument becomes credit-impaired, the financial instrument is moved to 'Stage 3'. Refer to Note 3.2.3.2 for the Bank's definition of credit-impaired.
- Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Refer to Note 3.2.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that forward-looking information is considered. Note 3.2.3.4 includes an explanation of how the Bank has incorporated forward-looking information into ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired upon initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

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

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

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

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

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

3.2.3.1 Significant increase in credit risk (SICR)

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

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

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

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

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

As referred to previously, the COVID-19 pandemic and the consequential economic conditions have exacerbated the level of uncertainty, particularly with respect to the identification of customers that would have experienced a SICR. This is also attributable to limitations in credit information available to customers, particularly where these customers were granted a general payment moratorium.

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

In relation to retail portfolios, SICR is generally determined on the basis of delinquency related indicators since less information is available at asset level to enable the timely identification of a SICR. In this respect, a set of criteria were established to determine if borrowers which were granted a general payment moratorium (Note 3.2.8) exhibited signs of SICR or Unlikeliness-to-Pay (UTP). Such criteria includes whether the COVID-19 pandemic negatively affects the level of income of the borrower to the extent that the repayment ability of the borrower is jeopardised and whether the economic sector in which the borrower is employed is severely affected. Such assessment was performed in the context of the Loan-to-Value (LTV) ratio of the exposure. With respect to borrowers who have not requested a moratorium, the Bank continued to apply rigorously its credit assessment and oversight processes, which include monitoring of arrears.

In the context of the retail portfolios, ECL models are generally reliant on the assumption that default emergence is directly impacted by delinquency related indicators since less information is available at asset level to enable the timely identification of SICR or UTP events. In this respect, a set of criteria which considered the current level of income of the borrower, the economic sector in which the same borrower is employed, and the LTV of the exposure were established to determine if borrowers which were granted a general payment moratorium (Note 3.2.8) exhibited signs of SICR. With respect to borrowers who have not requested a moratorium, the Bank continued to apply rigorously its credit assessment and oversight processes, which include monitoring of arrears.

In relation to the corporate portfolio, the Bank assessed all borrowers which were granted a general payment moratorium (Note 3.2.8). 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. As part of the ongoing credit review process, the Bank also assessed whether potential heightened credit risk factors exist (SICR or UTP) from exposures not subject to general payment moratoria. Such assessment was based on the performance of the economic sector to which the borrower belongs.

During 2021, more information became available in respect of the impact of the pandemic on specific business sectors and borrowers, in addition to updated financial information which could indicate financial difficulties or otherwise. This enabled management to carry out enhanced assessments. The assessments were performed by the Bank's relationship managers and the Credit Analysis Department and were discussed and reviewed at Executive Committee level.

Monitoring typically involves use of the following data:

CORPORATE EXPOSURES

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with contractual conditions, quality of management and senior management changes.
- Data from credit reference agencies and press articles.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

RETAIL EXPOSURES

- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities.
- Affordability metrics.

ALL EXPOSURES

- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Utilization of the granted limit.
- Requests for and granting of forbearance.
- Existing and forecast changes in business, financial and economic conditions.

The assessment of SICR incorporates forward-looking information (see Note 3.2.3.4) and is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Analysis Department.

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

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

3.2.3.2 Definition of default and credit-impaired assets

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

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

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

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

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

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

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

The default definition is applied consistently when modelling the PD, EAD and LGD parameters throughout the Bank's expected credit loss calculations. As referred to previously, the COVID-19 pandemic and the consequential economic conditions have exacerbated the level of uncertainty, particularly with respect to the identification of customers that would have shown signs of unlikeliness to pay ('UTP'). The Bank performed assessments to determine whether the short-term economic shock as a result of the pandemic may transform into long-term borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to Stage 3 to reflect the level of change in credit risk. With respect to the retail portfolio, assessments covered individual exposures meeting certain criteria as reflected previously and were also carried out for groups of exposures sharing common risk characteristics. In relation to the corporate portfolio, the Bank's assessment is highly dependent on individual exposure reviews.

Except for forborne exposures, an instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

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

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

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

Expected credit losses (ECL) are measured on either a 12-month or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. When calculating the Bank's ECL, special considerations were made to assess the impact of COVID-19 on the ECL. Further details are set out in Note 3.2.3.4.

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

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

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

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

PD estimates are estimates at a certain date, which, for loans and advances to customers are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on compiled data comprising both quantitative and qualitative factors using internal and external sources.

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

In the case of the local corporate portfolio (as defined in Note 3.2.3.5), the PD calculation is based on a transition matrix approach. The main assumptions underlying the latter approach are that the PD does not depend on 'months on book' and that the future PD depends on current characteristics of the exposure or borrower.

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

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

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

The Lifetime PD is developed as follows:

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

EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is the gross carrying amount at default.

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

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis;

- For revolving products, the exposure at default is predicted by taking current the drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on the analysis of the Bank's recent default data.

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

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

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

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

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

The assumptions underlying the ECL calculations are monitored and reviewed on a regular basis. During the year the Bank continued to estimate the impact of the COVID-19 pandemic on its ECL by utilising segmentation techniques for the purposes of identifying indicators of SICR within both retail and corporate portfolios as explained in Note 3.2.3.1. For individually significant credit-impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans.

Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The heightened level of uncertainty within the local property market, driven by the pandemic, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of the pandemic will not be fully known until market conditions stabilise.

As a result, the estimated ECL remain subject to a high degree of uncertainty. To reflect the volatile economic conditions associated with the COVID-19 pandemic, judgemental temporary post-model adjustments were applied by management in order to overcome limitations in respect of the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

During the year the Bank undertook an annual review of the ECL model to ensure that the Bank's current portfolio and macro-economic environment are reflected in the ECL calculations. Product segments were left unchanged and the following process was also conducted:

- selection of the most appropriate regression models to predict defaults giving rise to a more robust review and selection process for the selection of the most appropriate regression models;
- sensitivity analysis on the selected regression models to test the consistency of the models;
- process of capturing most recent economic data available;
- using an internal model to forecast macroeconomic variables under multiple scenarios; and
- maintaining the probability weightings of the multiple scenarios to better reflect the current and projected macro-economic environment.

However, cognisant of the level of uncertainty that remains and to ensure that ECL estimates continue to reflect a degree of caution and in the context of management's post-model adjustment determination, economic scenarios selected do not consider the economic growth registered during 2021.

3.2.3.4 Forward-looking information incorporated in the ECL model

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

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

i. Corporate exposure: the Real Estate Price Index (REPI) and the Gross Fixed Capital Formation (GFCF), given the significant impact they have on local investment and the performance of corporate entities;

ii. Retail exposure: the real GDP, unemployment and the Real Estate Price Index (REPI), given the significant impact they have on local investment and labour ratio considering their performance has a significant impact on repayment feasibility of secured and unsecured retail borrowers.

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

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

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

As highlighted previously, the COVID-19 outbreak is heading towards its third year, and has disrupted the economic landscape. The sharp contraction in economic activity experienced in both the global and local economies has had varying effects on different industry sectors, with borrowers operating or employed within such industry sectors experiencing financial difficulties. Supply-chain disruptions partly brought about due to the pandemic are also contributing to an inflationary environment. Measures designed to soften the extent of the damage to economic activity and the labour market which were announced by the Maltese government, as well as European and local regulatory authorities in 2020, were extended to 2021. Such measures include income support to households, funding support to businesses (including through government-guaranteed schemes), as well as the granting of general public moratoria on capital and/or interest repayments where applications were being accepted until 31 March 2021, in response to the outbreak of the pandemic.

At the same time, the current financial year was characterised by strong economic growth as the global and local economies bounced back, particularly in spring and summer, resulting in abnormally high growth rates principally due to a fast-opening economy facilitated by the unwinding of restrictions and successful vaccination campaigns. Growth rates during 2021 reflect performance throughout the year, but also the low base values recorded in 2020. The wave of infections towards the end of the year was stronger than expected, resulting in stricter government measures. However, current vaccines are expected to provide a degree of efficacy against the Omicron variant, thus avoiding the need for prolonged, full-scale lockdowns in the Eurozone and the effect of the pandemic on aggregate activity will be more contained than in previous outbreaks. The unwinding of government support schemes and regulatory relief measures introduced as a response to the outbreak of COVID-19 also commenced.

In this respect, the significant changes in economic and market drivers, customer behaviours and government actions caused by COVID-19 have also impacted the performance of ECL models, since the severity of projections of macroeconomic variables being forecasted in response to the pandemic are outside the historical observations on which the ECL models have been built and calibrated. There is an absence of an observable historical trend that can accurately represent the severity and speed of the economic impacts brought about by the pandemic and the complexities of government support schemes and regulatory exemptions and their unwinding. As a result, modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions since the severity of projections of macroeconomic variables being forecasted in response to the pandemic are outside the historical observations on which the ECL models have been built and calibrated.

In addition to the above, the estimated economic impact of Malta's grey-listing remains difficult to gauge, since this is highly dependent on the speed at which Malta exits the FATF grey-listing, the effectiveness of national efforts to address the gaps, as well as the response from foreign investors. Significant judgement is required in order to assess the potential impact of the FATF grey-listing on the local economy. In this respect, expert judgement was applied by management when determining the appropriateness of selected macroeconomic scenarios.

In this regard, a significant judgement within the Bank's estimation of ECL allowances as at 31 December 2021 relates to the determination of forward-looking scenarios reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs. As with any macro-economic forecast, the projections and likelihoods of occurrence are subject to a degree of uncertainty and actual outcomes could be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes after analysing different simulations to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. Previously highlighted uncertainties have been addressed by applying an adverse post-model adjustment on the PDs.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2021 are set out below. The 'baseline', 'upside' and 'downside' scenarios were used for all portfolios:

- The 'baseline' scenario captures business-as-usual macroeconomic expectations, whereby the current rhythm of economic activity is maintained;
- The 'downside' scenario is based on a subdued level of economic activity hypothesized to correspond to an economic recession;
- The 'upside' scenario is based on the assumption that it would be possible to marginally improve further over the already benign economic conditions.

AS AT 31 DECEMBER 2021

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

*YoY = year on year | ** 2024 Q3 data forecast

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AS AT 31 DECEMBER 2020

	2021	2022	2023
Average Gross Salary Rate (YoY)*			
- 'Baseline'	-3.48%	-1.79%	-1.09%
- Range of forecasts for alternative scenarios	[-5.5 – -3.1]%	[-4.5 – -1.3]%	[-4.2 – -0.5]%
Gross Fixed Capital Formation (GFCF) (YoY)*			
- 'Baseline'	-5.59%	-4.72%	-4.17%
- Range of forecasts for alternative scenarios	[-8.6 – 6.8]%	[-8.8 – 11.9]%	[-8.9 – 15.0]%
Real GDP rate (YoY)*			
- 'Baseline'	-0.78%	1.67%	2.45%
- Range of forecasts for alternative scenarios	[-3.2 – -0.2]%	[-1.6 – 2.5]%	[-1.3 – 3.4]%
Unemployment rate (YoY)*			
- 'Baseline'	4.36%	4.33%	4.31%
- Range of forecasts for alternative scenarios	[4.2 – 4.5]%	[4.2 – 4.5]%	[4.1 – 4.5]%
Real Estate Price Growth rate (REPI) (YoY)*			
- 'Baseline'	1.25%	0.67%	0.42%
- Range of forecasts for alternative scenarios	[0.1 – 5.0]%	[-0.8 – 5.5]%	[-1.3 – 5.9]%

*YoY = year on year

The weightings assigned to each economic scenario were 50% (2020: 50%) for the 'baseline' scenario, 25% (2020: 25%) for the 'downside' scenario and 25% (2020: 25%) for the 'upside' scenario. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The economic scenarios were simulated over a full economic cycle.

Economic scenarios sensitivity analyses of ECL estimates

The outcome of the Bank's credit loss allowances estimation process is sensitive to judgements and estimations made throughout the incorporation of forward-looking economic conditions. Management has assessed the sensitivity of the Bank's expected credit losses by assigning a 100% weighting to the baseline, downside and upside scenarios respectively. The Bank's credit loss allowances would decrease by €0.8 million (2020: €0.8 million) if the provisions had to be calculated solely on the baseline scenario; ECLs would increase by €1.9 million (2020: €1.4 million) if these had to be estimated using only the downside scenario and would reduce by €1.9 million (2020: €1.4 million) if the upside scenario only were to be taken into consideration. Considering any of these scenarios, the Bank would remain in a profitable position. This demonstrates the Bank's resilience in overcoming negative shocks and the ability to absorb such changes, if necessary. In 2020 and 2021, the sensitivity impact was not considered to be significant after taking into consideration the amount of ECL allowances and the effects of the macroeconomic variables applied to the ECL calculations.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This matter is reviewed and monitored for appropriateness on an ongoing basis.

The COVID-19 pandemic and the measures undertaken to contain it have considerably changed the global economic outlook, causing economic disruption and volatility in financial markets. The adverse repercussions anticipated by the Bank include an increase in consumer defaults and insolvent businesses and an increase in the unemployment rate. To mitigate the adverse impact of the pandemic, central banks, regulators and governments introduced fiscal, regulatory and monetary measures to encourage banks to support the economy as explained previously. Despite the improved economic conditions, easing of restrictions and the initiation of payments following the moratoria period, the Bank is still monitoring the situation closely. The pandemic led to an unprecedented set of circumstances which continue to evolve as result of variants and vaccine boosters and other economic development such as rising inflation, therefore, a complete and accurate assessment of the longer-term economic impact of the pandemic is difficult to establish. The Bank's performance is closely linked to the performance of the local economy and the Bank took several actions to ensure that impairment provisions reflect the current economic downturn and future performance of both the economy and the Bank's clients.

3.2.3.5 Categorisation of loans and advances to customers for ECL measurement

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

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

3.2.4 Maximum exposure to credit risk

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

- Financial assets recognised on-balance sheet comprising principally balances with Central Bank of Malta, financial investments and loans and advances to banks and customers. The maximum exposure to credit risk of these financial assets is equal to their gross carrying amounts. Refer to section 3.2.11 for information on the impact of collateral held for loans and advances to customers.
- Documentary credits and guarantee obligations incurred on behalf of third parties. The latter carry the same credit risk as loans, whilst documentary credits are collateralised by the underlying shipments of goods to which they relate, and therefore carry less risk than a loan to a customer. The maximum exposure to credit risk is the full amount that the Bank would have to pay if the guarantees are called upon or if documentary credits are exercised.
- Lending commitments and other credit-related commitments that are irrevocable over the life of the respective facilities and are off-balance sheet items. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused lending commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored similarly to on-balance sheet loans and advances.

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

	2021		2020	
	GROSS EXPOSURE €000	**ECL ALLOWANCE €000**	GROSS EXPOSURE €000	ECL ALLOWANCE €000
Credit risk exposure relating to on-balance sheet assets:				
Subject to IFRS 9 impairment allowance				
Financial assets measured at amortised cost:				
Balances with Central Bank of Malta	**96,974**	**(243)**	88,208	(168)
Cheques in course of collection	**1,327**	**-**	1,138	-
Loans and advances to banks	**11,714**	**(1)**	16,078	(17)
Loans and advances to customers				
- Corporate	**311,747**	**(11,405)**	287,278	(10,702)
- Retail	**497,801**	**(5,050)**	416,551	(4,793)
Accrued income	**1,858**	**-**	2,155	-
Financial investments measured at FVOCI	**70,719**	**(144)**	78,176	(294)
Not subject to IFRS 9 impairment allowance				
Derivative financial instruments	**6**	**-**	-	-
Financial investments measured at FVTPL	**1,416**	**-**	341	-
Credit risk exposure	**993,562**	**(16,843)**	889,925	(15,974)

Credit risk exposure relating to off-balance sheet instruments				
Contingent liabilities	**9,506**	**(136)**	9,650	(73)
Undrawn commitments to lend	**253,516**	**(315)**	197,038	(213)
Credit risk exposure	**263,022**	**(451)**	206,688	(286)

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

3.2.5 Credit concentration risk

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

Credit concentration risk by industry sector

The Bank's financial investments (gross of credit loss allowance) were composed of local and foreign government debt securities, and other debt instruments as shown in the following table (excluding equity investments of €1,246,000):

	2021 €000	2020 €000
Governments	**31,017**	33,330
Corporate		
- Financial Services	**39,872**	45,187
	70,889	78,517

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

	2021 €000	2020 €000
Manufacturing	**9,732**	9,445
Financial services	**54,522**	45,867
Households and individuals	**519,564**	442,157
Construction	**65,235**	51,501
Wholesale and retail	**33,432**	38,114
Other sectors	**127,063**	116,745
Gross loans and advances to customers	**809,548**	703,829

Credit concentration risk for counterparties

As at 31 December 2021, no loans and advances to customers were deemed to be prohibited large exposures in accordance with the requirements of Part Four: Large Exposures, of the CRR except for one exposure covered by a government guarantee and eligible for an exemption in line with CRR specifications. A limited number of customers amount to over 10% of the Bank's regulatory own funds, which customers are monitored more frequently and rigorously.

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

Credit concentration risk by geographical region

The Bank monitors credit concentration risk by geographical region. The majority of the Bank's exposures were in Malta at the end of the period under review, the country in which the Bank is incorporated. During 2021, the Bank originated a number of exposures in the United Kingdom (as defined in Note 3.2.3.5), which as at 31 December 2021 had a carrying amount of €40.8 million. Moreover, the Bank also held balances with correspondent banks in foreign jurisdictions and investments in debt securities issued by foreign entities. The following tables represent financial instruments and loans and advances to banks (excluding equity investments of €1,246,000), split by geographical region.

	2021 €000	2020 €000
Financial investments		
Malta	**26,343**	27,818
France	**2,305**	2,311
Germany	**3,057**	2,881
Netherlands	**9,216**	7,481
Portugal	**5,237**	5,240
Spain	**10,428**	5,597
Switzerland	**886**	817
United Kingdom	**8,233**	17,991
United States	**5,184**	8,381
	70,889	78,517

	2021 €000	2020 €000
Loans and advances to banks		
Malta	-	7
Belgium	-	4,772
United Kingdom	**11,392**	9,269
United States	**322**	2,030
Gross loans and advances to banks	**11,714**	16,078

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

During 2021, the Bank held debt securities and similar instruments issued by investment grade sovereign and non-sovereign counterparties. The issuers are approved and regularly reviewed, focusing on market developments. The debt securities held by the Bank are listed on the Malta Stock Exchange, a regulated market in Malta, or on other recognised exchanges.

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

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

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

The credit rating of Malta was classified as investment grade by external rating agencies as at 31 December 2021 and 2020.

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

2020	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Balances with Central Bank of Malta at amortised cost				
Gross carrying amount	88,208	-	-	88,208
Loss allowance	(168)	-	-	(168)
Carrying amount	88,040	-	-	88,040

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

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

2020	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Financial investments measured at FVOCI				
Aaa to Aa3	7,923	-	-	7,923
A1 to A3	55,622	-	-	55,622
Baa1 to Baa3	11,606	-	-	11,606
Ba1 to Ba3	3,366	-	-	3,366
Carrying amount - fair value	78,517	-	-	78,517
Loss Allowance	(294)	-	-	(294)

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

2020	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Loans and advances to banks at amortised cost				
Aaa to Aa3	6,801	-	-	6,801
A1 to A3	9,270	-	-	9,270
Unrated	7	-	-	7
Gross carrying amount	16,078	-	-	16,078
Loss Allowance	(17)	-	-	(17)
Carrying amount	16,061	-	-	16,061

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

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

3.2.7 Information on credit quality of loans and advances to customers

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

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

The Bank's IRS is broken down as follows:

Performing

- **High Grade (Internal rating of A1 to A3)**

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

- **Standard (Internal rating of A4 and B)**

An exposure with more than 30 days past-due is not graded higher than A4 under the Bank's IRS.

An exposure is assessed as per section 3.2.8 and potentially as A4 or B when it exhibits one or more of the following indicators: a tight debt-service ratio, a deterioration in financial standing, operations or collateral in an industry under distress, overdraft facilities experiencing hardcore elements, or a high loan-to-value ratio. Other quantitative or qualitative factors may be considered in such assessments as may be deemed necessary by the Bank's credit committees.

- **Substandard (Internal rating of C)**

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

Non-performing

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

All credit-impaired or defaulted exposures (see definition in Note 3.2.3.2) fall within this category of the IRS. Exposures past due by more than 90 days automatically fall within this category.

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

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

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

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2020	STAGE 1 12-MONTH ECL €000	STAGE 2 LIFETIME ECL €000	STAGE 3 LIFETIME ECL €000	Total €000
Loans and advances to customers at amortised cost				
Corporate				
High grade	222,803	578	-	223,381
Standard	-	45,455	-	45,455
Substandard	-	583	-	583
Doubtful	-	-	17,859	17,859
Gross carrying amount	222,803	46,616	17,859	287,278
Loss allowance	(1,249)	(1,803)	(7,650)	(10,702)
Carrying amount	221,554	44,813	10,209	276,576
Retail				
High grade	393,688	553	-	394,221
Standard	-	11,322	-	11,322
Substandard	-	3,204	-	3,204
Doubtful	-	-	7,804	7,804
Gross carrying amount	393,688	15,059	7,804	416,551
Loss allowance	(827)	(1,161)	(2,805)	(4,793)
Carrying amount	392,861	13,898	4,999	411,758
Total				
High grade	616,491	1,111	-	617,602
Standard	-	56,777	-	56,777
Substandard	-	3,787	-	3,787
Doubtful	-	-	25,663	25,663
Gross carrying amount	616,491	61,675	25,663	703,829
Loss allowance	(2,076)	(2,964)	(10,455)	(15,495)
Carrying Amount	614,415	58,711	15,208	688,334

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

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

2020	STAGE 1 12-MONTH ECL €000	STAGE 2 LIFETIME ECL €000	STAGE 3 LIFETIME ECL €000	Total €000
High grade	816,731	1,129	-	817,860
Standard	-	62,574	-	62,574
Substandard	-	4,087	-	4,087
Doubtful	-	-	25,996	25,996
Gross Amount	816,731	67,790	25,996	910,517
Loss allowance	(2,215)	(3,022)	(10,544)	(15,781)
	814,516	64,768	15,452	894,736

As at 31 December 2021 and 2020, there were no purchased credit-impaired assets.

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

	2021 €000	2020 €000
Manufacturing	**676**	1,053
Households and individuals	**10,791**	9,457
Construction	**7,600**	1,681
Wholesale and retail	**7,112**	6,948
Other	**7,157**	6,524
	33,336	25,663

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

	NON-FORBORNE EXPOSURES 2021 €000	FORBORNE EXPOSURES 2021 €000	TOTAL 2021 €000
Performing Stage 1			
Loans which are not past due	733,977	-	733,977
Loans which are past due by less than 30 days	8,420	-	8,420
	742,397	-	742,397
Underperforming Stage 2			
Loans which are not past due			
- High Grade	-	715	715
- Standard	29,294	1,701	30,995
- Substandard	346	24	370
	29,640	2,440	32,080
Loans which are past due by less than 90 days			
- Past due by less than 30 days	1,611	13	1,624
- Past due by less than 60 days but not more than 30 days	106	-	106
- Past due by less than 90 days but not more than 60 days	5	-	5
	1,722	13	1,735
	31,362	2,453	33,815
Non-Performing Stage 3			
Past due loans by more than 90 days and credit impaired loans	23,372	9,964	33,336
Gross loans and advances	**797,131**	**12,417**	**809,548**
Expected Credit Losses			
12-month ECL	(2,573)	-	(2,572)
Lifetime ECL	(10,764)	(3,118)	(13,883)
Net loans and advances	**783,794**	**9,299**	**793,093**

Interest income recognised during the financial year ended 31 December 2021 in respect of forborne exposures amounted to €401,000 (2020: €513,000).

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The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio at 31 December 2020:

	NON-FORBORNE EXPOSURES 2020 €000	FORBORNE EXPOSURES 2020 €000	TOTAL 2020 €000
Performing Stage 1			
Loans which are not past due	610,188	-	610,188
Loans which are past due by less than 30 days	6,303	-	6,303
	616,491	-	616,491
Underperforming Stage 2			
Loans which are not past due			
- High Grade	-	1,108	1,108
- Standard	52,064	1,568	53,632
- Substandard	1,929	25	1,954
	53,993	2,701	56,694
Loans which are past due by less than 90 days			
- Past due by less than 30 days	2,622	45	2,667
- Past due by less than 60 days but not more than 30 days	996	4	1,000
- Past due by less than 90 days but not more than 60 days	1,314	-	1,314
	4,932	49	4,981
	58,925	2,750	61,675
Non-Performing Stage 3			
Past due loans by more than 90 days and credit impaired loans	14,434	11,229	25,663
Gross loans and advances	689,850	13,979	703,829
Expected Credit Losses			
12-month ECL	(2,076))	-	(2,076)
Lifetime ECL	(10,759)	(2,660)	(13,419)
Net loans and advances	677,015	11,319	688,334

3.2.8 Modification of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

- Modified assets are moved from Stage 3 (Lifetime ECL) to Stage 1 (12-month ECL) only if they have performed in accordance with the new terms for 36 consecutive months or more.
- Modified assets are moved from Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL) only if they have performed in accordance with the new terms for 24 consecutive months or more.

There are no modified assets classified as Stage 1 as at 31 December 2021.

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

In April 2020, the Central Bank of Malta issued Directive 18[1] , 'On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') in order to provide guidance on the treatment of moratoria in the current environment, in line with European Banking Authority ('EBA') Guidelines[2] on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (the 'EBA Guidelines'). These are referred to as general payment moratoria. This treatment was extended until 31 March 2021.

In line with the EBA Guidelines and Directive No. 18, exposures meeting established criteria and which are eligible for the granting of a general payment moratorium are not classified as forborne, unless the borrower was already experiencing financial difficulties prior to the pandemic. Nevertheless, the Bank performed an assessment in respect of such exposures in order to determine whether the short-term shock may transform into long-term financial difficulties, thereby potentially requiring a downgrade to Stage 2 or Stage 3 to reflect the level of credit risk as appropriate. This assessment was performed at borrower level in respect of corporate exposures, whereas the assessment in respect of retail exposures was performed by reference to specific criteria established by management (refer to Note 3.2.3.1). Extensions of general payment moratoria beyond the maximum period prescribed by Directive No. 18 are considered to be forbearance measures. In addition, the granting of moratoria which do not meet the conditions of a general payment moratorium are also considered to be forbearance measures.

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

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

The movement in the carrying amount of forborne loans and advances, before impairment allowances, is analysed below. Exposures subject to general payment moratoria are not considered to be forborne loans and are therefore not included in the table below.

	FORBORNE EXPOSURES	
	2021	2020
	€000	€000
At 1 January	**13,979**	14,677
Loans to which forbearance measures have been extended during the year	**1,474**	610
Repayments	**(808)**	(1,060)
Retired from forborne	**(2,228)**	(248)
At 31 December	**12,417**	13,979

The net modification gain or loss from financial assets with lifetime ECL whose cash flows were modified during the period as part of the Bank's restructuring activities was insignificant.

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

	2021	2020
	€000	€000
Manufacturing	**683**	1,068
Financial services	**1,770**	1,770
Households and individuals	**4,458**	3,351
Construction	**1,240**	1,606
Wholesale and retail	**3,500**	4,372
Other sectors	**766**	1,812
	12,417	13,979

As at 31 December 2021 and 2020 forborne loans comprise exposures to customers based in Malta.

In addition to the forborne loans as disclosed in the tables above, during 2020 the Bank granted moratoria to 384 obligors in respect of gross exposures amounting to €90.4 million which moratoria met the criteria for a general payment moratorium as established within Directive No. 18 and the EBA guidelines.

As at 31 December 2020, outstanding gross loans and advances subject to general payment moratoria amounted to €33.1 million, of which €14.7 million were classified as Stage 2 and €0.1 million were classified as Stage 3. The total allowance for ECL in respect of loans and advances subject to general payment moratoria as at 31 December 2020 amounted to €0.4 million.

During the financial year ended 31 December 2021, extensions to general payment moratoria in respect of loans subject to general payment moratoria as at 31 December 2020 were granted to 16 obligors in respect of gross exposures amounting to €3.5 million, which extensions met the criteria established within Directive No. 18 and the EBA guidelines.

During 2021, the Bank also granted new moratoria to 10 obligors in respect of gross exposures amounting to €5.7 million, which moratoria met the criteria for a general payment moratorium as established within Directive No. 18 and the EBA guidelines.

Extensions to existing moratoria and new moratoria granted during the financial year ended 31 December 2021, which do not meet the criteria established within Directive No. 18 and the EBA Guidelines, are classified as forborne loans and are therefore not included above.

As at 31 December 2021, the Bank had gross exposures subject to general payment moratoria amounting to €2.3 million in respect of 2 obligors, of which €1.3 million were classified as Stage 1 and €1 million were classified as Stage 2. The total allowance for ECL in respect of loans and advances subject to general payment moratoria as at 31 December 2021 amounted to €0.01 million.

Out of the outstanding gross loans and advances subject to general payment moratoria, none of the active moratoria accounts were related to retail customers. In respect of corporate exposures, the Bank assessed and individually rated each borrower on the basis of recently obtained management information.

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

In this respect, as at 31 December 2021, newly originated gross loans subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €5.3 million (2020: €6.6 million), of which a maximum amount of €2.6 million (2020: €3.3 million) is considered guaranteed. As at 31 December 2021, newly originated gross loans, under this scheme, classified as Stage 1, Stage 2 and Stage 3, amounted to €4.1 million (2020: €5.4 million), €0.9 million (2020: €1.3 million) and €0.3 million (2020: nil) respectively. The total ECL allowance in respect of Stage 1 loans subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €0.05 million (2020: €0.1 million); the ECL in respect of Stage 2 loans amounted to €0.09 million (2020: €0.5 million) while the ECL in respect of Stage 3 loans amounted to €0.06 million (2020: nil).

3.2.9 Loss allowances

Reconciliation of 12-month and lifetime ECL provision

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PD, LGD or EAD in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period. The increase in ECL during the year is partly attributable to the increase in the loan book as well as charges to reflect the application of temporary post-model adjustments to capture the uncertainties surrounding the current pandemic, potential additional COVID-19 waves or variants, termination of government support, as well as the potential economic impact of Malta's grey-listing.

2021	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Balances with Central Bank of Malta at amortised cost				
At 1 January 2021	88,208	(168)	88,208	(168)
New financial assets originated or purchased	3,370	(8)	3,370	(8)
Changes in risk parameters (model inputs: PD/LGD/EAD)	22,646	(69)	22,646	(69)
Financial assets derecognised during the year	(17,250)	2	(17,250)	2
At 31 December 2021	**96,974**	**(243)**	**96,974**	**(243)**
Total net income statement charge for the year				**(75)**

2020	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Balances with Central Bank of Malta at amortised cost				
At 1 January 2020	35,930	(29)	35,930	(29)
New financial assets originated or purchased	16,636	(1)	16,636	(1)
Changes in risk parameters (model inputs: PD/LGD/EAD)	35,642	(138)	35,642	(138)
Financial assets derecognised during the year	-	-	-	-
At 31 December 2020	88,208	(168)	88,208	(168)
Total net income statement charge for the year				(139)

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

2021	**STAGE 1**		**TOTAL**	
	GROSS CARRYING AMOUNT €000	**EXPECTED CREDIT LOSSES €000**	**GROSS CARRYING AMOUNT €000**	**EXPECTED CREDIT LOSSES €000**
Financial investments measured at FVOCI				
At 1 January 2021	78,176	(294)	78,176	(294)
New financial assets originated or purchased	22,916	(56)	22,916	(56)
Changes in risk parameters (model inputs: PD/LGD/EAD)	(3,541)	146	(3,541)	146
Financial assets derecognised during the year	(26,832)	60	(26,832)	60
At 31 December 2021	**70,719**	**(144)**	**70,719**	**(144)**
Total net income statement credit for the year				**150**

2020	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Financial investments measured at FVOCI				
At 1 January 2020	77,296	(235)	77,296	(235)
New financial assets originated or purchased	47,068	(219)	47,068	(219)
Changes in risk parameters (model inputs: PD/LGD/EAD)	(5,405)	43	(5,405)	43
Financial assets derecognised during the year	(40,783)	117	(40,783)	117
At 31 December 2020	78,176	(294)	78,176	(294)
Total net income statement charge for the year				(59)

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

2021	**STAGE 1**		**TOTAL**	
	GROSS CARRYING AMOUNT €000	**EXPECTED CREDIT LOSSES €000**	**GROSS CARRYING AMOUNT €000**	**EXPECTED CREDIT LOSSES €000**
Loans and advances to banks at amortised cost				
At 1 January 2021	16,078	(17)	16,078	(17)
New financial assets originated or purchased	9,547	-	9,547	-
Changes in risk parameters (model inputs: PD/LGD/EAD)	(969)	12	(969)	12
Financial assets derecognised during the year	(12,942)	4	(12,942)	4
At 31 December 2021	**11,714**	**(1)**	**11,714**	**(1)**
Total net income statement credit for the year				**16**

2020	STAGE 1		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Loans and advances to banks at amortised cost				
At 1 January 2020	60,335	(16)	60,335	(16)
New financial assets originated or purchased	12,934	(4)	12,934	(4)
Changes in risk parameters (model inputs: PD/LGD/EAD)	(533)	(2)	(533)	(2)
Financial assets derecognised during the year	(56,658)	5	(56,658)	5
At 31 December 2020	16,078	(17)	16,078	(17)
Total net income statement charge for the year				(1)

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

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

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

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

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

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2021	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Loans and advances to customers at amortised cost								
Total								
At 1 January 2021	616,491	(2,076)	61,675	(2,964)	25,663	(10,445)	703,829	(15,495)
New and further lending	248,053	(1,251)	3,515	(606)	1,107	(1,495)	252,675	(3,352)
Repayments and disposals	(124,659)	737	(19,164)	1,531	(3,133)	726	(146,956)	2,994
Transfers of financial instruments								
- Stage 1 to Stage 2	(7,033)	18	7,033	(18)	-	-	-	-
- Stage 1 to Stage 3	(1,237)	15	-	-	1,237	(15)	-	-
- Stage 2 to Stage 1	10,782	(449)	(10,782)	449	-	-	-	-
- Stage 2 to Stage 3	-	-	(8,495)	245	8,495	(245)	-	-
- Stage 3 to Stage 1	-	-	-	-	-	-	-	-
- Stage 3 to Stage 2	-	-	33	(33)	(33)	33	-	-
Net remeasurment of ECL arising from stage transfers and changes in risk parameters	-	434	-	(304)	-	(732)	-	(602)
At 31 December 2021	**742,397**	**(2,572)**	**33,815**	**(1,700)**	**33,336**	**(12,183)**	**809,548**	**(16,455)**
Total net income statement charge for the year								**(960)**

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

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

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

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2020	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Loans and advances to customers at amortised cost								
Corporate Portfolio								
At 1 January 2020	213,670	(917)	40,193	(1,515)	18,573	(6,908)	272,436	(9,340)
New and further lending	79,565	(684)	5,529	(1,047)	590	(590)	85,684	(2,321)
Repayments and disposals	(53,983)	329	(15,537)	892	(1,322)	322	(70,842)	1,543
Transfers of financial instruments								
- Stage 1 to Stage 2	(24,699)	39	24,699	(39)	-	-	-	-
- Stage 1 to Stage 3	(9)	-	-	-	9	-	-	-
- Stage 2 to Stage 1	8,259	(309)	(8,259)	309	-	-	-	-
- Stage 2 to Stage 3	-	-	(9)	5	9	(5)	-	-
Net remeasurment of ECL arising from stage transfers and changes in risk parameters	-	293	-	(408)	-	(469)	-	(584)
At 31 December 2020	222,803	(1,249)	46,616	(1,803)	17,859	(7,650)	287,278	(10,702)
Total net income statement charge for the year								(1,362)

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

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2020	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Loans and advances to customers at amortised cost								
Retail Portfolio								
At 1 January 2020	353,498	(285)	8,359	(617)	6,202	(2,646)	368,059	(3,548)
New and further lending	83,859	(591)	720	(263)	98	(98)	84,677	(952)
Repayments and disposals	(34,283)	38	(1,714)	65	(188)	295	(36,185)	397
Transfers of financial instruments								
- Stage 1 to Stage 2	(9,122)	13	9,122	(13)	-	-	-	-
- Stage 1 to Stage 3	(1,625)	1	-	-	1,625	(1)	-	-
- Stage 2 to Stage 1	1,209	(73)	(1,209)	73	-	-	-	-
- Stage 2 to Stage 3	-	-	(431)	20	431	(20)	-	-
- Stage 3 to Stage 1	152	(3)	-	-	(152)	3	-	-
- Stage 3 to Stage 2	-	-	212	(45)	(212)	45	-	-
Net remeasurment of ECL arising from stage transfers and changes in risk parameters	-	73	-	(381)	-	(382)	-	(690)
At 31 December 2020	393,688	(827)	15,059	(1,161)	7,804	(2,805)	416,551	(4,793)
Total net income statement charge for the year								(1,245)

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

2020	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Loans and advances to customers at amortised cost								
Total								
At 1 January 2020	567,168	(1,202)	48,552	(2,132)	24,775	(9,554)	640,495	(12,888)
New and further lending	163,424	(1,275)	6,249	(1,310)	688	(688)	170,361	(3,102)
Repayments and disposals	(88,266)	367	(17,251)	957	(1,510)	617	(107,027)	1,940
Transfers of financial instruments								
- Stage 1 to Stage 2	(33,821)	52	33,821	(52)	-	-	-	-
- Stage 1 to Stage 3	(1,634)	1	-	-	1,634	(1)	-	-
- Stage 2 to Stage 1	9,468	(382)	(9,468)	382	-	-	-	-
- Stage 2 to Stage 3	-	-	(440)	25	440	(25)	-	-
- Stage 3 to Stage 1	152	(3)	-	-	(152)	3	-	-
- Stage 3 to Stage 2	-	-	212	(45)	(212)	45	-	-
Net remeasurment of ECL arising from stage transfers and changes in risk parameters	-	366	-	(789)	-	(1,022)	-	(1,445)
At 31 December 2020	616,491	(2,076)	61,675	(2,964)	25,663	(10,455)	703,829	(15,495)
Total net income statement charge for the year								(2,607)

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

2020	STAGE 1		STAGE 2		STAGE 3		TOTAL	
	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000	GROSS CARRYING AMOUNT €000	EXPECTED CREDIT LOSSES €000
Total loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend								
At 1 January 2020	732,588	(1,329)	54,462	(2,411)	(25,104)	(9,628)	812,154	(13,368)
New and further lending	271,740	(1,299)	7,279	(1,326)	671	(522)	279,690	(3,147)
Repayments and disposals	(159,390)	375	(20,415)	1,227	(1,522)	615	(181,327)	2,217
Transfers of financial instruments								
- Stage 1 to Stage 2	(36,268)	56	36,268	(56)	-	-	-	-
- Stage 1 to Stage 3	(1,673)	1	-	-	1,673	(1)	-	-
- Stage 2 to Stage 1	9,581	(383)	(9,581)	383	-	-	-	-
- Stage 2 to Stage 3	-	-	(467)	24	467	(24)	-	-
- Stage 3 to Stage 1	153	(3)	-	-	(153)	3	-	-
- Stage 3 to Stage 2	-	-	244	(55)	(244)	55	-	-
Net remeasurment of ECL arising from stage transfers and changes in risk parameters	-	367	-	(808)	-	(1,042)	-	(1,483)
At 31 December 2020	816,731	(2,215)	67,790	(3,022)	25,996	(10,544)	910,517	(15,781)
Total net income statement charge for the year								(2,413)

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

3.2.10 Write-off policy

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

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 December 2021 amounted to €295,000 (2020: €25,000). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

3.2.11 Collateral

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

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

The main types of collateral obtained are as follows:

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

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

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

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

A portion of the Bank's financial assets, secured by cash, have no loss allowance being recognised in accordance with the Bank's expected credit loss model. The carrying amount of such financial assets is €9,622,000 (2020: €11,026,000).

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

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

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

AS AT 31 DECEMBER 2021

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

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AS AT 31 DECEMBER 2020

	Gross carrying amount €000	ECL allowance €000	Carrying amount €000	Extendible value of collateral held €000
Retail:				
- Credit Cards	3	1	2	3
- Fixed Term Loans	1,187	198	989	1,162
- Mortgages	5,390	1,382	4,008	5,390
Corporate:				
- Small and medium-sized enterprises (SMEs)	15,932	5,723	10,209	13,908
	22,512	7,304	15,208	20,463

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

AS AT 31 DECEMBER 2021

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

AS AT 31 DECEMBER 2020

	Gross carrying amount €000	ECL allowance €000	Carrying amount €000
Retail:			
- Overdrafts	236	236	-
- Credit cards	356	356	-
- Fixed term loans	513	513	-
- Mortgages	119	119	-
Corporate:			
- Small and medium-sized enterprises (SMEs)	1,919	1,919	-
- Sole traders	8	8	-
	3,151	3,151	-

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

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

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

Gross carrying amount of credit-impaired loans and advances to customers as at 31 December 2020

	Corporate exposures €000	Retail Mortgages €000	Retail credit cards €000	Retail consumer credit €000
Lower than 25%	2,871	19	1	96
25 to 50%	4,094	388	-	350
51 to 75%	2,071	2,143	-	475
76 to 100%	245	2,736	-	162
Higher than 100%	6,631	89	-	43
Total	15,912	5,375	1	1,126

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

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

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

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	NON-FORBORNE EXPOSURES 2021 €000	FORBORNE EXPOSURES 2021 €000
Underperforming – Stage 2		
Loans which are not past due		
- Total maximum exposure	**29,640**	**2,440**
Extendible value of collateral:		
- Secured by cash and quasi cash	(1,489)	(25)
- Residential immovable property	(11,762)	(1,787)
- Commercial immovable property	(12,303)	(337)
- Other collateral	(244)	-
Total extendible value of collateral	(25,798)	(2,149)
Residual exposure	3,840	291
Loss allowance	**(1,519)**	**(95)**
Past due by less than 90 days		
- Total maximum exposure	**1,722**	**13**
Extendible value of collateral:		
- Secured by cash and quasi cash	(37)	(1)
- Residential immovable property	(1,493)	-
- Commercial immovable property	(119)	-
Total extendible value of collateral	(1,649)	(1)
Residual exposure	75	12
Loss allowance	**(85)**	**(1)**

	NON-FORBORNE EXPOSURES 2021 €000	FORBORNE EXPOSURES 2021 €000
Non-Performing – Stage 3		
- Total maximum exposure	**23,372**	**9,964**
Extendible value of collateral:		
- Secured by cash and quasi cash	(63)	-
- Residential immovable property	(16,026)	(3,823)
- Commercial immovable property	(2,317)	(4,963)
- Other collateral	(151)	(2)
Total extendible value of collateral	(18,557)	(8,788)
Residual exposure	4,815	1,176
Loss Allowance	**(9,161)**	**(3,022)**

	NON-FORBORNE EXPOSURES 2020 €000	FORBORNE EXPOSURES 2020 €000
Performing – Stage 1		
Loans which are not past due		
- Total maximum exposure	610,188	-
Extendible value of collateral:		
- Secured by cash and quasi cash	(10,467)	-
- Residential immovable property	(468,507)	-
- Commercial immovable property	(78,996)	-
- Other collateral	(17,918)	-
Total extendible value of collateral	(575,888)	-
Residual exposure	34,300	-
Loss allowance	(2,018)	-
Past due by less than 30 days		
- Total maximum exposure	6,303	-
Extendible value of collateral:		
- Secured by cash and quasi cash	(222)	-
- Residential immovable property	(5,561)	-
- Commercial immovable property	(127)	-
- Other collateral	(4)	-
Total extendible value of collateral	(5,914)	-
Residual exposure	389	-
Loss allowance	(58)	-

	NON-FORBORNE EXPOSURES 2020 €000	FORBORNE EXPOSURES 2020 €000
Underperforming – Stage 2		
Loans which are not past due		
- Total maximum exposure	53,993	2,701
Extendible value of collateral:		
- Secured by cash and quasi cash	(4,499)	(22)
- Residential immovable property	(22,457)	(1,167)
- Commercial immovable property	(20,603)	(1,193)
- Other collateral	(581)	-
Total extendible value of collateral	(48,140)	(2,382)
Residual exposure	5,853	319
Loss allowance	(2,640)	(102)
Past due by less than 90 days		
- Total maximum exposure	4,932	49
Extendible value of collateral:		
- Secured by cash and quasi cash	(50)	(5)
- Residential immovable property	(2,937)	-
- Commercial immovable property	(92)	-
Total extendible value of collateral	(3,079)	(5)
Residual exposure	1,853	44
Loss allowance	(193)	(29)

	NON-FORBORNE EXPOSURES 2020 €000	FORBORNE EXPOSURES 2020 €000
Non-performing – Stage 3		
- Total maximum exposure	14,434	11,229
Extendible value of collateral:		
- Secured by cash and quasi cash	(60)	-
- Residential immovable property	(9,200)	(3,937)
- Commercial immovable property	(1,138)	(6,120)
Total extendible value of collateral	(10,398)	(10,057)
Residual exposure	4,036	1,172
Loss allowance	(7,927)	(2,528)

3.3 Market risk

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

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

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

3.3.1 Management of market risk

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

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

3.3.2 Interest rate risk

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

The Bank is accordingly in a position to manage the interest rate terms of its financial assets and simultaneously to effect changes to interest terms of liabilities reflecting the Bank's strategy together with market developments.

In this manner, the Bank manages the interest repricing gaps highlighted within the following tables. The Bank's ALCO is primarily responsible for oversight over the Bank's interest rate risk management process and monitors actively the interest rate risk measures utilised by the Bank. Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

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

As at 31 December 2021	Carrying amount €000	Effective interest rate %	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 year and 5 years €000	More than 5 years €000	Non-interest bearing €000
Financial assets							
Balances with Central Bank of Malta and cash	102,410	(0.50%)	96,731	-	-	-	5,679
Financial investments measured at FVOCI	70,719	0.41%	19,172	8,773	34,289	8,485	-
Loans and advances to banks	11,713	0.07%	11,713	-	-	-	-
Loans and advances to customers	793,093	3.36%	774,393	18,700	-	-	-
Total financial assets	**977,935**		**902,009**	**27,473**	**34,289**	**8,485**	**5,679**
Financial liabilities							
Amounts owed to banks and other institutions	29,436	(0.25%)	15,842	-	13,500	-	94
Amounts owed to customers	859,152	0.46%	588,480	121,736	148,936	-	-
Total financial liabilities	**888,588**		**604,322**	**121,736**	**162,436**	**-**	**94**
Interest repricing gap			**297,687**	**(94,263)**	**(128,147)**	**8,485**	**5,585**
Cumulative gap			**297,687**	**203,424**	**75,277**	**83,762**	

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As at 31 December 2020	Carrying amount €000	Effective interest rate %	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 year and 5 years €000	More than 5 years €000	Non-interest bearing €000
Financial assets							
Balances with Central Bank of Malta and cash	93,262	(0.50%)	88,040	-	-	-	5,222
Financial investments measured at FVOCI	78,176	0.10%	30,103	1,150	41,743	5,180	-
Loans and advances to banks	16,061	0.07%	16,054	-	-	-	7
Loans and advances to customers	688,334	3.57%	683,215	5,119	-	-	-
Total financial assets	875,833		817,412	6,269	41,743	5,180	5,229
Financial liabilities							
Amounts owed to banks and other institutions	13,535	(0.50%)	34	-	13,500	-	1
Amounts owed to customers	776,986	0.54%	528,318	129,421	119,195	52	-
Total financial liabilities	790,521		528,352	129,421	132,695	52	1
Interest repricing gap			289,060	(123,152)	(90,952)	5,128	5,228
Cumulative gap			289,060	165,908	74,956	80,084	

Interest rate profile

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

	2021		2020	
	Fixed €000	**Variable €000**	Fixed €000	Variable €000
Interest-earning assets				
Financial investments measured at FVOCI	**45,279**	**25,440**	42,520	35,656
Balances with Central Bank of Malta	**-**	**96,731**	16,635	71,405
Loans and advances to banks	**9,546**	**2,167**	12,930	3,124
Loans and advances to customers	**46,871**	**746,222**	53,241	635,093
	101,696	**870,560**	125,326	745,278
Interest-bearing liabilities				
Amounts owed to banks and other institutions	**-**	**29,342**	-	13,534
Amounts owed to customers	**330,002**	**529,150**	343,961	433,025
	330,002	**558,492**	343,961	446,559

Fair value sensitivity for fixed-rate instruments

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

The Bank's instruments exposing the Bank to fair value interest rate risk consist of quoted debt securities measured at FVOCI, as described in Note 7, since these are fair valued with fair value changes recognised in other comprehensive income. Considering the nature and carrying amount of the investments, in the context of the Bank's Statement of Financial Position, a sensitivity analysis disclosing how debt securities would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

Cash flow sensitivity for variable rate instruments

The Bank is exposed to cash flow interest rate risk principally in respect of the financial assets and liabilities which are subject to floating interest rates.

At the end of the reporting period, if interest rates had increased by 200 basis points (assuming a parallel shift of 200 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would increase by €5,012,000 (2020: €5,118,000). Likewise, if interest rates had decreased by 200 basis points (assuming a parallel shift of 200 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would decrease by €5,012,000 (2020: €5,118,000).

3.3.3 Currency risk

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

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

The Bank has in place limits on the level of exposure by currency and in total, which are monitored daily, and hedging strategies are used to ensure that positions are maintained within established limits.

The table below summarises the Bank's exposures to foreign currency risk at 31 December. Included in the tables are the Bank's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2021	TOTAL €000	EUR €000	GBP €000	USD €000	OTHER €000
Financial assets					
Balances with Central Bank of Malta and cash	102,410	102,144	111	74	81
Financial investments	72,135	53,991	9,555	8,589	-
Loans and advances to banks	11,713	-	11,391	322	-
Loans and advances to customers	793,093	752,219	40,390	484	-
Other assets	8,332	7,645	342	345	-
Total financial assets	987,683	915,999	61,789	9,814	81
Financial liabilities					
Amounts owed to banks and other institutions	29,436	29,433	-	2	1
Amounts owed to customers	859,152	808,546	42,753	7,853	-
Other liabilities	17,491	17,193	151	146	0
Total financial liabilities	906,079	855,173	42,904	8,001	1
Net currency position			18,885	1,813	80
Notional value of derivatives			(20,120)	(890)	-
Residual expoosure			(1,235)	923	80

As at 31 December 2020	TOTAL €000	EUR €000	GBP €000	USD €000	OTHER €000
Financial assets					
Balances with Central Bank of Malta and cash	93,262	76,409	16,757	19	77
Financial investments	78,517	64,554	10,522	3,441	-
Loans and advances to banks	16,061	7	9,263	6,088	703
Loans and advances to customers	688,334	687,675	-	659	-
Other assets	7,967	7,502	98	367	-
Total financial assets	884,141	836,147	36,640	10,574	780
Financial liabilities					
Amounts owed to banks and other institutions	13,535	13,535	-	-	-
Amounts owed to customers	776,986	729,218	36,453	10,707	608
Other liabilities	17,352	17,139	93	120	0
Total financial liabilities	807,873	759,892	36,546	10,827	608
Net currency position			94	(253)	172

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

In fact, under the scenario that the euro appreciates by 20% against all currencies, the effect would be a gain of €47,000 (2020: gain of €3,000) in the carrying amount of financial instruments with the favourable impact recognised in profit or loss. Should the euro depreciate against all currencies by 20%, the effect would be a loss of €47,000 (2020: loss of €3,000) in the carrying amount of financial instruments and the adverse impact would be recognised in profit or loss.

3.4 Liquidity Risk

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

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

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

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

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

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

As at 31 December 2021, the Bank's advances-to-deposit ratio stood at 92.31% (2020: 88.59%).

i. Liquidity Coverage Ratio

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

The LCR ratio as at 31 December 2021 was 129.11% (2020: 231.07%).

During the years ended 31 December 2021 and 2020 the LCR ratio was within both the regulatory minimum and the risk appetite set by the Bank.

ii. Net stable funding ratio

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

During 2020, the Bank calculated the NSFR in line with Basel Committee on Banking Supervision publication 295. During 2021, the NSFR methodology was updated in line with the amendments of the Capital Requirements Regulation (EU) No 575/2013 (CRR II) with effect from 28 June 2021.

The NSFR ratio as at 31 December 2021 was 130.78% (2020: 135.69%).

During the years ended 31 December 2021 and 2020 the NSFR was within both the regulatory minimum and the risk appetite set by the Bank.

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

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

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

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

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

AT 31 DECEMBER 2021	TOTAL €000	WITHIN 3 MONTHS €000	BETWEEN 3 MONTHS AND 1 YEAR €000	OVER 1 BUT LESS THAN 5 YEARS €000	OVER 5 YEARS €000	NO MATURITY DATE €000
Financial assets						
Balances with Central Bank of Malta and cash	102,410	95,618	-	-	-	6,792
Financial investments	72,135	-	11,472	50,761	8,486	1,416
Loans and advances to banks	11,713	11,713	-	-	-	-
Loans and advances to customers	793,093	34,916	11,748	111,191	635,238	-
Other assets	8,332	3,187	-	-	-	5,145
Total financial assets	987,683	145,434	23,220	161,952	643,724	13,353
Financial liabilities						
Amounts owed to banks and other instittiutions	29,436	15,936	-	13,500	-	-
Amounts owed to customers	859,152	589,647	120,704	148,801	-	-
Other liabilities	17,491	4,828	-	-	-	12,663
Total financial liabilities	906,079	610,411	120,704	162,301	-	12,663
Maturity gap	-	(464,977)	(97,482)	(349)	643,724	-
Cumulative gap	-	(464,977)	(562,459)	(562,808)	80,916	-

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Amounts owed to customers of €529,150,000 (2020: €433,025,000) as at 31 December 2021 are repayable on demand and included in the "within 3 months" bucket in the tables. However, the Bank's experience is that a significant portion of such deposits remains stable. Additionally, a significant part of other deposits maturing within 3 months from the end of the reporting period is typically renewed.

An amount of €3,370,000 was pledged with the Central Bank of Malta in favour of the Depositor Compensation Scheme during 2021 (2020: nil). No financial investments were pledged in favour of the Depositor Compensation Scheme during 2021 (2020: €3,850,000).

AT 31 DECEMBER 2020	TOTAL €000	WITHIN 3 MONTHS €000	BETWEEN 3 MONTHS AND 1 YEAR €000	OVER 1 BUT LESS THAN 5 YEARS €000	OVER 5 YEARS €000	NO MATURITY DATE €000
Financial assets						
Balances with Central Bank of Malta and cash	93,262	87,519	-	-	-	5,743
Financial investments	78,517	-	1,149	67,434	9,593	341
Loans and advances to banks	16,061	16,061	-	-	-	-
Loans and advances to customers	688,334	43,498	17,345	89,769	537,722	-
Other assets	7,967	2,928	-	-	-	5,039
Total financial assets	884,141	150,006	18,494	157,203	547,315	11,123
Financial liabilities						
Amounts owed to banks and other institiutions	13,535	35	-	13,500	-	-
Amounts owed to customers	776,986	533,422	124,494	119,018	52	-
Other liabilities	17,352	5,321	-	-	-	12,031
Total financial liabilities	807,873	538,778	124,494	132,518	52	12,031
Maturity gap		(388,772)	(106,000)	24,685	547,263	
Cumulative gap		(388,772)	(494,772)	(470,087)	77,176	

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

AT 31 DECEMBER 2021	TOTAL €000	WITHIN 3 MONTHS €000	BETWEEN 3 MONTHS AND 1 YEAR €000	OVER 1 BUT LESS THAN 5 YEARS €000	OVER 5 YEARS €000
Financial liabilities					
Amounts owed to banks and other institutions	29,436	15,936	-	13,500	-
Amounts owed to customers	866,469	590,030	121,832	154,607	-
Lease liabilities	1,930	88	294	1,387	161
Total financial liabilities	**897,835**	**606,054**	**122,126**	**169,494**	**161**
AT 31 DECEMBER 2020					
Financial liabilities					
Amounts owed to banks and other institiutions	13,535	35	-	13,500	-
Amounts owed to customers	784,504	533,929	125,854	124,655	66
Lease liabilities	2,438	95	321	1,860	162
Total financial liabilities	800,477	534,059	126,175	140,015	228

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

3.5 Operational risk

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

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

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

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

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

i. Risk Culture

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

ii. Adequately trained staff

The Bank ensures that sufficiently trained resources are available.

iii. Risk-averseness

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

iv. Risk identification and assessment

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

v. Risk mitigation

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

The Bank applies the Basic Indicator Approach ('BIA') as defined in the CRR in order to quantify the regulatory capital charge. Accordingly, the Bank allocates 15% of the average of gross income over the previous three years as regulatory capital in respect of operational risk. The capital requirement for operational risk under this method was calculated at €3,302,000 (2020: €2,824,000).

During 2021, the actual level of operational risk materialisation recorded on the Bank's database was again compared to the regulatory capital quantification under the above-mentioned Basic Indicator Approach, which resulted in a low level of operational risk, confirming that the Basic Indicator Approach (Pillar 1) is a useful benchmark to compare actual versus theoretical level of operational risk event materialization. Such comparison was further reinforced by means of the Operational Risk and Control Self-Assessment (RCSA). The RCSA analysed key risks across the institution and assessed the prevailing risk level, as well as the efficacy and performance of control measures in place. Thus, it was possible to differentiate between inherent and residual risk levels. The final residual risk level was used to allocate Pillar 2 add-ons for sub-categories of operational risk.

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

The COVID-19 pandemic situation continued to be closely monitored during 2021 and appropriate measures were taken as considered necessary and in line with protocols established by the Health Authority to ensure business continuity, staff and customer safety. Where possible, employees were asked to work remotely, and the remaining staff were working on a rotation basis and dispersed to allow sufficient social distance. Contingency sites and equipment were tested regularly. The Executive Committee maintained regular meetings to analyse the situation and provide direction accordingly. No major disruption to the business was experienced.

3.6 Capital risk management

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

Accordingly, the purpose of the Bank's capital management is essentially to ensure an efficient use of capital, taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development. The Bank is a licensed credit institution and must therefore comply with the capital requirements under the relevant laws and regulations. During the years ended 31 December 2021 and 2020, the Bank complied with the imposed regulatory capital requirements.

Further detail on capital risk management and capital adequacy requirements is set out in the 'Additional Regulatory Disclosures' section of this Annual Report.

3.7 Fair values of financial assets and liabilities

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

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

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

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

As at 31 December 2021	LEVEL 1 €000	LEVEL 2 €000	LEVEL 3 €000	TOTAL €000
Financial assets				
Derivative financial instruments	**-**	**6**	**-**	**6**
Financial investments				
- Government debt instruments	**31,017**	**-**	**-**	**31,017**
- Corporate debt instruments	**39,702**	**-**	**170**	**39,872**
- Equities	**1,246**	**-**	**-**	**1,246**
Total financial assets	**71,965**	**6**	**170**	**72,141**
Financial liabilities				
Derivative financial instruments	**-**	**256**	**-**	**256**
Total financial assets	**-**	**256**	**-**	**256**
As at 31 December 2020				
Financial assets				
Financial investments				
- Government debt instruments	33,330	-	-	33,330
- Corporate debt instruments	44,847	-	341	45,188
Total financial assets	78,177	-	341	78,518

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

Financial instruments in Level 1

The fair value of instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by the Bank is the current bid price at 31 December of the respective year.

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

Financial instruments in Level 2

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

Financial instruments in Level 3

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Financial instruments not measured at fair value

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

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4. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

4.2 Measurement of the expected credit losses

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

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

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

The level of uncertainty in the estimation of the Bank's expected credit loss allowances has increased as a result of the economic effects of the outbreak of the COVID-19 pandemic. Such uncertainty was addressed by means of a temporary post-model adjustment as further explained in Note 4.3.

4.3 Assessment of estimates and judgements

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

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

The COVID-19 pandemic and the economic distress it created has elevated the level of estimation uncertainty and judgement, especially in light of the inability to track observable historical trends which can be reflected in ECL modelling which could accurately represent the financial implications brought about by the pandemic. In addition, the pandemic led to increased uncertainty within the local property market which increased the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral.

Hence, the level of subjectivity underlying the ECL model parameters, including how these react to forward-looking economic conditions remains high. To reflect the volatile economic conditions associated with the COVID-19 pandemic, judgemental temporary post-model adjustments were applied by management in order to overcome such limitations.

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

A key judgement in the context of the COVID-19 pandemic is whether the heightened level of macroeconomic uncertainty and its effects are more likely to be temporary or prolonged. This in turn increases significantly the level of subjectivity around the estimation of credit loss allowances in respect of loans and advances to customers.

In this regard, management applied a higher level of expert judgement in order to assess the impact of the pandemic on the Bank's level of defaults, including evaluating the impact of government support schemes and regulatory relief measures. The level of expert judgement required is aggravated by the heightened level of uncertainty around predictions in respect of the potential impacts of the efficacy of vaccines, the emergence of new virus strains, the unwinding of government support and regulatory relief measures and the behaviour of macroeconomic variables.

There is an absence of observable historical trends and linkages between economic factors and credit losses which may underestimate or overestimate ECL in these conditions. These uncertainties have been addressed through temporary post-model adjustments and the simulation of additional scenarios.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is highly judgemental due to limitations in available credit information on customers. This is particularly relevant in those instances where customers have accepted payment deferrals and other relief designed to address short-term liquidity issues or have extended those deferrals. In response to such limitations, management used segmentation techniques for the purposes of identifying indicators of significant increase in credit risk within both corporate and retail portfolios.

In relation to retail portfolios, ECL models are generally reliant on the assumption that default emergence is directly impacted by delinquency related indicators since less information is available at asset level to enable the timely identification of SICR or UTP events. In this respect, a set of criteria which considered the current level of income of the borrower, the economic sector in which the same borrower is employed and the LTV of the exposure were established to determine if borrowers which were granted a general payment moratorium (Note 3.2.8) exhibited signs of SICR. With respect to borrowers who have not requested a moratorium, the Bank continued to apply rigorously its credit assessment and oversight processes, which include monitoring of arrears and exposure LTV.

Judgement was also required in determining whether corporate loans experienced a SICR or a UTP event. In this respect, as part of management's response to the COVID-19 pandemic, the Bank assessed all borrowers which were granted a general payment moratorium (Note 3.2.8) within the corporate portfolio. 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. The Bank also considered potential heightened credit risk factors emanating from exposures not subject to a general payment moratorium in the process of its ongoing credit review process and through focused economic concentration exposure.

For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The heightened level of uncertainty within the local property market, driven by the pandemic, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral, since the real impact of the pandemic will not be fully known until market conditions stabilise. To reflect the volatile economic conditions associated with the COVID-19 pandemic, judgemental temporary post-model adjustments were applied by management in order to overcome limitations in respect of determining collateral valuations, and the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

In addition to the above, Malta's grey-listing by the FATF during 2021 has heightened the level of economic uncertainty within the local markets. The projected economic impact of the grey-listing remains difficult to determine, since this is highly dependent on the speed at which Malta exits the grey-listing, the efficacy of national efforts to address the gaps, as well as the reaction of foreign investors. Significant judgement is required to assess the potential impact, therefore expert judgement was applied by management when determining the relevance of selected macroeconomic scenarios and their respective probability weights.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios. The level of expert judgement required is compounded by the heightened level of uncertainty around predictions in respect of the potential impact of the pandemic, including the effectiveness of government support schemes and regulatory relief measures, on key macroeconomic variables and, as a result on forward-looking PDs and LGDs. There is an absence of an observable historical trend that can accurately represent the severity and speed of the economic impacts brought about by the pandemic. Moreover, the complexities of government support schemes, regulatory guidance on the treatment of customer impacts (such as forbearance) and the unpredictable pathways of the pandemic have never been modelled. Consequently, in some cases, the Bank's IFRS 9 model generates outputs that appear overly sensitive when compared with other credit risk metrics and as a result, modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions.

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

5. SEGMENTAL REPORTING

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

i. **Retail banking** – Principally handling customers' deposits, providing consumer loans, overdrafts and funds transfer facilities.

ii. **Corporate banking** – Principally handling local loans and other credit facilities and deposit and current accounts for corporate and institutional customers as well as the international lending portfolio which represents exposures originated by the Bank's branch in London which finances prime properties in the same city.

iii. **Other** – Principally treasury and other central functions.

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

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

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

The following tables present income, profit and certain asset and liability information regarding the Bank's business segments for the years ended 31 December 2021 and 2020:

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

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

During the financial year ended 31 December 2021, total staff costs and administrative expenses incurred by the Bank in connection with the operation of its London branch amounted to €0.2 million (2020: €0.2 million) and €0.4 million (2020: €0.4 million) respectively.

2020	Retail banking €000	Corporate banking €000	Other €000	Total €000
Net interest income	9,680	10.543	318	20,541
Net fees and commission income	1,274	1,248	101	2,623
Net trading income	-	-	1,058	1,058
Net operating income	10,954	11,791	1,477	24,222
Employee compensation and benefits	(4,491)	(3,658)	(336)	(8,485)
Other administrative expenses	(3,133)	(2,851)	(337)	(6,321)
Depreciation of property and equipment, depreciation of right-of-use assets and amortisation of intangible assets	(842)	(401)	(47)	(1,290)
Credit impairment losses	(1,575)	(1,040)	(200)	(2,815)
Profit before tax				5,311
Income tax expense				(836)
Profit for the year				4,475
Assets				
Segment assets	414,729	280,114	191,490	886,333
Unallocated assets				14,878
Total assets				901,211
Liabilities				
Segment liabilities	500,386	276,885	13,535	790,806
Unallocated liabilities				17,456
Total liabilities				808,262

6. BALANCES WITH CENTRAL BANK OF MALTA AND CASH

	2021 €000	2020 €000
Balances with Central Bank of Malta	**96,974**	88,208
Cash	**5,679**	5,222
Gross carrying amount	**102,653**	93,430
Less credit impairment losses	**(243)**	(168)
Net carrying amount	**102,410**	93,262

The average balance of the reserve deposit required at year end in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta held with the Central Bank of Malta was €6,792,000 (2020: €5,743,000). An amount of €3,370,000 was pledged in favour of the Depositor Compensation Scheme during 2021 (2020: nil).

7. FINANCIAL INVESTMENTS

Financial investments include the following:

Financial investments measured at FVTPL	2021 €000	2020 €000
Equities designated at FVTPL	**1,246**	-
Debt instruments measured at FVTPL	**170**	341
At 31 December	**1,416**	341

Debt instruments measured at FVOCI		
Government debt securities		
- Local and listed on the Malta Stock Exchange	**23,908**	26,339
- Foreign and listed on other exchanges	**7,109**	6,991
Other debt securities		
- Local and listed on the Malta Stock Exchange	**2,435**	1,479
- Foreign and listed on other exchanges	**37,267**	46,367
At 31 December	**72,135**	78,517

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

	2021 €000	2020 €000
At 1 January	**78,517**	77,637
Acquisitions	**25,685**	51,883
Redemptions/maturities	**(1,101)**	(5,211)
Disposals	**(31,405)**	(45,158)
Amortisation	**(394)**	(593)
Foreign exchange revaluation	**569**	-
Fair value movements	**264**	41
At 31 December	**72,135**	78,517

As at 31 December 2021, the impairment allowance measured in accordance with the IFRS 9 expected loss model in respect of debt instruments measured at FVOCI was €144,000 (2020: €294,000).

No debt securities were pledged in favour of the Depositor Compensation Scheme as at 31 December 2021 (2020: €3,850,000).

8. LOANDS AND ADVANCES TO BANKS

	2021 €000	2020 €000
Repayable on call and at short notice	**2,167**	3,144
Term placements	**9,547**	12,934
	11,714	16,078
Less credit impairment losses	**(1)**	(17)
Net loans and advances to banks	**11,713**	16,061

9. LOANS AND ADVANCES TO CUSTOMERS

	2021 €000	2020 €000
Repayable on call and at short notice	**41,308**	49,642
Term loans and advances	**768,240**	654,187
Gross loans and advances to customers	**809,548**	703,829
Less expected credit loss allowances	**(16,455)**	(15,495)
Net loans and advances to customers	**793,093**	688,334

Impairment allowances

Stage 1	**2,572**	2,076
Stage 2	**1,700**	2,964
Stage 3	**12,183**	10,455
	16,455	15,495

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10. PROPERTY AND EQUIPMENT

	Land and buildings €000	Computer equipment €000	Other equipment €000	Total €000
At 1 January 2020				
Cost	7,774	2,317	1,893	11,984
Accumulated depreciation	(2,609)	(1,687)	(1,644)	(5,940)
Net book amount	5,165	630	249	6,044
Year ended 31 December 2020				
At 1 January 2020	5,165	630	249	6,044
Acquisitions	88	124	192	404
Disposals	-	-	(25)	(25)
Depreciation charge for the year	(202)	(213)	(111)	(526)
At 31 December 2020	5,051	541	305	5,897
At 31 December 2020				
Cost	7,862	2,441	2,060	12,363
Accumulated depreciation	(2,811)	(1,900)	(1,755)	(6,466)
Net book amount	5,051	541	305	5,897
Year ended 31 December 2021				
At 1 January 2021	5,051	541	305	5,897
Acquisitions	45	136	91	272
Depcreciation charge for the year	(186)	(218)	(125)	(529)
At 31 December 2021	**4,910**	**459**	**271**	**5,640**
At 31 December 2021				
Cost	7,907	2,577	2,151	12,635
Accumulated depreciation	(2,997)	(2,118)	(1,880)	(6,995)
Net book amount	**4,910**	**459**	**271**	**5,640**

At 31 December 2021, an amount of €14,000 (2020: €60,000) had been contracted but not provided for in the financial statements (Note 24). Property and equipment includes assets amounting to €88,000 (2020: €17,000) which were still not put to use at year end.

11. INTANGIBLE ASSETS

	Computer Software €000	Other intangibles €000	Total €000
At 1 January 2020			
Cost	3,841	146	3,987
Accumulated depreciation	(2,964)	-	(2,964)
Net book amount	877	146	1,023
Year ended 31 December 2020			
At 1 January 2020	877	146	1,023
Acquisitions	250	-	250
Amortisation for the year	(365)	-	(365)
At 31 December 2020	762	146	908
At 31 December 2020			
Cost	4,091	146	4,237
Accumulated depreciation	(3,329)	-	(3,329)
Net book amount	762	146	908
Year ended 31 December 2021			
At 1 January 2021	762	146	908
Acquisitions	289	-	289
Amortisation for the year	(333)	-	(333)
At 31 December 2021	**718**	**146**	**864**
At 31 December 2021			
Cost	4,380	146	4,526
Accumulated depreciation	(3,662)	-	(3,662)
Net book amount	**718**	**146**	**864**

At 31 December 2021, an amount of €4,000 (2020: €135,000) had been contracted but not provided for in the financial statements (Note 24). Intangible assets include computer software amounting to €165,000 (2020: €17,000) which was still not put to use at year end and accordingly no amortisation is being accounted for.

12. RIGHT-OF-USE ASSETS

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

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

	Premises €000	Motor vehicles €000	Total €000
Right-of-use assets			
Opening balance on 1 January 2021	1,927	289	2,216
Additions	-	33	33
Lease contracts discontinued during the year	-	(23)	(23)
Depreciation for the year	(314)	(82)	(396)
At 31 December 2021	**1,613**	**217**	**1,830**
Right-of-use assets			
Opening balance on 1 January 2020	2,242	384	2,626
Additions	-	25	25
Lease contracts discontinued during the year	-	(36)	(36)
Depreciation for the year	(315)	(84)	(399)
At 31 December 2020	1,927	289	2,216

	2021 €000	2020 €000
Lease liabilities		
Current	**382**	372
Non-Current	**1,548**	1,928
	1,930	2,300

The key movements in lease liabilities comprise payments and interest expense.

	2021 €000	2020 €000
The income statement reflects the following amounts relating to		
Depreciation charge of right-of-use assets	**396**	399
Interest expense on lease liabilities (Note 26)	**40**	46
Expenses relating to short-term leases	**166**	155
Expenses relating to leases of low-value assets	**25**	21

The total cash payments for leases, including short-term and low-value leases, in 2021 was €627,000 (2020: €621,000). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2021 and 2020 are analysed in Note 3.4.

13. DERIVATIVE FINANCIAL INSTRUMENTS

During 2021, the Bank entered into foreign exchange swap transactions, exchanging a specific amount in one currency with a specific amount in another currency and agreed to re-exchange at a specified exchange rate and date in the future.

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

	2021 Notional €000	2021 Fair Value €000	2020 Notional €000	2020 Fair Value €000
Derivative Assets				
Foreign exchange swaps	**890**	**6**	-	-
Derivative Liabilities				
Foreign exchange swaps	**20,120**	**256**	-	-

14. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	Assets 2021 €000	Liabilities 2021 €000	Net 2021 €000	Assets 2020 €000	Liabilities 2020 €000	Net 2020 €000
Differences between depreciation and capital allowances	**-**	**(342)**	**(342)**	-	(302)	(302)
Impairment allowances	**7,061**	-	**7,061**	6,657	-	6,657
Fair value movements on securities and other investments	**52**	**(14)**	**38**	-	(247)	(247)
	7,113	**(356)**	**6,757**	6,657	(549)	6,108

Movement in temporary differences during the year 2021 related to:

	At 1 January 2021 €000	Recognised in profit or loss €000	Recogised in other comprehensive income €000	At 31 December 2021 €000
Differences between depreciation and capital allowances	(302)	(40)	-	**(342)**
Impairment allowances	6,657	352	52	**7,061**
Fair value movements on securities and other investments	(247)	-	285	**38**
	6,108	312	337	**6,757**

Movement in temporary differences during the year 2020 related to:

	At 1 January 2020 €000	Recognised in profit or loss €000	Recogised in other comprehensive income €000	At 31 December 2020 €000
Differences between depreciation and capital allowances	(386)	84	-	(302)
Impairment allowances	5,594	1,084	(21)	6,657
Fair value movements on securities and other investments	(250)	-	3	(247)
	4,958	1,168	(18)	6,108

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax assets/liabilities reflected in other comprehensive income relate to the fair valuation of financial investments measured at FVOCI.

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15. PREPAYMENTS AND ACCRUED INCOME

	2021 €000	2020 €000
Prepayments	**1,329**	773
Accrued income	**1,858**	2,155
	3,187	2,928

16. OTHER ASSETS

	2021 €000	2020 €000
Current	**5,145**	5,039
Non-current	**591**	803
Other assets	**5,736**	5,842

17. SHARE CAPITAL

	2021		2020	
	No. of shares	**€**	No. of shares	€
Authorised				
Ordinary shares of €0.7552 each	**132,415,254**	**100,000,000**	132,415,254	100,000,000
Issued and fully paid up				
Ordinary shares of €0.7552 each	**98,707,626**	**74,544,000**	98,707,626	74,544,000

The issued ordinary shares rank *pari passu* for all purposes and, in the event that a poll is demanded, each share entitles the holder thereof to one vote.

18. PERPETUAL CAPITAL NOTES

In October 2016, the Bank issued floating rate perpetual capital notes amounting to an aggregate amount of €5,000,000 at a rate of Euribor plus 10% paid semi-annually to JUD Investment Group Limited.

In December 2018 and March 2019, the Bank issued two additional fixed-rate perpetual capital notes amounting to an aggregate amount of €5,000,000 to JUD Investment Group Limited (€4,882,000) and PG Holdings Limited (€118,000). These notes are subject to an interest rate of 8% paid semi-annually.

All interest payments on perpetual capital notes are cancellable at the discretion of the Bank.

The notes constitute unsecured, undated and subordinated obligations of the Bank; these instruments are redeemable at par at the discretion of the issuer only on 31 December 2021 and at six-month intervals thereafter. These capital instruments qualify as Additional Tier 1 instruments in accordance with the requirements of Article 52 of the Regulations (EU) No 575/2013 and are categorised as equity within the Bank's Statement of Financial Position under the requirements of IFRSs as adopted by the EU.

19. RESERVES

Retained earnings

Retained earnings represent earnings not paid out as dividends. Interim profits form part of regulatory Own Funds only once they are verified by an independent external auditor. The Bank may only make distributions out of eligible profits.

Revaluation reserve

The revaluation reserve is used to record movements in the fair value of equity shares and debt securities measured at FVOCI, net of deferred taxation thereon. The revaluation reserve is not available for distribution.

Reserve for General Banking Risk

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. The methodology for calculating this reserve is in line with the requirements of BR/09/2016 issued by the Malta Financial Services Authority.

20. AMOUNTS OWED TO BANKS AND OTHER INSTITUTIONS

	2021 €000	2020 €000
Term loans and advances	**27,500**	13,500
Repayable on demand	**1,936**	35
	29,436	13,535

During 2021 and 2020, the Bank secured new borrowings of €13.5 million (2020: 13.5 million) from the European Central Bank in relation to the Third Series of Targeted Longer-Term Refinancing Operations (TLTROs-III). This scheme offers long-term funding to banks at favourable borrowing conditions to stimulate bank lending to the real economy.

21. AMOUNTS OWED TO CUSTOMERS

	2021 €000	2020 €000
Term deposits	**330,002**	343,961
Repayable on demand	**529,150**	433,025
	859,152	776,986

Included in 'Amounts owed to customers' are deposits of €30,208,000 (2020: €31,317,000) held as collateral for loan commitments, irrevocable commitments under guarantees and import letters of credit.

22. OTHER LIABILITIES

	2021 €000	2020 €000
Bills payable	**4,831**	4,295
Accounts payable and sundry creditors	**2,161**	1,537
Lease liabilities (Note 12)	**1,930**	2,300
Obligations under guarantees and other documentary credits	**3,290**	3,614
Expected credit losses arising on off-balance sheet items	**451**	285
	12,663	12,031

The movement in 'Obligations under guarantees and other documentary credits' is as follows:

	2021 €000	2020 €000
At 1 January	**3,614**	3,383
Arising during the year	**1,408**	2,017
Utilised	**(1,727)**	(1,780)
Unused amounts reserved	**(5)**	(6)
At 31 December	**3,290**	3,614

23. ACCRUALS AND DEFERRED INCOME

	2021 €000	2020 €000
Accrued interest	**1,775**	1,871
Accrued operating expenditure	**2,628**	3,168
Accrued capital expenditure	**175**	175
Deferred income	**250**	107
	4,828	5,321

Accrued operating expenditure mainly relates to amounts in relation to the provision of day-to-day services and specific non-recurring expenditure.

24. CONTINGENT LIABILITIES AND COMMITMENTS

As part of its business activities, the Bank enters into various irrevocable commitments and contingent liabilities. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers meeting specific conditions. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Even though these obligations are not recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The total outstanding commitments and contingent liabilities are as follows:

	2021 €000	2020 €000
Contingent liabilities		
Guarantees	**8,241**	8,260
Documentary credits	**1,265**	1,390
	9,506	9,650
Commitments		
Undrawn commitments to lend	**253,516**	197,038
Capital commitments	**18**	195
Total commitments	**253,534**	197,233

Capital commitments as at 31 December 2021 and 2020 mainly relate to the acquisition of property and equipment and intangible assets.

As at 31 December 2021, expected credit losses arising on contingent liabilities and undrawn commitments to lend amounted to €451,000 (2020: €285,000).

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial position. At year end, there were no significant unresolved legal claims.

25. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 €000	2020 €000
On loans and advances to banks	**9**	80
On loans and advances to customers	**26,530**	24,399
On balances with Central Bank of Malta	**(227)**	(74)
	26,312	24,405
On debt and other fixed income instruments	**680**	951
Net amortisation of discounts and premiums	**(394)**	(593)
	286	358
Total interest receivable and similar income	**26,598**	24,763

26. INTEREST PAYABLE AND SIMILAR EXPENSE

	2021 €000	2020 €000
On amounts owed to banks and other institutions	**(24)**	1
On amounts owed to customers	**3,884**	4,175
On lease liabilities (Note 12)	**40**	46
	3,900	4,222

27. NET FEES AND COMMISSION INCOME

	2021 €000	2020 €000
Fees and commission income		
Credit related fees and commissions	**1,424**	1,124
Other fees	**2,580**	2,526
	4,004	3,650
Fees and commission expense		
Credit related fees and commissions	**(299)**	(267)
Other fees	**(1,066)**	(760)
	(1,365)	(1,027)
Net fees and commission income	**2,639**	2,623

28. NET TRADING INCOME

	2021 €000	2020 €000
Foreign exchange activities		
From commercial business activities	**326**	491
	326	491

29. EMPLOYEE COMPENSATION AND BENEFITS

	2021 €000	2020 €000
Directors' and executive officers' remuneration	**1,298**	1,211
Wages and salaries		
Managerial, supervisory and clerical	**7,595**	7,136
Others	**137**	138
Total employee compensation and benefits	**9,030**	8,485

Total fees payable to non-executive directors amounted to €248,226 during 2021 (2020: €265,467).

The average number of persons employed by the Bank during the years 2021 and 2020 was as follows:

	2021	2020
Managerial, supervisory and clerical	**220**	210
Others	**6**	7
	226	217

30. OTHER ADMINISTRATIVE EXPENSES

	2021 €000	2020 €000
Auditors' remuneration - annual statutory audit	**106**	98
Information systems and communications	**2,311**	1,825
Business development	**235**	369
Corporate services	**1,201**	1,160
Regulatory expenses	**551**	936
Darwin project	**426**	-
Other	**2,005**	1,933
	6,835	6,321

Other remuneration payable to the auditors include assurance related services of €53,000 (2020: €58,000), of which tax advisory and compliance services provided during 2021 amounted to €10,000 (2020: €51,000).

In total, from incorporation up to 31 December 2021, the Bank has contributed €3,692,000 (2020: €3,357,000) in variable contributions to the Depositor Compensation Scheme. This represents 0.7% (2020: 0.6%) of the eligible deposits at 31 December 2021. The cash contribution paid during 2021 amounted to €335,000 (2020: €736,000) and is included within Regulatory expenses.

31. CREDIT IMPAIRMENT LOSSES

Credit impairment losses during 2021 were as follows

	Write-downs €000	Reversals of write-downs €000	Total €000
Balances with Central Bank of Malta			
Stage 1	77	(2)	**75**
Financial investments measured at FVOCI			
Stage 1	56	(206)	**(150)**
Loans and advances to banks			
Stage 1	-	(16)	**(16)**
Loans and advances to customers			
Stage 1	1,273	(785)	**488**
Stage 2	1,054	(2,174)	**(1,120)**
Stage 3	2,505	(747)	**1,758**
Bad debts written off	295	-	**295**
Total loans and advances to customers	5,127	(3,706)	**1,421**
Other provisions	(263)	-	**(263)**
Credit impairment losses	4,997	(3,930)	**1,067**

Credit impairment losses during 2020 were as follows:

	Write-downs €000	Reversals of write-downs €000	Total €000
Balances with Central Bank of Malta			
Stage 1	139	-	139
Financial investments measured at FVOCI			
Stage 1	242	(183)	59
Loans and advances to banks			
Stage 1	14	(13)	1
Loans and advances to customers			
Stage 1	1,318	(432)	886
Stage 2	2,245	(1,634)	611
Stage 3	1,589	(673)	916
Bad debts written off	25	-	25
Total loans and advances to customers	5,177	(2,739)	2,438
Other provisions	178	-	178
Credit impairment losses	5,750	(2,935)	2,815

32. INCOME TAX EXPENSE

The components of income tax for the years ended 31 December 2021 and 2020 are:

	2021 €000	2020 €000
Income statement		
Current income tax - current year expense	**(3,062)**	(2,695)
Current income tax - over provision in prior years	**-**	702
Deferred tax credit	**312**	1,157
	(2,750)	(836)

The tax on profit and the result of accounting profit multiplied by the applicable tax rate in Malta of 35% are reconciled as follows:

	2021 €000	2020 €000
Profit before tax	**9,051**	5,311
Tax at the applicable rate of 35%	**3,168**	1,859
Tax effect of:		
– Non-deductible expenses	**166**	38
– Deductibility of interest on perpetual capital notes	**(584)**	(1,061)
	2,750	836

33. EARNINGS PER SHARE

Earnings per share is calculated by dividing net profit attributable to the shareholders of the Bank as shown in the Income Statement divided by the weighted average number of ordinary shares outstanding during the year.

	2021	2020
Net profit attrituable to shareholders (€000)	**6,301**	4,475
Weighted average number of ordinary shares in issue	**98,707,626**	98,707,626
Earnings per share (€ cents)	**6c4**	4c5

34. CASH AND CASH EQUIVALENTS

Analysis of balances of cash and cash equivalents as shown in the Statement of Cash Flows:

	2021 €000	2020 €000
Statement of Cash Flows		
Cash (Note 6)	**5,679**	5,222
Balances with Central Bank of Malta (excluding Reserve Deposit - Note 6)	**90,180**	82,465
Loans and advances to banks (Note 8)	**11,714**	16,078
Amounts owed to banks and other institutions (Note 20)	**(29,436)**	(13,535)
Cash and cash equivalents	**78,137**	90,230
Statement of Financial Position		
Balances with Central Bank of Malta and cash	**102,410**	93,262
Loans and advances to banks	**11,713**	16,061
Amounts owed to banks and other institutions	**(29,436)**	(13,535)
	84,687	95,788
Balances with contractual maturity of more than three months	**(6,792)**	(5,743)
Add expected credit losses	**242**	185
Cash and cash equivalents	**78,137**	90,230

35. RELATED PARTIES

35.1 Identification of related parties

The majority shareholding of the Bank is held by JUD Investment Group Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar.

All entities which are ultimately controlled by Al Faisal International for Investment Company Q.P.S.C., together with the other minority shareholders and entities controlled by them, are considered to be related parties. Key management personnel of the Bank, being the Bank's directors and executive officers, and close family members of key management personnel are also considered to be related parties. The executive officers, which form part of the Bank's Executive Committee, are referred to within the Statement of Compliance with the Principles of Good Corporate Governance.

The Bank's related party transactions mainly comprise transactions with shareholders and other entities controlled by the same shareholders. These transactions principally include loans, deposits and issuance of capital notes.

Related party transactions do not impact the Bank's financial results and financial position taking cognisance of the normal commercial terms and conditions of such transactions.

35.2 Transactions with shareholders

(a) Major shareholder

During the year under review, the following transactions were undertaken by the Bank with entities ultimately controlled by Al Faisal International for Investment Company Q.P.S.C.

	2021 €000	2020 €000
Income Statement		
Interest and similar expense	**15**	59
Statement of Financial Position		
Other assets	**199**	199
Amounts owed to parent company	**32,546**	30,112

Total interest payable on perpetual capital notes during 2021 amounted to €904,000 (2020: €904,000).

(b) Other minority shareholders

The following transactions were undertaken by the Bank with its minority shareholders and entities controlled by them:

	2021 €000	2020 €000
Income Statement		
Interest and similar income	**295**	365
Other administrative expenses	**82**	139
Statement of Financial Position		
Loans and advances to customers	**9,165**	14,227
Prepayments and accrued income	**11**	34
Amounts owed to customers	**8,792**	7,053
Accruals and deferred income	**5**	22

Total interest payable on perpetual capital notes during 2021 amounted to €10,000 (2020: €10,000).

35.3 Transaction arrangements and agreements involving key management personnel

The following banking transactions were carried out with the Bank's directors and executive officers, being the Bank's key management personnel:

	2021 €000	2020 €000
Income Statement		
Interest and similar income	**47**	43
Interest and similar expense	**1**	1
Statement of Financial Position		
Loans and advances to customers	**2,054**	1,690
Amounts owed to customers	**2,841**	2,981

The above mentioned outstanding balances arose from the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

35.4 Compensation to key management personnel

Directors' remuneration and salaries to executive officers, are separately disclosed in Note 29.

36. DIVIDENDS

On 27 July 2020, the European Central Bank (ECB) issued a recommendation on dividend distributions during the COVID-19 pandemic (ECB/2020/35), whereby it was recommended that until 1 January 2021, no dividends are paid out and no irrevocable commitment to pay out dividends is undertaken by credit institutions for the financial years 2019 and 2020. This recommendation was repealed on 15 December 2020 through ECB/2020/62, which encouraged banks to exercise prudence when deciding on dividend distributions.

On 23 July 2021, another recommendation was issued by the ECB repealing recommendation ECB/2020/62 (ECB/2021/31) with effect from 30 September 2021.

Subsequent to the end of the reporting period, a net dividend of €0.01 per nominal share of €0.7552, for a total amount of €1,000,000, is being proposed by the Bank to be distributed to the shareholders for the twelve months ended 31 December 2021. In addition, the Bank is also proposing a bonus share issue of 0.05 shares per ordinary share for a total amount of 5,296,611 shares with a total value of €4,000,000. A resolution to this effect will be proposed at the Annual General Meeting, subject to regulatory approval.

37. STATUTORY INFORMATION

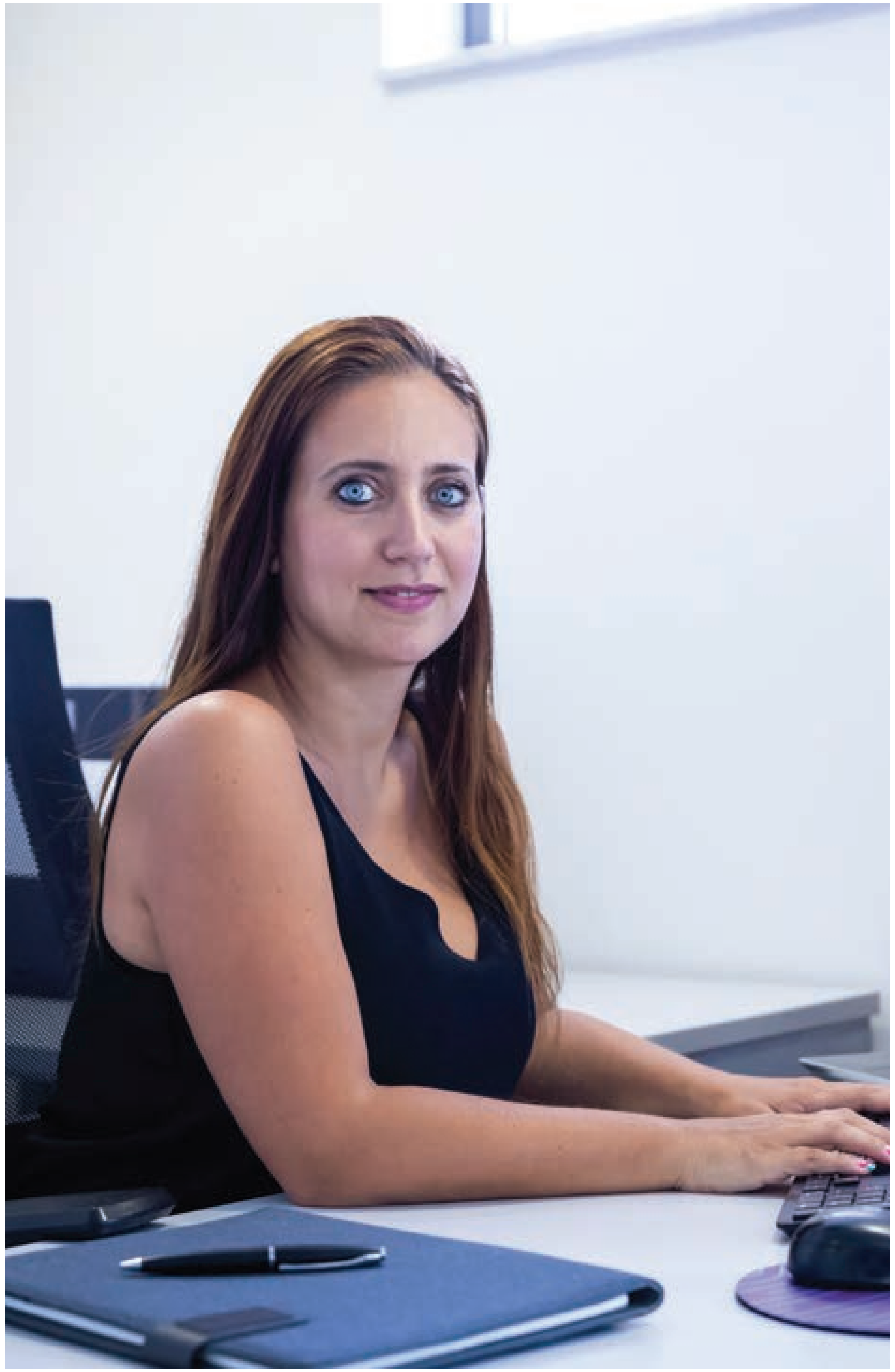
BNF Bank p.l.c. is a limited liability company domiciled and resident in Malta.

The immediate parent company of BNF Bank p.l.c. is JUD Investment Group Limited, a company registered in Malta, with its registered address at 35, St Barbara Bastions, Valletta, Malta.

The ultimate parent company of BNF Bank p.l.c. is Al Faisal International for Investment Company, Q.P.S.C., a Qatari Private Shareholding Company registered under the laws of Qatar with commercial registration number 43094, and with its registered office situated at 17th Floor, Marriot Marquis Centre, Doha, Qatar.

The ultimate controlling party of BNF Bank p.l.c. is H.E. Sheikh Feisal Qassim F. Th. Al Thani.

Additional Regulatory Disclosures



Additional Regulatory Disclosures

For the year ended 31 December 2021

1. OVERVIEW

These Additional Regulatory Disclosures ('ARD') are prepared by the Bank in accordance with Part Eight of EU Regulation No 575/2013 ('Capital Requirements Regulation' or 'CRR'), and in accordance with Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority ('BR/07').

The Bank publishes these disclosures on an annual basis as part of the Annual Report. These disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank, through its internal verification procedures, is satisfied that these ARD are presented fairly.

These ARDs should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

2. RISK MANAGEMENT FRAMEWORK

The Bank operates a commercial banking model, the main business lines being retail and corporate banking. The Board's risk appetite is to maintain a prudent and risk-averse position, the key financial risks being those set out in the Financial Statements and Notes to the Financial Statements.

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

The Risk Management Framework has been set out in Note 3.1 to the Financial Statements.

3. CAPITAL MANAGEMENT

The Bank is obliged to comply with regulatory capital requirements emanating primarily from the CRR, and also from various other local and European requirements. Compliance with such requirements is therefore a top priority of the Board, as is efficient capital management.

The Bank manages its capital structure and adjusts it in the light of economic and business conditions, and the risk characteristics of its activities.

3.1 Own Funds

The Bank's available capital and reserves for the purposes of capital adequacy is represented by the Bank's Own Funds. In July 2013, the European Banking Authority ('EBA') issued its final draft Implementing Technical Standards ('ITS') on own funds disclosures. The disclosure requirements of these technical standards have been integrated within the Bank's disclosures set out below.

The Bank's regulatory Own Funds consist of Common equity Tier 1 ('CET1') capital and Perpetual capital notes, which include the following items:

- ordinary share capital;
- retained earnings;
- revaluation reserve;
- reserve for general banking risks;
- perpetual capital notes; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes, including the treatment of deferred tax assets, deductions relating to amounts pledged in favour of the Depositor Compensation Scheme and deductions relating to intangible assets.

The Bank does not have Tier 2 capital.

Details of items which make up regulatory Own Funds are set out below:

(a) Share capital

The Bank's share capital as at 31 December is analysed as follows:

	2021	
	No. of shares	€
Authorised		
Ordinary shares of €0.7552 each	132,415,254	100,000,000
Issued		
Ordinary shares of €0.7552 each	98,707,626	74,544,000

(b) Perpetual capital notes

The Bank's perpetual capital notes as at 31 December is analysed as follows:

	€000
Perpetual capital notes issued in 2016	5,000
Perpetual capital notes issued in 2018	2,500
Perpetual capital notes issued in 2019	2,500
Total perpetual capital notes	**10,000**

(c) Retained earnings

Retained earnings represent earnings not paid out as dividends. Interim profits form part of regulatory Own Funds only once they are verified by an independent external auditor. The Bank may only make distributions out of eligible profits. Accumulated losses are deducted in full from the Bank's own funds.

(d) Revaluation reserve

This represents the cumulative net change in fair values of equity shares and debt securities measured at FVOCI held by the Bank, net of related deferred tax effects. The revaluation reserve is not available for distribution.

(e) Reserve for general banking risks

The Bank is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'.

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. The allocation to this reserve occurred over a three-year period, of which the Bank allocated 40% during the financial year ended 2013, 30% during the financial year ended 2014, and the remaining allocation of the total estimated amount during the financial year ended 2015.

During 2016 the methodology for calculating this reserve was updated in line with BR/09/2016 issued by the Malta Financial Services Authority.

3.2 Capital requirements

The Bank's minimum Pillar 1 capital requirements excluding buffer requirements are as follows:

- CET1 ratio of 4.5%;
- Capital Adequacy Ratio (CAR) of 8%.

Pillar 1 capital requirements are based on standard rules which state the minimum Own Funds requirements to cover credit risk, market risk and operational risk. The Bank uses the Standardised Approach to calculate credit risk, the Basic Indicator Approach for operational risk and the Standardised Approach with respect to market risk.

Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', sets out requirements for capital buffers. The two capital buffers applicable to the Bank are the capital conservation buffer and the countercyclical buffer.

The capital conservation requirement is of 2.5%, fully comprised of CET1 capital. The countercyclical buffer requirement ranges between 0 - 2.5%, based on the country's exposure to cyclical risk. Since most of the Bank's exposures are in Malta, the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU, results in a percentage of 0%, and is calculated as the weighted average of the individual countercyclical buffer rates applicable in each country where the Bank's exposures are located.

The Bank's Own Funds and capital ratio calculations are set out as follows:

As at 31 December 2021	€000
Common Equity Tier 1 (CET1) capital	
Instruments and reserves	
– Share capital	74,544
– Retained earnings (excluding Depositer Compensation Scheme reserves)	8,768
– Funds for general banking risk	992
– Accumulated other comprehensive income (and other reserves)	38
CET1 capital before regulatory adjustments	84,342
Regulatory adjustments	
Intangible assets	(864)
Amounts added back to CET1 due to IFRS 9 transitional provisions as adjusted for COVID-19 relief measures[3]	1,518
Total regulatory adjustments to CET1	654
CET1 capital	84,996
Perpetual capital notes	10,000
Tier 1 capital	94,996
Total Own Funds	94,996
Total risk weighted assets	543,448
Capital Ratios	
CET1 ratio	15.64%
Tier 1 ratio	17.48%
Total Capital Adequacy Ratio	17.48%
Institution specific buffer requirement	2.5
of which: capital conservation buffer requirement	2.5
of which: institution specific countercyclical capital buffer	0.0
CET1 available to meet buffers, including Pillar 2	11.14

	€000
Items not deducted from own funds in accordance with Article 48 of the CRR	6,757

At 31 December 2021	Exposure value €000	Risk weighted assets €000	Capital required €000
Central governments or Central banks	127,750	-	-
Institutions	46,437	18,659	1,493
Corporate	131,376	113,202	9,056
Retail	73,618	50,813	4,065
Secured by mortgages on immovable property	514,632	175,293	14,023
Items associated with particularly high risk	57,376	86,065	6,885
Exposures in default	21,166	21,172	1,694
Equity	6,552	6,552	524
Other items	28,452	30,258	2,421
Credit risk	1,007,359	502,014	40,161
Operational risk		41,271	3,302
Foreign exchange risk		163	13
Total capital required		543,448	43,476

Own Funds	
Common Equity Tier 1	84,996
Perpetual capital notes	10,000
Tier 2	-
Total Own Funds	94,996
Capital Adequacy Ratio	17.48%

[3]Includes more favourable transitional provisions for COVID-19 related ECLs when adding back Stage 1 and Stage 2 loss allowances to CET1. The Capital Adequacy Ratio and CET1 Ratio excluding the impact of transitional provisions would have been 17.24 and 15.40% respectively.

4. LEVERAGE

The Leverage Ratio (LR) measures the relationship between the Bank's capital and its total exposure. The minimum LR requirement of 3% is aimed at preventing build-up of excessive leverage.

For the purposes of the LR, capital is defined as Tier 1 capital in line with article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The following table represents the Bank's leverage ratio determined in accordance with the requirements stipulated by Implementing Regulation EU 2021/637.

2021	€000
Tier 1 capital	**94,996**
Total exposure	**1,056,633**
Leverage ratio	**8.99%**

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

2021	€000
Balance sheet items	1,004,698
Adjustments in determining Tier 1 capital	(1,850)
On-balance sheet exposure	**1,002,848**
Off-balance sheet exposures at gross notional amount	263,022
Adjustments in determining Tier 1 capital	(209,237)
Off-balance sheet exposure	**53,785**
Total exposure	**1,056,633**

The following table provides a reconciliation of accounting assets and leverage ratio exposures:

2021	€000
Total assets as per published financial statements	1,004,698
Adjustment for off-balance sheet items	53,785
Other adjustments	(1,850)
Leverage ratio exposure	**1,056,633**

5. ICAAP AND ILAAP

As part of its risk management the Bank performs an assessment of risks not adequately covered under Pillar 1 of the CRR, with a view to anticipate Pillar 2 requirements. This process is referred to as the ICAAP and ILAAP process. The Bank's ICAAP and ILAAP process is compliant with requirements emanating from MFSA Banking Rule BR/12.

The Bank prepares a report of its ICAAP and ILAAP process annually, or more frequently as may be deemed necessary. ICAAP and ILAAP reporting is subject to Board approval and submitted to the regulator. ICAAP and ILAAP reporting is carried out in addition to regular risk reporting.

All assumptions and methodologies used in the ICAAP and ILAAP process are subject to internal validation by the Bank's Internal Audit Function.

The Bank's Board of Directors is confident that all material risks applicable to the period under review were identified and assessed as part of the ICAAP and ILAAP process. Risks which the Bank considers to be material are described in further detail in the following sections.

6. CREDIT RISK

Note 3.2 to the Financial Statements defines credit risk and discloses detail on the Bank's credit risk management and measurement.

The followng tables set out the Bank's maximum exposure to credit risk before consideration of collateral held or other credit enhancements:

As at 31 December 2021	Average exposure €000	Exposure as at 31 December 2021 €000
Central government or central banks	122,044	127,750
Institutions	45,325	46,437
Corporate exposures	143,009	131,376
Retail exposures	72,960	73,618
Secured by mortgages on immovable property	496,230	514,632
Items associated with particular high risk	52,107	57,376
Exposures in default	20,315	21,166
Equity	5,465	6,552
Other items	28,518	28,452
Total	**985,973**	**1,007,359**

2021	€000
Reconciliation of exposure to credit risk	
Exposure as per Statement of Financial Position	1,004,698
Less: deductions for assets that are not risk-weighted	(22,328)
Statement of Financial Position exposure after deductions	982,370
Off-balance sheet exposure before application of the credit conversion factor	263,022
Less: Credit conversion factor adjustment	(238,033)
Off-balance sheet exposure after deductions	24,989
Total maximum exposure to credit risk	1,007,359

The residual maturity breakdown by exposure class at 31 December 2021 was as follows:

	TOTAL €000	Less than 1 year €000	Between 1 and 5 years €000	Over 5 years €000	No maturity date €000
At 31 December 2021					
Central government or central banks	127,750	2,046	22,912	6,039	96,753
Institutions	46,437	20,171	23,845	2,421	-
Corporate	131,376	11,666	52,886	66,824	-
Retail	73,618	12,428	10,365	50,825	-
Secured by mortgages on immovable property	514,632	15,290	6,395	492,947	-
Items associated with particular high risk	57,376	2,994	49,843	4,539	-
Exposures in default	21,166	4,038	1,510	15,618	-
Equity	6,552	-	-	-	6,552
Other items	28,452	8,549	6,757	7,469	5,677
Total	**1,007,359**	**77,182**	**174,513**	**646,682**	**108,982**

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6.1 Credit concentration risk

Note 3.2.5 to the Financial Statements defines credit concentration risk and discloses detail on the Bank's areas of credit concentration.

6.1.1 Credit concentration risk analysed by industry sector

An industry sector analysis of the Bank's exposure amounts split by exposure class is shown in the following table:

At 31 December 2021	Total €000	Manufacturing €000	Financial services €000	Households & individuals €000	Construction €000	Wholesale & retail €000	Other sectors €000
Central government or central banks	127,750	-	127,750	-	-	-	-
Institutions	46,437	-	46,437	-	-	-	-
Corporate	131,376	2,805	22,798	353	13,489	12,905	79,026
Retail	73,618	1,143	2,945	52,531	3,090	6,820	7,089
- of which: SME	*25,386*	*219*	*2,945*	*5,223*	*3,090*	*6,820*	*7,089*
Secured by mortgages on immovable property	514,632	495	27,622	450,541	12,579	4,498	18,897
- of which: SME	*78,578*	*495*	*27,560*	*14,549*	*12,579*	*4,498*	*18,897*
Items associated with particularly high risk	57,376	262	-	2,315	39,717	-	15,082
- of which: SME	*46,998*	*262*	-	*2,315*	*29,339*	-	*15,082*
Exposures in default	21,166	457	1,729	7,477	6,167	2,136	3,200
Equity	6,552	-	6,552	-	-	-	-
Other items	28,452	-	28,452	-	-	-	-
Total	**1,007,359**	**5,162**	**264,285**	**513,217**	**75,042**	**26,359**	**123,294**

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6.1.2 Credit concentration risk analysed by geographical region

The geographical concentration of the Bank's exposure classes as at the end of the reporting period are analysed in the following table.

At 31 December 2021	Total €000	Malta €000	United Kingdom €000	Portugal €000	Other €000
Central Government or central banks	127,750	120,621	-	5,243	1,886
Institutions	46,437	2,421	17,628	-	26,388
Corporate	131,376	94,338	25,199	-	11,839
Retail exposures	73,618	73,530	77	-	11
Secured by mortgages on immovable property	514,632	512,395	939	-	1,298
Items associated with particularly high risk	57,376	47,485	9,891	-	-
Exposures in default	21,166	21,164	-	-	2
Equity	6,552	-	2,030	-	4,522
Other items	28,452	28,452	-	-	-
Total	**1,007,359**	**900,406**	**55,764**	**5,243**	**45,946**

6.2 Credit quality

6.2.1 Balances with banks and debt securities

Note 3.2.6 to the Financial Statements discloses detail on credit quality of balances with banks and debt securities. Further detail on loss allowances is also disclosed in Note 3.2.9 to the Financial Statements.

6.2.2 Loans and advances to customers

Note 3.2.7 to the Financial Statements discloses detail on credit quality of loans and advances to customers and impairment allowances thereon. Further detail on loss allowances is also disclosed in Note 3.2.9 to the Financial Statements.

The following table presents a reconciliation of changes in the expected credit losses of the Bank which are considered as Specific Credit Risk Adjustments (SCRAs) in respect of the Bank's loan portfolio:

Stage 3 expected credit losses	Total €000	Manufacturing €000	Households & individuals €000	Construction €000	Wholesale & retail €000	Other €000
At 1 January 2021	10,544	81	2,994	156	4,985	2,328
Additions	2,505	163	893	478	493	478
Reversals	(747)	(3)	(238)	(6)	(12)	(488)
At 31 December 2021	**12,302**	**241**	**3,649**	**628**	**5,466**	**2,318**

Stage 1 & 2 expected credit losses	Total €000	Manufacturing €000	Households & individuals €000	Construction €000	Wholesale & retail €000	Other €000
At 1 January 2021	5,237	61	2,263	520	554	1,839
Additions	2,286	11	970	471	127	707
Reversals	(2,918)	(39)	(1,160)	(404)	(299)	(1,016)
At 31 December 2021	**4,605**	**33**	**2,073**	**587**	**382**	**1,530**

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Past due but not impaired loans include loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate based on the stage of collection of amounts owed to the Bank. The Bank accounts for expected credit losses on these balances.

Loans and advances to customers are analysed into impaired, past due and other exposures as follows:

2021	€000
Gross loans and advances to customers	
Impaired	33,336
Past due but not impaired	10,155
Neither past due nor impaired	766,057
	809,548

The following table analyses the impaired and the past due but not impaired gross loans and advances to customers by industry sector:

At 31 December 2021	Impaired €000	Past due but not impaired €000
Gross loans and advances by industry		
Manufacturing	676	-
Households and individuals	10,791	5,180
Construction	7,600	4,307
Wholesale and retail	7,112	537
Other sectors	7,157	131
	33,336	10,155

The Bank's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Malta during 2021.

The Bank's write-off policy is disclosed in Note 3.2.10 to the Financial Statements.

6.2.3 Use of External Credit Assessment Institutions (ECAI)

The Bank applies the Standardised Approach for credit risk. The Standardised Approach is defined in the CRR and applies a standardised methodology to calculate credit risk weighted assets under Pillar 1.

Credit risk weighted assets are determined through credit quality steps set out in the CRR. Determining the credit quality step for a particular exposure depends primarily on the type of exposure and whether it is externally rated.

In the case that an exposure is externally rated the Bank determines credit quality steps by applying the most conservative credit rating identified. The Bank only uses widely accepted and recognized ECAIs. The table below sets out credit quality steps for loans and advances to banks and financial investments which are externally rated at 31 December 2021:

At 31 December 2021

Ratings	Credit quality steps	Total Exposure €000
Aaa to Aa3	1	7,046
A1 to A3	2	61,678
Baa1 to Baa3	3	9,547
Ba1 to Ba3	3	3,143
Unrated	-	2,435
Total		**83,849**

6.3 Counterparty credit risk on derivatives

The Bank's policies and procedures set out limits on acceptable currencies, maximum transaction size, acceptable counterparties, counterparty creditworthiness, and types of derivative contracts.

Insofar as types of derivative contracts are concerned, the Bank's limits only allow forward contracts or swap transactions. Derivative transactions are governed by the European Market Infrastructure Regulation (EMIR).

6.4 Collateral and other credit enhancements

Note 3.2.11 to the Financial Statements discloses detail on collateral as a credit risk mitigant, and a detailed analysis of collateral held at 31 December 2021.

The table below represents the total exposure value for each exposure class that is covered by eligible collateral, analysed into residential immovable property, commercial immovable property and other eligible collateral. The Bank also holds other eligible collateral classified as funded credit protection, such as cash and life insurance policies, as well as liquid sovereign debt securities held as pledge on reverse repurchase transactions.

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The table below discloses total maximum credit exposure by type of collateral held:

At 31 December 2021	Total exposure value €000	Residential immovable property €000	Commercial immovable property €000	Other eligible collateral €000	Residual value €000
Central governments or Central Banks	127,750	-	-	-	127,750
Institutions	46,437	-	-	-	46,437
Corporate	131,376	1,204	105,111	4,190	20,871
Retail exposures	73,618	30,789	18,013	869	23,947
Secured by mortgages on immovable property	514,632	510,432	4,200	-	-
Items associated with particularly high risk	57,376	38,407	18,623	-	346
Exposures in default	21,166	15,799	4,942	96	329
Equity exposures	6,552	-	-	-	6,552
Other items	28,452	-	-	-	28,452
Total	**1,007,359**	**596,631**	**150,889**	**5,155**	**254,684**

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6.5 Additional regulatory disclosures as a result of COVID-19

The COVID-19 pandemic has brought about new challenges to the economy. In response, numerous regulatory measures were introduced by governments, central banks and other authorities aimed at assisting customer support, operational capacity, and also amending the liquidity and capital frameworks.

In June 2020, Regulation (EU) 2020/873 was published in order to fast-track some of the benefits of the new Capital Requirements Regulation (CRR 2), which were initially scheduled for June 2021, as well as introducing new measures aimed at providing capital relief during the COVID-19 outbreak.

The most material changes are included below:

- A more favourable SME supporting factor aimed at incentivising SME lending with a view of kickstarting investment, and ultimately the economy.
- A change in the transitional provisions relating to IFRS 9 ECL add-backs to the Bank's CET 1 capital.

Notwithstanding the capital relief provided by the Authorities, the Bank has always operated above the capital regulatory limits imposed.

In accordance with the EBA announcement made on 2 June 2020, additional information on the moratoria and public guarantees granted to credit facilities due to COVID-19 are presented in the following disclosures.

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The following tables include information on loans and advances subject to legislative and non-legislative moratoria in line with European Banking Authority (EBA) Guidelines (EBA/GL/2020/02).

The below table contains information on loans and advances for which a moratorium was still active as at 31 December 2021.

Gross carrying amount

	Performing				Non-Performing	
			OF WHICH: GRACE PERIOD	OF WHICH: STAGE 2	OF WHICH: GRACE PERIOD	OF WHICH: UNLIKELY TO PAY THAT ARE NOT PAST-DUE OR PAST-DUE <=90 DAYS
At 31 December 2021	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances subject to moratorium	**2,316**	**2,316**	**2,316**	**973**	**-**	**-**
- of which: Households	*-*	*-*	*-*	*-*	*-*	*-*
- of which: Collateralised by residential immovable property	*-*	*-*	*-*	*-*	*-*	*-*
- of which: Non-financial corporations	*2,316*	*2,316*	*2,316*	*973*	*-*	*-*
- of which: Small and medium-sized enterprises	*2,316*	*2,316*	*2,316*	*973*	*-*	*-*
- of which: Collateralised by commercial immovable property	*2,316*	*2,316*	*2,316*	*973*	*-*	*-*

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Accumulated impairment, accumulated negative changes in fair value due to credit risk

	Performing				Non-Performing	
			OF WHICH: GRACE PERIOD	OF WHICH: STAGE 2	OF WHICH: GRACE PERIOD	OF WHICH: UNLIKELY TO PAY THAT ARE NOT PAST-DUE OR PAST-DUE <=90 DAYS
At 31 December 2021	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances subject to moratorium	**(12)**	**(12)**	**(12)**	**(7)**	**-**	**-**
- of which: Households	-	-	-	-	-	-
- of which: Collateralised by residential immovable property	-	-	-	-	-	-
- of which: Non-financial corporations	*(12)*	*(12)*	*(12)*	*(7)*	-	-
- of which: Small and medium-sized enterprises	*(12)*	*(12)*	*(12)*	*(7)*	-	-
- of which: Collateralised by commercial immovable property	*(12)*	*(12)*	*(12)*	*(7)*	-	-

BNF Bank Annual Report 2021 | Additional Regulatory Disclosures

The below table contains information on total moratoria granted by the Bank on loans and advances to customers.

	Gross carrying amount				Residual maturity of moratoria					
	NUMBER OF OBLIGORS	TOTAL MORATORIA	OF WHICH: LEGISLATIVE MORATORIA	OF WHICH: EXPIRED	<= 3 MONTHS	>3 MONTHS <= 6 MONTHS	>6 MONTHS <= 9 MONTHS	>9 MONTHS <= 12 MONTHS	> 1 YEAR
At 31 December 2021		**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances for which a moratorium was requested	**440**	**102,605**	-	-	-	-	-	-	-
Loans and advances subject to moratorium (granted)	**356**	**78,810**	**78,810**	**76,494**	**2,316**	**-**	**-**	**-**	-
- of which: Households	-	*42,468*	*42,468*	*42,468*	-	-	-	-	-
- of which: Collateralised by residential immovable property	-	*40,684*	*40,684*	*40,684*	-	-	-	-	-
- of which: Non-financial corporations	-	*24,287*	*24,287*	*21,971*	*2,316*	-	-	-	-
- of which: Small and medium-sized enterprises	-	*24,287*	*24,287*	*21,971*	*2,316*	-	-	-	-
- of which: Collateralised by commercial immovable property	-	*21,557*	*21,557*	*19,241*	*2,316*	-	-	-	-

As mentioned in Note 3.2.8 to the Financial Statements, the Bank has participated in the Malta Development Bank COVID-19 Guarantee Scheme which was introduced to assist businesses through the COVID-19 outbreak. The total value of loans approved by the Bank under this scheme as at 31 December 2021 amounted to €7.9 million.

The following table provides information on the gross carrying amount of credit facilities issued under the public guarantee scheme.

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		Gross Carrying amount of which forborne:
At 31 December 2021	**€000**	€000
Newly originated loans and advances subject to public guarantee scehemes	**5,281**	-
- of which: Non-financial corporations	*5,281*	-
- of which: Small and medium-sized enterprises	*5,281*	-
- of which: Collateralised by commercial immovable property	-	-

7. LIQUIDITY RISK

Note 3.4 to the Financial Statements defines liquidity risk and discloses detail on the Bank's liquidity risk management and measurement. Note 3.4 also discloses details of the Bank's regulatory liquidity requirements at 31 December 2021.

Liquidity risk disclosures are also included in this section in respect of asset encumbrance in accordance with Banking Rule 07, which transposes the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

This disclosure is intended to highlight the available and unrestricted assets available to sustain potential funding requirements. An asset is deemed to be encumbered when it is pledged as collateral in respect of an existing liability and consequentially is rendered out of reach to the Bank. The Bank is not able to sell encumbered assets or pledge them as collateral to raise funds.

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	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS	TOTAL CARRYING AMOUNT	RISK WEIGHTED ENCUMBERED ASSETS	RISK WEIGHTED UNENCUMBERED ASSETS	TOTAL RISK WEIGHTED AMOUNT
At 31 December 2021	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or Central Banks:	10,162	10,162	117,588	-	127,750	-	-	-
- *Reserve deposit*	*6,792*	*6,792*	-	-	-	-	-	-
- *Cash pledged for DCS*	*3,370*	*3,370*	-	-	-	-	-	-
Institutions	-	-	46,437	46,495	46,437	-	18,659	18,659
Corporate	-	-	131,376	185,865	131,376	-	113,202	113,202
Retail	-	-	73,618	256,934	73,618	-	50,813	50,813
Secured by mortgages on immovable property	-	-	514,632	530,302	514,632	-	175,293	175,293
Items associated with particularly high risk	-	-	57,376	67,226	57,376	-	86,065	86,065
Exposures in default	-	-	21,166	33,226	21,166	-	21,172	21,172
Equity	-	-	6,552	6,554	6,552	-	6,552	6,552
Other items	2,953	2,953	25,498	39,996	28,452	2,953	27,305	30,258
- of which: Visa collateral	*2,953*	*2,953*	-	-	-	*2,953*	-	-
Total credit risk	**13,115**	**13,115**	**994,243**	**1,166,598**	**1,007,359**	**2,953**	**499,061**	**502,014**

8. MARKET RISK

Note 3.3 to the Financial Statements defines market risk and discloses details and analysis on the types of market risk the Bank is exposed to, as well as disclosing details on market risk management.

8.1 Exposure in equities not included in the trading book

The Bank holds shares in one position, the intention of which is not one of profit, but a strategic position which has a bearing on the Bank's operations. Further details on this holding is disclosed in Note 7 to the Financial Statements.

8.2 Securitization position

As at balance sheet date, the Bank did not hold any securitization positions.

8.3 Interest rate risk (IRR)

Note 3.3.2 to the Financial Statements defines and discloses details on interest rate risk.

8.4 Currency risk

Note 3.3.3 to the Financial Statements defines and discloses details on currency risk.

9. OPERATIONAL RISK

Note 3.5 to the Financial Statements defines operational risk and discloses details on the types of operational risk the Bank is exposed to, as well as disclosing details on operational risk management.

The Bank uses the Basic Indicator Approach (BIA) to estimate unexpected losses relating to operational risk. As a matter of good practice, it also simulates the capital charge under a hypothetical, more sophisticated, Standardized Approach (SA).

As at balance sheet date, the following figures applied:

Operational Risk Captial Charge	€000
Standardised Approach (simulation)	3,093
Basic Indicator Approach (actual)	3,302
Difference	**209**

10. REMUNERATION POLICY

The Bank's Compensation and Nomination Committee is responsible for reviewing the remuneration policy of the Bank and to make any recommendations as the Committee deems appropriate in the light of the general strategic interests of the Bank and the regulations. It also determines and reviews the Remuneration Policy applicable to the Bank's 'Identified Staff' in terms of Commission Delegated Regulation (EU) 2021/923.

10.1 Board of Directors

The Bank's Chairman and non-executive Directors are not eligible to receive a performance incentive. Accordingly, none of these directors were entitled to profit sharing, share options, pension benefits, variable remuneration or any other remuneration or related payments in their capacity as Directors of the Bank. The fees paid to non-executive Board members during 2021 amounted to €235,833 which are analysed as follows:

	€000
Chairman	42,000
Other members	206,226
Total Directors' fees	**248,226**

10.2 Executive Committee

The Board feels that the current Executive Committee has the necessary skills and qualities to manage the affairs of the Bank and considers the packages offered to its members sufficient to ensure that the Bank attracts and retains senior staff capable of fulfilling their duties. The Bank's policy remains to engage these officials on an indefinite contract of employment, following a period of probation. All contracts are in line with the relevant legislation, with all terms and conditions being specified in the said contracts of employment.

Annual salary increases, which are not performance-related, are considered every year for the Executive Committee members, together with annual bonuses, which are generally based on individual performance during the previous financial year. Any bonus payments made to Executive Committee members do not exceed 100% of their fixed component of total remuneration for each individual.

Share options, share incentive schemes and profit sharing do not feature in the Bank's Remuneration policy. Provisions for termination payments and/or other payments linked to early termination are those determined at Law. Moreover, no pension benefits are currently payable by the Bank.

Non-cash benefits include the service of a company vehicle, life cover, health insurance as well as death-in-service benefits.

Total emoluments received by Senior Management members during the period ended 31 December 2021 are disclosed in the Statement of Compliance with the Principles of Good Corporate Governance.

11. BOARD OF DIRECTORS

11.1 Board Recruitment and Selection Policy

The shareholders appoint or remove directors to the Board in accordance with the Bank's Articles of Association after taking into consideration diversity of knowledge, judgement and experience.

During 2021 the Board of Directors met 11 times. Directors' attendance at Board Meetings during 2021 was as follows:

Members	Attended
Dr Michael Frendo - Chairman	11 out of 11
Sheikh Mohamed Faisal Q.F. Al-Thani - Deputy Chairman	0 out of 11
Sheikh Turki Faisal Q.F. Al-Thani	0 out of 11
Mr Michael Anthony Collis	11 out of 11
Ms Juanita Bencini	11 out of 11
Mr Charles Borg	10 out of 11
Mr Mario P. Galea	11 out of 11
Mr Paul Mark Johnson	11 out of 11
Mr Kenneth Mizzi	11 out of 11
Chev. Maurice Mizzi	9 out of 11
Mr Mark Portelli	9 out of 11
Mr Mohamed Ahmed Shafiek Mohamed Ahmed*	2 out of 11

* Mr Mohammed Ahmed Shafiek Mohamed Ahmed resigned with effect from 9 March 2021

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11.2 Board Diversity Policy

The Board adopted a Board Diversity Policy with regards to the selection of the members of the Board of Directors.

The Diversity Policy covers diversity aspects in terms of gender, age, ethnicity and culture.

It is the opinion of the Board of Directors that the diversity objectives set in the Board Diversity Policy are met.

11.3 Number of directorships held by the Board of Directors

Further to article 91 of the CRD IV, the Bank is listing the number of directorships held by the members of the Board of Directors (including those held with the Bank). The number of directorships, both for the Executive Directorship (ED) and Non-Executive Directorship (NED) forming part of the same group are considered as one directorship.

Dr Michael Frendo - Chairman	1 ED + 1 NED
Sheikh Mohamed Faisal Q.F. Al-Thani - Deputy Chairman	1 ED + 1 NED
Sheikh Turki Faisal Q.F. Al-Thani	1 ED + 1 NED
Mr Michael Anthony Collis	1 ED
Ms Juanita Bencini	5 NED
Mr Charles Borg	1 ED + 15 NED
Mr Mario P. Galea	9 NED
Mr Paul Mark Johnson	1 ED + 1 NED
Mr Kenneth Mizzi	3 ED + 2 NED
Chev. Maurice Mizzi	3 ED + 1 NED
Mr Mark Portelli	1 ED + 10 NED
Mr Mohamed Ahmed Shafiek Mohamed Ahmed*	1 NED

* Mr Mohammed Ahmed Shafiek Mohamed Ahmed resigned with effect from 9 March 2021

Five Year Summary

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Five Year Summary

Statements of Financial Position as at 31 December	**2021 €000**	2020 €000	2019 €000	2018 €000	2017 €000
ASSETS					
Balances with Central Bank of Malta and cash	**102,410**	93,262	39,718	99,853	26,777
Cheques in course of collection	**1,327**	1,138	2,910	677	2,259
Financial investments	**72,135**	78,517	77,637	68,263	67,663
Loans and advances to banks	**11,713**	16,061	60,319	57,516	69,911
Loans and advances to customers	**793,093**	688,334	627,607	520,745	382,314
Property and equipment	**5,640**	5,897	6,044	5,995	6,908
Intangible assets	**864**	908	1,023	1,044	1,124
Right-of-use assets	**1,830**	2,216	2,626	-	-
Derivative financial instruments	**6**	-	-	122	-
Deferred tax asset	**6,757**	6,108	4,958	5,046	3,923
Prepayments and accrued income	**3,187**	2,928	2,338	2,583	2,335
Other assets	**5,736**	5,842	6,400	5,628	4,351
Total assets	**1,004,698**	901,211	831,580	767,472	567,565

BNF Bank Annual Report 2021 | Five Year Summary

Statements of Financial Position as at 31 December	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
EQUITY					
Share capital	**74,544**	74,544	74,544	67,044	39,544
Perpetual capital notes	**10,000**	10,000	10,000	7,500	5,000
Revaluation reserve	**38**	663	661	(533)	(248)
Reserve for general banking risks	**992**	992	992	992	992
Retained earnings	**12,137**	6,750	3,189	1,460	591
Total equity	**97,711**	92,949	89,386	76,463	45,879
LIABILITIES					
Amounts owed to banks and other institutions	**29,436**	13,535	203	90	290
Amounts owed to customers	**859,152**	776,986	722,920	677,272	513,851
Derivative financial instruments	**256**	-	-	-	-
Current tax liabilities	**652**	389	2,379	1,538	-
Other liabilities	**12,663**	12,031	12,117	8,688	4,349
Accruals and deferred income	**4,828**	5,321	4,575	3,421	3,196
Total liabilities	**906,987**	808,262	742,194	691,009	521,686
Total equity and liabilities	**1,004,698**	901,211	831,580	767,472	567,565
MEMORANDUM ITEMS					
Contingent liabilities	**9,506**	9,650	9,980	11,199	8,820
Commitments	**253,534**	197,233	161,778	158,607	112,755

BNF Bank Annual Report 2021 | Five Year Summary

Income Statements For the years ended 31 December

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and other instruments	**26,312**	24,405	23,075	19,077	15,318
- on debt and other fixed income instruments	**286**	358	312	100	264
Interest payable and similar expense	**(3,900)**	(4,222)	(4,939)	(3,644)	(4,680)
Net interest income	**22,698**	20,541	18,448	15,533	10,902
Fees and commission income	**4,004**	3,650	4,065	3,629	2,985
Fees and commission expense	**(1,365)**	(1,027)	(1,586)	(912)	(652)
Net fees and commission income	**2,639**	2,623	2,479	2,717	2,333
Net trading income	**326**	491	790	744	561
Net gains from financial instruments at FVTPL	**1,075**	-	-	-	-
Gains on disposal of financial instruments at FVOCI	**399**	516	744	60	862
Other income	**104**	51	274	24	-
Net operating income	**27,241**	24,222	22,735	19,078	14,658

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Income Statements For the years ended 31 December	**2021 €000**	2020 €000	2019 €000	2018 €000	2017 €000
Employee compensation and benefits	**(9,030)**	(8,485)	(7,854)	(7,364)	(6,864)
Other administrative expenses	**(6,835)**	(6,321)	(6,609)	(5,788)	(4,749)
Depreciation of property and equipment and right-of-use assets	**(925)**	(925)	(821)	(447)	(569)
Amortisation of intangible assets	**(333)**	(365)	(321)	(348)	(350)
Credit impairment losses	**(1,067)**	(2,815)	(1,749)	(1,572)	(517)
Profit before tax	**9,051**	5,311	5,381	3,559	1,609
Income tax expense	**(2,750)**	(836)	(2,039)	(1,289)	(411)
Profit for the year	**6,301**	4,475	3,342	2,270	1,198
Earnings per share	**6c4**	4c5	3c5	2c9	2c3

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Statement of Cash Flow For the years ended 31 December

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Cash flows from operating activities					
Interest, fees and commission received	**30,560**	27,450	27,060	22,374	18,402
Interest, fees and commission paid	**(5,361)**	(5,776)	(5,729)	(5,365)	(4,946)
Net return from investment and trading activities	**1,753**	537	1,187	652	561
Payments to employees and suppliers	**(16,817)**	(13,544)	(14,356)	(12,245)	(12,315)
Net interest on financial assets	**340**	388	507	2,108	619
Cash flows from operating profit before changes in operating assets and liabilities	**10,475**	9,055	8,669	7,524	2,321
(Increase)/decrease in operating assets:					
Balances with Central Bank of Malta	**(1,050)**	(375)	(640)	(1,260)	(439)
Loans and advances to customers	**(106,225)**	(63,556)	(109,095)	(140,974)	(41,032)
Other assets	**161**	2,526	(2,383)	1,187	(434)
Increase/(decrease) in operating liabilities:					
Amounts owed to customers	**82,166**	54,066	45,648	163,421	30,887
Other liabilities	**1,082**	342	738	3,869	(872)
Net cash flows (used in)/generated from operating activities before tax	**(13,391)**	2,058	(57,063)	33,767	(9,569)
Income tax paid	**(2,799)**	(3,983)	(1,735)	(111)	-
Net cash flows (used in)/generated from operating activities	**(16,190)**	(1,925)	(58,798)	33,656	(9,569)

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Statement of Cash Flow For the years ended 31 December	**2021 €000**	2020 €000	2019 €000	2018 €000	2017 €000
Cash flows from investing activities					
Purchase of property, equipment and intangible assets	**(957)**	(1,038)	(788)	(481)	(388)
Purchase of financial investments	**(25,685)**	(51,883)	(59,988)	(20,130)	(84,592)
Proceeds from disposal and redemption of financial investments	**31,653**	51,478	53,089	17,141	32,860
Net cash flows generated from/(used in) investing activities	**5,011**	(1,443)	(7,687)	(3,470)	(52,120)
Cash flows from financing activities					
Issue of perpetual capital notes	**-**	-	2,500	2,500	-
Issue of share capital	**-**	-	7,500	27,500	15,000
Interest on perpetual capital notes	**(914)**	(914)	(863)	(507)	(507)
Dividends paid	**-**	-	(750)	-	-
Net cash flows (used in)/generated from financing activities	**(914)**	(914)	8,387	29,493	14,493
Net (decrease)/increase in cash and cash equivalents	**(12,093)**	(4,282)	(58,098)	59,679	(47,195)
Cash and cash equivalents at beginning of year	**90,230**	94,512	152,610	92,931	140,126
Cash and cash equivalents at end of year	**78,137**	90,230	94,512	152,610	92,931

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Accounting Ratios

	2021 %	2020 %	2019 %	2018 %	2017 %
Net interest income and other operating income to total assets	2.71	2.69	2.73	2.49	2.58
Operating expenses to total assets	1.70	1.79	1.88	1.82	2.21
Cost to income ratio	62.86	66.45	68.64	73.10	85.50
Profit/loss before tax to total assets	0.90	0.59	0.65	0.46	0.28
Profit/loss before tax to equity	9.26	5.71	6.02	4.66	3.51
Profit/loss after tax to equity	6.45	4.81	3.74	2.97	2.61
Shares in issue (millions)	98.71	98.71	98.71	88.78	52.36
Net assets per share (€0 cents)	99	94	91	86	88
Profit/loss per share (€0 cents)	6.38	4.53	3.39	2.56	2.29

Supplementary Financial Information

Supplementary Financial Information

Shareholding Information

As at 31 December 2021, the issued share capital stood at €74,544,000 (2020: €74,544,000), made up of 98,707,626 (2020: 98,707,626) fully paid up ordinary shares of €0.7552 (2020: €0.7552) each.

The ordinary shares are held as follows:

	NO. OF SHARES
JUD Investment Group Limited (C 74331)	91,235,202
PG Holdings Limited (C 8569)	2,222,424
Virtu Investments Limited (C 42860)	1,750,000
Mizzi Organisation Limited (C 813)	1,750,000
SAK Limited (C 3240)	1,750,000
	98,707,626

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The percentage holdings stand as follows:

	%
JUD Investment Group Limited (C 74331)	92.44
PG Holdings Limited (C 8569)	2.25
Virtu Investments Limited (C 42860)	1.77
Mizzi Organisation Limited (C 813)	1.77
SAK Limited (C 3240)	1.77
	100.00

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