BNF BANK

Annual Report 2019

Company Registration No. C 41030

BNF BANK P.L.C.

Contents

General information

Directors

THE DIRECTORS WHO SERVED THROUGHOUT THE YEAR WERE AS FOLLOWS:

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
Mohamed Ahmed Shafiek Mohamed Ahmed	Non-Executive Board Member
Michael Collis	Executive Board Member
Mario P. Galea	Non-Executive Board Member
Kenneth Mizzi	Non-Executive Board Member
Maurice Mizzi	Non-Executive Board Member
Mark Portelli	Non-Executive Board Member
Charles Borg	Non-Executive Board Member
Juanita Bencini	Non-Executive Board Member
Paul Johnson	Non-Executive Board Member (appointed with effect from 1 September 2019)

Company secretary
Roderick Zammit Pace

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

Auditors
PricewaterhouseCoopers, 78, Mill Street, Qormi,
QRM 3101, Malta

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 United Kingdom. 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 is a Senior Lecturer in the Faculty of Laws at the University of Malta. Dr Frendo is Vice-President of the Venice Commission – an international independent legal think-tank that acts as an advisory body on constitutional matters. He has published widely including a number of books and articles on European, diplomatic and legal issues.

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

MOHAMED AHMED SHAFIEK MOHAMED AHMED, NON-EXECUTIVE DIRECTOR

Mr Shafiek joined the Al Faisal Group in 2002 and has held a variety of senior positions including Group Head of Internal Audit. He has also been a Board Member of Al Faisal Holding. Mr Shafiek is currently Managing Director of Al Faisal International for Investment and of Al Sawari Holding.

He holds a Bachelor's Degree of Commerce in addition to a Bachelor's Degree of Law from Ain Shams University, Egypt, as well as a Certification in Risk Management Assurance (CRMA) from The Institute of Internal Auditors. Mr Shafiek is a Certified Internal Auditor (CIA) from USA and a Chartered Accountant from Egypt.

MICHAEL COLLIS, CHIEF EXECUTIVE OFFICER AND 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 a number of banks with responsibility for a wide variety 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 plc 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) plc in 2016.

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. Served on the Council of the Malta Institute of Accountants as Officer and President. Served on the Council of the Federation des Experts Comptables Europeens (FEE). More recently 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.

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 the 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 plc, Allcom Limited, Technical and Management Services Limited, Datatrak Holdings plc, Datatrak Systems Limited, Datastream Limited, and Maltacom plc. He is currently also inter alia Director of Mizzi Associated Enterprises and President of Mizzi Organisation and of the Maltese Chinese Chamber of Commerce.

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 the family 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 and United Acceptances Finance Limited and a Director of a number of other Mizzi Organisation companies.

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 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 plc and he serves as a non-executive director of a number of companies.

CHARLES BORG, NON-EXECUTIVE DIRECTOR

Mr Borg, a fellow of the Chartered Institute of Bankers (UK), holds a Banking and Finance Honours Degree and a Masters Degree in Financial Services from the University of Malta. He enjoyed a 34-year career at Bank of Valletta plc 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 also served as a Director on other listed companies on the Malta Stock Exchange, including Mapfre Middlesea Insurance PLC. 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 plc 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 plc, Mr Borg will also be chairing the Bank's Credit Approvals Committee.

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 position have included Senior and Executive positions as 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 in BNF's Board, he is also an Independent Non-Executive Director on the Board of a regulated Bank in the UK.

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 today is still 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.

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.

Director's Report

Director's report

The Directors present their annual report together with the audited financial statements of the Bank for the year ended 31 December 2019.

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 licensed 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 (ECB) by virtue of a decision dated 12 August 2016 made pursuant to Articles 4(1)(c) and 15(3) of Council Regulation EU no. 1024/2013, Article 87 of Regulation (EU) no. 468/2014 of the European Central Bank (EC/2014/17) and Article 13(1) and Article 13A of the Banking Act (Cap. 371 of the laws of Malta), a controlling stake was purchased by Al Faisal International for Investment Malta Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar. The Bank's name was subsequently changed to BNF Bank p.l.c. on 3 July 2018 Al Faisal International for Investment Malta Limited changed its name to JUD Investment Group Limited. At 31 December 2019 JUD Investment Group Limited owned 92.4% of the ordinary shares of BNF Bank.

The Bank provides a full range of commercial banking services through a network of twelve local branches and three corporate and business banking units.

In 2019, BNF Bank concluded its twelfth year of business activity in Malta. The Bank has maintained its position in the local market as a reliable financial services provider.

CAPITAL INJECTIONS AND CAPITAL POSITION

Share capital injections take place as part of the Bank's capital plan, typically in anticipation of a growing asset base.

By virtue of a resolution dated 7 December 2018, the Bank increased its capital base through an issue of share capital and fixed rate perpetual capital notes. The issue took place in two tranches, the first of which took effect in December 2018, and the second in March 2019.

The Bank's issued share capital was increased from €59,544,000 (divided into 78,845,340 shares of a nominal value of €0.7552 each) to €74,544,000 (divided into 98,707,626 shares of a nominal value of €0.7552 each). The Bank's additional tier 1 capital was increased from an aggregate of €5,000,000 to €10,000,000 through the issue of fixed rate perpetual capital notes amounting to €5,000,000 of a nominal value of €1,000 each.

The Bank's capital position at 31 December 2019 was as follows:

2019	€000
CET 1 capital	76,371
Additional Tier 1 Capital	10,000
Tier 1 capital	**86,371**
Total risk weighted assets	**486,120**

2019	%
Capital ratios	
CET 1 ratio	15.71
Tier 1 ratio	17.77
Capital Adequacy Ratio	**17.77**

BUSINESS IN 2019 AND 2020

BNF Bank is one of Malta's core domestic banks, employing an average of 207 people during 2019 and serving around 40,000 customers. The Bank's long-term strategic objective continues to be that of conservative, robust, and profitable growth.

Growth in 2019 pertained mainly to Maltese retail and corporate customers, as the Bank continued to develop propositions to suit customer needs. The Bank also continued to develop its workforce, appointing an experienced Chief Commercial Officer and providing training to ensure staff have the skills to enable customer service of the highest standards.

A review of the Bank's financial achievements for 2019 and an update on the first quarter of 2020 are set out in subsequent sections of this report.

FIRST QUARTER OF 2020

Throughout the first quarter of 2020, the COVID-19 virus spread globally including in Europe, to the extent that the outbreak was classified as a pandemic by the World Health Organisation.

There is a wide expectation that the outbreak will result in a global economic recession resulting from decreased levels of demand, as governments worldwide impose extensive social distancing measures. The extent of the economic impact is unknown at the time of writing; nevertheless, most global financial markets were in considerable negative territory at the end of the first quarter of 2020.

In Malta, several positive cases of the COVID-19 virus were confirmed, however the situation remains a controlled one at the time of writing. The Government of Malta acted to curtail the outbreak by introducing strict quarantine rules, limiting overseas travel, and adopting social distancing measures commensurate to the spread of the virus. Whereas such measures were necessary, they are expected to impact the local economy to an extent which is yet unknown.

The impact on BNF Bank to date is as follows:

- **Operations:** The top priority is that of protecting the well-being of staff and customers. Actions have included among others, isolation of vulnerable persons within their homes and testing and implementation of our business continuity plan, as necessary.
- **Loans and advances to customers:** No instances of default have taken place to date, however a significant number of customers have and will continue to request financial assistance measures in the near future. Financial assistance measures offered by BNF Bank p.l.c. will take the form of moratoria on capital and/or interest repayments, and working capital financing, the latter which will be partly guaranteed by the Government of Malta or equivalent, or by European authorities.
- **Financial investments:** The portfolio suffered a downward revaluation as a result of adverse movements in market prices, which impact however is considered to be (i) of a temporary nature, and (ii) not significant enough to put regulatory or balance sheet parameters at risk.

BNF Bank p.l.c. has not experienced any other material impact to date.

In view of these circumstances, management has revised its financial projections to reflect the estimated impact of the forecasted business conditions on the Bank's projected financial performance and financial position. Management's revised projections for the year ending 31 December 2020 contemplate revised baseline and adverse scenarios. Under the revised adverse scenario, the key assumptions centre around a significantly curtailed increase in lending, with consequential impacts on projected net interest income, and a significant increase in credit losses recognised. The outcome of this adverse scenario reflects significantly diluted bank profitability, but the Bank is still projected to register profitability and remain adequately capitalised and financially robust. The projected capital adequacy ratio and liquidity profile under the adverse scenario remain within a comfortable range.

Based on the outcome of the revised projections as referred to above, the Directors and management consider the going concern assumption in the preparation of the Bank's financial statements as appropriate at the date of authorisation for issue of the 2019 financial statements. They also confirm that no material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern exists at that date.

The Bank's long-term objectives remain unchanged despite the current business climate. The Bank has regulatory approval for a branch in the UK, which will commence business as and when circumstances allow.

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.

Finally, the Bank once again acknowledges its strongly motivated workforce. The Bank's people continue to enable consistent high-quality service and internal governance of the highest standard, particularly in an adverse situation as that which the world is experiencing in 2020.

A FINANCIAL REVIEW OF 2019

Financial Highlights

The Bank's financial statements highlight the following financial achievements for 2019:

- Improvement in profits of 47% compared to 2018.
- Growth in loans and advances to customers of over 20%.
- Strong liquidity and funding positions; LCR of 254% and NSFR of 140% at year-end.
- Decrease in non-performing exposure from 5.3% of total loans and advances to customers in 2018, to 3.9% in 2019.
- Capital position maintained through capital injections of a further €10 million in 2019, consisting of €7.5 million in CET1 capital and €2.5 million in AT1 perpetual capital notes.

A net dividend of €0.00861 per nominal share of €0.7552, for a total of €850,000, is being proposed for approval by the shareholders in respect of the reporting period ended 31 December 2019. In light of the COVID-19 pandemic and following a recommendation of the European Central Bank (ECB) of 27 March 2020 on dividend distributions, the directors recommend that payment of the dividend should be conditional to a reassessment of the situation once there is a more stable outlook, and not earlier than 1 October 2020.

Income statement and financial performance

In 2019, the Bank registered a profit after tax of €3.3 million (2018: €2.3 million). The improvement in performance is attributed primarily to growth in the Bank's core assets, being the retail and corporate lending books.

Net interest income amounted to €18.5 million (2018: €15.5 million).

Net fees and commission income amounted to €2.5 million (2018: €2.7 million). Fee and commission income was mainly generated from credit processing and related legal services, as well as fees for payments, cards and other banking services.

Other operating income consisted of foreign exchange trading gains amounting to €0.8 million (2018: €0.7 million), gains on disposal of investments amounting to €0.7 million (2018: €0.1 million), and other income of €0.3 million (2018: nil) of which the majority was from the disposal of property.

Net operating income for 2019 totaled €22.7 million, 19% more than the €19.1 million generated in 2018. Operating expenses excluding impairment also increased, albeit at a lower rate of 12%. In 2019 the Bank incurred operating expenses excluding impairment of €15.6 million, (2018: €13.9 million). The largest operating expense for the Bank remained employee and director compensation in 2019, which amounted to €7.9 million (2018: €7.4 million).

The Bank registered a profit before tax of €5.38 million (2018: €3.56 million), which attracted a tax charge of €2.04 million (2018: €1.29 million).

Financial position

Total assets increased to €832 million at the end of 2019 (2018: €767 million). The growth in total assets is attributed mainly to gross loans and advances to customers, which increased by €109 million, reaching €641 million by end of 2019. Deposits from customers on the other hand increased by €46 million, reaching €723 million by end of 2019. The net deposit transformation ratio as at end of 2019 therefore increased to 87% from 77% in 2018, in line with the Bank's funding plan for 2019.

Non-performing loans (NPL) and expected credit losses (ECL)

During 2019 the Bank recovered €3.3 million of its stock of NPL exposure (2018: €3.4 million), decreasing total NPL exposure from €28.1 million in 2018 to €24.8 million in 2019. At the end of 2019, the Bank had a ratio of NPL to total loans and advances to customers of 3.9%, a substantial improvement over the 5.3% ratio for 2018. Growth in the size of the performing loans and advances to customers' book also contributed towards an improved ratio.

Of the €24.8 million of NPL exposure, the Bank held collateral with a total extendible value of €20.4 million, and had recognised stage 3 ECL provisions of €9.6 million, therefore a total collateral and ECL coverage of 121%.

During 2019, ECL provisioning on loans and advances to customers, financial investments and loans and advances to banks and CBM increased by €1.8 million to a total of €13.7 million. The largest contributor to ECL recognised through profit or loss in 2019 was stage one provisioning, due to growth in the loans and advances to customers portfolio.

Liquidity and funding

BNF Bank's liquidity position remained robust throughout 2019, and the Bank continued to diversify its sources of funding. The Liquidity Coverage Ratio (LCR) stood at 254% at 31 December 2019 (2018: 337%), and the Net Stable Funding ratio (NSFR) amounted to 140% (2018: 149%).

The Bank's key source of funding remained retail and commercial deposits from the Maltese market throughout 2019, although the Bank also continued to strengthen its partnership with Deposit Solutions to raise Euro funding from German retail depositors. In addition, BNF Bank participates in TLTRO funding offered by the ECB, and effected its first transaction in 2020.

Technology transformation

BNF Bank remains committed to ensuring that customers' technological requirements are satisfied, and to transform the Bank's technology to achieve best-in-class standards. Throughout 2019 the Bank continued to work towards this objective, however in the current macro-environment management has decided to focus efforts on managing the situation in the immediate future, and revert to this project once the environment is more conducive.

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 this note are credit risk, market risk, liquidity risk, operational risk and capital risk management. 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 2019, no shares in the Bank were:

- Purchased by it or acquired by it by forfeiture or surrender or otherwise.
- Acquired by another person in circumstances where the acquisition was by the Bank's nominee, or by another with the Bank's financial assistance, with 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 Companies Act, Cap. 386 of the Laws of Malta (the "Act") requires the Directors of BNF Bank p.l.c to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that year in accordance with the requirements of International Financial Reporting Standards, as adopted by the European Union.

In preparing such financial statements, the Directors are required to:

- Adopt the going concern basis unless it is inappropriate to presume that the Bank will continue in business;
- Select suitable accounting policies and apply them consistently from one accounting year to another;
- Make judgements and estimates that are reasonable and prudent; and
- Account for income and charges relating to the accounting year on the accruals basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, Cap. 386 of the Laws of Malta and the Banking Act, Cap. 371 of the Laws of Malta.

The Directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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 25 June 2020 by:

Michael Collis

MICHAEL COLLIS
Chief Executive Officer

AFrendo

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 implement 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 individuals who have distinguished themselves in diverse business sectors. All directors hold or have previously held key management positions in various local and international organisations. The Board delegates responsibility for the Bank's day-to-day management to the Executive Committee ('Management'), and certain other responsibilities to the Audit Committee, the Risk Committee, the Compensation and Nomination Committee and the Credit Approval Committee. Further detail on committees is available under Principle 4 below.

PRINCIPLE 2 – CHAIRMAN AND CHIEF EXECUTIVE

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

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

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

On the other hand the Chief Executive Officer (CEO), who is also a member of the Board of Directors, heads the Executive Committee. The CEO is responsible to execute the Bank's strategy as agreed by the Board 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), seven Non-Executive Directors (NED) and three independent Non-Executive Directors (INED).

The shareholders appoint or remove directors on the Board using a transparent approach after each Annual General Meeting, after taking into consideration diversity of knowledge, judgement and experience. Prior to being appointed, each director 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
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 Mizzi	NED
Chev. Maurice Mizzi	NED
Mr Mark Portelli	NED
Mr Mohamed Ahmed Shafiek Mohamed Ahmed	NED
Sheikh Turki Faisal Q.F. Al Thani	NED

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

PRINCIPLE 4 – THE 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 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 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

- Mr Mario P. Galea - Chairman
- Ms Juanita Bencini
- Mr Mohamed Ahmed Shafiek Mohamed Ahmed

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 Department also attends the meetings of the Audit Committee.

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 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 made up of three Non-Executive Directors. The Bank deems that the Committee as a whole has the necessary competence and expertise to perform their functions within the Committee.

Members

- Ms Juanita Bencini - Chairperson
- Mr Mario P. Galea
- Mr Mark Portelli

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

Numerous 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 Unit, 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. It also makes recommendations to the Board of Directors on credit facilities which exceed its upper discretionary threshold.

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

Members

- Mr Charles Borg - Chairman
- Mr Michael Collis
- Mr Mark Portelli

The Head of Credit Analysis Unit and senior representatives of the Bank's Commercial Department attend the Committee meetings by invitation.

Management Committees

The Executive Committee

The Executive Committee is composed of five members, the Chief Executive Officer, the Chief Operations Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Commercial Officer, with the latter joining the Executive Committee during July 2019.

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 drives the commercial activity of the Bank and reviews liquidity risk, and capital adequacy risk. It also sets the framework for the design of policies to address and manage all these types of risks with a view to ensure that adequate mitigating actions are taken to reduce the negative impacts of adverse movements on the operations of the Bank and on the financial statements.

The ALCO is made up of the Members of the Executive Committee, the Head of the Treasury Department, the Head of the Business Development Department and the Head of the Commercial Department. The Heads of the Risk Control and Oversight Unit and of the Finance Department are also invited to attend the meetings of the ALCO.

The Investments Committee

The Investments Committee (IC) is a management committee being set-up with the aim to have a controlled and structured process to discuss 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 IC had its first meeting in February 2020 and shall continue to meet at least once every two months. It includes Members of the Executive Committee, the Head of Treasury Department and the UK Branch Manager.

The Credit Committees

These Committees are responsible for assessing credit facilities and taking credit decisions within certain monetary and risk bands. Additionally, they make recommendations to the Executive Committee on credit facilities which exceed their upper discretionary threshold.

The Committees are coordinated at three different levels, each assigned a sanctioning limit under which they operate. The Committees meet on a weekly basis and comprise officials from the Commercial Department and the Credit Analysis Unit. Each Committee is chaired by the Credit Analysis Unit 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 Units, mainly the Products Strategy Unit, the Corporate Business Unit, the Compliance Department, the Risk Control and Oversight Unit, the Credit Operations Unit, the Credit Analysis Unit, the Financial Management Department, the Treasury Department, the Information Technology Unit and the Business Analysis Unit. The Product Strategy Unit is responsible for the chairing and steering of this Committee.

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 2019 the Board of Directors met 6 times. Directors' attendance at Board Meetings during 2019 was as follows:

MEMBERS	ATTENDED
Dr Michael Frendo – Chairman	5 out of 6
Sheikh Mohamed Faisal Q.F. Al Thani – Deputy Chairman	1 out of 6
Mr Michael Collis	6 out of 6
Ms Juanita Bencini	6 out of 6
Mr Charles Borg	6 out of 6
Mr Mario P. Galea	6 out of 6
Mr Paul Mark Johnson (appointed with effect from 1 September 2019)	2 out of 2
Mr Kenneth Mizzi	6 out of 6
Chev. Maurice Mizzi	3 out of 6
Mr Mark Portelli	6 out of 6
Mr Mohamed Ahmed Shafiek Mohamed Ahmed	6 out of 6
Sheikh Turki Faisal Q.F. Al Thani	1 out of 6

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 for ensuring 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 in their career streams.

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

PRINCIPLE 7 – EVALUATION OF THE BOARD'S PERFORMANCE

During the period under review, the Compensation and Nomination Committee undertook an evaluation of the suitability of the Board of Directors. 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
- Particular areas for training of the Board members were identified, and subsequently delivered to the Board of Directors.

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 the Management;

e. Oversees any remuneration matters; and

f. Exercises the functions of a Board Nomination Committee.

During 2019, the Compensation and Nomination Committee met 4 times. The Committee was made up of three non-executive Directors. Their attendance at Committee meetings during 2019 was as follows:

MEMBERS	ATTENDED
Mr Mohamed Ahmed Shafiek Mohamed Ahmed - Chairman	3 out of 4
Dr Michael Frendo	3 out of 4
Mr Kenneth Mizzi	4 out of 4

Dr Michael Frendo replaced Mr Mario P Galea on this Committee with effect from 1st January 2019.

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 SHARHOLDERS

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 instilled within the Bank's culture. BNF's brand values include:

- **Ethical business practices:** BNF is in the business of corporate and retail banking, and therefore has a role which is ingrained within society. BNF endeavours to operate ethically in all that it does;
- **Investing in its people:** The Bank invests heavily 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;
- **Minimising its 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 annual 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 shall be identified by the Compensation and Nomination Committee. The Compensation and Nomination Committee shall put 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 proposals for the succession over the longer term, to key positions within the Bank.

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 sets out guidelines around remuneration and benefits to employees and ensures transparency in remuneration matters. The remuneration policy is designed to enable the Bank to attract, retain and motivate high calibre employees, therefore addressing the interest of the Bank, its shareholders and other stakeholders. The Bank also maintains up-to-date rules and procedures for performance appraisal.

The Bank remunerates employees as follows:

- **Fees** for Non-Executive Directors in line with the time and effort committed to the institution and industry practice;
- **Fixed pay** for full-time and part-time salaried employees and members of Management, within a published pay structure which reflects an employee's skills, experience and level of responsibility;
- **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 and salary increases** as further detailed below.

Annual bonuses and salary increases

The strategy of the Bank is to award bonuses or salary increases which are commensurate to an employee's fixed pay, and which promote performance and risk culture within the Bank.

Individual performance is judged against objectives that are set annually to align employees with the Bank's overall targets, whilst improving personal skills and competencies.

Every year the Bank sets aside a fund which reflects efforts and results for the year in question. The fund is distributed among employees in the form of bonuses or salary increases, in accordance with remuneration and performance appraisal policies and procedures.

It has hitherto not been the Bank's practice to defer any remuneration, and malus and clawback are therefore not, to date, considered applicable.

Non-Executive Directors

Non-Executive Directors' compensation consists solely of fees for services and reimbursement of any expenses incurred in the course of the Bank's business.

In 2019 Non-Executive Directors' compensation was of €222,966.

Material Risk Takers (MRT) Remuneration

Fixed and variable remuneration paid to MRT is detailed in the following table. The identification of MRT is based on the framework for prudential supervision established by Directive 2013/36/EU.

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

	SENIOR MANAGEMENT	MRT
Remuneration	€ 1,109,978	€ 1,222,335

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 use 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 MRT 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 four 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

BNF Bank has long incorporated in its business model a strategy of community actions based on two of its three core values – empathy and responsibility. Driven by the belief that the Bank holds a moral obligation towards the social progress of the market it operates in, BNF has a clear policy that its business should go beyond offering banking solutions, even though these in themselves are designed to facilitate the lives, needs and vision of so many individuals, families and businesses.

BNF Bank designs and implements clear policies that every year enable it to contribute towards projects that really make a difference in people's lives. The Bank also acknowledges the collective drive of its team of employees, by encouraging them to participate in several initiatives and by taking on their ideas and suggestions for community action.

"Over the years, our organisation has continued to develop its social responsibility policy into one that can leave a lasting impact in our community. Every year, we line up a number of worthy organisations that help us devolve our CSR plan to reach vulnerable individuals in terms of education, empowerment, and a healthy life".
- George Debono, Chief Commercial Officer

EDUCATION

Ronald McDonald House Charities

For the past two years, the Bank extended its support to RMHC (Malta) in its ambitious learning centre project.

Designed to offer vulnerable children educational sustenance in a safe and therapeutic environment, RMHC (Malta) has also partnered with the Autism Parents Association, Brave and with ADHD Malta to ensure it delivers a range of programmes tailor-made for its target audience. Children with learning difficulties find a safe haven at the Qawra centre where they are also given the opportunity to learn and grow.

Foundation of Educational Services

BNF Bank teamed up with the Foundation for Educational Services (FES) and the Fgura Skola Sajf to support a summer event that in turn had the aim of contributing to the Malta Community Chest Fund Foundation. 'Lejla Sajfija' attracted more than a thousand people who, after making a donation at the door, enjoyed a summer evening of sport and entertainment in the company of families and children.

Breast Cancer Awareness

There is never enough awareness on crucial issues like breast cancer. And in this case, the Bank makes it a point not to miss out on the opportunity to be part of national educational efforts. Every October, BNF engages in a month of action using its own communication channels, retail network and other touch points to remind both its team and the public of the dangers of breast disease and of the affirmative action one can take. This year, the monthly #YourCause staff initiative collected funds for the Action For Breast Cancer Foundation Malta. The Foundation's mission is to put breast cancer education and awareness at the forefront of the country's health agenda. The Bank offered free mammography examinations to those team members who will directly benefit from getting tested, hoping this will urge them, and others, to check their health on a regular basis.

Men's Health Awareness Month

Similarly, for Movember, the Bank raised awareness about men's health issues while promoting a healthy lifestyle for men to ultimately live healthier, happier and longer lives. The Bank also offered free Prostate-Specific Antigen (PSA) screening to all male employees over 40 years of age.

HEALTH

Malta Hospice Movement

Hospice has long been chosen by staff as a beneficiary for their salary donation scheme. The Bank has supported Hospice with direct donations for its activities that are geared to reach over a thousand patients and families.

Service Dogs Malta Foundation

Our support for the Service Dogs Malta Foundation is now in its fourth year. With funds going specifically towards the raising of puppies as therapy and service dogs, we experienced at first hand the immense difference these dogs make in the lives of children and adults with difficulties in the various training activities we were invited to.

The Foundation's aim is to allocate a fully-certified and fully-matched dog to a person living with a condition or a disability and where the dog is expected to transform a person's life by giving the psychological comfort through constant accompaniment, and aid them conduct their daily tasks both inside their home and in their outdoor life. This year, four service dogs graduated through the training programmes and four families will benefit from their service.

Puttinu Cares

The Bank has indirectly contributed to this laudable organisation by sponsoring the concert VOCA – The Journey where proceeds went to Puttinu Cares. BNF is proud to have aided a passionate group of singers and musicians who came together and put their love of music to a good cause – to aid Puttinu Cares acquire a London hotel to accommodate families seeking treatment there.

The Bank also supported the 16th edition of the Good Friday Night Walk, in aid of Puttinu Cares. With a distance of 22km, a group of team members joined forces and walked from Mellieħa to Floriana, while the Bank contributed with a donation.

Emergency Fire and Rescue Unit

The Emergency Fire and Rescue Unit (EFRU) is an organisation of fully trained rescuers, first responders and fire-fighters. The skills acquired by the team in urban search and rescue, technical rope rescue and swift water rescue are deployed in cases of National and European calamities such as earthquakes, floods and collapsed buildings. The members train to operate in a variety of disaster situations and perform their duties on a voluntary basis. BNF Bank's donations will sustain the organisation's team training efforts so that they are always ready to join the country's civil protection institutions in emergencies, and where their intervention could save lives.

The LifeCycle Challenge

The LifeCycle challenge is an annual event first held in 1999, with the aim of supporting patients suffering from end stage renal disease. Each year, a dedicated team of cyclists tackle what is one of the most grueling endurance events. The funds generated by the initiative go towards raising awareness about the illness and funding the Renal Unit and the care it offers, to improve the quality of life of patients. The BNF team supported the cyclists by way of offering support, funds and furthering exposure of this cause.

PHILANTHROPY

President's Solidarity Fun Run

The 11th year of the President's Solidarity Fun Run has once again, drawn in thousands of participants. Millions of contributions are generated every year towards the President's list of beneficiaries and focusing on expensive cancer therapy for families who otherwise are not able to afford the treatment. BNF Bank has been a collaborator of the Fun Run since its inception, where the fun run concept was locally yet unheard of. Since then, the idea has been emulated dozens of times over and has been a means of fund generation for many organisations.

SOAR Malta

SOAR Malta (Surviving Abuse with Resilience) is a user-led local service, offered by Fondazzjoni St Jeanne Antide, that helps survivors pick up the pieces and bounce back with resilience, towards a life of dignity, well-being and justice. BNF funds donated to Soar will help the organisation with completion works of their hub house in Tarxien – a place that will offer a more holistic support system to address every facet of domestic violence. BNF Bank believes it is good to be aligned with the government who has renewed calls to fight the scourge on all fronts.

THE ENVIRONMENT

European Mobility Week

BNF Bank has once again participated in the European Mobility Week, a broad initiative aimed at promoting sustainable transport. This year's campaign raised awareness about ways in which active mobility can benefit our health, environment and bank balances. BNF employees embraced this initiative by changing the means of their daily commute and opted for alternative transport methods. Teams from branches shared a ride with their colleagues and carpooled to and from work, whilst others opted to walk, take public transport, cycle or run. Once again, the Bank used its retail network to raise awareness among clients and visitors, in addition to using other touch points.

CULTURE AND HERITAGE

Fondazzjoni Wirt Artna

During 2019, BNF Bank continued to back Fondazzjoni Wirt Artna (FWA) as a corporate sponsor. Conscious and appreciative of the valuable work undertaken by the FWA whose team is perennially researching, documenting and conserving Malta's rich history, BNF has remained loyal to the organisation's professionalism and passion. FWA is going a long way in preserving Malta's heritage via museums with impeccable visitor experience to be appreciated by locals and foreigners alike.

Fondazzjoni Paulus

BNF Bank also allocated funds for the Agape Festival - a celebration of music and culture during the feast of St Paul, Patron Saint of Malta. The festival was a celebration of sacred music discussed and played in some of Malta's most historic venues with a rich repertoire of Maltese compositions and a window into Malta's religious culture. The public also enjoyed a number of other highly interesting activities together with a public lecture about a prolific composer of the early 21st Century and another two talks, all focused on culture inspired by St. Paul.

#YOURCAUSE

#YourCause is the staff's monthly dress down day for causes chosen by the employees themselves. Through the #YourCause contributions we have helped and given a voice to those less fortunate by donating both money and food when there was a call for it. The Bank also pledges to match the monthly sum contributed by its employees. During 2019, the beneficiaries were the Karl Vella Foundation, Terry Farrugia, EFRU, Autism Parents Association, Animal Protectors Malta, Mill-Imqabba għall-Albania, Smiling with Jerome, Action for Breast Cancer Foundation, Suret il-Bniedem and Foodbank Lifeline Foundation Malta. Two individuals facing health and family difficulties were also chosen as beneficiaries.

INVESTMENT IN THE TEAM

What would corporate social responsibility be without affirmative action that targets a crucial stakeholder at the core of the Bank's essence? BNF boasts a team of over 200 employees – a diverse mix of people who each bring to the table a wealth of ideas, values and interests. Managements holds the team in high respect and acknowledges the different needs of such a large group, while striving to provide staff with a pleasant work ambience and perks that make working life enjoyable.

Every year, the Bank strives to improve terms of employment. Staff enjoy a number of benefits including health insurance, free medical tests, staff discounts at commercial outlets, regular professional training and personal development in soft skills, performance appraisals and rewards, a suggestion platform with prizes for best implementable ideas, social and motivational events, and recognition of outstanding accomplishments.

Following mental first aid training for supervisors and managers given by the Richmond Foundation, the Bank is now taking the mental health initiative further to offer staff an invaluable psychological support service – the Richmond Foundation Staff and Organisation Support Programme. The programme is free for staff and offers confidential counselling and support services offered to all employees, who can make use of it for personal difficulties and work-related issues.

Long service awards are presented to those employees with ten years' service. The honour reflects the Bank's appreciation for years of dedication and personal achievements. The Bank also awards the Employee of the Year, to an employee who is usually nominated by peers and strongly recommended by the Executive Committee. The winner is usually an all-rounder, somebody who embraces the Bank's values of ambition, responsibility and empathy, and delivers results keeping in focus factors like concern for colleagues, positivity and motivation. The Bank also rewards the performance of its retail and commercial teams, and back office units who give a superlative internal service throughout the year.

Through the Bank's Sports and Social Committee, the team gets together for social events, ranging from socialising over food to cultural activities, charity initiatives and family occasions. Male and female football teams also represent the Bank in the local and international Banca Cup.

The strides the Bank has made in building a strong team are the result of a belief in open communication between management and employees at all levels. It is on the strength of honest and transparent discussion and the willingness to take into consideration different views and perceptions, that the Bank can boast a positive organisational culture.

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.

Approved by the Board of Directors and signed on its behalf on 25th June 2020 by:

MICHAEL COLLIS
Chief Executive Officer

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:

• BNF Bank p.l.c.'s financial statements give a true and fair view of the Bank's financial position as at 31 December 2019, 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 51 to 209, comprise:

- the statement of financial position as at 31 December 2019;
- 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 a summary of significant accounting policies.

Basis for opinion

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

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

Independence

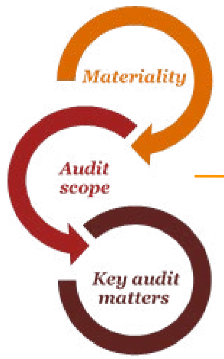
We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the 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 2019 to 31 December 2019, are disclosed in Note 30 to the financial statements.

Our audit approach

Overview



Overall materiality: €269,000, which represents 5% of profit before tax

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 company, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	€269,000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of quantitative materiality threshold that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €27,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the bank Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. In the previous financial year, the Bank transitioned to IFRS 9, which is a new and complex accounting standard triggering a conceptual shift in the measurement of impairment allowances based on an expected loss model rather than an incurred loss model. A considerable level of judgement is required in the development of the models designed to measure ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. 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 ECL 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. iii. Exposure at default ("EAD"): the expected exposure in the event of a default (including any expected drawdowns of committed facilities). 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 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 ECL is the maximum contractual period over which the bank is exposed to credit risk.	Subsequent to the first year of adoption of IFRS 9, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, updates to key parameters, new assumptions and enhancements 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 ECL, in particular changes to risk factors and other inputs within the bank's models; • the application of forward-looking economic scenarios, including the severity and magnitude of modelled downside scenarios; and • individually significant loan impairments. 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 of forward-looking economic scenarios, including the severity and magnitude of modelled downside scenarios, as referred to previously. 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 whether historic experience was representative of current circumstances and of the recent losses incurred 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. 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.

Key audit matter	How our audit addressed the Key audit matter
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. 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. 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. There is limited experience available to back-test the ECL income statement charge with actual results. The credit environment has remained relatively benign for an extended period of time,	• 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). • Testing the completeness and accuracy of the critical data utilised within the models for the year-end ECL calculation. • 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 to derive PD calculations. • 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. • Recalculating PDs, LGDs and EADs on a sample basis. • Reviewing the multiple macro-economic variables and scenarios using our experts to assess their reasonableness. We assessed the base case and alternative economic scenarios, including challenging probability weights. Our assessment considered whether forecasted macroeconomic variables were appropriate and also the correlation and impact of the macroeconomic factors on the ECLs. Based on the evidence obtained, we found the model assumptions, data used within the models and the model calculations to be reasonable. For defaulted exposures, the appropriateness of the methodology and policy used to calculate ECLs was independently assessed.
in part due to low interest rates and relative strength of the local economy. However, whilst the current levels of delinquencies and defaults remains low, the risk of impairment remains significant. 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. 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 judgements and estimates: Note 4.2; – Note on Credit impairment losses: Note 31; and – Note on Loans and advances to customers: Note 9.	• We understood and evaluated the processes for identifying default events within loan portfolios, as well as the impairment assessment processes. • In respect of defaulted exposures the design and operating effectiveness of key controls management has established, in respect of the determination of which loans and advances are credit-impaired, were tested. We are 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 for determining whether a default event had occurred by testing a sample of loans with characteristics that might imply a default event had occurred to challenge whether default events had actually occurred. • Selected a sample of performing loans, which had not been identified by management as potentially defaulted, to form our own judgement as to whether that was appropriate and to further challenge whether all relevant events had been identified by management. Substantive procedures were performed on defaulted exposures 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. • Challenged the severity of the different scenarios applied within the ECL calculation for the exposures in the sample, together with their respective probability weights by forming an independent view on the recoverability of the selected loans under the different scenarios. • Tested key inputs and assumptions within the ECL calculation for the sample, including the expected future cash flows and valuation of collateral held, and reperformed the calculations within

Key audit matter	How our audit addressed the Key audit matter
	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 appropriateness of valuations and estimates utilised. In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.

Other information

The directors are responsible for the other information. The other information comprises the General information, the Directors' report, the Statement of Compliance with the Principles of Good Corporate Governance, the Additional Regulatory Disclosures, the Five Year Summary and the Supplementary Financial Information (but does not include the financial statements and our auditor's report theron).

Our opinion on the financial statements does not cover the other information, including the Directors' Report.

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.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, 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).

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' Report and other information, that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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• 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 company's trade, customers and suppliers, 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, related safeguards.

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Maltese Banking Act (Cap. 371)

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

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• 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 the responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, 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 this responsibility.

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 6 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

FAxisa

Fabio Axisa
Partner
25 June 2020

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	NOTES	2019	2018
		€000	€000
Assets			
Balances with Central Bank of Malta and cash	6	39,718	99,853
Cheques in course of collection		2,910	677
Financial investments	7	77,637	68,263
Loans and advances to banks	8	60,319	57,516
Loans and advances to customers	9	627,607	520,745
Property and equipment	10	6,044	5,995
Intangible assets	11	1,023	1,044
Right-of-use assets	12	2,626	-
Derivative assets	13	-	122
Derivative tax assets	14	4,958	5,046
Prepayments and accrued income	15	2,338	2,583
Other assets	16	6,400	5,628
Total Assets		831,580	767,472
EQUITY			
Share capital	17	74,544	67,044
Perpetual capital notes	18	10,000	7,500
Revaluation reserve	19	661	(533)
Reserve for general banking risks	19	992	992
Retained earnings	19	3,189	1,460
Total Equity		89,386	76,463

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	NOTES	2019	2018
		€000	€000
Liabilities			
Amounts owed to banks	20	203	90
Amounts owed to customers	21	722,920	677,272
Current tax liabilities		2,379	1,538
Other liabilities	22	12,117	8,688
Accruals and deferred income	23	4,575	3,421
TOTAL LIABILITIES		742,194	691,009
TOTAL EQUITY AND LIABILITIES		831,580	767,472
Memorandum items			
Contingent liabilities	24	9,980	11,199
Commitments	24	161,778	158,607

The accounting policies and explanatory notes on pages 63 to 209 form an integral part of the financial statements. The financial statements on pages 51 to 209 were approved and authorised for issue by the Board of Directors and signed on its behalf on 25 June 2020 by:

Michael A Collis

Michael Collis
Chief Executive Officer

MFrendo

Michael Frendo
Chairman

INCOME STATEMENT For the year ended 31 December 2019	NOTES	2019	2018
		€000	€000
Interest receivable and similar income			
- on loans and advances, balances with Central Bank of Malta and other instruments	25	23,075	19,077
- on debt and other fixed income instruments	25	312	100
Interest payable and similar expense	26	(4,939)	(3,644)
Net interest income		18,448	15,533
Fees and commission income	27	4,065	3,629
Fees and commission expense	27	(1,586)	(912)
Net fees and commission income		2,479	2,717
Net trading income	28	790	744
Gain on disposal of investments measured at FVOCI		744	60
Other income		274	24
Net operating income		22,735	19,078
Employee compensation and benefits	29	(7,854)	(7,364)
Other administrative expenses	30	(6,609)	(5,788)
Depreciation of property and equipment and right-of-use assets	10,12	(821)	(447)
Amoritisation of intangible assets	11	(321)	(348)
Credit impairment losses	31	(1,749)	(1,572)
Profit before tax		5,381	3,559
Income tax expense	32	(2,039)	(1,289)
Profit for the year		3,342	2,270
Earnings per share	33	3c5	2c9

The accounting policies and explanatory notes on pages 37 to 133 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2019	2019	2018
	€000	€000
Profit for the year	3,342	2,270
Other comprehensive income Items that may be subsequently reclassified to profit or loss		
Investments measured at FVOCI:		
- Net gains / (losses) in fair value, before tax	2,476	(538)
- Net gains on financial assets reclassified to profit and loss on disposal, before tax	(744)	(46)
- Net gains / (losses) attributable to change in credit risk, before tax	88	(92)
Income taxes	(626)	236
Other comprehensive income for the year, net of tax	1,194	(440)
Total comprehensive income for the year, net of tax	4,536	1,830

The accounting policies and explanatory notes on pages 63 to 209 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2019	NOTES	SHARE CAPITAL	PERPETUAL CAPITAL NOTES	REVALUATION RESERVE	RESERVE FOR GENERAL BANKING RISKS	RETAINED EARNINGS	TOTAL
		€000	€000	€000	€000	€000	€000
At 1 January 2018		39,544	5,000	(93)	992	(303)	45,140
Comprehensive income							
Profit for the year		-	-	-	-	2,270	2,270
Other comprehensive income							
Fair valuation of financial assets measured at FVOCI:							
Financial assets							
- net movement in fair value arising during the year	7	-	-	(350)	-	-	(350)
- reclassifications - net amounts reclassified to profit or loss		-	-	(30)	-	-	(30)
- net loss attributable to change in credit risk	7	-	-	(60)	-	-	(60)
Total other comprehensive income for the year		-	-	(440)			(440)
Total comprehensive income for the year		-	-	(440)	-	2,270	1,830
Transactions with owners							
Contributions by owners:							
- Issue of share capital	17	27,500	-	-	-	-	27,500
- Issue of perpetual capital notes	18	-	2,500	-	-	-	2,500
Distributions to owners:							
- Interest on perpetual capital notes		-	-	-	-	(507)	(507)
Total transactions with owners		27,500	2,500	-	-	(507)	29,493

(continued on the next page)

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2019	NOTES	SHARE CAPITAL	PERPETUAL CAPITAL NOTES	REVALUATION RESERVE	RESERVE FOR GENERAL BANKING RISKS	RETAINED EARNINGS	TOTAL
		€000	€000	€000	€000	€000	€000
At 1 January 2019		67,044	7,500	(533)	992	1,460	76,463
At 31 December 2018		67,044	7,500	(533)	992	1,460	76,463
Comprehensive income							
Profit for the year		-	-	-	-	3,342	3,342
Other comprehensive income							
Fair valuation of financial assets measured at FVOCI:							
- net movement in fair value airising during the year	7	-	-	1,609	-	-	1,609
- reclassifications - net amounts reclassified to profit or loss		-	-	(472)	-	-	(472)
- net gain attributable to change in credit risk	7	-	-	57	-	-	57
Total other comprehensive income for the year		-	-	1,194	-	-	1,194
Total comprehensive income		-	-	1,194	-	3,342	4,536
Transactions with owners							
Contributions by owners:							
- Issue of share capital	17	7,500	-	-	-	-	7,500
- Issue of perpetual capital notes	18	-	2,500	-	-	-	2,500
Distributions to owners:							
- Interest on perpetual capital notes		-	-	-	-	(863)	(863)
- Dividends paid		-	-	-	-	(750)	(750)
Total transactions with owners		7,500	2,500	-	-	(1,613)	8,387
At 31 December 2019		74,544	10,000	661	992	3,189	89,386

The accounting policies and explanatory notes on pages 63 to 209 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	NOTES	2019	2018
		€000	€000
Cash flows from operating activities			
Interest, fees and commission received		27,060	22,374
Interest, fees and commission paid		(5,729)	(5,365)
Net return from investment and trading activities		1,187	652
Payments to employees and suppliers		(14,356)	(12,245)
Net interest on financial assets		507	2,108
Cash flows from operating profit before changes in operating assets and liabilities		8,669	7,524
Increase/(decrease) in operating assets:			
- Balances with Central Bank of Malta		(640)	(1,260)
- Loans and advances to customers		(109,095)	(140,974)
- Other assets		(2,383)	1,187
Increase in operating liabilities:			
- Amounts owed to customers		45,648	163,421
- Other liabilities		738	3,869
Net cash flows (used in)/generated from operating activities before tax		(57,063)	33,767
Income Tax paid		(1,735)	(111)
Net cash flows (used in)/generated from operating activities		(58,798)	33,656

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	NOTES	2019	2018
		€000	€000
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(788)	(481)
Purchase of investments measured at FVOCI	7	(59,988)	(20,130)
Proceeds from disposal and redemption of investments measured at FVOCI		53,089	17,141
Net cash flows used in investing activities		(7,687)	(3,470)
Cash flows from financing activities			
Issue of perpetual capital notes	18	2,500	2,500
Issue of share capital	17	7,500	27,500
Interest on perpetual capital notes		(863)	(507)
Dividends paid		(750)	-
Net cash flows generated from financing activities		8,387	29,493
Net (decrease)/increase in cash and cash equivalents		(58,098)	59,679
Cash and cash equivalents at beginning of year		152,610	92,931
Cash and cash equivalents at end of year	34	94,512	152,610

The accounting policies and explanatory notes on pages 63 to 209 form an integral part of the financial statement.

Notes to Financial Statements

Notes to Financial Statements

For the year ended 31 December 2019

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 as a standalone financial services institution – as from December 2015 – 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 2019

In 2019, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2019.

The Bank has adopted the requirements of IFRS 16 'Leases' from 1 January 2019. The accounting policy and transition implications are described in Note 2.25.

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

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2019 have been published by the date of authorisation for issue of this financial information. The Bank's directors are of the opinion that there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

2.4. Segment Reporting

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

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

2.5. Foreign currency translation

2.5.1 Functional and presentation currency

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

2.5.2 Transactions and balances

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

2.6. Financial assets

2.6.1 Initial recognition and measurement

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

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. At initial recognition, an expected credit loss allowance (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 (FVPL);
- 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 3.2.4. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at 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 'Gain on disposal of investments measured 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 fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the Income Statement within 'Net trading income' 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 3.2.4.2) 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 FVPL. 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 FVPL 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 fair value through profit or loss.

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 fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. 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 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 FVPL are included in the 'Net trading income' line 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 with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for expected credit losses at each reporting date. The measurement of ECL reflects:

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

Note 3.2.4 provides more detail of how the expected credit loss allowance is measured.

Expected credit loss 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 because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented within other 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 3.2.9.

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 fair value is positive and as liabilities when fair value is negative. Fair values for currency forwards and swaps are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

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

2.8. Offsetting financial instruments

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

2.9. Property and equipment

All property and equipment used by the Bank is 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 is reviewed at each financial period end.

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

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

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 which qualify as Additional Tier 1 capital instruments are undated and subordinated obligations on which coupon payments may be cancellable at the Bank's discretion and are accounted for as 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, amounts owed to customers, debt securities in issue together with other liabilities.

2.16.3 Derecognition

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

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

2.17. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest, as a liability, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of 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 legislation 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 3.2.4.2) at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

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

2.22. Fees and commissions

Fees and commissions income and expense 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 'dividend income' when the entity's right to receive payment is established.

2.24. Net trading income

The line item includes fair value changes, interest, dividends and foreign exchange differences attributable to financial instruments measured at FVPL. Net income from derivatives (such as cross-currency swaps and forward exchange contracts) is included within this line item.

2.25. Leases

The Bank initially applied IFRS 16 Leases from 1 January 2019 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 were not restated, as permitted under the specific transitional provisions in the standard – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

Applicable until 31 December 2018, under International Accounting Standard ('IAS') 17 'Leases', leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

As from 1 January 2019, under IFRS 16, the Bank recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any 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.

The 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.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are classified as leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed under IFRS 16. Therefore, the definition of leases under IFRS 16 was applied only to contracts entered into or amended on or after 1 January 2019. Other practical expedients applied include the following:

- The Bank did not recognise right-of-use assets and liabilities for leases of low value assets; and
- The Bank excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

There were no differences recognised in retained earnings on the date of initial application as the Bank adopted the approach whereby the right-of-use assets are initially measured equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.94%.

The following table represents the initial recognition of right-of-use assets and lease liabilities:

	PREMISES	MOTOR VEHICLES	TOTAL
	€000	€000	€000
Right-of-use assets at 1 January 2019	2,557	174	**2,731**
Lease liabilities at 1 January 2019	2,550	169	**2,719**

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication of such impairment.

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 3.2.4); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

'Loan commitments' are the Bank's commitments to provide credit under pre-specified terms and conditions, and are measured as the amount of the loss allowance (calculated as described in note 3.2.4).

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

3.1.1 Preamble

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank is exposed to a number of risks, which it manages at different organisational levels. The main categories of risk are:

- **Credit risk:** Credit risk stems from the possible untimely or non-repayment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit. It is the risk that deterioration in the financial condition of a borrower would cause the asset value to decrease or be extinguished. 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 from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.
- **Market risk:** The risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- **Liquidity risk:** 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 fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- **Operational risk:** Risk of damage resulting from the lack of skilful management or good governance and the inadequacy of control, which might involve internal operations, personnel, systems or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best risk practices. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank considers risk management a top priority. It aims to manage all major types of risk by applying methods that meet best practice, and considers it important to have a clear distribution of responsibilities within the area of risk management. One of the main tasks of the Bank's Board is to set the framework for this area. An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy and thus in its ambition to be a strong financial entity. The Bank's internal risk management processes support this objective.

Risk management within the Bank is mainly carried out on a unified basis, using an integrated and entity-wide framework. This framework is based on local and international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices.

3.1.2 Organisation

The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Bank objectives. The Board of Directors assumes responsibility for ensuring that significant business risks are identified and appropriately managed.

The Board is responsible for setting out the overall risk policies and limits for all material risk types of the Bank. It provides written principles for overall risk management and approves policies covering specific areas.

The Board is also responsible for calibrating the Bank's risk appetite. The risk appetite represents the level of risk that the Bank is prepared to accept while pursuing its business strategy, recognising a range of possible outcomes as business plans are implemented. Thus, risk appetite sets the 'tone from the top' and provides a basis for ongoing dialogue between the Bank's management and Board with respect to the Bank's current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis. In deciding the level of risk the Bank is willing to accept, the Bank takes into consideration the following:

- **Risk Culture:** risk management principles which should be followed in line with internal governance responsibilities and processes;
- **Risk Appetite and Tolerance:** the risk profile and the risk level the Bank will be considering as acceptable;
- **Risk Methodology**: risk taxonomy for the Bank, as well as quantitative and qualitative approaches used for each risk; and
- **Capital Planning:** capital requirements with respect to the level of risk the Bank has considered as acceptable.

The Bank allocates considerable resources to ensure the ongoing compliance with approved limits and to monitor its asset portfolio. In particular, the Bank has a fixed reporting cycle to ensure that the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed on an ongoing basis of developments in the asset portfolio, comprising such matters as non-performing loans and other relevant information.

The Bank's Board of Directors is also responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems. These internal control systems ensure that decision-making capability and the accuracy of the reporting and financial results are maintained at a high level at all times.

In deciding how best to discharge its responsibilities, the Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination, and delegated authority and vested accountability for the Bank's day-to-day business and operations in the Executive Committee, which is made up of the Chief Executive Officer and the other Chief Officers, in order to ensure effective communication between the Board and the Executive Committee. The Board has also delegated its responsibilities of reviewing processes and procedures on the effectiveness of the Bank's system of internal control to the Audit Committee, the Risk Committee, the Compensation and Nomination Committee, and the Credit Approval Committee. The Risk Committee also monitors the implementation of the Board's risk strategy by management.

The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board is responsible for the Bank's overall risk appetite, risk tolerance and risk management framework, taking into consideration current and prospective macroeconomic and financial environment, and drawing on financial stability assessments such as those published by local regulatory authorities or other authoritative sources that may be relevant for the Bank's risk policies.

3.2. Credit risk

3.2.1 Introduction to credit risk

Credit risk is the risk of suffering financial loss should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk mainly arises from 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 other credit risks arising from amounts due from banks, investments in debt securities and derivatives as well as settlement balances with market counterparties.

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

i. **Credit Analysis Unit:** 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

ii. **Risk Control & Oversight Unit:** responsible for Credit, concentration, and correlation risk control and oversight activities without any active participation in credit decisions to maintain a detached approach. The function is also responsible for the maintenance of credit policies, risk models, metrics, tools, and reporting on adherence or otherwise to Bank's Risk Appetite Framework on credit and other risks.

The above mentioned functions, report to the Chief Risk Officer (CRO) who also forms part of the Bank's Executive Committee. In terms of the organizational macrostructure, the CRO also has a duty to report inter-alia to the Risk Committee. The CRO also reports to the Audit Committee on risk areas that have an impact on financial reporting.

Credit decisions are taken consensually within credit committees where, at each discretionary level, the risk function is represented. Furthermore, the Board of Directors also delegated oversight functions related to credit risk to a number of Board committees, such as the Credit Approval Committee, the Audit Committee and the Risk Committee.

3.2.2 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 physical credit committee levels; ranging from the lowest level, which includes authorisation by a Branch/ Senior Manager and an Analyst / Manager from the Credit Analysis Unit 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 and 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 based on the existence of collateral but on the customer's perceived ability to repay the exposure from the primary repayment source.

At the same time, the existence of security acts as a fall back option available in case of need. The Bank makes sure that the security held is perfected. Facilities are generally adequately secured either by cash, financial assets, property and/or guarantees. The Bank maintains the necessary procedures to ensure the perfection of security. Facilities are generally reviewed periodically. In a facility review, the Bank makes an analysis of a number of factors such as: the customer profile, the credit quality, non-financial considerations, adherence to internal policies and procedures and the present and future profitability of the relationship.

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 has in place, three credit policies relating to personal credit, business credit and credit risk mitigation, which enhance its sound internal control mechanism.

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 still technically performing but exhibit early signs of deterioration (i.e. past due below 90 days 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 results in prompt revision of individual risk rating, more up-to-date expected loss quantification (provisioning process) and further instigates early corrective action (before the financial assets transit to Doubtful status).

3.2.3 Credit risk measurement

The measurement of credit exposure for risk management purposes considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring expected credit loss under IFRS 9. Refer to note 3.2.4 for more details.

a. Loans and advances to customers

The Bank uses internal credit risk gradings (note 3.2.8) to reflect its assessment of the probability of default of individual counterparties. Internal credit risk gradings are based on payment behaviour, loan specific information and expert judgement.

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 the risk of default increases exponentially at each higher risk grade.

Corporate

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

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

Retail

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

b. Other financial assets

Other financial assets include Balances with the Central Bank of Malta, investments and loans and advances to banks. The Bank uses external risk grades to reflect its assessment of the probability of default of individual counterparties. These published grades are continuously monitored and updated. The PDs 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 'investment-grade' and 'non-investment grade' exposures.

3.2.4 Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank;
- 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 3.2.4.1 for a description of how the Bank determines when a significant increase in credit risk has occurred;.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Refer to note 3.2.4.2 for a description of how the Bank defines credit-impaired and default;.
- Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Refer to note 3.2.4.3 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 it should consider forward looking information. Note 3.2.4.4 includes an explanation of how the Bank has incorporated this in its ECL models;.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on 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 (Note 3.2.4.5).

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

3.2.4.1 Significant increase in credit risk (SICR)

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

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

i. the exposure is considered forborne;

ii. the credit quality of any other exposure(s) of the same customer is/are 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 3.2.8.

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, 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.
- External data from credit reference agencies including industry-standard credit scores.

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 (Note 3.2.4.4) 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 Unit.

As a backstop, and as required by IFRS 9, the Bank presumptively considers that a SICR occurs 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.

3.2.4.2 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. As a result, the definition of default is important.

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 defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the criteria below.

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.

If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure exceeds 90 days past due.

Therefore, the definitions of credit-impaired and default are aligned so that stage 3 represents all loans which are considered defaulted or credit-impaired.

In assessing whether a borrower is in default, the Bank will consider 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 has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Bank's expected loss calculations.

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

3.2.4.3 Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is 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. Expected credit losses are the discounted product of the PD, EAD and LGD.

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

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 (12M PD), or over the remaining lifetime (Lifetime PD) 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 the 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 internally-compiled data comprising both quantitative and qualitative factors. With respect to the retail portfolio (including mortgages, credit cards and other consumer credit facilities), 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 corporate portfolio (as defined in note 3.2.4.5), the PD calculation is based on a transition matrix approach. The main assumptions underlying such approach is that the PD does not depend on 'months on book' and that the future PD depends only on current characteristics of the exposure or borrower. Default is considered to be an absorbing state, whereby if an exposure is defaulted, it remains in this state during all next years. 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, then this will lead to a change in the associated 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 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 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 given the event of default, taking 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 made post default.

For secured products, this 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 will be derived from the adjusted loan-to value ratio of the individual facilities, and takes into account the expected recovery by applying the haircuts for the cost to sell the property together with the sales ratio and the sales ratio volatility, and by discounting (using the effective interest rate or an approximation thereof) the updated market value of the property after haircuts, over a period of time equivalent to the projected time to sell. The sales ratio resembles a market value haircut while the sales ratio volatility captures the standard deviation of the sales ratio. The LGD for other exposures will be based on the Bank's projected risk on the collateral. For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collective strategies.

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 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. In cases of revolving credit facilities that are considered 'High-grade' in line with the Bank's internal credit policies and procedures, the lifetime of such assets may be longer than 12 months. For the credit cards portfolio, the Bank considers a lifetime of 36 months.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. Refer to note 3.2.4.4 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.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

3.2.4.4 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 the Gross Public Debt (GDP), the Gross Fixed Capital Formation (GFCF) and the Real Estate Price Index (REPI) for the corporate portfolio; the domestic demand, the inflation rate and the REPI for the retail portfolio.

The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that changes in these variables have had historically on 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 will consider two other macro-economic scenarios – 'Upside' and 'Downside' scenarios – which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The more optimistic and more pessimistic scenarios are economically plausible and will not necessarily be 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 with any macro-economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of uncertainty and therefore, the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes after analysing different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 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 2019

	2020	2021	2022
Gross public debt (% of GDP)			
– 'Baseline'	39.93%	34.79%	30.30%
– Range of forecasts for alternative scenarios	[37.0 – 50.8]%	[31.4 - 55.3]%	[26.6 - 59.3]%
Gross Fixed Capital Formation (GFCF) (YoY)*			
– 'Baseline'	6.95%	4.05%	3.50%
– Range of forecasts for alternative scenarios	[-7.1 - 8.0]%	[-6.3 – 4.6]%	[-4.0 - 4.0]%
Inflation rate			
– 'Baseline'	1.56%	1.73%	1.85%
– Range of forecasts for alternative scenarios	[1.1 - 2.1]%	[0.4 - 2.4]%	[-0.1 - 2.5]%
Domestic demand (YoY)*			
– 'Baseline'	4.68%	3.39%	3.05%
– Range of forecasts for alternative scenarios	[2.9 - 5.8]%	[2.1 - 4.2]%	[2.1 - 3.8]%
Real Estate Price Index (REPI) (YoY)*			
– 'Baseline'	1.54%	1.63%	1.75%
– Range of forecasts for alternative scenarios	[-0.3 - 4.3]%	[-0.7 - 4.9]%	[-0.9 – 5.3]%

**YOY = Year on Year*

	AS AT 31 DECEMBER 2018		
	2019	2020	2021
Real Gross Domestic Product (GDP) (YoY)*			
– 'Baseline'	5.10%	4.60%	4.10%
– Range of forecasts for alternative scenarios	[2.5 - 6.4]%	[0 - 5.7]%	[-2.0 - 5.1]%
Gross Fixed Capital Formation (GFCF)			
– 'Baseline'	7.90%	12.50%	10.10%
– Range of forecasts for alternative scenarios	[-3.0 - 8.9]%	[5.3 - 14.1]%	[2.9 - 11.4]%
Unemployment rate			
– 'Baseline'	4.30%	4.30%	4.30%
– Range of forecasts for alternative scenarios	[4.0 - 5.7]%	[3.6 - 6.4]%	[3.3 - 7.0]%
Average gross salary (YoY)*			
– 'Baseline'	3.60%	0.40%	-0.80%
– Range of forecasts for alternative scenarios	[2.4 - 5.5]%	[-0.9 - 2.6]%	[-2.2 - 1.4]%
Real Estate Price Index (REPI)			
– 'Baseline'	1.40%	2.60%	2.70%
– Range of forecasts for alternative scenarios	[-1.3 - 5.0]%	[-0.7 - 6.6]%	[-0.6 - 6.7]%

**YOY = Year on Year*

The weightings assigned to each economic scenario were 60% for the 'Baseline' scenario, 30% for the 'Downside' scenario and 10% 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.

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 is reviewed and monitored for appropriateness on an ongoing basis.

As confirmed by the model selection criteria, the most significant assumptions affecting the ECL allowance during 2019 were:

i. **Corporate exposures:** the gross public debt and the GFCF, given the significant impact they have on local investment and the performance of corporate entities;

ii. **Retail exposures:** the domestic demand and inflation rate, being good indicators of household-level spending and considering their performance has a significant impact on repayment feasibility of secured and unsecured retail borrowers.

3.2.4.5 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 loans and advances to business entities;
- Retail portfolio, which includes loans and advances to individual customers such as mortgages, credit cards and other consumer credit.

3.2.5 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 equals their gross carrying amounts.
- 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.
- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner in respect of loans and advances.

The Bank's credit risk exposures 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:

	2019		2018	
	GROSS EXPOSURE	ECL ALLOWANCE	GROSS EXPOSURE	ECL ALLOWANCE
	€000	€000	€000	€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	35,930	(29)	95,996	(23)
Cheques in course of collection	2,910	-	677	-
Loans and advances to banks	60,335	(16)	57,552	(36)
Loans and advances to customers				
- Corporate	272,436	(9,340)	226,861	(8,952)
- Retail	368,059	(3,548)	305,333	(2,497)
Accrued income	1,581	-	1,696	-
Financial investments measured at FVOCI	77,637	(235)	68,263	(147)
Not subject to IFRS 9 impairment allowance				
Derivative financial instruments held-for-trading	-	-	122	-
Credit risk exposure	**818,888**	**(13,168)**	**756,500**	**(11,655)**

	2019		2018	
	GROSS EXPOSURE	ECL ALLOWANCE	GROSS EXPOSURE	ECL ALLOWANCE
	€000	€000	€000	€000
Credit risk exposure relating to off-balance sheet instruments:				
Contingent liabilities	9,980	(231)	11,199	(322)
Undrawn commitments to lend:				
- Corporate	84,256	(185)	90,447	(79)
- Retail	77,423	(64)	68,023	(15)
	161,679	(249)	158,470	(94)
Credit risk exposure	**171,659**	**(480)**	169,669	(416)

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.

3.2.6 Credit concentration risk

Within the Bank, concentration risk of losses results from inadequate diversification of the credit exposures. This risk is managed by actively measuring, reporting and monitoring on a regular and ongoing basis risk concentration levels against reasonable thresholds for industry sectors, counterparties, products, and collateral types.

Credit concentration risk by industry sector

The Bank's financial investments measured at FVOCI (gross of credit loss allowance) are composed of local and foreign government debt securities, and other debt instruments as shown in the following table:

	2019	2018
	€000	€000
Governments	30,829	29,408
Corporate		
- Financial services	46,467	38,514
	77,296	67,922

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

	2019	2018
	€000	€000
Manufacturing	9,561	15,996
Financial services	39,699	31,834
Households and individuals	390,913	326,403
Construction	46,396	31,773
Wholesale and retail	38,324	40,341
Other sectors	115,602	85,847
Gross loans and advances to customers	640,495	532,194

Credit concentration risk for counterparties

As at 31 December 2019, 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. A limited number of customers amount to over 10% of the Bank's regulatory own funds, which customers are monitored and reported more frequently and rigorously.

Within its daily operations, the Bank also transacts with counterparty banks and other financial institutions. By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment of existing and future obligations by counterparty banks. To mitigate this risk, the Bank places short-term funds solely with pre-approved counterparties subject to pre-established limits determined on the basis of the respective institution's credit rating. The positions are checked against the limits on a daily basis and in real time.

Credit concentration risk by geographical region

The Bank also monitors credit concentration risk by geographical region. The majority of the Bank's exposures are in Malta in view of the Bank's operations being conducted in Malta. Moreover, the Bank also holds balances with correspondent banks in foreign jurisdictions and investments in debt securities issued by foreign entities, as shown in the following tables. The table below representative of financial investments measured at FVOCI exclude equity investments of €341,000.

	2019	2018
	€000	€000
Financial investments measured at FVOCI		
Malta	20,944	23,944
France	5,029	-
Germany	9,692	-
Japan	-	5,343
Netherlands	3,043	-
Portugal	5,155	5,464
United Kingdom	25,400	22,935
United States	8,033	10,236
	77,296	67,922

	2019	2018
	€000	€000
Loans and advances to banks		
Malta	6	16
Belgium	8,778	16,469
France	10,000	-
United Kingdom	41,130	31,949
United States	421	9,118
Gross loans and advances to banks	60,335	57,552

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

During 2019, the Bank held debt securities and similar instruments issued by sovereign and non-sovereign counterparties having a strong financial background. 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 stock 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 about 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 3.2.4.

				2019
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Balances with Central Bank of Malta at amortised cost:				
Gross carrying amount	35,930	-	-	35,930
Loss allowance	(29)	-	-	(29)
Carrying amount	**35,901**	-	-	**35,901**

The credit rating of Malta was classified as investment grade by external rating agencies as at 31 December 2019 and 2018.

				2018
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Balances with Central Bank of Malta at amortised cost:				
Gross carrying amount	95,996	-	-	95,996
Loss allowance	(23)	-	-	(23)
Carrying amount	95,973	-	-	95,973

				2019
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at FVOCI				
Aaa to Aa3	15,375	-	-	15,375
A1 to A3	44,073	-	-	44,073
Baa1 to Baa3	18,189	-	-	18,189
Carrying amount – fair value	77,637	-	-	77,637
Loss allowance	(235)	-	-	(235)

2018

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at FVOCI				
Aaa to Aa3	5,050	-	-	5,050
A1 to A3	57,749	-	-	57,749
Baa1 to Baa3	5,464	-	-	5,464
Carrying amount – fair value	68,263	-	-	68,263
Loss allowance	(147)	-	-	(147)

2019

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to banks at amortised cost				
Aaa to Aa3	38,855	-	-	38,885
A1 to A3	21,474	-	-	21,474
Unrated	6	-	-	6
Gross Carrying amount	60,335	-	-	60,335
Loss allowance	(16)	-	-	(16)
Carrying amount	**60,319**			**60,319**

2018

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to banks at amortised cost				
Aaa to Aa3	50,116	-	-	50,116
A1 to A3	7,420	-	-	7,420
Baa1 to Baa3	11	-	-	11
Unrated	5	-	-	5
Gross Carrying amount	57,552	-	-	57,552
Loss allowance	(36)	-	-	(36)
Carrying amount	57,516	-	-	57,516

As at 31 December 2019, there were no purchased credit-impaired assets.

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.

3.2.8 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 each and every lending relationship on its banking book.

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 rating of every lending relationship (including groups of connected customers) is an important tool that helps management to identify both non-performing exposures and the better-performing borrowing customers.

The Bank's IRS is split as follows:

Performing

- High Grade (Internal rating of A1 to A3)

A customer having an internal risk rating between A1 to A3 generally would not have any interest and/or capital payments overdue by more than 30 days. Also, no recent history of default would exist. Moreover, the Bank does not foresee any losses or non-performance of these customers.

- Standard (Internal rating of A4 and B)

The Bank assigns an internal risk rating of A4 to corporate customers with either overdraft facilities experiencing hardcore elements, or with a high loan-to-value, and/or who also show signs of unlikeliness to pay. A4 customers deem to exhibit higher risk than other corporate customers within the High-Grade Category.

Loans and advances having an internal risk rating of B relate to those customers to whom the Bank starts to pay more attention, generally having interest and/or capital payments past due by more than 30 days but less than 60 days.

- 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. In this light, such loans and advances would have inherent weaknesses that could put at risk the repayment of the debt, and thus give rise to a greater probability of losses for the Bank.

Non-Performing

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

Loans and advances within this category relate to those facilities in respect of which the Bank considers the repayment of the principal as improbable as a result of deteriorating conditions. These loans and advances are generally past due by more than 90 days and comprise those exposures which are deemed by the Bank as defaulted or credit impaired (see definition in note 3.2.4.2).

Hence, credit impaired loans and advances are advances which the Bank has determined as probable that in their respect it will be unable to collect all principal and interest due according to the contractual terms of the loans and advances agreement(s). 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 3.2.4.

	STAGE 1 12-MONTH ECL €000	STAGE 2 LIFETIME ECL €000	STAGE 3 LIFETIME ECL €000	2019 TOTAL €000
Loans and advances to customers at amortised cost				
Corporate				
High grade	213,670	925	-	214,595
Standard	-	31,736	-	31,736
Substandard	-	7,532	-	7,532
Doubtful	-	-	18,573	18,573
Gross carrying amount	**213,670**	**40,193**	**18,573**	**272,436**
Loss allowance	(917)	(1,515)	(6,908)	(9,340)
Carrying amount	**212,753**	**38,678**	**11,665**	**263,096**
Retail				
High grade	353,498	561	-	354,059
Standard	-	7,006	-	7,006
Substandard	-	792	-	792
Doubtful	-	-	6,202	6,202
Gross carrying amount	**353,498**	**8,359**	**6,202**	**368,059**
Loss allowance	(285)	(617)	(2,646)	(3,548)
Carrying amount	**353,213**	**7,742**	**3,556**	**364,511**
Total				
High grade	567,168	1,486	-	568,654
Standard	-	38,742	-	38,742
Substandard	-	8,324	-	8,324
Doubtful	-	-	24,775	24,775
Gross carrying amount	**567,168**	**48,552**	**24,775**	**640,495**
Loss allowance	(1,202)	(2,132)	(9,554)	(12,888)
Carrying amount	**565,966**	**46,420**	**15,221**	**627,607**

	STAGE 1 12-MONTH ECL €000	STAGE 2 LIFETIME ECL €000	STAGE 3 LIFETIME ECL €000	2018 TOTAL €000
Loans and advances to customers at amortised cost				
Corporate				
High grade	189,338	1,819	-	191,157
Standard	-	13,496	-	13,496
Substandard	-	117	-	117
Doubtful	-	-	22,091	22,091
Gross carrying amount	189,338	15,432	22,091	226,861
Loss allowance	(996)	(1,248)	(6,708)	(8,952)
Carrying amount	188,342	14,184	15,383	217,909
Retail				
High grade	295,622	659	-	296,281
Standard	-	2,653	-	2,653
Substandard	-	343	-	343
Doubtful	-	-	6,056	6,056
Gross carrying amount	295,622	3,655	6,056	305,333
Loss allowance	(289)	(169)	(2,039)	(2,497)
Carrying amount	295,333	3,486	4,017	302,836
Total				
High grade	484,960	2,478	-	487,438
Standard	-	16,149	-	16,149
Substandard	-	460	-	460
Doubtful	-	-	28,147	28,147
Gross carrying amount	484,960	19,087	28,147	532,194
Loss allowance	(1,285)	(1,417)	(8,747)	(11,449)
Carrying amount	**483,675**	**17,670**	**19,400**	**520,745**

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:

2019	STAGE 1 12-MONTH ECL €000	STAGE 2 LIFETIME ECL €000	STAGE 3 LIFETIME ECL €000	TOTAL €000
High grade	732,588	1,486	-	734,074
Standard	-	44,395	-	44,395
Substandard	-	8,581	-	8,581
Doubtful	-	-	25,104	25,104
Gross amount	**732,588**	**54,462**	**25,104**	**812,154**
Loss allowance	(1,329)	(2,411)	(9,628)	(13,368)
	731,259	**52,051**	**15,476**	**798,786**

2018	STAGE 1 12-MONTH ECL €000	STAGE 2 LIFETIME ECL €000	STAGE 3 LIFETIME ECL €000	TOTAL €000
High grade	651,442	2,481	-	653,923
Standard	-	18,725	-	18,725
Substandard	-	534	-	534
Doubtful	-	-	28,681	28,681
Gross amount	651,442	21,740	28,681	701,863
Loss allowance	(1,543)	(1,531)	(8,791)	(11,865)
	649,899	20,209	19,890	689,998

As at 31 December 2019, there are no purchased credit-impaired assets.

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

	2019	2018
	€000	€000
Manufacturing	**1,064**	1,767
Households and individuals	**7,923**	7,927
Construction	**1,773**	2,837
Wholesale and retail	**7,453**	7,559
Other	**6,562**	8,057
	24,775	**28,147**

The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio at 31 December 2019:

			2019
	NON-FORBORNE EXPOSURES €000	NON-FORBORNE EXPOSURES €000	TOTAL €000
Performing - Stage 1			
Loans which are not past due	562,125	-	562,125
Loans which are past due by less than 30 days	5,043	-	5,043
	567,168	-	567,168
Underperforming - Stage 2			
Loans which are not past due:			
- High grade	-	1,430	1,430
- Standard	35,797	1,396	37,193
- Substandard	6,968	55	7,023
	42,765	2,881	45,646
Loans which are past due by less than 90 days:			
- Past due by less than 30 days	2,561	65	2,626
- Past due by less than 60 days but not more than 30 days	269	-	269
- Past due by less than 90 days but not more than 60 days	1	10	11
	2,831	75	2,906
	45,596	2,956	48,552
Non-performing - Stage 3			
Past due loans by more than 90 days and credit-impaired loans	13,054	11,721	24,775
Gross loans and advances	**625,818**	**14,677**	**640,495**
12-month ECL	(1,202)	-	(1,202)
Lifetime ECL	(8,950)	(2,736)	(11,686)
Net loans and advances	**615,666**	**11,941**	**627,607**

Interest income recognised during the financial year ended 31 December 2019 in respect of forborne exposures amounted to €677,000 (2018: €851,000).

The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio at 31 December 2018:

			2018
	NON-FORBORNE EXPOSURES €000	NON-FORBORNE EXPOSURES €000	TOTAL €000
Performing - Stage 1			
Loans which are not past due	479,020	-	479,020
Loans which are past due by less than 30 days	5,940	-	5,940
	484,960	-	484,960
Underperforming - Stage 2			
Loans which are not past due:			
- High grade	-	2,445	2,445
- Standard	12,578	1,185	13,763
- Substandard	327	85	412
	12,905	3,715	16,620
Loans which are past due by less than 90 days:			
- Past due by less than 30 days	2,137	51	2,188
- Past due by less than 60 days but more than 30 days	237	-	237
- Past due by less than 90 days but more than 60 days	42	-	42
	2,416	51	2,467
	15,321	3,766	19,087
Non-performing - Stage 3			
Past due loans by more than 90 days and credit impaired loans	14,146	14,001	28,147
Gross loans and advances	**514,427**	**17,767**	**532,194**
12-month ECL	(1,285)	-	(1,285)
Lifetime ECL	(7,278)	(2,886)	(10,164)
Net loans and advances	**505,864**	**14,881**	**520,745**

3.2.9 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. Other types of concession, namely transfer to an interest-only arrangement or interest rate changes, occur less often.

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 2019.

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.

There were no material changes to the Bank's policies and procedures regarding forbearance or forborne loans in 2019.

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

	FORBORNE EXPOSURES	
	2019	2018
	€000	€000
At 1 January	17,767	19,653
Loans to which forbearance measures have been extended during the year	313	1,869
Repayments	(1,478)	(1,559)
Retired from forborne	(1,925)	(2,196)
At 31 December	14,677	17,767

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:

	2019	2018
	€000	€000
Manufacturing	1,089	1,258
Financial services	1,782	2,608
Households and individuals	3,052	3,495
Construction	1,646	2,271
Wholesale and retail	4,842	5,576
Other sectors	2,266	2,559
	14,677	17,767

As at 31 December 2019 and 2018 forborne loans comprise exposures to customers based in Malta.

3.2.10 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 significant change in the gross carrying amount of financial assets that contributed to changes in loss allowances was mainly due to growth in the loan book, which was aligned with the Bank's growth objectives.

	2019			
	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 2019	95,996	(23)	95,996	(23)
New financial assets originated or purchased	1,217	(1)	1,217	(1)
Changes in risk parameters (model inputs: PDs / LGDs / EADs)	(8,140)	(7)	(8,140)	(7)
Financial assets derecognised during the year	(53,143)	2	(53,143)	2
At 31 December 2019	**35,930**	**(29)**	**35,930**	**(29)**
Total net income statement charge of the year				**(6)**

	2018			
	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 2018	22,734	(25)	22,734	(25)
New financial assets originated or purchased	53,143	(2)	53,143	(2)
Changes in risk parameters (model inputs: PDs / LGDs / EADs)	20,119	4	20,119	4
At 31 December 2018	95,996	(23)	95,996	(23)
Total net income statement charge of the year				2

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

	2019			
	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 2019	68,263	(147)	68,263	(147)
New financial assets originated or purchased	31,126	(192)	31,126	(192)
Changes in risk parameters (model inputs: PDs / LGDs / EADs)	(2,147)	(2)	(2,147)	(2)
Financial assets derecognised during the year	(23,899)	106	(23,899)	106
At 31 December 2019	**77,637**	**(235)**	**77,637**	**(235)**
Total net income statement charge of the year				**(88)**

	2018			
	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 2018	67,663	(239)	67,663	(239)
New financial assets originated or purchased	17,887	(23)	17,887	(23)
Changes in risk parameters (model inputs: PDs / LGDs / EADs)	(24)	19	(24)	19
Financial assets derecognised during the year	(17,263)	96	(17,263)	96
At 31 December 2018	68,263	(147)	68,263	(147)
Total net income statement charge of the year				92

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

	2019			
	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 2019	57,552	(36)	57,552	(36)
New financial assets originated or purchased	56,659	(4)	56,659	(4)
Changes in risk parameters (model inputs: PDs / LGDs / EADs)	(15,916)	24	(15,916)	24
Financial assets derecognised during the year	(37,960)	-	(37,860)	
At 31 December 2019	**60,335**	**(16)**	**60,335**	**(16)**
Total net income statement charge of the year				**20**

	2018			
	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 2018	69,911	(29)	69,911	(29)
New financial assets originated or purchased	47,079	(1)	47,079	(1)
Changes in risk parameters (model inputs: PDs / LGDs / EADs)	(46,706)	(19)	(46,706)	(19)
Financial assets derecognised during the year	(12,732)	13	(12,732)	13
At 31 December 2018	**57,552**	**(36)**	**57,552**	**(36)**
Total net income statement charge of the year				**(7)**

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

	Stage 1		Stage 2		Stage 3		2019 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 2019	189,338	(996)	15,432	(1,248)	22,091	(6,708)	226,861	(8,952)
New and further lending	94,353	(330)	5,396	(172)	569	(146)	100,318	(648)
Repayments and disposals	(47,934)	325	(2,694)	631	(4,115)	1,196	(54,743)	2,152
Transfers of financial instruments:								
- Stage 1 to Stage 2	(23,349)	101	23,349	(101)	-	-	-	-
- Stage 2 to Stage 1	1,262	(244)	(1,262)	244	-	-	-	-
- Stage 2 to Stage 3	-	-	(28)	8	28	(8)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	227	-	(877)	-	(1,242)	-	(1,892)
At 31 December 2019	**213,670**	**(917)**	**40,193**	**(1,515)**	**18,573**	**(6,908)**	**272,436**	**(9,340)**
Total net income statement charge of the year								**(388)**

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

	Stage 1		Stage 2		Stage 3		Total 2019	
	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 2019	295,622	(289)	3,655	(169)	6,056	(2,039)	305,333	(2,497)
New and further lending	97,977	(125)	991	(160)	103	(101)	99,071	(386)
Repayments and disposals	(34,498)	118	(1,180)	68	(667)	200	(36,345)	386
Transfers of financial instruments:								
- Stage 1 to Stage 2	(5,620)	10	5,620	(10)	-	-	-	-
- Stage 1 to Stage 3	(725)	2	-	-	725	(2)	-	-
- Stage 2 to Stage 1	609	(40)	(609)	40	-	-	-	-
- Stage 2 to Stage 3	-	-	(133)	16	133	(16)	-	-
- Stage 3 to Stage 1	133	(22)	-	-	(133)	22	-	-
- Stage 3 to Stage 2	-	-	15	(8)	(15)	8	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	61	-	(394)	-	(718)	-	(1,051)
At 31 December 2019	**353,498**	**(285)**	**8,359**	**(617)**	**6,202**	**(2,646)**	**368,059**	**(3,548)**
Total net income statement charge of the year								**(1,051)**

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

	Stage 1		Stage 2		Stage 3		2019 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 2019	484,960	(1,285)	19,087	(1,417)	28,147	(8,747)	532,194	(11,449)
New and further lending	192,330	(455)	6,387	(332)	672	(247)	199,389	(1,034)
Repayments and disposals	(82,432)	443	(3,874)	699	(4,782)	1,396	(91,088)	2,538
Transfers of financial instruments								
- Stage 1 to Stage 2	(28,969)	111	28,969	(111)	-	-	-	-
- Stage 1 to Stage 3	(725)	2	-	-	725	(2)	-	-
- Stage 2 to Stage 1	1,871	(284)	(1,871)	284	-	-	-	-
- Stage 2 to Stage 3	-	-	(161)	24	161	(24)	-	-
- Stage 3 to Stage 1	133	(22)	-	-	(133)	22	-	-
- Stage 3 to Stage 2	-	-	15	(8)	(15)	8	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	288	-	(1,271)	-	(1,960)	-	(2,943)
At 31 December 2019	**567,168**	**(1,202)**	**48,552**	**(2,132)**	**24,775**	**(9,554)**	**640,495**	**(12,888)**
Total net income statement charge of the year								**(1,439)**

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

	Stage 1		Stage 2		Stage 3		Total 2019	
Total loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend	**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**
At 1 January 2019	651,442	(1,543)	21,740	(1,531)	28,681	(8,791)	701,863	(11,865)
New and further lending	283,397	(505)	7,012	(398)	697	(224)	291,106	(1,127)
Repayments and disposals	(169,017)	520	(6,788)	759	(5,010)	1,414	(180,815)	2,693
Transfers of financial instruments								
- Stage 1 to Stage 2	(35,623)	214	35,623	(214)	-	-	-	-
- Stage 1 to Stage 3	(766)	2	-	-	766	(2)	-	-
- Stage 2 to Stage 1	2,973	(305)	(2,973)	305	-	-	-	-
- Stage 2 to Stage 3	-	-	(169)	23	169	(23)	-	-
- Stage 3 to Stage 1	182	(23)	-	-	(182)	23	-	-
- Stage 3 to Stage 2	-	-	17	(8)	(17)	8	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	311	-	(1,347)	-	(2,033)	-	(3,069)
At 31 December 2019	**732,588**	**(1,329)**	**54,462**	**(2,411)**	**25,104**	**(9,628)**	**812,154**	**(13,368)**
Total net income statement charge of the year								**(1,503)**

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

	Stage 1		Stage 2		Stage 3		2018 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 2018	100,638	(335)	12,463	(1,015)	22,975	(5,966)	136,076	(7,316)
New and further lending	121,993	(760)	1,338	(200)	742	(299)	124,073	(1,259)
Repayments and disposals	(30,814)	107	(564)	268	(1,910)	680	(33,288)	1,055
Transfers of financial instruments								
- Stage 1 to Stage 2	(5,022)	18	5,022	(18)	-	-	-	-
- Stage 1 to Stage 3	(108)	-	-	-	108	-	-	-
- Stage 2 to Stage 1	2,651	(65)	(2,651)	65	-	-	-	-
- Stage 2 to Stage 3	-	-	(1,231)	7	1,231	(7)	-	-
- Stage 3 to Stage 1	-	-	1,055	(5)	(1,055)	5	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	39	-	(350)	-	(1,121)	-	(1,432)
At 31 December 2018	189,338	(996)	15,432	(1,248)	22,091	(6,708)	226,861	(8,952)
Total net income statement charge of the year								(1,636)

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

	2018							
	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 2018	243,992	(150)	4,073	(113)	7,257	(2,246)	255,322	(2,509)
New and further lending	82,468	(177)	25	(27)	130	(123)	82,623	(327)
Repayments and disposals	(29,425)	37	(1,620)	46	(1,567)	528	(32,612)	611
Transfers of financial instruments								
- Stage 1 to Stage 2	(2,157)	2	2,157	(2)	-	-	-	-
- Stage 1 to Stage 3	(200)	-	-	-	200	-	-	-
- Stage 2 to Stage 1	942	(47)	(942)	47	-	-	-	-
- Stage 2 to Stage 3	-	-	(153)	7	153	(7)	-	-
- Stage 3 to Stage 1	2	(2)	-	-	(2)	2	-	-
- Stage 3 to Stage 2	-	-	115	(21)	(115)	21	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	48	-	(106)	-	(214)	-	(272)
At 31 December 2018	295,622	(289)	3,655	(169)	6,056	(2,039)	305,333	(2,497)
Total net income statement credit of the year								12

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

	Stage 1		Stage 2		Stage 3		2018 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 2018	344,630	(485)	16,536	(1,128)	30,232	(8,212)	391,398	(9,825)
New and further lending	204,461	(937)	1,363	(227)	872	(422)	206,696	(1,586)
Repayments and disposals	(60,239)	144	(2,184)	314	(3,477)	1,208	(65,900)	1,666
Transfers of financial instruments								
- Stage 1 to Stage 2	(7,179)	20	7,179	(20)	-	-	-	-
- Stage 1 to Stage 3	(308)	-	-	-	308	-	-	-
- Stage 2 to Stage 1	3,593	(112)	(3,593)	112	-	-	-	-
- Stage 2 to Stage 3	-	-	(1,384)	14	1,384	(14)	-	-
- Stage 3 to Stage 1	2	(2)	-	-	(2)	2	-	-
- Stage 3 to Stage 2	-	-	1,170	(26)	(1,170)	26	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	87	-	(456)	-	(1,335)	-	(1,704)
At 31 December 2018	484,960	(1,285)	19,087	(1,417)	28,147	(8,747)	532,194	(11,449)
Total net income statement credit of the year								(1,624)

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

	2018							
	Stage 1		Stage 2		Stage 3		Total	
Total loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend	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
At 1 January 2018	460,736	(566)	21,673	(1,442)	30,494	(8,290)	512,903	(10,298)
New and further lending	319,038	(972)	1,616	(326)	872	(60)	321,526	(1,358)
Repayments and disposals	(122,768)	167	(6,454)	412	(3,344)	1,435	(132,566)	2,014
Transfers of financial instruments								
- Stage 1 to Stage 2	(11,393)	20	11,393	(20)	-	-	-	-
- Stage 1 to Stage 3	(324)	-	-	-	324	-	-	-
- Stage 2 to Stage 1	6,128	(311)	(6,128)	311	-	-	-	-
- Stage 2 to Stage 3	-	-	(1,530)	18	1,530	(18)	-	-
- Stage 3 to Stage 1	25	(9)	-	-	(25)	9	-	-
- Stage 3 to Stage 2	-	-	1,170	(26)	(1,170)	26	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	128	-	(458)	-	(1,893)	-	(2,223)
At 31 December 2018	**651,442**	**(1,543)**	**21,740**	**(1,531)**	**28,681**	**(8,791)**	**701,863**	**(11,865)**
Total net income statement charge of the year								**(1,567)**

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

3.2.11 Write-off policy

The Bank writes off loans and advances to customers when it determines that these are uncollectible, usually it 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 2019 amounted to €149,000; assets written-off during the year ended 31 December 2018 were insignificant. 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.

3.2.12 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 generally 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 significantly 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 €10,480,000 (2018: €7,807,000).

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 2019

	Gross carrying amount	Impairment allowance	Carrying amount	Extendible value of collateral held
Credit-impaired assets	**€000**	**€000**	**€000**	**€000**
Retail:				
- Credit Cards	3	1	2	2
- Fixed Term Loans	1,074	135	939	1,048
- Mortgages	3,974	1,360	2,614	3,974
Corporate:				
- Small and medium-sized enterprises (SMEs)	16,854	5,441	11,413	15,109
- Sole traders	300	47	253	300
Total credit-impaired assets	**22,205**	**6,984**	**15,221**	**20,433**

AS AT 31 DECEMBER 2018

	Gross carrying amount	Impairment allowance	Carrying amount	Extendible value of collateral held
Credit-impaired assets	**€000**	**€000**	**€000**	**€000**
Retail:				
- Credit Cards	2	1	1	2
- Fixed Term Loans	914	104	810	906
- Mortgages	4,013	808	3,205	4,013
Corporate:				
- Small and medium-sized enterprises (SMEs)	20,660	5,513	15,147	19,067
- Sole traders	310	73	237	310
Total credit-impaired assets	25,899	6,499	19,400	24,298

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

AS AT 31 DECEMBER 2019

	Gross carrying amount	Impairment allowance	Carrying amount
Credit-impaired assets	**€000**	**€000**	**€000**
Retail:			
- Overdrafts	206	206	-
- Credit Cards	325	325	-
- Fixed Term Loans	520	520	-
- Mortgages	100	100	-
Corporate:			
- Small and medium-sized enterprises (SMEs)	1,394	1,394	-
- Sole traders	25	25	-
Total credit-impaired assets	**2,570**	**2,570**	**-**

	AS AT 31 DECEMBER 2018		
	Gross carrying amount	Impairment allowance	Carrying amount
Credit-impaired assets	€000	€000	€000
Retail:			
- Overdrafts	184	184	-
- Credit Cards	323	323	-
- Fixed Term Loans	519	519	-
- Mortgages	101	101	-
Corporate:			
- Small and medium-sized enterprises (SMEs)	1,100	1,100	-
- Sole traders	21	21	-
Total credit-impaired assets	2,248	2,248	-

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 2019			
	Corporate exposures	Retail Mortgages	Retail credit cards	Retail consumer credit
	€000	€000	€000	€000
Lower than 25%	3,737	-	-	130
25 to 50%	3,884	288	-	453
51 to 75%	4,387	924	-	243
76 to 100%	450	2,647	1	143
Higher than 100%	4,675	89	-	62
Total	**17,133**	**3,948**	**1**	**1,031**

	Gross carrying amount of credit-impaired loans and advances to customers as at 31 December 2018			
	Corporate exposures	Mortgages	Retail exposures credit cards	Consumer credit
	€000	€000	€000	€000
Lower than 25%	3,583	25	-	58
25 to 50%	5,230	172	-	223
51 to 75%	5,847	978	-	416
76 to 100%	640	2,721	1	147
Higher than 100%	5,651	90	-	63
Total	20,951	3,986	1	907

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. In general, 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	FORBORNE EXPOSURES
	2019	2019
	€000	€000
Performing – Stage 1		
- Loans which are not past due		
Total maximum exposure	**562,125**	**-**
Extendible value of collateral:		
- Secured by cash and quasi cash	(9,677)	-
- Residential immovable property	(422,229)	-
- Commercial immovable property	(81,096)	-
- Other collateral	(15,188)	-
Total extendible value of collateral	(528,190)	-
Residual exposure	33,935	-
Loss Allowance	**(1,162)**	-
- Past due by less than 30 days		
Total maximum exposure	**5,043**	-
Extendible value of collateral:		
- Secured by cash and quasi cash	(173)	-
- Residential immovable property	(2,772)	-
- Commercial immovable property	(1,366)	-
- Other collateral	(143)	
Total extendible value of collateral	(4,454)	-
Residual exposure	589	-
Loss Allowance	**(40)**	-

	NON-FORBORNE EXPOSURES	FORBORNE EXPOSURES
	2019	2019
	€000	€000
Underperforming – Stage 2		
- Loans which are not past due		
Total maximum exposure	**42,765**	**2,881**
Extendible value of collateral:		
- Secured by cash and quasi cash	(4,829)	(13)
- Residential immovable property	(18,703)	(937)
- Commercial immovable property	(15,253)	(1,585)
- Other collateral	(6)	-
Total extendible value of collateral	(38,791)	(2,535)
Residual exposure	3,974	346
Loss Allowance	**(2,011)**	**(57)**
- Past due by less than 90 days		
Total maximum exposure	**2,831**	**75**
Extendible value of collateral:		
- Secured by cash and quasi cash	(195)	(29)
- Residential immovable property	(1,450)	-
- Commercial immovable property	(1,016)	-
Total extendible value of collateral	(2,661)	(29)
Residual exposure	170	46
Loss Allowance	**(58)**	**(6)**

	NON-FORBORNE EXPOSURES	FORBORNE EXPOSURES
	2019	2019
	€000	€000
Non-performing – Stage 3		
Total maximum exposure	**13,054**	**11,721**
Extendible value of collateral:		
- Secured by cash and quasi cash	(47)	-
- Residential immovable property	(8,267)	(4,489)
- Commercial immovable property	(1,437)	(6,192)
Total extendible value of collateral	(9,751)	(10,681)
Residual exposure	3,303	1,040
Loss Allowance	**(6,881)**	**(2,673)**

	NON-FORBORNE EXPOSURES	FORBORNE EXPOSURES
	2018	2018
	€000	€000
Performing – Stage 1		
- Loans which are not past due		
Total maximum exposure	479,020	-
Extendible value of collateral:		
- Secured by cash and quasi cash	(13,854)	-
- Residential immovable property	(334,080)	-
- Commercial immovable property	(77,839)	-
- Other collateral	(16,107)	-
Total extendible value of collateral	(441,880)	-
Residual exposure	37,140	-
Loss Allowance	(1,215)	-
- Past due by less than 30 days		
Total maximum exposure	5,940	-
Extendible value of collateral:		
- Secured by cash and quasi cash	(119)	-
- Residential immovable property	(4,025)	-
- Commercial immovable property	(1,315)	-
Total extendible value of collateral	(5,459)	-
Residual exposure	481	-
Loss Allowance	(70)	-

	NON-FORBORNE EXPOSURES	FORBORNE EXPOSURES
	2018	2018
	€000	€000
Underperforming – Stage 2		
- Loans which are not past due		
Total maximum exposure	12,906	3,714
Extendible value of collateral:		
- Secured by cash and quasi cash	(678)	(43)
- Residential immovable property	(2,386)	(1,294)
- Commercial immovable property	(6,850)	(2,031)
- Other collateral	(6)	(1)
Total extendible value of collateral	(9,920)	(3,369)
Residual exposure	2,986	345
Loss Allowance	(1,198)	(112)
- Past due by less than 90 days		
Total maximum exposure	2,415	52
Extendible value of collateral:		
- Secured by cash and quasi cash	(36)	(7)
- Residential immovable property	(1,450)	(11)
- Commercial immovable property	(746)	-
- Other collateral	(4)	(2)
Total extendible value of collateral	(2,236)	(20)
Residual exposure	179	32
Loss Allowance	(99)	(8)

	NON-FORBORNE EXPOSURES	FORBORNE EXPOSURES
	2018	2018
	€000	€000
Non-performing – Stage 3		
Total maximum exposure	14,145	14,002
Extendible value of collateral:		
- Secured by cash and quasi cash	(44)	-
- Residential immovable property	(9,465)	(5,808)
- Commercial immovable property	(1,956)	(7,025)
Total extendible value of collateral	(11,465)	(12,833)
Residual exposure	2,680	1,169
Loss Allowance	(5,981)	(2,766)

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 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 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 tables below. The Bank's ALCO is primarily responsible for oversight over the Bank's interest rate risk management process and monitors actively the interest rate risk measures utilised by the Bank. Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

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

	CARRYING AMOUNT	EFFECTIVE INTEREST RATE	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS	NON-INTEREST BEARING
At 31 December 2019	**€000**	**%**	**€000**	**€ 000**	**€000**	**€000**	**€000**
Financial assets							
Balances with Central Bank of Malta and cash	39,718	(0.50%)	35,900	-	-	-	3,818
Financial investments measured at FVOCI	77,296	0.10%	-	11,239	56,717	9,340	-
Loans and advances to banks	60,319	0.01%	60,313	-	-	-	6
Loans and advances to customers	627,607	3.77%	607,605	20,002	-	-	-
Total financial assets	**804,940**		**703,818**	**31,241**	**56,717**	**9,340**	**3,824**
Financial liabilities							
Amounts owed to banks	203	0%	203	-	-	-	-
Amounts owed to customers	722,920	0.71%	469,867	111,396	141,605	52	-
Total financial liabilities	**723,123**		**470,070**	**111,396**	**141,605**	**52**	**-**
Interest repricing gap			**233,748**	**(80,155)**	**(84,888)**	**9,288**	**3,824**
Cumulative gap			**233,748**	**153,593**	**68,705**	**77,993**	

At 31 December 2018	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	99,853	(0.40%)	95,973	-	-	-	3,880
Financial investments measured at FVOCI	67,922	0.10%	-	2,653	53,115	12,154	-
Loans and advances to banks	57,516	0.07%	57,511	-	-	-	5
Loans and advances to customers	520,745	4.00%	498,081	22,664	-	-	-
Total financial assets	**746,036**	**-**	**651,565**	**25,317**	**53,115**	**12,154**	**3,885**
Financial liabilities							
Amounts owed to banks	90	0%	49	-	-	-	41
Amounts owed to customers	677,272	0.64%	456,903	104,840	115,529	-	-
Total financial liabilities	**677,362**		**456,952**	**104,840**	**115,529**	**-**	**41**
Interest repricing gap			**194,613**	**(79,523)**	**(62,414)**	**12,154**	**3,844**
Cumulative gap			**194,613**	**115,090**	**52,676**	**64,830**	**-**

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.

	2019		2018	
	Fixed	Variable	Fixed	Variable
	€000	€000	€000	€000
Interest-earning assets				
Financial investments measured at FVOCI	31,247	46,049	50,240	17,682
Balances with Central Bank of Malta	-	35,900	53,141	42,832
Loans and advances to banks	56,653	3,660	37,959	19,552
Loans and advances to customers	118,959	508,648	51,323	469,422
	206,859	594,257	192,663	549,488
Interest-bearing liabilities				
Amounts owed to banks	-	203	-	49
Amounts owed to customers	362,726	360,194	345,332	331,940
	362,726	360,397	345,332	331,989

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.

Taking cognisance of the nature of the Bank's financial assets and liabilities as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Bank's net floating rate assets.

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 €4,865,000 (simulating 100 basis points for 2018: €2,175,000). 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 €4,865,000 (simulating 100 basis points for 2018: €2,175,000).

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 tables below.

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

The Bank also enters into forward exchange contracts with customers in the normal course of its business. It is the Bank's policy to cover the exposure arising from such forward contracts.

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.

	TOTAL	EUR	GBP	USD	OTHER
At 31 December 2019	€000	€000	€000	€000	€000
Financial assets					
Balances with Central Bank of Malta and cash	39,718	39,516	47	66	89
Financial investments designated at FVOCI	77,637	67,719	5,188	4,730	-
Loans and advances to banks	60,319	20,366	34,316	4,888	749
Loans and advances to customers	627,607	626,719	-	888	-
Other assets	7,738	7,398	22	318	-
Total financial assets	813,019	761,718	39,573	10,890	838
Financial liabilities					
Amounts owed to banks	203	200	-	3	-
Amounts owed to customers	722,920	672,110	39,310	10,887	613
Other liabilities	16,692	16,452	100	140	-
Total financial liabilities	739,815	688,762	39,410	11,030	613
Net currency position			163	(140)	225

	TOTAL	EUR	GBP	USD	OTHER
As at 31 December 2018	€000	€000	€000	€000	€000
Financial assets					
Balances with Central Bank of Malta and cash	99,853	46,543	44,425	8,792	93
Financial investments designated at FVOCI	68,263	68,263	-	-	-
Loans and advances to banks	57,516	1,781	20,858	33,648	1,229
Loans and advances to customers	520,745	519,748	-	997	-
Other assets	6,566	6,227	14	325	-
Total financial assets	752,943	642,562	65,297	43,762	1,322
Financial liabilities					
Amounts owed to banks	90	88	-	2	-
Amounts owed to customers	677,272	591,792	65,685	18,933	862
Other liabilities	12,109	11,881	49	179	-
Total financial liabilities	689,471	603,761	65,734	19,114	862
Net on-balance sheet financial position			(437)	24,648	460
Notional of derivative financial instruments			-	(28,437)	-
Residual exposure			(437)	(3,789)	460

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 €50,000 (2018: a loss of €753,000) 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 €50,000 (2018: a gain of €753,000) 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.

The Bank's advances-to-deposit ratio of 86.8% (2018: 76.9%) at the end of the period under review reflects the Bank's prudent position in the context of liquidity management.

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 2019 was 253.63% (2018: 337.27%).

During the years ended 31 December 2019 and 2018 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.

Although the EU adopted this obligation with the approval of CRR II in June, it will not enter into force until 2021. As a result, the bank calculates NSFR in line with Basel Committee on Banking Supervision publication 295.

The NSFR ratio as at 31 December 2019 was 140.10%. (2018: 149.26%)

During the years ended 31 December 2019 and 2018 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. Compliance with established limits is monitored by the ALCO.

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:

	TOTAL	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	OVER 1 YEAR BUT LESS THAN 5 YEARS	OVER 5 YEARS	NO MATURITY DATE
At 31 December 2019	€000	€000	€000	€000	€000	€000
Financial assets						
Balances with Central Bank of Malta and cash	39,718	34,351	-	-	-	5,367
Financial investments measured as FVOCI	77,637	-	11,238	56,717	9,341	341
Loans and advances to banks	60,319	60,319	-	-	-	-
Loans and advances to customers	627,607	41,942	15,129	93,598	476,938	-
Other assets	7,738	2,338	-	-	-	5,400
Total financial assets	813,019	138,950	26,367	150,315	486,279	11,108
Financial liabilities						
Amounts owed to banks	203	203	-	-	-	-
Amounts owed to customers	722,920	470,998	110,265	141,605	52	-
Other liabilities	16,692	-	-	-	-	16,692
Total financial liabilities	739,815	471,201	110,265	141,605	52	16,692
Maturity gap		(329,188)	(83,898)	8,710	486,227	
Cumulative gap		(329,188)	(413,086)	(404,376)	81,851	

Amounts owed to customers of €360,194,000 (2018: €331,940,000) as at 31 December 2019 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 €3,651,000 (2018: €3,700,000) comprising financial investments measured at FVOCI have been pledged in favour of the Depositor Compensation Scheme.

At 31 December 2018	TOTAL	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	OVER 1 YEAR BUT LESS THAN 5 YEARS	OVER 5 YEARS	NO MATURITY DATE
	€000	€000	€000	€000	€000	€000
Financial assets						
Balances with Central Bank of Malta and cash	99,853	95,126	-	-	-	4,727
Financial investments measured as FVOCI	68,263	-	2,653	53,115	8,454	4,041
Loans and advances to banks	57,516	57,516	-	-	-	-
Loans and advances to customers	520,745	38,573	17,579	64,215	400,378	-
Other assets	6,566	2,583	-	-	-	3,983
Total financial assets	752,943	193,798	20,232	117,330	408,832	12,751
Financial liabilities						
Amounts owed to banks	90	90	-	-	-	-
Amounts owed to customers	677,272	458,771	102,976	115,525	-	-
Other liabilities	12,109	-	-	-	-	12,109
Total financial liabilities	689,471	458,861	102,976	115,525	-	12,109
Maturity gap		(265,063)	(82,744)	1,805	408,832	
Cumulative gap		(265,063)	(347,807)	(346,002)	62,830	

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 2019	TOTAL	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	OVER 1 BUT LESS THAN 5 YEARS	OVER 5 YEARS
	€000	€000	€000	€000	€000
Financial liabilities					
Amounts owed to banks	203	203	-	-	-
Amounts owed to customers	731,626	471,722	111,640	148,195	69
Lease liabilities	2,838	93	311	1,950	484
Total financial liabilities	**734,667**	**472,018**	**111,951**	**150,145**	**553**

At 31 December 2018	TOTAL	WITHIN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	OVER 1 BUT LESS THAN 5 YEARS	OVER 5 YEARS
	€000	€000	€000	€000	€000
Financial liabilities					
Amounts owed to banks	90	90	-	-	-
Amounts owed to customers	684,740	459,031	104,251	121,458	-
Total financial liabilities	684,830	459,121	104,251	121,458	-

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

3.5. Operational risk

Operational risk is the risk of direct or indirect loss resulting 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. The Bank cannot realistically expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, such risks can be prudently managed and mitigated. Controls include effective segregation of duties, restricted access, authorisation, reconciliation procedures, staff education and assessment processes, including the judicious disposal of internal audit findings.

The Bank maintains an Operational Risk Management Framework (ORMF) and each department is directly involved in the management of operational risk. Operational risk managers are 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 Framework covers:

i. Risk Appetite and Limits

This refers to the Bank's attitude towards risk taking and level of exposure which it is willing and able to tolerate.

ii. Risk identification

Relevant operational risks are identified through different tools and methods. Operational risks events identified are recorded in an Operational Risk Database.

iii. Operational risk and control assessment

The Operational Risk and Control Assessment process is carried out annually across all the Bank's functions. It identifies and assesses the operational risks (including compliance risks) within the Bank, and the effectiveness of the controls in place to mitigate those risks. Proposals are made for implementation of appropriate remediation action.

iv. Operational risk measurement

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.

v. Reporting

This involves the regular disclosure of reported events and losses and results of operational risk assessments carried out.

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 €2,274,000 (2018: €2,012,000).

During 2019, 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 Assessment (RCA). The Risk and Control Assessment analysed key risks across the institution and assessed the prevailing risk level, as well as the efficacy and performance of control measures in place. Thus, it was possible to differentiate between inherent and residual risk levels. The final residual risk level was used to allocate Pillar 2 add-ons for sub-categories of operational risk.

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

3.6. Capital risk management

It is the Bank's policy to actively manage its capital base to cover risks inherent 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 2019 and 2018, 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's financial instruments as at 31 December which are carried at fair value include the Bank's financial investments measured at FVOCI (Note 7). 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); and
- 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:

At 31 December 2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	€000	€000	€000	€000
Financial assets				
Financial investments measured at FVOCI				
- Government debt, fixed income instruments	30,829	-	-	30,829
- Corporate debt, fixed income instruments	46,467	-	-	46,467
- Equities	-	-	341	341
Total financial assets	**77,296**	**-**	**341**	**77,637**

At 31 December 2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	€000	€000	€000	€000
Financial assets				
Derivative financial instruments held-for-trading	-	122	-	122
Financial investments measured at FVOCI				
- Government debt, fixed income instruments	29,408	-	-	29,408
- Corporate debt, fixed income instruments	38,514	-	-	38,514
- Equities	-	-	341	341
Total financial assets	67,992	122	341	68.385

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, and other listed debt instruments issued by local and foreign corporates.

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 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 are not deemed to be significantly different from their carrying amounts, based on discounted cash flows at current market interest rates, particularly due to the relatively short periods to maturity.

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 3.2.4.

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.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 3.2.4.

4.3. Assessment of estimates and judgements

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

However, the directors would like to draw attention to these accounting judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this respect, these primarily comprise assumptions and estimates relating to the calculation of impairment allowances in respect of loans and advances to customers (see note 3.2.4).

5. SEGMENTAL REPORTING

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

Retail banking - Principally handling customers' deposits, providing consumer loans, overdrafts and funds transfer facilities.

Corporate banking - Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

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 2019 and 2018:

				2019
	Retail banking	**Corporate banking**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**
Net operating income				
Net interest income	7,985	9,905	558	18,448
Net fees and commission income	586	1,850	43	2,479
Net trading income	-	-	1,808	1,808
Total income	**8,571**	**11,755**	**2,409**	**22,735**
Employee compensation and benefits	(4,409)	(2,866)	(579)	(7,854)
Other administrative expenses	(2,754)	(3,202)	(653)	(6,609)
Depreciation of property and equipment, depreciation of right-of-use assets and amortisation of intangible assets	(571)	(475)	(96)	(1,142)
Credit impairment losses	(1,247)	(427)	(75)	(1,749)
Profit before tax				**5,381**
Income tax expense				(2,039)
Profit for the year				**3,342**
Assets				
Segment assets	366,391	268,051	183,443	817,885
Unallocated assets				13,695
Total assets				**831,580**
Liabilities				
Segment liabilities	491,052	232,348	203	723,603
Unallocated liabilities				18,591
Total liabilities				**742,194**

	Retail banking	Corporate banking	Other	Total
				2018
	€000	€000	€000	€000
Net operating income				
Net interest income	8,059	7,093	381	15,533
Net fees and commission income	882	1,822	13	2,717
Net trading income	-	-	828	828
Total income	8,941	8,915	1,222	19,078
Employee compensation and benefits	(4,303)	(2,829)	(232)	(7,364)
Other administrative expenses	(3,417)	(2,142)	(229)	(5,788)
Depreciation of property and equipment and amortisation of intangible assets	(555)	(217)	(23)	(795)
Credit impairment losses	60	(1,719)	87	(1,572)
Profit before tax				3,559
Income tax expense				(1,289)
Profit for the year				2,270
Assets				
Segment assets	303,870	222,296	228,049	754,215
Unallocated assets				13,257
Total assets				767,472
Liabilities				
Segment liabilities	469,668	208,020	91	677,779
Unallocated liabilities				13,230
Total liabilities				691,009

6. BALANCES WITH CENTRAL BANK OF MALTA AND CASH

	2019	2018
	€000	€000
Current		
Balances with Central Bank of Malta	**35,930**	95,996
Cash	**3,817**	3,880
Gross carrying amount	**39,747**	99,876
Less credit impairment losses	**(29)**	(23)
Net carrying amount	**39,718**	99,853

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 €5,367,000 (2018: €4,727,000).

7. FINANCIAL INVESTMENTS

Financial investments measured at FVOCI include the following:

	2019	2018
	€000	€000
Equities	**341**	341
Debt instruments		
- Government debt securities		
Local and listed on the Malta Stock Exchange	**20,943**	23,944
Foreign and listed on other exchanges	**9,886**	5,464
- Other debt securities		
Foreign and listed on other exchanges	**46,467**	38,514
At 31 December	**77,637**	68,263

	2019	2018
	€000	€000
Non-current		
Debt and other fixed income instruments	**77,296**	67,922

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

	2019	2018
	€000	€000
At 1 January	**68,263**	67,663
Acquisitions	**59,988**	20,130
Redemptions/maturities	**(2,804)**	-
Disposals	**(48,238)**	(17,121)
Amortisation	**(1,304)**	(1,825)
Fair value movements	**1,732**	(584)
At 31 December	**77,637**	68,263

As at 31 December 2019, the impairment allowance measured in accordance with the IFRS 9 expected loss model was €235,000 (2018: €147,000).

Government debt securities with a carrying amount of €3,651,000 (2018: €3,700,000) have been pledged in favour of the Depositor Compensation Scheme.

8. LOANS AND ADVANCES TO BANKS

	2019	2018
	€000	€000
Current		
Repayable on call and at short notice	**22,446**	33,022
Term placements	**37,889**	24,530
	60,335	57,552
Less credit impairment losses	**(16)**	(36)
Net loans and advances to banks	**60,319**	57,516

9. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
	€000	€000
Repayable on call and at short notice	**51,801**	47,557
Term loans and advances	**588,694**	484,637
Gross loans and advances to customers	**640,495**	532,194
Less expected credit loss allowances	**(12,888)**	(11,449)
Net loans and advances to customers	**627,607**	520,745

Impairment allowances		
- Stage 1	**1,202**	1,285
- Stage 2	**2,132**	1,416
- Stage 3	**9,554**	8,748
	12,888	11,449
Current	**97,818**	57,826
Non-current	**542,677**	474,368
Gross loans and advances to customers	**640,495**	532,194

10. PROPERTY AND EQUIPMENT

	LAND AND BUILDINGS	COMPUTER EQUIPMENT	OTHER EQUIPMENT	TOTAL
	€000	€000	€000	€000
At 1 January 2018				
Cost	8,492	1,996	1,496	11,984
Accumulated depreciation	(2,245)	(1,383)	(1,448)	(5,076)
Net book amount	6,247	613	48	6,908
Year ended 31 December 2018				
At 1 January 2018	6,247	613	48	6,908
Acquisitions	11	146	81	238
Reclassification to non-current assets held-for-sale	(743)	-	-	(743)
Depreciation charge for the year	(202)	(136)	(109)	(447)
Depreciation released upon reclassification	39	-	-	39
At 31 December 2018	5,352	623	20	5,995

	LAND AND BUILDINGS	COMPUTER EQUIPMENT	OTHER EQUIPMENT	TOTAL
	€000	€000	€000	€000
At 31 December 2018				
Cost	7,760	2,142	1,577	11,479
Accumulated depreciation	(2,408)	(1,519)	(1,557)	(5,484)
Net book amount	5,352	623	20	5,995
Year ended 31 December 2019				
At 1 January 2019	5,352	623	20	5,995
Acquisitions	13	175	317	505
Depreciation charge for the year	(201)	(168)	(87)	(456)
At 31 December 2018	**5,164**	**630**	**250**	**6,044**
At 31 December 2019				
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**

At 31 December 2019, an amount of €6,000 (2018: €47,000) had been contracted but not provided for in the financial statements (Note 24). Property and equipment includes assets amounting to €244,000 (2018: €139,000) which were still not put to use at year end.

11. INTANGIBLE ASSETS

	COMPUTER SOFTWARE	OTHER INTANGIBLES	TOTAL
	€000	€000	€000
At 1 January 2018			
Cost	3,272	146	**3,418**
Accumulated depreciation	(2,294)	-	**(2,294)**
Net book amount	978	146	**1,124**
Year ended 31 December 2018			
At 1 January 2018	978	146	**1,124**
Acquisitions	268	-	**268**
Amortisation for the year	(348)	-	**(348)**
At 31 December 2018	898	146	**1,044**
At 31 December 2018			
Cost	3,540	146	**3,686**
Accumulated amortisation	(2,642)	-	**(2,642)**
Net book amount	898	146	**1,044**

	COMPUTER SOFTWARE	OTHER INTANGIBLES	TOTAL
	€000	€000	€000
Year ended 31 December 2019			
At 1 January 2019	898	146	1,044
Acquisitions	300	-	300
Amortisation for the year	(321)	-	(321)
At 31 December 2019	**877**	**146**	**1,023**

	COMPUTER SOFTWARE	OTHER INTANGIBLES	TOTAL
At 31 December 2019			
Cost	3,841	146	3,987
Accumulated amortisation	(2,964)	-	(2,964)
Net book amount	**877**	**146**	**1,023**

At 31 December 2019, an amount of €93,000 (2018: €90,000) had been contracted but not provided for in the financial statements (Note 24). Intangible assets include computer software amounting to €58,000 (2018: €29,000) which was still not put to use at year end.

12. RIGHT-OF-USE ASSETS

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.

As from 1 January 2019, leases are recognised in accordance with IFRS 16. Leases were previously classified as operating leases up until 31 December 2018.

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

	PREMISES	MOTOR VEHICLES	TOTAL
	€000	€000	€000
Right-of-use assets			
Impact of application of IFRS 16 on 1 January 2019	2,557	174	2,731
Additions	-	309	309
Lease contracts discontinued during the year	-	(49)	(49)
Depreciation for the year	(315)	(50)	(365)
At 31 December 2019	**2,242**	**384**	**2,626**

	PREMISES	MOTOR VEHICLES	TOTAL
Lease liabilities			
At 31 December 2019			
Current	271	87	358
Non-current	1,995	297	2,292
	2,266	**384**	**2,650**

The income statement reflects the following amounts relating to leases:	
Depreciation charge of right-of-use asset	365
Interest expense	50
Expenses relating to short-term leases	231
Expense relating to leases of low-value assets	16

The total cash payments for leases, including short-term and low-value leases in 2019 was €673,000. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2019 are analysed in Note 3.4.

13. DERIVATIVE FINANCIAL INSTRUMENTS

As of 31 December 2019 the Bank had no open contracts which meet the definition of derivative financial instruments. During 2018, the Bank entered into a cross-currency swap transaction, exchanging a specific amount in one currency with a specific amount in another currency and agreed to re-exchange at a specified rate and date in the future.

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

	2019		2018	
	Notional	Fair value	Notional	Fair value
	€000	€000	€000	€000
Derivatives held-for-trading				
Cross-currency swaps	-	-	25,000	122
	-	-	25,000	122

14. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
	2019	2019	2019	2018	2018	2018
	€000	€000	€000	€000	€000	€000
Differences between depreciation and capital allowances	-	(386)	(386)	-	(285)	(285)
Impairment allowances	5,594	-	5,594	4,986	-	4,986
Fair value movements on securities and other investments	-	(250)	(250)	359	(14)	345
	5,594	(636)	4,958	5,345	(299)	5,046

Movement in temporary differences during the year 2019 related to:

	AT 1 JANUARY 2019	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	AT 31 DECEMBER 2019
	€000	€000	€000	€000
Differences between depreciation and capital allowances	(285)	(101)	-	(386)
Impairment allowances	4,986	639	(31)	5,594
Fair value movements on securities and other investments	345	-	(595)	(250)
	5,046	538	(626)	4,958

Movement in temporary differences during the year 2018 related to:

	AT 1 JANUARY 2019	IMPACT OF ADOPTING IFRS9	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	AT 31 DECEMBER 2018
	€000	€000	€000	€000	€000
Differences between depreciation and capital allowances	(267)	-	(18)	-	(285)
Impairment allowances	3,834	527	594	31	4,986
Fair value movements on securities and other investments	140	-	-	205	345
Unused tax losses	216	-	(216)	-	-
	3,923	527	360	236	5,046

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 in-vestments measured at FVOCI.

15. PREPAYMENTS AND ACCRUED INCOME

	2019	2018
	€000	€000
Current		
Prepayments	757	887
Accrued income	1,581	1,696
	2,338	2,583

16. OTHER ASSETS

	2019	2018
	€000	€000
Current	5,400	3,983
Non-current	1,000	1,645
Other assets	6,400	5,628

17. SHARE CAPITAL

	2019		2018	
	No. of shares	€	No. of shares	€
Authorised				
Ordinary shares of €0.7552 each	132,415,254	100,000,000	92,690,678	70,000,000
Issued and fully paid up				
Ordinary shares of €0.7552 each	98,707,626	74,544,000	88,776,483	67,044,000

During 2019, the Bank, by virtue of a resolution dated 7 December 2018, increased its authorised share capital by €30,000,000 divided into 39,724,576 ordinary shares of a nominal value of €0.7552 each from €70,000,000 (divided into 92,690,678 shares of a nominal value of €0.7552 each) to €100,000,000 (divided into 132,415,254 shares of a nominal value of €0.7552 each) effectively on 29 March 2019.

During 2019, the Bank, by virtue of a resolution dated 7 December 2018, increased further its issued share capital by €7,500,000 divided into 9,931,144 ordinary shares of a nominal value of €0.7552 each from €67,044,000 (divided into 88,776,483 shares of a nominal value of €0.7552 each) to €74,544,000 (divided into 98,707,627 shares of a nominal value of €0.7552 each) effectively on 29 March 2019.

By virtue of a resolution dated 18 January 2018, the Bank increased its issued share capital by €20,000,000 divided into 26,483,050 ordinary shares of a nominal value of €0.7552 each from €39,544,000 (divided into 52,362,289 ordinary shares of a nominal value of €0.7552 each) to €59,544,000 (divided into 78,845,340 shares of a nominal value of €0.7552 each).

By virtue of a resolution dated 7 December 2018, the Bank increased further its issued share capital by €7,500,000 divided into 9,931,144 ordinary shares of a nominal value of €0.7552 each from €59,544,000 (divided into 78,845,340 ordinary shares of a nominal value of €0.7552 each) to €67,044,000 (divided into 88,776,483 shares of a nominal value of €0.7552 each) on 31 December 2018.

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

On 4 October 2016, the Bank issued floating rate perpetual capital notes amounting to an aggregate amount of €5,000,000 to Al Faisal International for Investment Company Q.P.S.C.. These notes were subsequently transferred to JUD Investment Group Limited on 31 December 2017.

The notes are subject to interest at the rate of 10% until 31 December 2016 and Euribor plus 10% thereafter, but all interest payments are cancellable at the discretion of the Bank.

By virtue of resolution dated 7 December 2018, the Board resolved to issue fixed rate perpetual capital notes amounting to €2,500,000 of a nominal value of €1,000 each to JUD Investment Group Limited (€2,441,000) and PG Holdings Limited (€59,000).

These notes are subject to interest at the rate of 8% on 30 June 2019 and at six month intervals thereafter. All interest payments are cancellable at the discretion of the Bank.

During 2019, by virtue of resolution dated 7 December 2018, the Board resolved to issue fixed rate perpetual capital notes amounting to €2,500,000 of a nominal value of €1,000 each to JUD Investment Group Limited (€2,441,000) and PG Holdings Limited (€59,000) effectively on 29 March 2019.

These notes are subject to interest at the rate of 8% on 30 June 2019 and at six month intervals thereafter. All interest payments 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

a. 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.

b. 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.

c. Reserve for General Banking Risks

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. The methodology for calculating this reserve is in line with the requirements of BR/09/2016 issued by the Malta Financial Services Authority.

20. AMOUNTS OWED TO BANKS

	2019	2018
	€000	€000
Current		
Term loans and advances	-	45
Repayable on demand	203	45
	203	90

21. AMOUNTS OWED TO CUSTOMERS

	2019	2018
	€000	€000
Term deposits	362,726	345,332
Repayable on demand	360,194	331,940
	722,920	677,272
Current	581,263	561,743
Non-current	141,657	115,529
	722,920	677,272

Included in 'Amounts owed to customers' are deposits of €29,337,000 (2018: €27,846,000) held as collateral for loan commitments, irrevocable commitments under guarantees and import letters of credit.

22. OTHER LIABILITIES

	2019	2018
	€000	€000
Bills payable	3,703	4,041
Accounts payable and sundry creditors	1,901	858
Lease liabilities (Note 12)	2,650	-
Obligations under guarantees and other documentary credits	3,383	3,373
Expected credit losses arising on off-balance sheet items	480	416
	12,117	8,688

The movement in 'Obligations under guarantees and other documentary credits' is as follows:

	2019	2018
	€000	€000
At 1 January	3,373	1,342
Arising during the year	2,301	4,308
Utilised	(2,272)	(1,363)
Unused amounts reversed	(19)	(914)
At 31 December	3,383	3,373

23. ACCRUALS AND DEFERRED INCOME

	2019	2018
	€000	€000
Current		
Accrued interest	2,398	1,602
Accrued operating expenditure	1,911	1,588
Accrued capital expenditure	175	158
Deferred income	91	73
	4,575	3,421

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:

	2019	2018
	€000	€000
Contingent liabilities		
Guarantees	8,176	9,763
Documentary credits	1,804	1,436
	9,980	11,199
Commitments		
Undrawn commitments to lend	161,679	158,470
Capital commitments	99	137
Total commitments	161,778	158,607

Capital commitments as at 31 December 2019 and 2018 mainly relate to the acquisition of property and equipment and intangible assets.

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.

Operating leases (applicable until 31 December 2018).

Future mimimum lease payments under non-cancellable operating leases were as follows:

	2018
	€000
Within one year	376
	376

As highlighted in Note 2.25 - Leases, from 1 January 2019, the Bank has adopted the requirements of IFRS 16 and accordingly recognised right-of-use assets and corresponding liabilities for all leases as at that date.

25. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019	2018
	€000	€000
On loans and advances to banks	387	369
On loans and advances to customers	22,742	18,742
On balances with Central Bank of Malta	(54)	(34)
	23,075	19,077
On debt and other fixed income instruments	1,616	1,925
Net amortisation of discounts and premiums	(1,304)	(1,825)
	312	100
Total interest receivable and similar income	23,387	19,177

26. INTEREST PAYABLE AND SIMILAR EXPENSE

	2019	2018
	€000	€000
On amounts owed to banks	37	55
On amounts owed to customers	4,852	3,589
On lease liabilities	50	-
	4,939	3,644

27. NET FEES AND COMMISSION INCOME

	2019	2018
	€000	€000
Fees and commission income		
Credit related fees and commissions	1,409	1,433
Other fees	2,656	2,196
	4,065	3,629
Fees and commission expense		
Credit related fees and commissions	(190)	(97)
Other fees	(1,396)	(815)
	(1,586)	(912)
Net fees and commission income	2,479	2,717

28. NET TRADING INCOME

	2019	2018
	€000	€000
Foreign exchange activities		
From derivatives	-	122
From commercial business activities	790	622
Net trading income	790	744

29. EMPLOYEE COMPENSATION AND BENEFITS

	2019	2018
	€000	€000
Directors and Executive officers' remuneration	1,121	867
Wages and salaries		
Managerial, supervisory and clerical	6,604	6,399
Others	129	98
Total employee compensation and benefits	7,854	7,364

Total fees payable to Non-Executive Directors amounted to €222,966 during 2019 (2018: €202,966).

The average number of persons employed by the Bank during the years 2019 and 2018 was as follows:

	2019	2018
Managerial, supervisory and clerical	199	202
Others	8	5
	207	207

30. OTHER ADMINISTRATIVE EXPENSES

	2019	2018
	€000	€000
Auditors' remuneration – annual statutory audit	68	79
Information system and communications	1,877	1,597
Business development	531	914
Corporate services	1,269	1,376
Regulatory expenses	862	392
Other	2,002	1,430
	6,609	5,788

Other remuneration payable to the auditors include assurance related services of €7,500 (2018: €106,000). Tax advisory and compliance services provided during 2019 amounted to €3,500 (2018: €30,000).

In total, from incorporation up to 31 December 2019, the Bank has contributed €2,621,000 in variable contributions to the Depositor Compensation Scheme. This represents 0.6% (2018: 0.5%) of the eligible deposits at 31 December 2019. The cash contribution paid during 2019 amounted to €698,000 (2018: €275,000) and is included under Regulatory expenses.

31. CREDIT IMPAIRMENT LOSSES

Credit impairment losses during 2019 were as follows:

	WRITE-DOWNS	REVERSALS OF WRITE-DOWNS	TOTAL
	€000	€000	€000
Balances with Central Bank of Malta and cash			
Stage 1	8	(2)	6
Financial investments measured at FVOCI			
Stage 1	201	(113)	88
Loans and advances to banks			
Stage 1	4	(24)	(20)
Loans and advances to customers			
Stage 1	521	(735)	(214)
Stage 2	1,968	(1,088)	880
Stage 3	2,280	(1,443)	837
Bad debts written-off	149	-	149
Total loans and advances to customers	4,918	(3,266)	1,652
Other provisions	23	-	23
Credit impairment losses	5,154	(3,405)	1,749

Credit impairment losses during 2018 were as follows:

	WRITE-DOWNS	REVERSALS OF WRITE-DOWNS	TOTAL
	€000	€000	€000
Balances with Central Bank of Malta and cash			
Stage 1	2	(4)	**(2)**
Financial investments measured at FVOCI			
Stage 1	37	(129)	**(92)**
Loans and advances to banks			
Stage 1	24	(17)	**7**
Loans and advances to customers			
Stage 1	1,153	(176)	**977**
Stage 2	830	(740)	**90**
Stage 3	1,971	(1,471)	**500**
Bad debts written-off	7	-	**7**
Total loans and advances to customers	3,961	(2,387)	1,574
Other provisions	85	-	85
Credit impairment losses	4,109	(2,537)	1,572

32. INCOME TAX EXPENSE

The components of income tax for the years ended 31 December 2019 and 2018 are:

	2019	2018
	€000	€000
Income Statement:		
Current income tax	**(2,578)**	(1,648)
Deferred tax credit	**539**	359
	(2,039)	(1,289)

The tax on profit and the result of accounting profit multiplied by the applicable tax rate in Malta of 35% are reconciled as follows:

	2019	2018
	€000	€000
Profit before tax	**5,381**	3,559
Tax at the applicable rate of 35%	**1,883**	1,246
Tax effect of:		
Non-deductible expenses	**74**	17
Other differences	**82**	26
	2,039	1,289

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.

	2019	2018
Net profit attributable to shareholders (€000)	3,342	2,270
Weighted average number of ordinary shares in issue	96,313,269	77,539,327
Earnings per share (€ cents)	3c5	2c9

34. CASH AND CASH EQUIVALENTS

Analysis of balances of cash and cash equivalents as shown in the Statement of Cash Flows:

	2019	2018
	€000	€000
Statement of Cash Flows		
Cash (Note 6)	3,817	3,880
Balances with Central Bank of Malta (excluding Reserve Deposit - Note 6)	30,563	91,268
Loans and advances to banks (Note 8)	60,335	57,552
Amounts owed to banks (Note 20)	(203)	(90)
Cash and cash equivalents	94,512	152,610
Balances with contractual maturity of more than three months	5,367	4,726
	99,879	157,336
Statement of Financial Position		
Balances with Central Bank of Malta and cash	39,718	99,853
Loans and advances to banks	60,319	57,516
Amounts owed to banks	(203)	(90)
	99,834	157,279
Balances with contractual maturity of more than three months	(5,367)	(4,727)
Add credit impairment losses	45	58
Cash and cash equivalents	94,512	152,610

35. RELATED PARTIES

35.1. Identification of related parties

Since 4 October 2016, 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 the Bank's Executive Committee are defined in 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 on 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..

	2019	2018
	€000	€000
Income Statement		
Interest and similar income	30	1
Interest and similar expense	304	166
Statement of Financial Position		
Loans and advances to parent company	-	1
Other assets	199	199
Amounts owed to parent company	38,164	67,241

As disclosed in note 17, during 2019 the Bank issued new share capital, which was subscribed by the shareholders.

As disclosed in note 18, on 29 March 2019 and 7 December 2018, the Bank issued further fixed rate perpetual capital notes amounting to an aggregate of €4,882,000 to JUD Investment Group Limited.

Total interest payable on these notes during 2019 amounted to €855,000 (2018: €495,000).

b. Other minority shareholders

During the year under review, the following transactions were undertaken by the Bank with its minority shareholders and entities controlled by them:

	2019	2018
	€000	€000
Income Statement		
Interest and similar income	399	119
Other administrative expenses	302	357

	2019	2018
	€000	€000
Statement of Financial Position		
Loans and advances to customers	13,854	10,428
Prepayments and accrued income	17	14
Amounts owed to customers	4,178	2,611
Accruals and deferred income	21	154

As disclosed in note 18, on 29 March 2019 and 7 December 2018, the Bank issued further fixed rate perpetual capital notes amounting to €118,000 (2018: €59,000) of a nominal value of €1,000 each to PG Holdings Ltd.

Total interest payable on these notes during 2019 amounted to €8,000 (2018: €12,000).

35.3. Transaction arrangements and agreements involving key management personnel

During the year under review, the following banking transactions were carried out with the Bank's Directors and Executive Officers, being the Bank's key management personnel:

	2019	2018
	€000	€000
Income Statement		
Interest and similar income	62	57
Interest and similar expense	1	2
Statement of Financial Position		
Loans and advances to customers	1,986	2,404
Amounts owed to customers	2,160	2,182

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

	2019	2018
	€000	€000
Dividends declared and paid by the Bank (€000)	750	-
€ per share - gross	0c8	-

A net dividend of €0.00861 per nominal share of €0.7552, for a total of €850,000, is being proposed for approval by the shareholders in respect of the reporting period ended 31 December 2019. In light of the COVID-19 pandemic and following a recommendation of the European Central Bank (ECB) of 27 March 2020 on dividend distributions, the Directors recommend that payment of the dividend should be conditional to a reassessment of the situation once there is a more stable outlook, and not earlier than 1 October 2020.

37. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Outbreak of the COVID-19 virus and its impact on BNF Bank p.l.c.

Throughout the first quarter of 2020 the global outbreak of the COVID-19 virus spread globally including in Europe, to the extent that it was classified as a pandemic by the World Health Organisation.

There is a wide expectation that the outbreak will result in a global economic recession resulting from decreased levels of demand, as governments worldwide impose extensive social distancing measures. The extent of the economic impact is unknown at the time of writing, however the vast majority of global financial markets were in considerable negative territory at the end of the first quarter of 2020.

In Malta, several positive cases of the COVID-19 virus were confirmed, however the situation remained a controlled one at the time of writing. The Government of Malta acted to curtail the outbreak by introducing strict quarantine rules, limiting overseas travel, and adopting social distancing measures commensurate to the spread of the virus. Whereas such measures were necessary, they are expected to impact the local economy to an extent which is yet unknown.

The impact on BNF Bank p.l.c. has to date been as follows:

- **Operations:** The top priority has been that of protecting the well-being of staff and customers. Actions have included among others, isolation of vulnerable persons within their homes and testing and implementation of the business continuity plan, as necessary.
- **Loans and advances to customers:** No instances of default have taken place to date, however a significant number of customers have and will continue to request financial assistance measures in the near future. Financial assistance measures offered by BNF Bank p.l.c. will take the form of moratoria on capital and/or interest repayments, and working capital financing. The latter will be partly guaranteed by the Government of Malta or equivalent, or by European authorities.
- **Financial investments:** The portfolio suffered a downward revaluation as a result of adverse movements in market prices, which impact however is considered to be (i) of a temporary nature, and (ii) not significant enough to put regulatory or balance sheet parameters at risk.

BNF Bank p.l.c. has not experienced any other material impact to date.

In view of these circumstances, management has revised its financial projections to reflect the estimated impact of the forecasted business conditions on the Bank's projected financial performance and financial position. Management's revised projections for the year ending 31 December 2020 contemplate revised baseline and adverse scenarios. Under the revised adverse scenario, the key assumptions centre around a significantly curtailed increase in lending, with consequential impacts on projected net interest income, and a significant increase in credit losses recognised. The outcome of this adverse scenario reflects significantly diluted bank profitability, but the Bank is still projected to register profitability and remain adequately capitalised and financially robust. The projected capital adequacy ratio and liquidity profile under the adverse scenario remain within a comfortable range.

Based on the outcome of the revised projections as referred to above, the Directors and management consider the going concern assumption in the preparation of the Bank's financial statements as appropriate at the date of authorisation for issue of the 2019 financial statements. They also confirm that no material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern exists at that date.

38. 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 Faisal Qassim Al Thani.

Additional Regulatory Disclosures

Additional Regulatory Disclosures

For the year ended 31 December 2019

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.

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 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 Framework.

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.

Four Lines of Defence

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

- The First Line of Defence

The first line is also known as the frontline. The first line of defence comprises of the internal entities which own and manage risk. Such is composed of all the commercial, operational, and internal support departments;

- The Second Line of Defence

The second line comprises of all functions providing oversight in the form of risk monitoring and control in support of management. The entities forming the second line include the risk function, and the compliance function. The Asset and Liability Management Committee (ALCO), also carries out some oversight functions;

- The Third Line of Defence

The third line of defence comprises the internal audit function. It provides assurance with a direct line to the Audit Committee, concerning the effectiveness of management of controls;

- The Fourth Line of Defence

The fourth line comprises of external entities which provide fully independent audit and supervision, primarily the external auditors and supervisory authorities.

Risk Management Process

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

- Assessment of Key Vulnerabilities

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.

- Risk Identification and Analysis of Inherent Risk Drivers

Using its key vulnerabilities as a point of reference, the Bank identifies risks and risk categories. The risk identification exercise uses as a guide the comprehensive list of risk categories and sub-categories outlined in the Supervisory Review and Evaluation Process (SREP) Guidelines and the European Central Bank (ECB) Expectations on ICAAP and ILAAP. Once relevant risks are identified, the Bank considers which risks are material to its business model.

- Inherent Risk Assessment

Those risks which the Bank considers to be material are assessed to provide the Bank with an understanding of the extent to which the Bank is inherently exposed to such risks. The Bank then compares the inherent exposure for each risk to the Risk Appetite Statement as approved by the Board of Directors.

- Internal Controls Framework

The Bank's objective is to manage all material risks by means of its Internal Controls Framework, the priority risks being those assessed as inherently beyond the Board's risk appetite. The Internal Controls Framework is a detailed map of processes and controls designed to mitigate priority risks.

All material risks are assigned to Risk Owners, being entities falling within the first line of defence. Risk Owners are responsible for the day-to-day management and control of risks and are supported and overseen by the second line of defence.

- Residual Risk Assessment

Post-consideration of controls set out in the Internal Controls Framework, the Bank re-assesses material risks to determine their residual risk. If residual risk is within the Board's risk appetite, in most cases the Bank will accept the 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.

- Risk Treatment

Risk treatment for residual risks which are not considered acceptable typically consists of enhancements to the Internal Controls Framework, or, where possible, risk transfer by means of insurance. Where none of the former two approaches are possible, the Bank will finance the risks through Pillar 2 capital or liquidity buffers.

- Risk Reporting

The second line of defence is responsible for aggregating and reporting risks to executive and board level, and to the third and fourth lines of defence.

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. 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.

Capital management is monitored by the ALCO. 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:

	2019	
	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

Issued share capital increased by €20,000,000, €7,500,000 and €7,500,000 on 18 January 2018, 31 December 2018 and 29 March 2019 respectively.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

b. Perpetual capital notes

On 31 December 2018, the Bank issued additional fixed rate perpetual capital notes amounting to an aggregate amount of €2,441,000 to JUD Investment Group Limited and €59,000 to PG Holdings Ltd. The notes are subject to interest at the rate of 8%, which interest payments are subject to cancellation at the discretion of the Bank. This amount was increased by an additional €2,500,000 during March 2019, with €2,441,000 to JUD Investment Group Limited and €59,000 to PG Holdings Ltd.

	€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.

At 31 December 2018, the capital conservation buffer was being phased in and was of 1.875%. As from 1 January 2019, the capital conservation requirement is of 2.5%, fully comprised of CET1 capital.

The countercyclical buffer requirement will range 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 0.04%, 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 2019
	€000
Common Equity Tier 1 (CET1) capital	
Instruments and reserves	
- Share capital	74,544
- Retained earnings	(430)
- Funds for general banking risk	992
- Accumulated other comprehensive income (and other reserves)	661
CET1 capital before regulatory adjustments	75,767
Regulatory adjustments	
- Intangible assets	(1,023)
- Amounts added back to CET 1 due to IFRS 9 TPs	1,627
Total regulatory adjustments to CET1	604
CET1 capital	76,371
Perpetual capital notes	10,000
Tier 1 capital	86,371
Total Own Funds	86,371
Total risk weighted assets	486,120

Capital ratios	
- CET1 ratio	15.71%
- Tier 1 ratio	17.77%
Total Capital Adequacy Ratio	17.77%

	AS AT 31 DECEMBER 2019
	€000
Institution specific buffer requirement	2.542
- of which: capital conservation buffer requirement	2.500
- of which: institution specific countercyclical capital buffer	0.042
CET 1 available to meet buffers, including Pillar 2	11.21
Items not deducted from own funds in accordance with Article 48 of the CRR	4,958

	EXPOSURE VALUE	RISK WEIGHTED ASSETS	CAPITAL REQUIRED
At 31 December 2019	**€000**	**€000**	**€000**
Central governments or Central banks	**66,875**	-	-
Institutions	**101,565**	**31,138**	**2,491**
Corporate	**105,161**	**102,435**	**8,195**
Retail	**68,762**	**46,926**	**3,754**
Secured by mortgages on immovable property	**394,155**	**132,836**	**10,627**
Items associated with particularly high risk	**66,396**	**99,595**	**7,968**
Exposures in default	**14,835**	**14,835**	**1,187**
Equity	**341**	**341**	**27**
Covered Bonds	**5,172**	**517**	**41**
Other items	**27,601**	**28,859**	**2,309**
Credit risk	**850,863**	**457,482**	**36,599**
Operational risk		**28,421**	**2,274**
Foreign exchange risk		**217**	**17**
Total capital required		**486,120**	**38,890**

Own Funds	
Common Equity Tier 1	**76,371**
Perpetual capital notes	**10,000**
Tier 2	-
Total Own Funds	**86,371**
Capital Adequacy Ratio	**17.77%**

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 2016/200.

	2019
	€000
Tier 1 capital	**86,371**
Total exposure	**877,929**
Leverage ratio	**9.84%**

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

	2019
	€000
Balance sheet items	831,580
Adjustments in determining Tier 1 capital	(1,023)
On-balance sheet exposure	**830,557**
Off-balance sheet exposures at gross notional amount	171,659
Adjustments in determining Tier 1 capital	(124,287)
Off-balance sheet exposure	**47,372**
Total exposure	**877,929**

The following table provides a reconciliation of accounting assets and leverage ratio exposures:

	2019
	€000
Total assets as per published financial statements	831,580
Adjustment for off-balance sheet items	47,372
Other adjustments	
- Deduction of intangible assets	(1,023)
Leverage ratio exposure	877,929

The Leverage Ratio is considered as part of the Bank's ICAAP.

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 self-impose add-on requirements under Pillar 2. 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 control functions, in addition to validation of ICAAP and ILAAP reporting.

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 below.

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 tables below set out the Bank's maximum exposure to credit risk before consideration of collateral held or other credit enhancements:

	AVERAGE EXPOSURE	EXPOSURE AS AT 31 DECEMBER 2019
	€000	€000
As at 31 December 2019		
Central government or central banks	65,343	66,875
Institutions	119,596	101,565
Corporate exposures	102,484	105,161
Retail exposures	72,125	68,762
Secured by mortgages on immovable property	357,802	394,155
Items associated with particular high risk	62,836	66,396
Exposures in default	16,553	14,835
Equity	341	341
Covered Bonds	3,378	5,172
Other items	25,794	27,601
Total	**826,252**	**850,863**

	2019
	€000
Reconciliation of exposure to credit risk	
Exposure as per Statement of Financial Position	831,580
Less: deductions for assets that are not risk-weighted	(13,477)
Statement of Financial Position exposure after deductions	818,103
Off-balance sheet exposure before application of the credit conversion factor	171,659
Less: Credit conversion factor adjustment	(138,899)
Off-balance sheet exposure after deductions	32,760
Total maximum exposure to credit risk	850,863

The residual maturity breakdown by exposure class at 31 December 2019 was as follows:

	TOTAL	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	NO MATURITY DATE
	€000	€000	€000	€000	€000
At 31 December 2019					
Central government or central banks	66,875	4,773	16,841	9,357	35,904
Institutions	101,565	61,600	39,965	-	-
Corporate	105,161	17,043	15,501	72,508	109
Retail	68,762	9,685	13,865	40,798	4,414
Secured by mortgages on immovable property	394,155	18,118	14,944	361,073	20
Items associated with particular high risk	66,396	2,622	63,774	-	-
Exposures in default	14,835	4,940	2,389	7,420	86
Equity	341	-	-	-	341
Covered Bonds	5,172	5,172	-	-	-
Other items	27,601	10,156	4,958	8,669	3,818
Total	**850,863**	**134,109**	**172,237**	**499,825**	**44,692**

6.1. Credit concentration risk

Note 3.2.6 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:

	TOTAL	MANUFACTURING	FINANCIAL SERVICES	HOUSEHOLDS & INDIVIDUALS	CONSTRUCTION	WHOLESALE AND RETAIL	OTHER SECTORS
	€000	€000	€000	€000	€000	€000	€000
At 31 December 2019							
Central government or central banks	66,875	-	-	-	-	-	66,875
Institutions	101,565	-	101,565	-	-	-	-
Corporate	105,161	2,314	20,529	798	9,980	17,024	54,516
Retail	68,762	341	2,301	49,531	1,950	6,127	8,512
- of which: SME	25,654	341	2,301	6,797	1,950	6,127	8,138
Secured by mortgages on immovable property	394,155	3,753	15,162	330,928	18,600	6,439	19,273
- of which: SME	78,179	3,753	15,056	15,058	18,600	6,439	19,273
Items associated with particular high risk	66,396	256	68	2,613	25,254	-	38,205
- of which: SME	65,020	-	68	1,493	25,254	-	38,205
Exposures in default	14,835	980	1,847	5,389	215	3,557	2,847
Equity	341	-	-	-	-	-	341
Covered Bonds	5,172	-	5,172	-	-	-	-
Other items	27,601	-	27,601	-	-	-	-
Total	850,863	7,644	174,245	389,259	55,999	33,147	190,569

The geographical concentration of the Bank's exposure classes as at the end of the reporting period are analysed in the following table:

	TOTAL	MALTA	PORTUGAL	UNITED KINGDOM	BELGIUM	OTHER
	€000	€000	€000	€000	€000	€000
At 31 December 2019						
Central Government or central banks	66,875	57,026	5,099	-	-	4,750
Institutions	101,565	-	-	61,369	8,777	31,419
Corporate	105,161	105,161	-	-	-	-
Retail exposures	68,762	68,622	-	104	-	36
Secured by mortgages on immovable property	394,155	391,936	-	575	27	1,617
Items associated with particular high risk	66,396	66,396	-	-	-	-
Exposures in default	14,835	14,833	-	-	-	2
Equity	341	-	-	-	-	341
Covered Bonds	5,172	-	-	5,172	-	-
Other items	27,601	27,601	-	-	-	-
Total	**850,863**	**731,575**	**5,099**	**67,220**	**8,804**	**38,165**

6.2. Credit quality

6.2.1 Balances with banks and debt securities

Note 3.2.7 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 3.2.10 to the Financial Statements.

6.2.2 Loans and advances to customers

Note 3.2.8 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 3.2.10 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	MANUFACTURING	HOUSEHOLDS & INDIVIDUALS	CONSTRUCTION	WHOLESALE & RETAIL	OTHER
	€000	€000	€000	€000	€000	€000
At 1 January 2019	8,791	520	2,303	428	3,439	2,101
Additions	2,700	23	920	36	1,327	394
Reversals	(1,863)	(446)	(374)	(344)	(329)	(370)
At 31 December 2019	9,628	97	2,849	120	4,437	2,125

STAGE 1 & 2 EXPECTED CREDIT LOSSES	TOTAL	MANUFACTURING	HOUSEHOLDS & INDIVIDUALS	CONSTRUCTION	WHOLESALE & RETAIL	OTHER
	€000	€000	€000	€000	€000	€000
At 1 January 2019	3,075	67	635	216	1,074	1,083
Additions	2,340	18	826	599	58	839
Reversals	(1,675)	(52)	(355)	(127)	(636)	(505)
At 31 December 2019	3,740	33	1,106	688	496	1,417

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:

	2019
	€000
Gross loans and advances to customers	
- Impaired	24,775
- Past due but not impaired	7,949
- Neither past due nor impaired	607,771
	640,495

The following table analyses the impaired and the past due but not impaired gross loans and advances to customers by industry sector:

	IMPAIRED	PAST DUE BUT NOT IMPAIRED
At 31 December 2019	€000	€000
Gross loans and advances by industry		
Manufacturing	1,064	22
Households and individuals	7,923	4,075
Construction	1,773	390
Wholesale and retail	7,453	2,191
Other sectors	6,562	1,271
	24,775	7,949

The Bank's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Malta during 2019.

The Bank's write-off policy is disclosed in note 3.2.11 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 2019:

AT 31 DECEMBER 2019

Ratings	Credit quality steps	Total Exposure
		€000
Aaa to Aa3	1	53,890
A1 to A3	2	65,546
Baa1 to Baa3	3	18,189
Unrated		6
Total		137,631

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 3.2.12 to the Financial Statements discloses detail on collateral as a credit risk mitigant, and a detailed analysis of collateral held at 31 December 2019.

The table below represents the total exposure value for each exposure class that is covered by eligible collateral, analysed into residential immovable property, commercial immovable property and other eligible collateral. The Bank also holds other eligible collateral classified as funded credit protection, such as cash and life insurance policies, as well as liquid sovereign debt securities held as pledge on reverse repurchase transactions.

The table below discloses total maximum credit exposure by type of collateral held:

	TOTAL EXPOSURE VALUE	RESIDENTIAL IMMOVABLE PROPERTY	COMMERCIAL IMMOVABLE PROPERTY	OTHER ELIGIBLE COLLATERAL	RESIDUAL VALUE
	€000	€000	€000	€000	€000
At 31 December 2019					
Central governments or Central Banks	66,875	-	-	-	66,875
Institutions	101,565	-	-	-	101,565
Corporate	105,161	2,629	77,013	1,130	24,389
Retail exposures	68,762	24,794	15,464	208	28,296
Secured by mortgages on immovable property	394,155	394,155	-	-	-
Items associated with particularly high risk	66,396	54,885	11,243	-	268
Exposures in default	14,835	8,931	5,629	-	275
Equity exposures	341	-	-	-	341
Covered Bonds	5,172	-	-	-	5,172
Other items	27,601	-	-	-	27,601
Total	850,863	485,394	109,349	1,338	254,782

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 2019.

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.

	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
	€000	€000	€000	€000	€000	€000	€000	€000
At 31 December 2019								
Central governments or Central Banks:	9,018	9,018	57,857	-	66,875	-	-	-
- Reserve deposit	5,367	5,367	-	-	-	-	-	-
- Securities pledged for DCS	3,651	3,651	-	-	-	-	-	-
Institutions	-	-	101,565	101,669	101,565	-	31,138	31,138
Corporate	-	-	105,161	136,495	105,161	-	102,435	102,435
Retail	-	-	68,762	182,106	68,762	-	46,926	46,926
Secured by mortgages on immovable property	-	-	394,155	403,442	394,155	-	132,836	132,836
Items associated with particularly high risk	-	-	66,396	67,686	66,396	-	99,595	99,595
Exposures in default	-	-	14,835	23,118	14,835	-	14,835	14,835
Equity	-	-	341	341	341		341	341
Covered Bonds	-	-	5,172	5,194	5,172	-	517	517
Other items	2,993	2,993	24,608	36,713	27,601	-	28,859	28,859
- of which: Visa collateral	2,993	2,993	-	-	-	2,993	-	-
Total credit risk	12,011	12,011	838,852	956,764	850,863		457,482	457,482

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, Standardised Approach (SA).

As at balance sheet date, the following figures applied:

Operational Risk Capital Charge	**€000**
Standardised Approach (simulation)	2,096
Basic Indicator Approach (actual)	2,274
Difference	**178**

10. REMUNERATION POLICY

The Bank's Remuneration 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 604/2014.

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 2019 amounted to €222,966.

10.2. Executive Committee

The Board feels that the current Executive Committee has the necessary skills and qualities to manage the affairs of the Bank and considers the packages offered to its members sufficient to ensure that the Bank attracts and retains senior staff capable of fulfilling their duties. The Bank's policy remains to engage these officials on an indefinite contract of employment, following a period of probation. All contracts are in line with the relevant legislation, with all terms and conditions being specified in the said contracts of employment.

Annual salary increases, which are not performance related, are considered every year for the Executive Committee members, together with annual bonuses, which are generally based on the individual performance during the previous financial year. Any bonus payments made to Executive Committee members do not exceed 100% of their fixed component of total remuneration for each individual.

Share options, share incentive schemes and profit sharing do not feature in the Bank's Remuneration policy. Provisions for termination payments and/or other payments linked to early termination are those determined at Law. Moreover, no pension benefits are currently payable by the Bank.

Non-cash benefits include the service of a company vehicle, life cover, health insurance as well as death-in-service benefits.

Total emoluments received by Executive Committee members during the period ended 31 December 2019 are disclosed together with directors' fees under Senior Management fees 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 Ddirectors after each Annual General Meeting, taking into consideration diversity of knowledge, judgement and experience.

11.2. Board Diversity Policy

The Board adopted a Board Diversity Policy with regards to the selection of the members of the Board of Directors.

The Diversity Policy covers diversity aspects in terms of gender, age, ethnicity and culture.

It is the opinion of the Board of Directors that the diversity objectives set in the Board Diversity Policy are met.

11.3. Number of directorships held by the Board of Directors

Further to article 91 of the CRD IV, the Bank is listing the number of directorships held by the members of the Board of Directors (including those held with the Bank). The number of directorships, both for the Executive Directorship (ED) and Non-Executive Directorship (NED) forming part of the same group are considered as one directorship.

Dr Michael Frendo	**1 ED + 4 NED**
Sheikh Mohamed Faisal Q.F. Al Thani	**1 ED + 1 NED**
Mr Michael Collis	**1 ED**
Ms Juanita Bencini	**4 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 + 3 NED**
Chev. Maurice Mizzi	**3 ED + 1 NED**
Mr Mark Portelli	**11 NED**
Mr Mohamed Ahmed Shafiek Mohamed Ahmed	**1 ED + 1 NED**
Sheikh Turki Faisal Q.F. Al Thani	**1 ED + 1 NED**

Five Year Summary

Five Year Summary

Statements of Financial Position
As at 31 December

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
ASSETS					
Balances with Central Bank of Malta and cash	**39,718**	99,853	26,777	113,530	81,650
Cheques in course of collection	**2,910**	677	2,259	1,894	737
Financial investments	**77,637**	68,263	67,663	17,758	5,291
Loans and advances to banks	**60,319**	57,516	69,911	29,695	50,185
Loans and advances to customers	**627,607**	520,745	382,314	341,595	360,254
Property and equipment	**6,044**	5,995	6,908	7,270	7,740
Intangible assets	**1,023**	1,044	1,124	1,298	820
Right-of-use assets	**2,626**	-	-	-	-
Deferred tax asset	**4,958**	5,046	3,923	4,010	3,003
Derivative financial instruments	**-**	122	-	-	23
Prepayments and accrued income	**2,338**	2,583	2,335	1,595	1,704
Other assets	**6,400**	5,628	4,351	4,262	5,500
TOTAL ASSETS	**831,580**	**767,472**	**567,565**	**522,907**	**516,907**

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
EQUITY					
Share capital	**74,544**	67,044	39,544	24,544	32,500
Perpetual Capital Note	**10,000**	7,500	5,000	5,000	-
Retained earnings	**3,189**	1,460	591	(100)	(10,008)
Revaluation reserve	**661**	(533)	(248)	352	2,026
Reserve for general banking risks	**992**	992	992	992	844
TOTAL EQUITY	**89,386**	76,463	45,879	30,788	25,362
LIABILITIES					
Amounts owed to banks	**203**	90	290	71	3,577
Amounts owed to customers	**722,920**	677,272	513,851	482,964	474,294
Derivative financial instruments	**-**	-	-	-	448
Debt securities in issue	**-**	-	-	-	5,000
Current tax liability	**2,379**	1,538	-	-	-
Other liabilities	**12,117**	8,688	4,349	5,220	3,952
Accruals and deferred income	**4,575**	3,421	3,196	3,864	4,274
TOTAL LIABILITIES	**742,194**	691,009	521,686	492,119	491,545
TOTAL EQUITY AND LIABILITIES	**831,580**	767,472	567,565	522,907	516,907
MEMORANDUM ITEMS					
Contingent liabilities	**9,980**	11,199	8,820	8,331	10,842
Commitments	**161,778**	158,607	112,755	63,248	61,953

Income Statements for

the year ended 31 December

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Interest receivable and similar income					
- on loans and advances and balances with the Central Bank of Malta	**23,075**	19,077	15,318	15,926	19,693
- on debt and other fixed income instruments	**312**	100	264	103	93
Interest payable and similar expense	**(4,939)**	(3,644)	(4,680)	(6,403)	(9,499)
Net interest income	**18,448**	15,533	10,902	9,626	10,287
Fees and commission income	**4,065**	3,629	2,985	2,609	2,886
Fees and commission expense	**(1,586)**	(912)	(652)	(730)	(690)
Net fees and commission income	**2,479**	2,717	2,333	1,879	2,196
Net trading income	**790**	744	561	740	1,363
Other income	**274**	24	-	-	-
Gain on disposal of investments	**744**	60	862	3,105	-
Net operating income	**22,735**	19,078	14,658	15,350	13,846

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Employee compensation and benefits	(7,854)	(7,364)	(6,864)	(5,642)	(5,395)
Other administrative expenses	(6,609)	(5,788)	(4,749)	(4,726)	(4,721)
Depreciation of property and equipment	(821)	(447)	(569)	(575)	(569)
Amortisation of intangible assets	(321)	(348)	(350)	(320)	(305)
Credit impairment losses	(1,749)	(1,572)	(517)	(1,857)	(1,369)
Profit before tax	5,381	3,559	1,609	2,230	1,487
Income tax expense	(2,039)	(1,289)	(411)	(130)	(640)
Profit for the year	3,342	2,270	1,198	2,100	847
Earnings per share	3c5	2c9	2c3	6c5	2c6

Statements of Cash Flows for the year ended 31 December

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Cash flows from operating activities					
Interest, fees and commission received	**27,060**	22,374	18,402	18,882	22,682
Interest, fees and commission paid	**(5,729)**	(5,365)	(4,946)	(7,712)	(11,936)
Net return from investment/ trading activities	**1,187**	652	561	315	1,668
Payments to employees and suppliers	**(14,356)**	(12,245)	(12,315)	(10,539)	(10,315)
Net interest on financial assets	**507**	2,108	619	-	-
Cash flows from operating profit before changes in operating assets and liabilities	**8,669**	7,524	2,321	946	2,099
(Increase)/decrease in operating assets:					
- Balances with Central Bank of Malta	**(640)**	(1,260)	(439)	1,770	520
- Loans and advances to customers	**(109,095)**	(140,974)	(41,032)	17,140	16,534
- Other assets	**(2,383)**	1,187	(434)	(25)	(1,621)
Increase/ (decrease) in operating liabilities:					
- Amounts owed to customers	**45,648**	163,421	30,887	8,670	(104,909)
- Other liabilities	**738**	3,869	(872)	1,268	(583)
	(57,063)	33,767	(9,569)	29,769	(87,960)
Income tax paid	**(1,735)**	(111)	-	(234)	-
Net cash flow (used in)/ generated from operating activities	**(58,798)**	33,656	(9,568)	29,535	(87,960)

	2019	2018	2017	2016	2015
	€000	€000	€000	€000	€000
Cash flows from investing activities					
Purchase of property and equipment and intangible assets	(788)	(481)	(388)	(903)	(421)
Purchase of investments	(59,988)	(20,130)	(84,592)	(20,099)	(409)
Proceeds on disposal and redemption of investments	53,089	17,141	32,860	8,162	-
Financial investments held-for-trading	-	-	-	-	21,937
Interest received on available-for-sale investments	-	-	-	(29)	91
Net cash flows (used in)/ generated from investing activities	(7,687)	(3,470)	(52,120)	(12,869)	21,198
Cash flows from financing activities					
Issue of perpetual capital notes	2,500	2,500	-	5,000	-
Repayment of subordinated debt	-	-	-	(5,000)	-
Issue of share capital	7,500	27,500	15,000	-	-
Interest on perpetual capital notes	(863)	(507)	(507)	-	-
Dividends paid	(750)	-	-	-	-
Net cash flows generated from financing activities	8,387	29,493	14,493	-	-
Net increase in cash and cash equivalents	(58,098)	59,679	(47,195)	16,666	(66,762)
Cash and cash equivalents at beginning of year	152,610	92,931	140,126	123,460	190,222
Cash and cash equivalents at end of year	94,512	152,610	92,931	140,126	123,460

Accounting Ratios

	2019	2018	2017	2016	2015
	%	%	%	%	%
Net interest income and other operating income to total assets	2.73	2.49	2.58	2.94	2.68
Operating expenses to total assets	1.88	1.82	2.21	2.15	2.13
Cost to income ratio	68.64	73.10	85.50	73.38	79.37
Profit/(loss) before tax to total assets	0.65	0.46	0.28	0.43	0.29
Profit/(loss) before tax to equity	6.02	4.66	3.51	7.24	5.86
Profit/(loss) after tax to equity	3.74	2.97	2.61	6.82	3.34
Shares in issue (millions)	98.71	88.78	52.36	32.5	32.5
Net assets per share (€0 cents)	91	86	88	95	78
Profit/(loss) per share (€0 cents)	3.39	2.56	2.29	6.46	2.61

Supplementary Financial Information

Supplementary Financial Information

Shareholding Information

As at 31 December 2019, the issued share capital stood at €74,544,000 (2018: €67,044,000), made up of 98,707,626 (2018: 88,776,483) fully paid up ordinary shares of €0.7552 (2018: €0.7552) each.

The ordinary shares are held as follows:

	NO. OF SHARES
JUD Investment Group Limited (C 74331)	91,235,202
PG Holdings Limited (C 8569)	2,222,424
Virtu Investments Limited (C 42860)	1,750,000
Mizzi Organisation Limited (C 813)	1,750,000
SAK Limited (C 3240)	1,750,000
	98,707,626

The percentage holdings stand as follows:

	%
JUD Investment Group Limited (C 74331)	92.44
PG Holdings Limited (C 8569)	2.25
Virtu Investments Limited (C 42860)	1.77
Mizzi Organisation Limited (C 813)	1.77
SAK Limited (C 3240)	1.77
	100.00

Each of the shareholders are entitled to appoint one Director in line with the Bank's Articles of Association. Each ordinary share entitles the shareholder to one voting right.