

Annual Report and
Financial Statements

2023



izola Bank



Annual Report **2023**

Directors' and Other Statutory Reports	iv
Financial Statements	1
Independent Auditor's Report	92
Appendices	
Appendix I – Pillar 3 Disclosures	A-ii
Appendix II – Five-Year Summary	A-xv
Appendix III – Supplementary Financial Information	A-xviii

Directors' and Other Statutory Reports

Chairperson's Statement	iv
Directors' Report	vi
Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance	ix
Report of the Remuneration and Nomination Committee	xviii
Independent Auditors' Report - Report required by Capital Markets Rule 5.98 issued by the Malta Financial Services Authority	92

Chairperson's Statement

For the Year Ended 31 December 2023

The year 2023 witnessed a series of unprecedented events, including a resurgence in interest rates, significant inflationary pressures, and escalating geopolitical tensions. While monetary policy rates have stabilised somewhat, they remain notably higher compared to recent years.

Despite some relief from inflationary pressures in certain regions, ongoing conflicts in the Middle East and Ukraine continue to exacerbate humanitarian crises and disrupt critical trade routes, posing ongoing threats to economic stability.

However, amidst these challenges, the Bank remained committed to executing its growth and diversification strategy. In 2023, we successfully achieved our objective of significantly expanding our retail depositor base and made substantial progress in innovating new products within the factoring sector. These advancements are anticipated to serve as key drivers for our future growth.

Looking ahead, the Bank will retain its focus on being agile and responsive enough to meet new demands in this constantly changing environment and continue to offer and develop sustainable products, services and solutions through innovation and digitalisation.

Bank Performance

During the year ended 31 December 2023, the Bank saw substantial increases in its revenue streams, growing its interest income by 45% over 2022 levels.

The Bank's total assets increased by 18% during the year, surpassing the half-a-billion-euro mark and closing the year at €507,947,733. This was mainly driven by growth in the lending and factoring portfolios. Factored receivables increased by €21.6 million, or 18%, on the prior year, whilst lending increased by €20.6 million, or 13%, compared to 2022. The investment portfolio decreased by a marginal €2 million, or 2%, compared to December 2022, mainly the result of disposal of some corporate bond exposures.

However, sharp increases in interest rates on deposits during the year led to a compression of net interest income of 9%. The financial year 2023 was also characterised by increased operational expenses, partially related to continued investment in staff and systems as well as an increased advertising spend due to the return of a competitive market for deposits. This resulted in an increase of 22% in staff costs and a 19% increase in other administrative expenses. Within the latter, the Bank also incurred an increase in Depositor Compensation Scheme (DCS) contributions due to changes in the relevant legislation.

These factors resulted in an operational loss after tax for the year of €1,242,368. Taking into account a reversal of negative fair value movements from 2022 and a revaluation of the current head office, this resulted in a positive total comprehensive income for the year, net of tax, of €540,155.

As of 31 December 2023, the Bank remained well capitalised, with the Capital Adequacy Ratio (CAR) and Core Equity Tier 1 (CET1) Ratio standing at 18.96% and 12.63% respectively – within the capital requirements established following the Supervisory Review and Evaluation Process (SREP) by the Malta Financial Services Authority (MFSA) of 14.8% CAR and 10.5% CET1.

The Bank's Liquidity Cover Ratio (LCR) of 1,948% is well above European banking sector norms. This is attributed to the Bank's robust and stable funding structure, primarily sourced from retail channels. Notably, a substantial portion of this funding comprises fixed term, rather than demand deposits, further fortifying the Bank's liquidity position.

In these financial statements, the Board sought to adjust an incorrect accounting treatment pertaining to the acquisition of sovereign bonds during the financial year ending 31 December 2021. This correction resulted in a restatement of the 31 December 2021, 31 December 2022 and Interim Financial results for 30 June 2023; specifically, the carrying amounts of the following line items - Financial Investments, Equity and Deferred Taxation as disclosed in Note 2.8.

Regulatory Environment

During the course of 2023, the Bank continued strengthening the risk and compliance functions, and remained committed to monitoring all relevant regulatory developments to ensure full compliance with its legal and regulatory obligations. Developments around digital operation resilience, climate and environment risks, payments infrastructure and CRR3 are key focus areas in 2024.

The Board

The Board of Directors met nine times during the year under review. The corporate governance structure remains robust and is upheld through constructive engagement and guidance provided to the management team, not only during Board meetings but also through active involvement in various Board Committees. Additionally, the Bank remains vigilant in monitoring market dynamics, enabling the adoption of best practices in managing and governing the institution in a manner that is both effective and proportionate.

Solidarity with the community

The Bank strongly believes in taking an active role in society by investing in community-based organisations that directly address pressing issues within the country. Starting in 2017, the Bank partnered with Foodbank Lifeline Foundation, a registered NGO which provides short-term emergency food packs to people in desperate need, regardless of race, religion and gender, until they find a path to stability.

During 2023, Izola Bank continued its financial and practical support to meet the increased demand for Foodbank Lifeline's services. We aim to continue helping Foodbank Lifeline not only ease hunger in Malta but also significantly reduce food waste and carbon emissions. During the year under review, the Bank also acknowledged the importance of fostering a healthy body and mind by sponsoring a local Futsal club.

Looking ahead

Looking ahead to 2024 and beyond, the Bank reaffirms its dedication to fostering growth in key areas such as factoring operations, corporate lending, and deposit-raising capacity. These strategic focuses underscore our commitment to providing comprehensive financial solutions while further strengthening our position in the market. As reported in 2022, the Bank launched its residential mortgage product to the retail market in Malta, with plans to grow also in the Dutch market. In view of the reduction in interest margins on such products, we have decided to put our growth plans for this business line on hold.

In 2024, the Bank will mark a significant milestone as it celebrates 30 years of successful operations. This commemoration will be highlighted by the inauguration of our new head office at Castille Square, Valletta. Consolidating our operations in this iconic location will not only bring our staff together under one roof but also enhance our brand visibility.

Conclusion

On behalf of the Board, I would like to thank all our customers for their continued loyalty and support. Finally, I would like to thank the management team and all staff members for their hard work and unfaltering commitment to the Bank.

Ms. Caroline Van Marcke
Chairperson/Director
Izola Bank p.l.c.

28 March 2024

Directors' Report

For the Year Ended 31 December 2023

The directors have prepared this report for Izola Bank p.l.c. ("the Bank") in accordance with Article 177 of the Companies Act 1995 (Chapter 386, Laws of Malta) ("the Act") including the further provisions as set out in the sixth schedule of the Act, together with the financial statements of the Bank for the year ended 31 December 2023.

Board of directors

The directors who served throughout the year were as follows:

Members

Ms. Caroline Van Marcke (Chairperson)
Ms. Magdalena De Roeck
Mr. Simon Azzopardi
Mr. Francis Gouder
Mr. Alain Malschaert
Mr. Andrew Mifsud
Mr. Guido Mizzi
Mr. Patrick H. Van Leynseele

Company secretary

Mr. Calvin Bartolo

Principal activities

Izola Bank p.l.c. is registered in Malta as a public limited liability company under the Companies Act, 1995 (Chapter 386, Laws of Malta). The Bank is licensed by the Malta Financial Services Authority to carry out the business of banking in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta).

The Bank is principally engaged in providing corporate banking and factoring services to resident and non-resident customers, including to related parties, with simple and easy to use savings products for both local and foreign individuals and businesses.

Operational Review

A review of the business of the Bank for the year ended 31 December 2023 and an indication of future developments are provided in the Chairperson's Statement, which can be found in the front section of this Annual Report.

Principal risks and uncertainties

The main risks that the Bank has identified are credit risk arising from changes in credit quality and the recoverability of loans and amounts due from Maltese and Belgian counterparties, concentration risk arising from an uneven distribution of counterparties and liquidity and interest rate risks which are inherent in the nature of the business of banking. Other risks which are closely monitored by management include foreign exchange risk and investment price risk, reputational risk, operational risk as well as cyber-security and business continuity risks.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits. A detailed overview of these risks, together with the respective financial metrics are outlined in Note 4 of the Financial Statements.

Directors' responsibilities for the financial statements

The Directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period. In preparing the financial statements, the Directors are responsible for:

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

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

The financial statements of the Bank for the year ended 31 December 2023 are included in this Annual Report and made available on the Bank's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Dividends and reserves

In the interest of preservation of capital and liquidity, the Directors have not declared an interim dividend nor proposing the payment of a final dividend for the financial year 31 December 2023.

Going concern pursuant to Capital Markets Rule 5.62

The financial statements are prepared on a going concern basis. The directors regard that pursuant to Capital Markets Rule 5.62, this is appropriate, after due consideration of the Bank's profitability, liquidity, the statement of financial position, capital adequacy and solvency. Specifically, the directors have prepared financial and capital plans for the next three years which show that the Bank is able to continue operating as a going concern for the foreseeable future.

Information pursuant to Capital Markets Rule 5.64

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

Statement of the Directors pursuant to Capital Markets Rule 5.68

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

- the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties that they faced.

Directors' Report

For the Year ended 31 December 2023

Information pursuant to Capital Markets Rule 5.70.1

The Bank provides a range of banking services to the Van Marcke Group, of which the Bank itself is a member. Ms. Magdalena de Roeck, Ms. Caroline Van Marcke and Mr. Patrick Van Leynseele are indirectly interested in this business relationship by virtue of their directorships of various companies within the Van Marcke Group.

Further details can be found within Note 31 of the Financial Statements.

Information pursuant to Capital Markets Rule 5.68

Pursuant to Capital Markets Rule 5.68, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report, and prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, and that the Directors' Report includes a fair review of the development and performance of the business and position of the Bank, together with a description of the principal risks and uncertainties that it faces.

Auditors

BDO Malta have expressed their willingness to continue in office. A resolution proposing the re-appointment of BDO Malta as auditors of the Bank will be submitted at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors on 28 March 2024 by Mr. Andrew Mifsud (Chief Executive Office/Director) and Mr. Francis Gouder (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Financial Report.

Registered Address

53-58 East Street
Valletta
Malta
Tel: +356 2124 1258

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

Introduction

The adoption of the Principles is not mandatory, however the Board of Directors (the 'Board') of Izola Bank p.l.c. believes that the adoption of these Principles is in the best interest of the Bank and its shareholders.

The Bank applies all the provisions of the Code of Principles of Good Corporate Governance (the "Principles"), save where there exist circumstances that warrant non-adherence thereto, as outlined in Part Two to this Statement. During the financial year under review, the Bank did not apply any corporate governance practices beyond the provisions under national law.

PART ONE – Compliance with the Code

Principle 1: The Board

The Bank is headed by an effective Board and all directors exercise prudent controls which enable risk to be assessed and managed. The Board is composed of members who are honest and competent, making them fit and proper to conduct the business of the Bank. The directors are of the appropriate calibre, having the necessary experience to provide leadership, integrity, and judgement in directing the Bank. All directors are responsible for determining the Bank's strategic aims and its organisational structure. The directors regularly review management performance and ensure that the Bank has the appropriate mix of financial and human resources to meet its objectives. Every director is conversant with the statutory and regulatory requirements connected to the business of the Bank and regularly attends meetings of the Board. Directors are appointed by the shareholders during the Bank's Annual General Meeting for a period of one year.

The Board delegates specific responsibilities to the Audit and Risk Committee, the Remuneration and Nomination Committee, the Credit Committee, the Strategy Committee and the Asset and Liability Committee. Each Committee has its own terms of reference which are in turn approved by the Board.

Principle 2: Chairperson and Chief Executive Officer (CEO)

The Bank's current organisational structure incorporates the position of a CEO and that of a Chairperson, both of which are occupied by two different individuals. In line with the Board of Directors' terms of reference, there is a clear division of responsibilities between the running of the Board and the CEO's responsibility in managing the Bank's business. The separation of roles of the Chairperson and the CEO avoids concentration of authority and power in one individual.

The Chairperson is responsible to lead the Board and set out the agenda and ensures that the directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Bank. During the Board meeting, the Chairperson encourages active engagement by all Board members and ensures that the opinions of all the directors are considered in the discussion of complex or contentious issues.

The CEO is responsible to drive and deliver performance within strategic goals and business plans agreed by the Board. He actively leads the senior management in the day-to-day running of the Bank and the execution of the agreed strategy. He takes decisions in all matters affecting the operations, performance, and strategy of the business, except for those matters reserved for the Board or specifically delegated by the Board to its Committees.

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance

Principle 3: Composition of the Board

The Board considers that it is of sufficient size for the requirements of the business and its members possess the required diversity of knowledge and experience to properly execute their duties as directors. Each of the directors is skilful, competent, knowledgeable, and experienced to fulfil the role diligently. The CEO was appointed to the Board of Directors in 2019 and provides the Board with all necessary management and operational information.

During the year under review, the Board consisted of four independent Non-Executive Directors, three Non-Independent, Non-Executive Directors including the Chairperson (as set out in the Directors' Report) and one Executive Director, being the CEO. In determining the independence of its directors, the Board has referred to the principles relating to independence contained in the Code. Each independent non-executive director has made a declaration in writing to that effect in line with the requirements emanating from Code Provisions 3.4. All directors shall disclose their interests and external commitment, both ahead of their appointment and, where significant changes arise, during their tenure as directors. This ensures that directors' business interests and commitments do not give rise to potential conflicts of interest and allow them to devote the necessary time and attention to properly execute their duties on the Board.

Principle 4: Responsibilities of the Board

The Board's role and responsibility is to execute the four basic roles of corporate governance namely: accountability, monitoring, strategy formation and policy development.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives, and monitors implementation and corporate performance within the parameters of all relevant laws, regulations, and codes of best business practice. The Board ensures that policies and procedures are in place to maintain the highest standards of corporate conduct, including compliance with laws, regulations, business and ethical standards by the Bank and its employees. Board members are provided with regular training and information sessions on topical matters such as developments in banking regulation and emerging trends in the business of banking.

The Board requires management to constantly monitor performance and report to its satisfaction, at least on a quarterly basis, fully and accurately on the key performance indicators ('KPIs'). Business risks and KPIs are benchmarked against industry norms so that the Bank's performance can be effectively evaluated.

The Board delegates specific responsibilities to the following Committees:

BOARD COMMITTEES

Audit and Risk Committee

The Audit and Risk Committee's Terms of Reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems, and the statutory audit of the Bank's annual financial statements. Given that the nature of Related Party Transactions does not change from year to year, the vetting and approving of Related Party Transactions is a matter dealt with by the Board.

The Audit and Risk Committee protects the interests of the Bank's shareholders and assists the directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. It ensures that the Bank maintains a robust finance function responsible for accounting and financial data. This Committee has non-executive responsibility for oversight of, and advice to, the Board on matters relating to financial reporting. The Committee monitors the integrity of the Bank's financial statements, any formal announcements relating to the Bank's financial performance and reviews significant financial reporting judgements contained therein.

Principle 4: Responsibilities of the Board (Continued)

BOARD COMMITTEES (Continued)

Audit and Risk Committee (Continued)

The Committee approves the internal audit work plan, which will include assessment of controls relating to financial reporting and other risks as appropriate. The Audit and Risk Committee also has the responsibility to appoint the external auditors, review and monitor the external auditor's independence, and assess the effectiveness of the statutory audit process.

In terms of Capital Markets Rules 5.117, 5.118 and 5.119, the Audit and Risk Committee is composed of three non-executive directors. All three non-executive directors are considered independent since they are free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair their judgement. The Chairman of the Audit and Risk Committee is appointed by the Board of Directors.

In terms of Capital Markets Rule 5.119, Mr Guido Mizzi is the director whom the Board considers as independent of the Bank and competent in accounting, given his extensive experience as a former managing partner of a local accountancy firm. Mr. Van Leynseele is a partner in a Brussels law firm and a member of the Bar in both Brussels and New York. Mr. Azzopardi has an extensive background in product development, predominantly in the financial services sector and technology-focused businesses.

All three directors have experience serving on various other boards and are considered competent to fulfil their responsibilities as members of the Audit and Risk Committee of the Bank. The Board thus considers that the committee members have the competence relevant to the banking sector.

Members

Meetings held: 6

Attended

Mr. Guido Mizzi (Chairperson)	6
Mr. Simon Azzopardi	6
Mr. Patrick H. Van Leynseele	5

Other Board members have a right to attend the meetings. The Audit and Risk Committee has direct access to the Head of Finance and Treasury, who is responsible for the preparation and integrity of financial statements, and a direct reporting line to the Head of Risk and Compliance, who is responsible for ensuring proper execution of the risk management and control framework. The Head of IT, who is responsible for the maintenance of internal controls in relation to Information and Communications Technology ('ICT'), attends meetings when ICT-related topics are discussed. Both the internal and external auditors are also invited to attend meetings on an ad-hoc basis. The Company Secretary acts as Secretary to the Committee.

Remuneration and Nomination Committee

In its nomination function, the Committee is primarily tasked with identifying and nominating new Board candidates for the approval of the Board. The Committee periodically assesses the structure, size, composition, and performance of the Board and makes recommendations to the Board regarding any changes. The Committee is also responsible to periodically assess the skills, knowledge, and experience of individual directors, and of the Board collectively, and report on this to the Board. It is also tasked with reviewing the remuneration structure for the Bank's senior management and all staff, evaluating the impacts of remuneration considerations on its overall risk profile and corporate culture.

The Remuneration and Nomination Committee is composed of three non-executive directors, two of whom are independent and meets at least once a year. The Remuneration and Nomination Committee is tasked with oversight of performance and remuneration practices, making proposals to the Board on the remuneration policy for directors and leading the process for Board appointments. The Committee also assesses the size, composition and performance of the Board and the individual and collective suitability of directors. The terms of reference of this Committee are in line with Code Provisions of 8.A.2 - 8.A.6 and 8.B.2 - 8.B.8. Further information on the Bank's remuneration practices is included within the Report of the Remuneration and Nomination Committee immediately following the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance.

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance

Principle 4: Responsibilities of the Board (Continued)

BOARD COMMITTEES (Continued)

Remuneration and Nomination Committee (Continued)

	Meetings held: 2
Members	Attended
Mr. Francis Gouder (Chairperson)	2
Ms. Caroline Van Marcke	2
Mr. Patrick H. Van Leynseele	2

The Company Secretary acts as Secretary to the Committee.

Credit Committee

The Credit Committee is composed of two independent non-executive directors, the CEO and the Head of Risk & Compliance and operates within Board-approved credit sanctioning limits. The Head of Risk and Compliance was first appointed to the Credit Committee in August t 2023. Proposals falling outside the Committee's limits are referred together with the Committee's recommendations to the Board for consideration and determination.

	Meetings held: 6
Members	Attended
Mr. Alain Malschaert (Chairperson)	6
Mr. Francis Gouder	6
Mr. Andrew Mifsud	6
Mr. Simon Agius (resigned on 31 October 2023)	1

The Company Secretary acts as Secretary to the Committee. The Head of Credit regularly attends the meetings.

Strategy Committee

The Committee is responsible for making recommendations to the Board of Directors in respect of the Bank's business model and forward-looking strategy, taking into consideration the risks and opportunities related to various strategies. The Committee is also responsible for analysing the implementation of the business model and strategy or any changes thereto, including any potential ICT implications.

It is composed of three directors and meets at least once a year. The Bank's Senior Management team and other bank executives may be invited to attend meetings. The Company Secretary acts as Secretary to the Committee.

	Meetings held: 2
Members	Attended
Mr. Simon Azzopardi (Chairman)	2
Ms. Caroline Van Marcke	2
Mr. Andrew Mifsud	2

Principle 4: Responsibilities of the Board (Continued)

BOARD COMMITTEES (Continued)

Management Committee

Asset and Liability Management Committee (ALCO)

The ALCO meets at least quarterly to monitor the Bank's financial performance, and review and manage financial risks in accordance with Bank policies, namely: interest rate, liquidity and funding risk, solvency, market sector and country risk; and counterparty and foreign exchange risk. The ALCO reports to the Board on a quarterly basis.

The ALCO is chaired by the CEO and is composed of the Head of Finance and Treasury, the Head of Strategy and Value and the Senior Finance and Treasury Manager. The Company Secretary acts as Secretary to the Committee.

Members	Meetings held: 9 Attended
Mr. Andrew Mifsud (Chairperson)	9
Mr. Calvin Bartolo	9
Mr. Kurt Grima	9
Mr. Clarence Attard	6

Principle 5: Board Meetings

During the financial year ended 31 December 2023 the Board met nine times. Notice of the dates of forthcoming meetings, together with all board papers, were circulated well in advance to the directors so that they had ample opportunity to consider the information and prepare for each meeting. After each Board meeting and before the next meeting, minutes that faithfully recorded attendance and decisions were prepared and circulated to all directors.

Attendance of the Board members during the financial year ended 31 December 2023 was as follows:

Members	Meetings held: 9 Attended
Ms. Caroline Van Marcke (Chairperson)	9
Ms. Magdalena De Roeck	9
Mr. Simon Azzopardi	8
Mr. Francis Gouder	9
Mr. Alain Malschaert	8
Mr. Andrew Mifsud	9
Mr. Guido Mizzi	9
Mr. Patrick H. Van Leynseele	9

Company Secretary

Calvin Bartolo

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance

Principle 6: Information and Professional Development

The CEO and Company Secretary brief all new directors in detail on the Bank's organisation and activities and their responsibilities as directors.

When they judge it necessary, all directors can access independent professional advice at the Bank's expense to enable them to discharge their responsibilities as directors. All directors also have access to the services of the Company Secretary for advice on all governance matters.

The Bank is committed to providing for the development and training of management and employees. The Board is updated at least annually with the latest staff development programme. In accordance with Code Provision 6, the Board is responsible for the appointment of the CEO whilst, in line with Code Provision 6.5, the CEO is responsible for the recruitment and appointment of senior management. Training of management and employees is a priority, and, in this respect, access to internal and external training is provided by the Bank to management and employees. The Bank also has a system in place which monitors management and staff engagement. As part of succession planning and talent management, the Board and the CEO ensure that the Bank implements appropriate schemes to recruit, retain and motivate high-quality staff members.

Principle 7: Evaluation of the Board's Performance

The Board has set up the Remuneration and Nomination Committee to periodically review and monitor the effectiveness of the Bank's Board suitability policy and to guide the execution of suitability assessments of directors. The Chairperson reports on the Committee's activities and submits recommendations on areas falling within its remit upon request of the Board of Directors. In line with its policies, the Bank performs a suitability assessment every 2-3 years, with the most recent one performed in May 2021.

The Committee may request information or reports from internal departments to facilitate discussions and decision-making. It may also provide guidance on how policies pertaining to performance, remuneration and training are to be communicated internally.

Principle 8: Committees

The Board established a Remuneration and Nomination Committee to oversee matters of remuneration and nomination in line with best practice. More detailed information regarding remuneration is presented in the Report of the Remuneration and Nomination Committee following the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance.

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

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

The Bank communicates with its shareholders through the Bank's Annual General Meeting as well as by way of the Annual Report and Financial Statements.

The Bank has an Internal Code of Dealing Policy to give guidance to the Bank's directors and employees on procedures to be followed when dealing in the Bank's securities and on the treatment of Inside Information in line with the provisions of the Prevention of Financial Markets Act and any related subsidiary legislation and regulations.

The Bank's shareholders are not custodians, banks, financial institutions, fund managers, stockbrokers, or investment managers and as a result, Principle 10 is not applicable.

Principle 11: Conflicts of Interest

The directors are always strongly aware of their responsibility to act in the interest of the Bank and its shareholders as a whole and of their obligation to avoid conflicts of interest. The latter may and do arise on specific matters. In such instances, the Bank ensures that such conflicts, actual or potential, are managed in the best interest of the Bank. Each director is required to disclose in full any matter where there is a potential or actual conflict of interest, whether such conflict arises from personal interests or the interests of the companies in which such person is a director or officer. Directors do not participate in a discussion concerning matters in which they have a conflict of interest unless the Board finds no objection to the presence of such director. In any event, the director shall refrain from voting on the matter.

On joining the Board, and regularly thereafter, the directors are informed of their obligations on dealing in securities of the Bank within the parameters of the law, including the Capital Markets Rules, and the directors follow the required procedures. Interests of directors are disclosed within Note 32 - Related Parties - to the accompanying Financial Statements.

Principle 12: Corporate Social Responsibility

Over the past 29 years, the Bank has transformed itself to be in a better position to deliver on its purpose: enabling purposeful growth. This value is at the heart of the Bank's CSR initiatives, as it continues to provide both tangible and immediate contributions to the community's welfare. The Bank's approach to CSR is through investing in community-based organisations that directly address pressing issues within the country – issues if left unattended would have dire consequences for people in need.

- **Foodbank Lifeline Foundation**

Since 2018, the Bank has proudly served as an official sponsor of Foodbank Lifeline Foundation Malta, an esteemed NGO dedicated to providing essential food assistance to individuals in immediate need, irrespective of their background. Over the years, our collaboration with Foodbank Lifeline has deepened, reflecting our unwavering commitment to addressing food insecurity in Malta. Beyond financial contributions, Izola Bank has actively engaged in practical initiatives to bolster the Foundation's vital services, extending support to thousands of beneficiaries annually. Demonstrating a hands-on approach, one of our team members also serves on the NGO's Board of Directors, symbolising our shared vision for a future without hunger in Malta.

- **Fostering Digital Empowerment for Foodbank Lifeline**

As part of our comprehensive support, the Bank sponsors the design, development and maintenance of Foodbank Lifeline's digital platforms, including its informative website and active social media channels. By facilitating online referrals and disseminating valuable resources, we aim to enhance accessibility to Foodbank Lifeline's services and amplify its outreach within the community. Additionally, our financial backing has enabled the Foundation to cultivate a robust online presence, garnering significant engagement and support from over 13,000 followers across various platforms. Through strategic campaigns and promotions organised by Izola Bank, we strive to mobilise donations and elevate public awareness of Foodbank Lifeline's mission.

- **Reverse Advent Calendar Campaign**

An annual highlight during the festive season, the Reverse Advent Calendar Campaign is a hallmark initiative co-led by Izola Bank and Foodbank Lifeline. Embraced eagerly by local stakeholders, including schools and businesses, this campaign embodies the spirit of giving and solidarity within our community. As stewards of this initiative, the Bank orchestrates the campaign's logistical aspects, from media coordination to social media management, ensuring its seamless execution and widespread impact. Reflecting on the success of the 2023 Christmas period, we reaffirm our steadfast commitment to fostering compassion and support for those in need through collaborative endeavours like the Reverse Advent Calendar Campaign.

- **Supporting the Sporting Community**

Izola Bank proudly sponsored the Ta Xbiex Futsal Team for the 2023 – 2024 season to promote an active lifestyle and support the local sporting community. Our partnership with the team underscores our commitment to fostering health and wellness initiatives in Malta. Moreover, Izola Bank took the initiative to bring the Ta Xbiex Futsal Team and Foodbank Lifeline Foundation together through the organisation of a 10-hour Football and Futsal Marathon, which will be held in early 2024, aimed at raising vital funds for Foodbank Lifeline. Under the 'Goals for Good' slogan, this event targets companies, sporting associations and the public to get involved in a good cause.

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance

PART TWO – Non-Compliance with the Code

Principle 2 – Code Provision 2.3

The Chairperson of the Bank cannot be considered independent in accordance with the principles relating to independence contained in the Code.

Principle 4 – Code Provision 4.2.7

The Code Provision recommends that the Board should develop a succession policy for the future composition of the Board and particularly the executive component thereof, for which the Chairman should hold key responsibility. The Board does not have a succession policy in place for the future composition of the Board of Directors. This approach may be revised in the future in line with changes to the Bank's size and/or organisational structure.

Principle 6 – Code Provision 6.4.4

Code Provision 6.4.4 recommends the CEO to establish a succession plan for senior management. The Bank does not have a formal succession plan in place for senior management. This approach may be revised in the future in line with changes to the Bank's size and/or organisational structure.

Principle 7 – Code Provision 7.3

Code Provision 7.3 recommends that the non-executive directors be responsible for the evaluation of the Chairperson, taking into account the views of the executive director. This evaluation has not been adopted to date but may be revised with future policy changes.

Capital Markets Rule 5.97.4

The information required by this Capital Markets Rule is found in the Directors' Report, within the Directors' Responsibilities section.

The Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance was approved by the Board of Directors on 28 March 2024.

Report of the Remuneration and Nomination Committee

Report of the Remuneration and Nomination Committee

Governance

The Bank's Remuneration and Nomination Committee comprises three non-executive directors and is tasked with overseeing the Bank's remuneration and nomination practices. Information regarding the Committee's functions, composition, and attendance at meetings is disclosed within the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance.

The Remuneration and Nomination Committee's report was approved by the Board of Directors at its meeting on 6 December 2023.

Remuneration Policy

The Bank's Remuneration Policy aims to increase transparency in remuneration matters, to support the business goals of the Bank through efficient remuneration structures, and to create common basic values and guidelines for the Bank when offering remuneration and benefits to the senior management team of the Bank.

There were no deviations from the procedure for the implementation of the Bank's Director's Remuneration Policy.

Remuneration Statement

Executive Management

Reference to senior management shall mean the CEO, the Head of Finance & Treasury, the Head of Operations, the Head of Credit, the Head of IT, the Head of Risk and Compliance, the Head of HR and the Head of Strategy & Value. The Board is of the opinion that the remuneration packages for senior management are in line with local market expectations and are at an appropriate level to attract and retain executives with the appropriate skills, qualities, and experience to ensure the effective management of the Bank.

The terms and conditions of senior management employment are set out in the respective indefinite employment contracts. Senior management is not entitled to share options or profit sharing. There are no supplementary pension or early retirement schemes in place, and notice periods are as established by law. Senior management is eligible for an annual salary increase and discretionary performance bonus (not exceeding fixed remuneration) in line with the Bank's overall performance, individual performance and general market remuneration trends.

Senior management is entitled to non-cash benefits, including the use of a company car or equivalent car cash allowance. Other benefits afforded to all staff members, including senior management, are personal accident, life, and health insurance coverage.

Loans amounting to €947,426 were advanced to key management personnel as disclosed in Note 31.3 to the financial statements.

There have been no significant changes in the Bank's remuneration policy for senior management during the year under review. During 2023, the Bank continued offering all staff members, including senior management, subsidies on home loan interest rates.

Total emoluments of senior management for the year ended 31 December 2023 are as follows:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€762,418	€78,117	None	Non-cash benefits referred to immediately above

During the year under review, no special payments (sign-on and/or severance pay), payments exceeding €1 million or any payments subject to deferral were made to key management personnel.

Report of the Remuneration and Nomination Committee

For the Year Ended 31 December 2023

Directors

As of 31 December 2023, the Board was composed of 7 non-executive directors and one executive director.

The maximum annual aggregate emoluments that may be paid to the directors are approved by the shareholders in a General Meeting. This amount was fixed at an aggregate sum of €175,000 at the Annual General Meeting held on 24 July 2023.

None of the directors had service contracts with the Bank as at the end of the financial year.

Furthermore, none of the directors, in their capacity as a director of the Bank, are entitled to profit sharing, share options, pension benefits or any other remuneration.

In line with the Bank's Remuneration Policy, none of the Directors are eligible to receive variable remuneration in their function as Directors. In this respect, there is no formal provision for the reclamation of variable remuneration.

Total emoluments received by directors relative to their directorship of the Bank in respect of the financial year ended 31 December 2023 are disclosed in the table below:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€140,000	None	None	None

	Page
Statement of Profit or Loss and Other Comprehensive Income	2
Statement of Financial Position	3
Statement of Changes in Equity	4
Statement of Cash Flows	6
Notes to the Financial Statements	7
Independent Auditors' Report	92

The page numbers shown within this publication are for reference purposes only. The page numbers referred to in the Audit Report, are those as presented in the originally signed version of the Annual Report for the year ended 31 December 2023 as issued on the 28 March 2024.

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2023

		2023	2022
	Note	€	€
Interest and similar income	5	19,039,346	13,087,771
Interest expense	5	(12,052,370)	(5,412,645)
Net interest income		6,986,976	7,675,126
Fee and commission income	6	157,529	182,419
Fee and commission expense	6	(141,096)	(126,507)
Net fee and commission income		16,433	55,912
Net trading income	7	(37,800)	15,789
Net losses on disposal of financial investments measured at FVOCI		-	(7,299)
Other operating income	8	129,864	101,325
Total operating income		7,095,473	7,840,853
Depreciation of property and equipment	18	(181,399)	(149,201)
Amortisation of intangible assets	19	(872,615)	(863,548)
Changes in expected credit losses and other credit impairment charges	9	(441,180)	(919,147)
Employee compensation and benefits	10	(3,054,488)	(2,513,276)
Other administrative expenses	10	(4,515,169)	(3,783,487)
Loss before tax		(1,969,378)	(387,806)
Income tax credit	11	727,010	103,587
Loss for the year		(1,242,368)	(284,219)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Gain on property revaluation		1,170,375	100,784
Income taxes		(180,305)	(15,118)
		990,070	85,666
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Debt instruments measured at fair value through other comprehensive income:			
Net movement in fair value, before tax		1,171,649	(3,992,086)
- Income taxes		(410,077)	1,397,230
Movement in expected credit losses, before tax		47,509	34,822
- Income taxes		(16,628)	(12,188)
Net gains reclassified to profit or loss on disposal, before tax		-	(7,299)
- Income taxes		-	2,555
		792,453	(2,576,966)
Other comprehensive income for the year, net of tax		1,782,523	(2,491,300)
Total comprehensive income for the year, net of tax		540,155	(2,775,519)
Earnings per share	12	(2c14)	(0c49)

The accompanying notes on pages 8 to 91 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2023

		2023	2022 (Restated)	2022
	Note	€	€	€
ASSETS				
Balances with Central Bank of Malta and cash	13	56,242,720	17,598,287	16,193,768
Loans and advances to banks	14	6,757,337	10,214,993	25,420,282
Financial investments	15	101,589,059	103,542,260	118,340,310
Factored receivables	16	140,049,872	118,363,724	95,051,834
Loans and advances to customers	17	180,964,061	160,329,282	131,369,341
Property and equipment	18	13,939,136	11,712,225	12,565,395
Intangible assets	19	3,630,203	1,975,593	1,774,370
Current tax asset		183,341	641,499	793,029
Deferred tax asset	25	2,200,649	1,971,588	-
Other assets	20	2,391,355	3,181,811	1,971,720
Total assets		507,947,733	429,531,262	403,480,049
LIABILITIES				
Amounts owed to institutions	21	20,000,000	40,000,000	55,000,000
Amounts owed to banks	22	271,105	275,815	274,715
Amounts owed to customers	23	429,743,262	335,660,870	297,780,509
Debt securities issued	24	16,861,501	16,820,322	11,940,167
Deferred tax liabilities	25	808,057	684,044	540,870
Accruals and other liabilities	26	8,393,356	4,759,914	3,975,122
Total liabilities		476,077,281	398,200,965	369,511,383
EQUITY				
Called up share capital	27	29,000,000	29,000,000	10,000,000
Capital contribution reserve	27	32,675	32,675	17,032,675
Property revaluation reserve	27	3,967,372	2,977,302	3,521,238
Fair value reserve	27	(1,708,321)	(2,500,774)	76,192
Depositor compensation scheme reserve	27	1,038,647	831,860	1,288,168
Reserve for general banking risks	27	55,025	72,782	45,091
(Accumulated losses)/retained earnings	27	(514,946)	916,452	2,005,302
Total equity		31,870,452	31,330,297	33,968,666
Total liabilities and equity		507,947,733	429,531,262	403,480,049
Memorandum items				
Commitments	28	288,377,842	185,068,135	92,738,305

The accompanying notes on pages 8 to 91 are an integral part of these financial statements.

The financial statements on pages 7 to 113 were approved and authorised for issue by the Board of Directors on 28 March 2024. The financial statements were signed on behalf of the Bank's Board of Directors by Mr. Andrew Mifsud (Chief Executive Officer) and Mr. Francis Gouder (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Statement of Changes in Equity

For the Year Ended 31 December 2023

Notes	Share Capital	Property revaluation reserve	Fair value reserve	Depositor compensation scheme reserve	Capital contribution reserve	Reserve for general banking risks	Accumulated losses	Total
	€	€	€	€	€	€	€	€
Balance at 1 January 2023	29,000,000	2,977,302	(2,500,774)	831,860	32,675	72,782	916,452	31,330,297
Total comprehensive income								
Loss for the year	-	-	-	-	-	-	(1,242,368)	(1,242,368)
Other comprehensive income								
Gain arising on property revaluation, net of tax	-	990,070	-	-	-	-	-	990,070
Financial investments measured at fair value through other comprehensive income								
- Net movement in fair value, net of tax	-	-	761,572	-	-	-	-	761,572
- Movement in expected credit losses, net of tax	-	-	30,881	-	-	-	-	30,881
- Net gains reclassified to profit or loss on disposal, net of tax	-	-	-	-	-	-	-	-
Total other comprehensive income	-	990,070	792,453	-	-	-	-	1,782,523
Total comprehensive income for the year	-	990,070	792,453	-	-	-	-	540,155
Transfers within reserves								
Transfer of revaluation surplus on disposal of property, net of tax	-	-	-	-	-	-	-	-
Derecognition of deferred tax on fair value of property	-	-	-	-	-	-	-	-
Other transfers	27	-	-	206,787	-	(17,757)	(189,030)	-
Total transfers within reserves	-	-	-	206,787	-	(17,757)	(189,030)	-
Transactions with owners								
Contributions by owners	27	-	-	-	-	-	-	-
Issue of bonus shares	27	-	-	-	-	-	-	-
Total transactions with owners recognised directly in equity	-	-	-	-	-	-	-	-
Balance at 31 December 2023	29,000,000	3,967,372	(1,708,321)	1,038,647	32,675	55,025	(514,946)	31,870,452

The accompanying notes on pages 8 to 91 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2022 (Restated)

	Notes	Share Capital	Property revaluation reserve	Fair value reserve	Depositor compensation scheme reserve	Capital contribution reserve	Reserve for general banking risks	Accumulated losses	Total
		€	€	€	€	€	€	€	€
Balance at 1 January 2022		10,000,000	3,521,238	(612,547)	1,288,168	17,032,675	45,091	2,005,302	33,279,927
Restatement		-	-	688,739	-	-	-	-	688,739
Restated at 1 January 2022		10,000,000	3,521,238	76,192	1,288,168	17,032,675	45,091	2,005,302	33,968,666
Total comprehensive income									
Loss for the year		-	-	-	-	-	-	(284,219)	(284,219)
Other comprehensive income									
Gain arising on property revaluation, net of tax		-	85,666	-	-	-	-	-	85,666
Financial investments measured at fair value through other comprehensive income									
- Net movement in fair value, net of tax	2.8	-	-	(2,594,856)	-	-	-	-	(2,594,856)
- Movement in expected credit losses, net of tax		-	-	22,634	-	-	-	-	22,634
- Net gains reclassified to profit or loss on disposal, net of tax		-	-	(4,744)	-	-	-	-	(4,744)
Total other comprehensive income		-	85,666	(2,576,966)	-	-	-	-	(2,491,300)
Total comprehensive income for the year		-	85,666	(2,576,966)	-	-	-	(284,219)	(2,775,519)
Transfers within reserves									
Transfer of revaluation surplus on disposal of property, net of tax		-	(629,602)	-	-	-	-	629,602	-
Derecognition of deferred tax on fair value of property		-	-	-	-	-	-	137,150	137,150
Other transfers	27	-	-	-	(456,308)	-	27,691	428,617	-
Total transfers within reserves		-	(629,602)	-	(456,308)	-	27,691	1,195,369	137,150
Transactions with owners									
Contributions by owners	27	17,000,000	-	-	-	(17,000,000)	-	-	-
Issue of bonus shares	27	2,000,000	-	-	-	-	-	(2,000,000)	-
Total transactions with owners recognised directly in equity		19,000,000	-	-	-	(17,000,000)	-	(2,000,000)	-
Balance at 31 December 2022		29,000,000	2,977,302	(2,500,774)	831,860	32,675	72,782	916,452	31,330,297

The accompanying notes on pages 8 to 91 are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended 31 December 2023

	Note	2023 €	2022 €
Cash used in operating activities	29	36,459,100	(30,306,813)
Income tax paid		(85,248)	(63,667)
Income tax refunds		533,219	-
Net cash inflows/(outflows) from operating activities		36,907,071	(30,370,480)
Cash flows from investing activities			
Payments to acquire property and equipment and intangible assets		(3,765,160)	(2,478,688)
Proceeds from disposal of property		-	2,204,000
Payments to acquire investments		(100,000)	(40,740,036)
Proceeds from disposal of investment securities		1,302,167	51,362,776
Interest received from financial investments		2,152,107	1,612,389
Net cash flows (used in)/generated from investing activities		(410,886)	11,960,441
Cash flows from financing activities			
Proceeds from issue of debt securities		-	13,633,597
Redemption of debt securities		-	(8,814,000)
Interest and premium paid on debt conversion		-	(284,663)
Interest paid on debt securities in issue		(843,370)	(540,000)
Net cash flows (used in)/generated from financing activities		(843,370)	3,994,934
Net increase/(decrease) in cash and cash equivalents		35,652,815	(14,415,105)
Cash and cash equivalents at beginning of year		25,555,573	39,970,678
Cash and cash equivalents at end of year	30	61,208,388	25,555,573

The accompanying notes on pages 8 to 91 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2023

	Page
1 Reporting entity	8
2 Basis of preparation	8
3 Material accounting policies	12
4 Financial risk management and review	28
5 Net interest income	70
6 Net fee and commission income	70
7 Net trading income	71
8 Other operating income	71
9 Changes in expected credit losses and other credit impairment charges	72
10 Loss before tax	72
11 Income tax expense	73
12 Earnings per share	74
13 Balances with Central Bank of Malta and cash	74
14 Loans and advances to banks	74
15 Financial investments	75
16 Factored receivables	77
17 Loans and advances to customers	77
18 Property and equipment	78
19 Intangible assets	79
20 Other assets	80
21 Amounts owed to institutions	80
22 Amounts owed to banks	80
23 Amounts owed to customers	80
24 Debt securities in issue	81
25 Deferred tax assets and liabilities	82
26 Accruals and other liabilities	83
27 Share capital and reserves	83
28 Commitments	84
29 Net cash from operating activities	85
30 Cash and cash equivalents	85
31 Related parties	86
32 Operating segments	88
33 Critical accounting estimates and judgements	90
34 Subsequent events	91



izola Bank

Notes to the Financial Statements

For the Year Ended 31 December 2023

1 Reporting entity

Izola Bank p.l.c. (the “Bank”) is a public limited liability company domiciled and incorporated in Malta. The Bank is a credit institution licenced in Malta and is primarily involved in the provision of lending and factoring services to corporate and retail customers, as well as the raising of deposits from retail customers.

2 Basis of preparation

2.1 Statement of compliance with IFRSs as adopted by the European Union

These financial statements have been drawn up in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), including interpretations issued by the IFRS Interpretations Committee (“IFRIC”), and as adopted by the European Union (“EU”).

These financial statements have also been prepared and presented in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta).

2.2 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for:

- Financial investments measured at fair value through other comprehensive income (“FVOCI”);
- Financial investments designated at FVOCI or at fair value through profit or loss (“FVTPL”); and
- Property within ‘Property and equipment’ measured at revalued amount.

2.3 Standards, interpretations and amendments to published standards effective in 2023

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

	Issued on	Effective from
Amendments to IAS 1: Disclosure of Accounting Policies	12/02/2021	01/01/2023
Amendments to IAS 8: Definition of Accounting Estimates	12/02/2021	01/01/2023
Amendments to IAS 12: Deferred tax related to Assets and Liabilities arising from a Single Transaction	07/05/2021	01/01/2023

The applications of these new standards and amendments have had no impact on the disclosures or amounts recognized in the Bank’s financial statements, except for the following:

- Information about the Bank’s accounting policies is presented in a more structured and informative way as required by the Amendment to IAS 1.
- The information about the key assumptions that directors have made in applying the Company’s accounting policies, impact of the judgement and estimates is disclosed in Note 3.
- Deferred tax asset and deferred tax liability is recognised as required by the Amendments to IAS 12, see Note 3.16 for details.

2 Basis of preparation (continued)

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

Certain new accounting standards and interpretations have been published, which are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Bank. The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2024, which have been endorsed by the EU, and other minor amendments to IFRSs that are effective from 1 January 2024, which have not yet been endorsed by the EU.

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

	Issued on	Effective from
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	23/01/2020	01/01/2024
Amendments to IAS 1: Non-current Liabilities with Covenants	31/10/2022	01/01/2024
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	22/09/2022	01/01/2024

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

	Issued on	Effective from
Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules	23/05/2023	01/01/2023
Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements	25/05/2023	01/01/2024
Amendments to IAS 21: Lack of Exchangeability	15/08/2023	01/01/2025

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

- Deferred tax asset and deferred tax liability is recognised as required by the Amendments to IAS 12 (Pillar Two Model Rules), see Note 3.16 for details.

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

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

2.5 Functional and presentation currency

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

2.6 Use of judgements and estimates

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. In this respect, management is required to exercise their judgement in the process of applying the Bank's accounting policies. This requires assumptions to estimate the carrying amount of assets and liabilities, as well as the recognition of income and expenses. Due to the inherent uncertainty and high level of subjectivity involved in making such judgements, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Notes to the Financial Statements

For the Year Ended 31 December 2023

2 Basis of preparation (continued)

2.6 Use of judgements and estimates (continued)

Information about critical accounting judgements, assumptions and estimation uncertainties as at 31 December 2023 is disclosed within Note 33 – Critical accounting estimates and judgements in applying the Bank's accounting policies, as well as within the following notes to the financial statements:

- Expected credit losses on factored receivables and loans and advances to customers: Note 4.3
- Valuation of financial instruments: Note 4.7
- Valuation of property within 'Property and equipment': Note 4.7 and Note 18

2.7 Going Concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include the application of stressed scenarios that reflect existing economic uncertainties triggered by the escalation of the military conflict between Russia and Ukraine, as well as considering potential impacts from other top and emerging risks, including exposure to interest rate hikes, drops in asset prices, and local jurisdiction risks, and the related impact on profitability, capital and liquidity.

2.8 Change in accounting policy as a result of a business model realignment on sovereign debt securities

Following observations outlined in the March 2023 ESMA report on enforcement actions, which specifically highlighted two instances of financial asset reclassification under IFRS 9 'Financial Instruments', the Board of Directors thoroughly re-examined the timeline leading to its decision to reclassify the sovereign bond portfolio from FVOCI to amortised cost. The reclassification proposal was drafted in early 2022 and formally approved during the March 2022 Board meeting, at which the audited financial statements for the year ending 31 December 2021, were also approved.

During the March 2022 meeting, the Board recommended reclassifying these financial instruments to the hold-to-collect category, effective for the financial year 2022, thereby aligning with the true intention at acquisition in 2021. However, this reclassification was not adopted for financial year 2022 but was reconfirmed as taking effect from 1 January 2023 by the Board during its April 2023 meeting.

The reclassification involved transferring the entire sovereign bond portfolio from the fair value through other comprehensive income (FVOCI) category to the amortised cost category in 2023. This decision was made based on the understanding that these financial instruments would be held within a business model aimed at collecting contractual cash flows, as outlined in note 35.2 of the Annual Financial Statements for the year ending 31 December 2022 and confirmed in the Condensed Interim Financial Statements for 30 June 2023 ('Interim 2023 Results').

The Bank deemed adopting the hold-to-collect election for the sovereign bonds acquired in financial year 2021 to be appropriate, considering that this portfolio of high-quality liquid assets was solely intended to raise funding through ECB operations to address liquidity gaps resulting from a shift to shorter-term deposits aimed at managing tighter interest margins due to the launch of new products.

In accordance with initial classification criteria under IFRS 9, the Bank acknowledges that a separate sovereign portfolio should have been designated at initial recognition when these securities were acquired in the financial year ending 31 December 2021. The securities acquired in previous years should have remained categorised under the hold-to-collect-and-sell category and consequently accounted for at FVOCI.

2 Basis of preparation (continued)

2.8 Change in accounting policy as a result of a business model realignment on sovereign debt securities (continued)

Finally, in acknowledging the application of this incorrect accounting treatment, the Board recognizes that a reclassification under IFRS 9 or a correction of a prior period error under IAS 8 'Accounting Policies, Changes in Accounting Estimates, and Errors' does not conflict with the initially intended purpose of designating the sovereign portfolio as hold-to-collect.

After discussions with the external auditors and considering the ESMA commentary around reclassifications of financial asset under IFRS 9 'Financial Instruments', the Bank chose to retrospectively change its accounting policy in line with IAS 8 to accurately reflect the real fact pattern.

Consequently, the Bank corrected the opening balance of each affected component for the earliest period presented in the standalone financial statements, i.e., 1 January 2022, and other comparative amounts disclosed for the comparative period presented, as if the revised accounting policy had always been applied. The effect of such correction was also considered for the Interim 2023 Results, whereby the sovereign debt portfolio was initially reclassified to amortised cost.

A summary of the impact on those interim 2023 results is also included in the following page.

The impact of such restatement can be summarised as follows:

Financial investments	Note	31 Dec 2023	31 Dec 2022	1 Jan 2022
Originally presented		-	91,550,927	117,280,712
Impact of restatement		-	11,991,333	1,059,598
Restated balance	15	101,589,059	103,542,260	118,340,310
Fair value reserve	Note	31 Dec 2023	31 Dec 2022	1 Jan 2022
Originally presented		-	(10,295,141)	(612,547)
Impact of restatement		-	7,794,367	688,739
Restated balance	27.4	(1,708,321)	(2,500,774)	76,192
Deferred taxation, net	Note	31 Dec 2023	31 Dec 2022	1 Jan 2022
Originally presented		-	5,484,510	(170,011)
Impact of restatement		-	(4,196,966)	(370,859)
Restated balance	25	1,392,592	1,287,544	-540,870
Debt securities	Note	31 Dec 2023	31 Dec 2022	1 Jan 2022
Debt securities at FVOCI	15.2	49,824,772	51,340,694	45,983,249
Debt securities at amortised cost	15.3	51,408,026	51,623,268	51,807,339
Restated balance		101,232,798	102,963,962	97,790,588

Notes to the Financial Statements

For the Year Ended 31 December 2023

2 Basis of preparation (continued)

2.8 Change in accounting policy as a result of a business model realignment on sovereign debt securities (continued)

The sovereign debt securities were presented at amortised cost in the Interim 2023 Results and the below summary outlines the impact of the restatement on the amounts presented:

Financial investments	30 Jun 2023
Originally presented	74,894,662
Impact of restatement	(3,047,334)
Restated balance	71,847,328
Fair value reserve	30 Jun 2023
Originally presented	227,272
Impact of restatement	(1,980,767)
Restated balance	(2,208,039)
Deferred taxation, net	30 Jun 2023
Originally presented	120,665
Impact of restatement	1,066,567
Restated balance	1,187,232

3 Material accounting policies

3.1 Financial assets

3.1.1 Recognition and initial 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 trade date, being the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.2 Classification and measurement

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

- Financial assets measured at FVTPL;
- Financial assets measured at FVOCI; and
- Financial assets measured at amortised cost.

The classification of investments in debt instruments depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes.

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

Business model assessment

The Bank performs an assessment of the objective of a business model in which an asset is held at a portfolio level and in specific circumstances at an instrument level since this is deemed to best reflect the way the business is managed and the monitoring of financial information by management.

The information considered in the performance of this assessment includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, management considers whether the 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 manner in which the performance of the portfolio is evaluated and 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 its strategy for how those risks are managed;
- how managers of the business are compensated for business performance (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume, and timing of sales transacted in prior periods, the reasons for such sales and management's expectations in respect of future sales activity. 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 or financial assets that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL since such assets are neither held with the objective to collect contractual cash flows nor held with the objective to collect contractual cash flows and sell financial assets.

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.2 Classification and measurement (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

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

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

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

In some cases, loans originated by the Bank that are secured by collateral limit the Bank's claim to cash flows from the underlying collateral (non-recourse loans). The Bank applies judgement in assessing whether non-recourse loans meet the SPPI criterion.

The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- the financial asset is held within a business model where the objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Interest income from these financial assets is recognised in 'Interest income' using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the statement of profit or loss.

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

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.2 Classification and measurement (continued)

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

Financial assets measured at fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- the financial asset is held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income'. Interest income from these financial assets is recognised in 'Interest income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'Other operating income', and impairment losses are presented as a separate line item in the statement of profit or loss.

Such financial assets comprise primarily debt securities measured at FVOCI and classified within 'Financial investments'.

Equity investments designated at fair value through other comprehensive income

The Bank subsequently measures all equity investments at fair value. On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument basis and is irrevocable.

Where the Bank's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as 'Other operating income' when the Bank's right to receive payments is established.

Such financial assets comprise primarily equity investments designated at FVOCI and classified within 'Financial investments'.

Financial assets measured at fair value through profit or loss

Debt instruments that do not meet the criteria for amortised cost or FVOCI are automatically classified and measured at FVTPL. The Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net within 'Other operating income' in the period in which it arises.

In addition, equity investments that are not designated at FVOCI at initial recognition are also classified and measured at FVTPL. Changes in the fair value of financial assets measured at FVTPL are recognised in 'Other operating income' in the statement of profit or loss as applicable.

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.2 Classification and measurement (continued)

Such financial assets comprise primarily equity investments designated at FVTPL at initial recognition and classified within 'Financial investments'.

3.1.3 Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

3.1.4 Modifications of terms

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

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

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (Note 3.1.3) and a new financial asset is recognised at fair value plus any eligible transaction costs.

The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the borrower being unable to make the originally agreed payments.

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.4 Modifications of terms (continued)

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent a reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

3.1.5 Impairment

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

- Loans and advances to banks;
- Debt instruments classified within 'Financial investments';
- Factored receivables; and
- Loans and advances to customers.

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

The 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.

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.5 Impairment (continued)

Balances held with credit institutions in reputable jurisdictions classified within 'Loans and advances to banks' and debt securities classified within 'Financial investments' are considered to have low credit risk when the financial instrument is assigned an 'investment-grade' credit risk rating. The Bank does not apply the low credit risk exemption to any other financial instrument.

12-month ECLs are a portion of lifetime ECLs and represent the lifetime cash shortfalls that result from default events on a financial instrument that are possible within 12 months from reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2' financial instruments.

Note 4.3 provides more detail in respect of the methodology applied for the measurement of credit loss allowances. 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;
- Undrawn loan commitments: generally, as a provision, measured as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- Financial instruments having 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 credit loss allowance for both components as a deduction from the gross carrying amount of the drawn component;
- 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 represents their fair value. An amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss; and
- Financial guarantee contracts: generally, as a provision, measured as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Renegotiated financial assets

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. This practice is not applied to exposures classified within 'Factored receivables'.

If the terms of a financial asset are renegotiated or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, an assessment is performed to determine whether the financial asset should be derecognised. The implications on the ECL calculation depend on whether the renegotiation leads to derecognition or otherwise, as follows:

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.5 Impairment (continued)

- If the restructuring does not result in the derecognition of the existing asset, renegotiated loans are typically considered credit-impaired and accordingly classified as Stage 3 assets unless no unlikeliness-to-pay ("UTP") events are deemed to have occurred. Assets that are credit-impaired at the time of renegotiation remain in Stage 3 post renegotiation. The credit loss allowance in respect of such exposures is estimated by reference to the expected cash flows arising from the modified financial asset. When evidence suggests that the renegotiated loan is no longer credit-impaired, the asset is transferred out of Stage 3 based on an assessment of historical and forward-looking information and an evaluation of the credit risk over the expected life of the asset, including information about the circumstances that led to the renegotiation.
- If the restructuring results in derecognition of the existing asset, the restructured asset is considered a 'new' financial asset. Any new financial assets that arise following derecognition events as a result of substantial modification to the terms of the instrument are classified as Stage 1 assets, unless the new financial asset is credit-impaired on initial recognition, in which case it will be classified as a purchased or credit-impaired ("POCI") financial asset. A loss is booked in profit or loss (normally as a write-off) since the new instrument is recognised at fair value.

Other than originated credit-impaired loans, all other modified loans can be transferred out of Stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment.

Credit-impaired financial assets

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

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the default risk has reduced significantly and if there are no other impairment indicators. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

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

- The market's assessment of creditworthiness as reflected in bond yields;
- The rating agencies' assessments of creditworthiness, if available;
- The issuer's ability to access the capital markets for new debt issuance;
- The probability of debt restructuring, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or
- In case of sovereign debt issuers, the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (continued)

3.1 Financial assets (continued)

3.1.5 Impairment (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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-off. Indicators that there is no reasonable expectation of recovery include (i) the cessation of enforcement activity and (ii) instances where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. This assessment is performed at the individual asset level.

Recoveries of amounts previously written off are presented within 'Change in expected credit losses and other credit impairment charges' in profit or loss.

Financial assets that are written off could still be subject to enforcement activities to comply with the Bank's procedures for recovery of amounts due.

3.2 Financial liabilities

3.2.1 Initial recognition, classification and measurement

The Bank recognises a financial liability on the 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.

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as subsequently measured at amortised cost. Financial liabilities measured at amortised cost principally comprise 'Amounts owed to institutions', 'Amounts owed to banks', 'Amounts owed to customers', 'Debt securities in issue', together with 'Accruals'.

3.2.2 Derecognition

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

In addition, the Bank derecognises a financial liability when its terms are modified, and the contractual cash flows of the modified liability are substantially different. 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. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

3 Material accounting policies (continued)

3.2 Financial liabilities (continued)

3.2.2 Derecognition (continued)

If the modification of a financial liability is not deemed to be substantial and therefore does not result in the derecognition of the original financial liability, the amortised cost of the financial liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.3 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions, such as in the Bank's trading activity.

3.4 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (continued)

3.4 Fair value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.5 Property and equipment

3.5.1 Recognition and measurement

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

Items of property and equipment are measured at cost or revalued amount less accumulated depreciation and any accumulated impairment losses.

Freehold property is subsequently measured at fair value based on periodic valuations by external independent valuers, less subsequent depreciation. A revaluation is carried out if there is an indication that the fair value of the property differs materially from the carrying amount as at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Equipment is subsequently stated at historical cost less accumulated depreciation and impairment losses.

3.5.2 Revaluation surplus or deficit

Increases in the carrying amount arising on revaluation of property are credited to the Property revaluation reserve within equity. Decreases that offset previous increases of the same individual asset are recognised in the Property revaluation reserve in equity; all other decreases are expensed in profit or loss. Any subsequent increases are credited to profit or loss up to the amount previously debited, at which point such increases continue to be credited to the Property revaluation reserve. Upon disposal of the premises, the relevant portion of the revaluation reserve realised is released and transferred from the Property revaluation reserve to retained earnings.

Where parts of an item of property and equipment have different useful lives, these are accounted for as separate items of property and equipment.

3.5.3 Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits emanating from such component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3 Material accounting policies (continued)

3.5 Property and equipment (continued)

3.5.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment from the date they are available for use.

Land is not depreciated. Upon revaluation of property, accumulated depreciation is eliminated against the gross carrying amount of the asset.

The estimated useful lives for the current and comparative years are as follows:

Premises and improvements	10 – 100 years
Computer hardware	5 years
Motor vehicles	5 years
Other equipment	5—7 years

Items with an initial cost of less than €250 (including taxes) are expensed immediately.

3.5.5 Derecognition

Property and equipment are derecognised upon disposal or when no future economic benefits are expected from its use. 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 year during which the asset is derecognised. The asset's residual value, useful life and method is reviewed, and adjusted if appropriate, at each financial year end.

3.6 Intangible assets – software

Software acquired by the Bank is stated at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to fifteen years.

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

3.7 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (continued)

3.7 Impairment of non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit ("CGU") exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity net of any tax effects. The Bank presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the Bank's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

3.9 Financial guarantees and loan commitments

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

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

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

3.10 Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than POCI financial assets, the Bank estimates future cash flows by reference to the contractual terms of the financial instrument, excluding expected credit losses. For POCI financial assets, a credit-adjusted effective interest rate is calculated by reference to estimated future cash flows also taking into consideration expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3 Material accounting policies (continued)

3.10 Interest income and expense (continued)

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised because of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that are classified as credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset after deducting ECL. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in profit or loss includes:

- interest on financial assets measured at amortised cost; and
- interest on debt instruments measured at FVOCI.

Interest expense presented in profit or loss represents interest in respect of financial liabilities measured at amortised cost.

3.11 Fees and commission income and expense

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

Other fees and commission income, including account servicing fees, credit administration charges and similar fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument may be partially in scope of IFRS 9 and partially in scope of IFRS 15. In such an event, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in scope of IFRS 9 and then applies IFRS 15 to the residual.

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

3.12 Other operating income

The line item primarily comprises realised gains on disposal of financial instruments measured at FVOCI; foreign exchange differences attributable to the translation of monetary assets and liabilities to the Bank's functional currency at reporting date or foreign currency transactions; and fair value movements, interest income, dividend income and foreign exchange differences attributable to financial instruments measured at FVTPL.

Notes to the Financial Statements

For the Year Ended 31 December 2023

3 Material accounting policies (*continued*)

3.13 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity investments. Dividends are presented in other operating income. Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in other comprehensive income.

3.14 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

The Bank does not have right-of-use over assets that span over a long term or that are of significant value.

Short term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.15 Employee benefits

The Bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as they fall due.

3.16 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are only offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Bank has a legal right to offset.

3 Material accounting policies (*continued*)

3.17 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

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

Foreign currency differences arising on translation are generally recognised in profit or loss save for foreign currency differences arising from equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income.

3.18 Cash and cash equivalents

Cash and cash equivalents comprise notes and coins in hand, unrestricted balances held with the Central Bank of Malta and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.19 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Board of Directors (being the chief operating decision maker), to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.20 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.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review

4.1 Organisation

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit and Risk Committee and the Credit Committee with the responsibility for monitoring risk in their specified areas. Non-executive directors sit on these Committees whereas the Chief Executive Officer ("CEO") is either a member of, or otherwise attends, all Committees. The Committees report regularly to the Board of Directors on their activities. The Board has also established an Asset and Liability Management Committee ("ALCO") which is a management committee that reports to the Board of Directors on a quarterly basis.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank has developed appropriate risk management training for the needs of the relevant staff members.

4.2 Risk exposure

The Bank is exposed to a number of risks, which it manages at different organisational levels.

The main categories of risk are:

- *Credit risk;*
- *Market risk;*
- *Liquidity risk; and*
- *Operational risk.*

4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's factored receivables, loans and advances to customers and banks, investment debt securities, and loan commitments arising from lending activities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank follows standards, policies and procedures established by the Bank's Board of Directors for the control and monitoring of credit risk. The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee within a Board-approved credit sanctioning limit. The Bank's management reports to the Credit Committee and the Board of Directors in respect of their responsibility for the management and oversight of credit risk within the Bank's portfolios of financial instruments. The responsibilities comprise the following:

- Formulating credit policies in consultation with business units, in respect of collateral requirements, credit risk assessments, risk grading and reporting, legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the CEO, the Head of Finance and Treasury, the Credit Committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: the Bank's Credit department assesses the level of credit risk exposure in respect of all credit exposures, both prior to origination as well as thereafter. In this respect, the Credit department performs credit risk reviews on a periodic basis to monitor the level of credit risk subsequent to origination date. Exposures in excess of designated limits are referred for approval to the Credit Committee or the Board of Directors, as necessary.
- Limiting concentrations of exposure to counterparties, geographies and industries (for lending exposures) and to issuers, credit rating bands, markets and countries (for financial investments).
- Developing and maintaining the Bank's risk gradings to categorise exposures according to the degree of default risk. The current risk grading framework consists of 5 grades reflecting varying degrees of default risk, as described in Note 4.3.4 of the financial statements. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by senior management.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

- Developing and maintaining the Bank's processes for measuring expected credit losses ("ECLs"), including:
 - The initial approval, regular validation and back-testing of the models used;
 - The identification of SICR and UTP events; and
 - The incorporation of forward-looking information in the ECL calculation.
- Reviewing compliance of departments with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of the Bank's portfolios are provided to the Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Bank in respect of the management of credit risk.

The Bank's principal exposure to credit risk arises from the 'Factored receivables' portfolio as well as the Bank's lending portfolio classified as 'Loans and advances to customers'. The former portfolio comprises two sub-portfolios, both of which represent factoring of receivables on a non and with recourse basis: i) factoring of local bills of exchange (hereinafter referred to as the "Bills of exchange factoring" sub-portfolio) amounting to €98.6 million as at 31 December 2023 (2022: €76.7 million); and ii) factoring of invoices issued by local and foreign customers (hereinafter referred to as the "Invoice factoring" sub-portfolio) amounting to €41.4 million as at 31 December 2023 (2022: €42.6 million).

'Loans and advances to customers' comprises the sanctioning of term loans and advances and overdraft facilities to local corporate customers, amounting to €139 million as at 31 December 2023 (2022: €112.9 million), as well as term lending exposures provided to related parties on an arm's length basis, amounting to €42 million as at 31 December 2023 (2022: €42.2 million). These exposures to local and foreign corporate customers are managed in a similar manner for credit risk management purposes and are hereinafter collectively referred to as the "Corporate lending" sub-portfolio.

During the financial year ended 31 December 2023, the Bank started to implement its strategy to further diversify its asset base through the introduction of a new lending product, namely retail mortgage lending. In this respect, 'Loans and advances to customers' also comprises drawn retail mortgage lending exposures amounting to €18.7 million as of 31 December 2023 (2022: €5.9 million). Given that retail mortgage lending exposures (hereinafter referred to as the "Retail mortgage lending" sub-portfolio) are managed in a different manner than corporate lending facilities, the Bank's credit risk management activities in respect of the former sub-portfolio are being described and presented separately from the latter.

In this respect, the Bank has continued to support its customers and adapted its credit risk management processes accordingly to enable the identification of deterioration in credit risk within its portfolios as early as possible and estimating credit loss allowances using the best possible judgement.

The Bank continued to individually rate borrowers deemed mostly impacted by the heightened levels of economic uncertainty through individual credit risk assessments, on the basis of recently obtained management information and, where available, forecasts, enabling management to assess borrower-specific credit risk levels and identify SICR or UTP events.

In respect of the Bills of exchange factoring sub-portfolio, the Bank assesses credit risk at origination through a scorecard designed to assess the individual debtor's level of credit risk by reference to the debtor's net disposal income and employment status, amongst other factors featuring in the scorecard.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.1 Credit risk measurement

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

(a) Loans and advances to customers

The Bank uses internal credit risk grades (refer to Note 4.3.4) to reflect its assessment of the probability of default of individual counterparties or facilities. Internal credit risk gradings are based on payment behaviour, loan specific information and expert judgement of the Bank's Credit Committee

For corporate lending exposures, information considered by the Bank when determining the internal credit risk grades includes the payment behaviour of the borrower, compliance with financial covenants, and other information impacting a corporate borrower's creditworthiness assessment, including historical information in respect of its financial performance and financial position as well as forecasted financial information. Management also takes into consideration non-financial indicators in the performance of credit risk assessments, such as the timeliness of the provision of financial information, the industry-specific outlook and the impact of general macroeconomic conditions on the borrower's financial performance.

The internal credit risk grades are calibrated such that they reflect the increased risk of default at each higher risk grade. The rating is determined at borrower level through the performance of a creditworthiness assessment of the borrower in each periodic review, performed at least annually.

For retail mortgage lending exposures, internal credit risk grades are determined on the basis of payment behaviour and days past due. Refer to Note 4.3.4 for the definition of the internal retail credit risk grades used by the Bank.

(b) Factored receivables

Unlike corporate exposures classified within 'Loans and advances to customers', bills of exchange factoring and invoice factoring facilities classified within 'Factored receivables' are not managed on a credit-by-credit basis due to the high volume of relatively low value and homogeneous exposures.

In respect of bills of exchange factoring facilities, the credit risk assessment after the date of initial recognition is based on the payment behaviour of debtors, which is monitored on an ongoing basis. The Bank therefore distinguishes between 'problematic' and 'non-problematic' exposures by reference to the number of overdue monthly bill payments at any given point in time.

In respect of invoice factoring facilities, the Bank performs its credit risk assessment at the debtor level by (i) monitoring the payment behaviour of any particular debtor by reference to the proportion of invoices which are past due at any given point in time; and (ii) determining PDs by reference to a credit score assigned to each debtor, which credit score is sourced from a third party external vendor and captures other information about the borrower which impacts their creditworthiness, such as financial performance and previous delinquency history.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

(c) Other financial assets

Other financial assets include balances with the Central Bank of Malta, loans and advances to banks and financial investments. The Bank considers public credit ratings determined by external credit rating agencies to assess the probability of default of individual counterparties. Such public credit ratings are continuously monitored and updated, with the associated PD being determined by reference to realised default rates over the prior 12 months. In determining the probability of default of individual counterparties, the Bank distinguishes between investment-grade and sub-investment grade counterparties.

4.3.2 Expected credit loss measurement

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

- A financial instrument that is not credit-impaired upon initial recognition is classified in 'Stage 1'.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to Note 4.3.2.1 for a description of how the Bank determines when a SICR has occurred.
- If the financial instrument becomes credit-impaired, the financial instrument is moved to 'Stage 3'. Refer to Note 4.3.2.2 for the Bank's definition of credit-impaired.
- Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Refer to Note 4.3.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that forward-looking information is considered. Note 4.3.2.4 includes an explanation of how the Bank has incorporated forward looking information into ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired upon initial recognition. The ECL in respect of POCI exposures is always measured on a lifetime basis ('Stage 3').

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

The Bank recognises credit 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', as defined by external credit rating agencies. The following diagram summarises the impairment requirements under IFRS 9 (other than POCI financial assets):

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

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.1 Significant increase in credit risk

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

For Corporate lending exposures classified within 'Loans and advances to customers', the Bank primarily identifies whether a SICR has occurred since initial recognition by reference to the internal risk gradings determined on an individual borrower level. The Bank allocates each exposure to an internal credit risk grade based on financial and non-financial information which is deemed to be predictive of the risk of default. Amongst other things, reference is made to audited financial statements, management accounts, budgets and projections. Management applies expert credit judgement in assessing the level of credit risk attributable to specific borrowers. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different internal rating grade (refer to Note 4.3.4).

The Bank classifies non-defaulted exposures into 'Stage 2' when the borrower is classified within the 'Substandard' internal credit risk grade and / or forbearance measures have been granted to the borrower, unless additional UTP events have been identified.

In relation to retail mortgage lending exposures classified within 'Loans and advances to customers' and 'Factored receivables', SICR is generally determined on the basis of delinquency related indicators since less information is available at asset level to enable the timely identification of a SICR.

Due to the short-term nature of facilities within the invoice factoring portfolio, the Bank does not distinguish between exposures classified within Stage 1 or Stage 2 since the lifetime PD is deemed to be equivalent to the 12-month PD.

In the case of other financial assets (including loans and advances to banks and debt investment securities), the Bank applies the low credit risk simplification to exposures having an 'investment grade' public credit rating. In this respect, such exposures are not subject to the SICR assessment. Moving from 'investment-grade' to 'sub-investment grade' does not automatically trigger a SICR.

4.3.2.2 Definition of default and credit-impaired assets

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

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

The Bank determines that a financial instrument is credit-impaired or in default (and accordingly classified as Stage 3 by considering relevant objective evidence, primarily:

- whether contractual payments of either principal or interest are past due for more than 90 days for any material credit obligations to the Bank; and

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.2 Definition of default and credit-impaired assets (continued)

- for corporate lending exposures classified within loans and advances to customers, whether there are other indicators that the borrower is unlikely to pay without realisation of collateral, such as an observed deterioration in the financial performance and / or financial position of the borrower; covenant breaches; and concessions granted to a borrower experiencing financial difficulties.

As described earlier, the staging determination in respect of retail mortgage lending exposures and factored receivables is based on payment behaviour, since these portfolios comprise exposures which are homogeneous and individually low in value.

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

Due to the elevated level of uncertainty induced by the current economic environment, as well as the potential delayed default emergence due to the implementation of government support schemes, the Bank performed borrower-level assessments in respect of corporate lending exposures classified within loans and advances to customers to determine whether the economic shock may transform into long-term borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures to Stage 3 to reflect the level of change in credit risk.

An instrument is considered to have cured from defaulted status when it no longer meets any of the default criteria for a period of three consecutive months and, in case of forbore exposures, a period of 12 consecutive months.

The Bank considers other financial assets to be in default when a payment (including a coupon payment) becomes overdue by 1 day or more.

4.3.2.3 Measurement of ECL

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

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

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

Probability of default

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

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.3 Measurement of ECL (continued)

The Bank adopts a credit risk modelling solution developed by an external vendor to estimate PDs in respect of corporate lending exposures classified within loans and advances to customers, in view of the lack of internal history of defaults within this sub-portfolio.

In this respect, the Bank employs statistical models to analyse financial statement data collected in respect of each individual borrower and assign a credit score accordingly. Specifically, the Bank benchmarks the borrower's financial statements with those of an underlying model dataset comprising obligors which are comparable to the Bank's corporate borrowers in terms of size and industry. Borrower-specific credit scores are then mapped to a PD, which is first adjusted to capture country- and industry-specific credit risk characteristics and then assigned to each obligor. The credit score to PD matrices are calibrated based on historical default data observed in the market, where the data was sourced from publicly available information.

As described in Note 4.3.2, the determination of staging is based on a qualitative assessment performed at borrower level. In this respect, the estimation of 12-month or lifetime PDs in respect of any given borrower is determined by reference to assigned internal credit risk grades.

Lifetime PDs are estimated by applying a scalar to the 12-month PD. The scalar, which is based on historical observed data and is assumed to be the same across all assets within a portfolio, looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans.

For retail mortgage lending exposures, PDs are determined by reference to comparable portfolios at peer banks, as well as a hybrid matrix incorporating information from credit rating agencies, given that the portfolio is still in its infancy and the Bank does not have any internally observable default data.

In the case of bills of exchange factoring facilities, the Bank's PDs are determined by reference to an internally developed statistical model based on a Markov chain approach. In this respect, 12-month transition matrices were derived from internal historical data. Default is considered to be an absorbing state, whereby if an exposure is defaulted, it subsequently remains in default for the purposes of estimation of PDs.

A seven-tier rating scale has been developed, designed to capture different potential states of delinquency, ranging from a 'current' status to a '360DPD+' status. Exposures classified within each of the seven-tier rating scales are assigned a PD determined on the basis of internal historical delinquency information. Each tier is then mapped to a relative stage, as described in Note 4.3.4. A cure rate is also applied, also estimated by reference to internal historical delinquency information in respect of this portfolio.

In the case of invoice factoring facilities, PDs are sourced from an external vendor. In this respect, a debtor-specific credit score is assigned by the external vendor based on borrower-specific information. PDs are then determined by reference to the debtor-specific credit score. Due to the short-term maturity profile of such exposures, no distinction is made between 12-month and lifetime PDs for the purposes of the ECL calculation.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.3 Measurement of ECL (continued)

For financial investments issued by corporates, the PD is estimated using the same methodology applied in respect of exposures classified within loans and advances to customers. In this respect, PDs are determined through the use of a credit risk modelling solution developed by an external vendor.

For sovereign debt securities, the Bank estimates PDs by reference to market data issued by external credit rating agencies. In this respect, the PDs used in the ECL calculation reflects historical default rates determined by external credit rating agencies for issuers assigned an external credit rating which is equivalent to the Bank's financial investments. If a counterparty or exposure migrates between external credit ratings, this will lead to a change in PD.

As described in further detail in Note 4.3.2.4, the 12-month and lifetime PDs estimated in respect of loans and advances to customers and bills of exchange factoring facilities also take into consideration forward-looking economic information.

Loss given default

The LGD represents the Bank's expectation of the extent of the loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). The Bank estimates the LGD on the basis of historical recovery rates of claims against defaulted counterparties. The estimation of LGD considers the structure and seniority of the claim, together with the nature and recoverability / enforceability of collateral and associated recovery costs.

Loans and advances to customers are primarily secured by residential and / or commercial real estate, as well as cash pledges. In respect of the former, the LGD takes into consideration projected collateral values, historical discounts to market values to reflect a deduction in future proceeds due to costs to sell and potential loss in value in a forced sale scenario, and time to repossession. A key determinant for the LGD applied to exposures secured by real estate is the Loan-to-Value ratio of individual facilities, where the value of the property takes into account the expected recovery from the sale of the property.

The Bank applies LGDs developed by an external vendor and determined by reference to the carrying amount of tangible assets recognised on the borrower's balance sheet. Expected recoveries from the sale of such assets are used to determine the expected loss and are modelled by reference to assumptions in relation to different haircuts to sale proceeds depending on asset type and the time value of money. The LGD determined through the use of statistical techniques by the external vendor also takes into consideration a correlation factor between PDs and LGDs, with higher LGDs being assigned to borrowers to whom a higher PD is determined by the model.

For bills of exchange factoring facilities, the LGD is determined by reference to the value of the motor vehicle being financed. Specifically, it is assumed that the original value of the motor vehicle is depreciated on a straight-line basis over its useful life. In addition, the LGD calculation also takes into consideration the collateral provided by the factoring clients, which comprises pledged cash held with the Bank to cover potential losses from factored bills of exchange.

In the case of invoice factoring facilities, the Bank purchases credit insurance from a foreign third-party underwriter which provides insurance cover in respect of losses up to 95% of each eligible invoice. In this respect, the LGD applied to invoice factoring facilities is determined on this basis.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.3 Measurement of ECL (continued)

Exposure at default

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD reflects an estimation of potential future drawdowns permissible in terms of the contract, which are estimated based on historical observations and forward-looking expectations.

For loans and advances to customers, the Bank estimates the EAD by reference to the expected balance at default. In this respect, the EAD for term lending exposures (including retail mortgage exposures) takes into consideration the current exposure to the counterparty as well as future expected drawdowns of committed facilities, with different drawdown factors applied to partially drawn and fully unutilised facilities. For revolving exposures, the EAD is estimated by reference to the maximum potential exposure at default.

For bills of exchange factoring facilities, the Bank estimates the EAD by reference to the current exposure to the counterparty and potential changes to the exposure due to contractual repayments.

For invoice factoring facilities, the EAD is assumed to be equal to the gross carrying amount of the exposure at reporting date, since repayments from each facility are expected to be made in one instalment in line with the invoice credit terms.

Period over which ECL is measured

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

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

4.3.2.4 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 ECL may vary by portfolio. Expert judgement has been applied in the process.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.4 Forward-looking information incorporated in the ECL model (continued)

The key drivers of credit risk and credit losses for each portfolio were determined on the basis of a statistical regression analysis of historical relationships between macroeconomic variables and market default data. These key macroeconomic variables determined in respect of each portfolio are disclosed below:

- The Bank estimates forward-looking ECL by reference to the GDP growth rate, unemployment rate, inflation rate, and interest rates, all specific to the local Maltese economy, reflecting the impact of general economic activity on the financial performance of corporate entities; and
- Bills of exchange factoring: the Euro area real GDP, which is deemed to be a good indicator of general economic activity.

Given the short-term nature of invoice factoring facilities, the impact of forward-looking information on the estimation of ECL in respect of these exposures is not deemed to be significant. Similarly, the impact of forward-looking information on the estimation of ECL in respect of retail mortgage lending exposures classified within loans and advances to customers is also deemed to be insignificant due to the fact that the portfolio is still in its infancy.

Three possible scenarios are considered to capture non-linearity across credit portfolios. The 'baseline' scenario represents the most-likely outcome. Macroeconomic forecasts in respect of these macroeconomic variables are sourced from an authoritative source on a semi-annual basis, providing the best estimate view of the economy over a forecasted time horizon.

As a result of the implementation of the new model developed by an external vendor and used to estimate ECLs for corporate lending exposures classified within loans and advances to customers, macroeconomic forecasts are modelled over a 12-month time horizon. The macroeconomic modelling approach used to estimate ECL for bills of exchange factoring exposures remains unchanged.

In addition to the 'baseline' scenario, the Bank considers an 'upside' and a 'downside' macroeconomic scenario, which respectively represent a more optimistic and a more pessimistic outcome, reflecting economically plausible upside and downside scenarios. The relative paths for the macroeconomic variables in the 'upside' and 'downside' scenarios are determined through statistical variance analysis techniques applied to the 'baseline' scenario.

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 ECL under each scenario is multiplied by the appropriate scenario weighting to determine a probability-weighted ECL.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and, as a result, the actual outcomes may be significantly different to those projected.

The heightened level of macroeconomic uncertainty experienced in both global and local economies has had varying effects on different industry sectors. At the same time, measures designed to soften the extent of the damage to economic activity and the labour market were announced by the Maltese government in the form of subsidised energy prices.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.2 Expected credit loss measurement (continued)

4.3.2.4 Forward-looking information incorporated in the ECL model (continued)

In view of the above, a significant judgement within the Bank's estimation of credit loss allowances relates to the determination of forward-looking scenarios reflecting potential future economic conditions under different scenarios and their impact on the ECL calculation. The Bank considers these forecasts to represent its best estimate of the possible outcomes. The most significant year end assumptions used for the ECL estimate as at 31 December 2023 and 31 December 2022 are set out below:

As at 31 December 2023			
Projection for Malta in 2024			
	Baseline	Upside	Downside
GDP growth rate	3.6	4.5	0.5
Unemployment rate	3.0	1.6	4.2
Inflation rate	3.1	2.0	6.0
Interest rates	4.0	3.5	5.0
As at 31 December 2023			
Euro area real GDP growth rate (%)			
	Baseline	Upside	Downside
2024	1.5	3.5	-3.1
2025	1.8	2.6	-3.0
2026	2.0	2.2	1.9
As at 31 December 2022			
Projection for Malta in 2023			
	Baseline	Upside	Downside
GDP growth rate	0.4	2.0	-4.0
Unemployment rate	7.1	6.0	8.0
Inflation rate	5.2	4.0	11.0
Interest rates	3.5	3.0	4.5
As at 31 December 2022			
Euro area real GDP growth rate (%)			
	Baseline	Upside	Downside
2023	0.5	3.1	-2.1
2024	1.8	4.4	-0.9
2025	1.9	4.6	-0.7
2026	1.7	4.4	-0.9

The weightings assigned to the 'baseline', 'upside' and 'downside' scenarios are 50% (2022: 50%), 25% (2022: 25%) and 25% (2022: 25%) respectively.

Economic scenarios sensitivity analysis of ECL estimates

The outcome of the Bank's credit loss allowances estimation process is sensitive to judgements and estimations made throughout the incorporation of forward-looking economic conditions. Management has assessed the sensitivity of ECLs by assigning a 100% weighting to the baseline, downside and upside scenarios respectively. The Bank's credit loss allowances would increase by €568,688 (2022: €445,864) if these had to be estimated solely on the basis of the downside scenario and would reduce by €372,278 (2022: €251,551) if these had to be estimated solely on the basis of the upside scenario.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.3 Maximum exposure to credit risk

The Bank's maximum credit risk exposure to on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements, can be classified in the following categories:

- Financial assets recognised in the statement of financial position comprise balances with Central Bank of Malta, loans and advances to banks, financial investments, factored receivables, and loans and advances to customers. The maximum exposure to credit risk in respect of these financial assets equals their carrying amount.
- Commitments in respect of factored receivables, overdrafts, and loans - the maximum exposure to credit risk is the full amount of the committed facilities (Note 28).

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements.

	2023		2022 (Restated)	
	Gross carrying amount €	Allowance For ECL €	Gross carrying amount €	Allowance For ECL €
Credit risk exposure relating to on-balance sheet assets				
<i>Subject to IFRS 9 impairment requirements</i>				
Financial assets measured at amortised cost				
Balances with Central Bank of Malta	56,242,720	-	17,598,287	-
Debt securities	51,432,880	(24,853)	51,623,267	-
Loans and advances to banks	6,757,337	-	10,214,993	-
Factored receivables				
- Bills of exchange factoring	98,966,063	(349,673)	76,657,356	(116,000)
- Invoice factoring	41,940,634	(507,152)	42,611,756	(789,388)
Loans and advances to customers				
- Corporate lending	162,154,516	(853,130)	155,255,795	(816,086)
- Retail mortgages	19,680,912	(18,237)	5,907,178	(17,605)
Accrued income	1,630,780	-	1,937,194	-
Debt securities measured at FVOCI	49,824,772	(94,191)	51,340,695	(46,682)
Credit risk exposure	488,630,614	(1,847,236)	413,146,521	(1,785,761)
Credit risk exposure relating to off-balance sheet instruments				
Undrawn commitments to lend	288,377,842	-	185,068,135	-
Total credit risk exposure	777,008,456	(1,847,236)	598,214,656	(1,785,761)

Accrued income substantially arises from factored receivables and loans and advances to customers. Expected credit losses in respect of accrued income, which are not deemed material, have been allocated to factored receivables and loans and advances to customers. Similarly, expected credit losses in respect of undrawn commitments are also allocated to loans and advances to customers.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.3 Maximum exposure to credit risk (continued)

	2023 Fair value €	2022 Fair value €
Credit risk exposure relating to on-balance sheet assets not subject to IFRS 9 impairment requirements		
Equity investments designated at FVOCI	38,800	535,889
Equity investments measured at FVTPL	317,461	42,409
Credit risk exposure	356,261	578,298

4.3.4 Credit quality analysis

As described in Note 4.3, the Bank's internal credit risk grades are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss. The credit quality of the Bank's portfolios of financial instruments is assessed by reference to the Bank's standard credit rating system, as described below:

Credit quality classification	Financial investments	Bills of exchange factoring	Invoice factoring / Retail mortgage lending
Regular	B+ and above	Not past due	Not past due
Watch	B to CCC-	1 to 30 days past due	1 to 30 days past due
Substandard		31 to 90 days past due	31 to 90 days past due
Doubtful	CC+ and below till Default	Past due by more than 90 days	Past due by more than 90 days
Loss		Amount partially or fully written off	Amount partially or fully written off

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.4 Credit quality analysis (continued)

The credit quality of loans and advances to customers is managed by the Bank's Credit department using internal credit ratings, defined as follows:

Credit quality classification	Risk attributes
Regular	A customer having overdue repayments by up to 30 days. Regular exposures are typically deemed to have minimal risk of future losses based on a strong financial position and performance.
Watch	A customer having overdue balances by more than 30 days and less than 60 days. 'Watch' exposures typically exhibit initial signs of financial difficulties and necessitate closer monitoring and follow up.
Substandard	A customer having overdue balances by more than 60 days and less than 90 days. 'Substandard' exposures typically exhibit a potentially prolonged deterioration in financial position and performance which raises concerns in respect of settlement of the outstanding Invoice, without recourse to the Insurer.
Doubtful	A customer having overdue balances by more than 90 days and less than 120 days. 'Doubtful' exposures are considered to be defaulted whereby it becomes evident that the Bank will potentially encounter notable difficulty in obtaining settlement of the outstanding Invoice without recourse to the Insurer.
Loss	Amount partially or fully written off

The following tables summarise the credit loss allowances recognised as at 31 December 2023 and 2022 in respect of each class of financial instruments by stage distribution.

The credit loss allowances in respect of balances with Central Bank of Malta and Loans and advances to banks are deemed insignificant.

The following tables present information in respect of the credit quality of financial assets measured at amortised cost and debt securities measured at FVOCI.

	As at 31 December 2023			
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Loans and advances to banks measured at amortised cost				
Grade 1: Regular	6,757,337	-	-	6,757,337
Gross carrying amount	6,757,337	-	-	6,757,337
Allowance for ECL	-	-	-	-
Net carrying amount	6,757,337	-	-	6,757,337

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.4 Credit quality analysis (continued)

As at 31 December 2022				
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Loans and advances to banks measured at amortised cost				
Grade 1: Regular	10,214,993	-	-	10,214,993
Gross carrying amount	10,214,993	-	-	10,214,993
Allowance for ECL	-	-	-	-
Net carrying amount	10,214,993	-	-	10,214,993
As at 31 December 2023				
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Debt securities measured at FVOCI				
Grade 1: Regular	49,824,772	-	-	49,824,772
Fair value	49,824,772	-	-	49,824,772
Allowance for ECL	(94,191)	-	-	(94,191)
As at 31 December 2022 (Restated)				
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Debt securities measured at FVOCI				
Grade 1: Regular	51,340,694	-	-	51,340,694
Fair value	51,340,694	-	-	51,340,694
Allowance for ECL	(46,682)	-	-	(46,682)
As at 31 December 2023				
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Debt securities measured at Amortised Cost				
Grade 1: Regular	51,432,880	-	-	51,432,880
Gross carrying amount	51,432,880	-	-	51,432,880
Allowance for ECL	(24,854)	-	-	(24,854)
	51,408,026			51,408,026
As at 31 December 2022				
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Debt securities measured at Amortised Cost				
Grade 1: Regular	51,623,267	-	-	51,623,267
Gross carrying amount	51,623,267	-	-	51,623,267
Allowance for ECL	-	-	-	-
Net carrying amount	51,623,267	-	-	51,623,267

The credit loss allowances in respect of balances with Central Bank of Malta and Loans and advances to banks are deemed insignificant.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.4 Credit quality analysis (continued)

The following tables present information in respect of the credit quality of financial assets measured at amortised cost or at FVOCI.

	As at 31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
	€	€	€	€
Loans and advances to customers measured at amortised cost				
Corporate Lending				
Grade 1: Regular	159,104,649	-	-	159,104,649
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	1,674,070	-	1,674,070
Grade 4: Doubtful	-	-	1,375,797	1,375,797
Grade 5: Loss	-	-	-	-
Gross carrying amount	159,104,649	1,674,070	1,375,797	162,154,516
Allowance for ECL	(739,103)	-	(114,027)	(853,130)
Net carrying amount	158,365,546	1,674,070	1,261,770	161,301,386
Retail mortgages				
Grade 1: Regular	19,680,912	-	-	19,680,912
Gross carrying amount	19,680,912	-	-	19,680,912
Allowance for ECL	(18,237)	-	-	(18,237)
Net carrying amount	19,662,675	-	-	19,662,675
Total				
Grade 1: Regular	178,785,562	-	-	178,785,562
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	1,674,070	-	1,674,070
Grade 4: Doubtful	-	-	1,375,797	1,375,797
Grade 5: Loss	-	-	-	-
Gross carrying amount	178,785,562	1,674,070	1,375,797	181,835,429
Allowance for ECL	(757,341)	-	(114,027)	(871,368)
Net carrying amount	178,028,221	1,674,070	1,261,770	180,964,061

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.4 Credit quality analysis (continued)

	As at 31 December 2022			
	Stage 1 €	Stage 2 €	Stage 3 €	Total €
Loans and advances to customers measured at amortised cost				
Corporate Lending/Total				
Grade 1: Regular	147,602,932	-	-	147,602,932
Grade 2: Watch	4,169,993	-	-	4,169,993
Grade 3: Substandard	-	1,481,010	-	1,481,010
Grade 4: Doubtful	-	-	1,984,580	1,984,580
Grade 5: Loss	-	-	17,280	17,280
Gross carrying amount	151,772,925	1,481,010	2,001,860	155,255,795
Allowance for ECL	(705,052)	(22,202)	(88,832)	(816,086)
Net carrying amount	151,067,873	1,458,808	1,913,028	154,439,709
Retail mortgages				
Grade 1: Regular	5,907,178	-	-	5,907,178
Gross carrying amount	5,907,178	-	-	5,907,178
Allowance for ECL	(17,605)	-	-	(17,605)
Net carrying amount	5,889,573	-	-	5,889,573
Total				
Grade 1: Regular	153,510,110	-	-	153,510,110
Grade 2: Watch	4,169,993	-	-	4,169,993
Grade 3: Substandard	-	1,481,010	-	1,481,010
Grade 4: Doubtful	-	-	1,984,580	1,984,580
Grade 5: Loss	-	-	17,280	17,280
Gross carrying amount	157,680,103	1,481,010	2,001,860	161,162,973
Allowance for ECL	(722,657)	(22,202)	(88,832)	(833,691)
Net carrying amount	156,957,446	1,458,808	1,913,028	160,329,282

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.4 Credit quality analysis (continued)

As at 31 December 2023				
	Stage 1	Stage 2	Stage 3	Total
	€	€	€	€
Factored receivables measured at amortised cost				
Grade 1: Regular	77,384,377	-	-	77,384,377
Grade 2: Watch	17,419,983	-	-	17,419,983
Grade 3: Substandard	-	26,378,541	-	26,378,541
Grade 4: Doubtful	-	-	19,723,796	19,723,796
Gross carrying amount	94,804,360	26,378,541	19,723,796	140,906,697
Allowance for ECL	(81,277)	(53,807)	(721,741)	(856,825)
Net Carrying amount	94,723,083	26,324,734	19,002,055	140,049,872

As at 31 December 2022				
	Stage 1	Stage 2	Stage 3	Total
	€	€	€	€
Factored receivables measured at amortised cost				
Grade 1: Regular	60,159,527	-	-	60,159,527
Grade 2: Watch	10,165,247	-	-	10,165,247
Grade 3: Substandard	-	29,141,788	-	29,141,788
Grade 4: Doubtful	-	-	19,802,550	19,802,550
Gross carrying amount	70,324,774	29,141,788	19,802,550	119,269,112
Allowance for ECL	(170,168)	(51,391)	(683,829)	(905,388)
Net Carrying amount	70,154,606	29,090,397	19,118,721	118,363,724

The following tables present information in respect of the overdue status of the gross carrying amount of factored receivables and loans and advances to customers analysed by stage distribution.

	As at December 2023				As at December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€	€	€	€	€	€	€	€
Factored receivables								
Current	77,384,377	-	-	77,384,377	60,159,527	-	-	60,159,527
Overdue < 30 days	17,419,983	-	-	17,419,983	10,165,247	-	-	10,165,247
Overdue > 30 days	-	26,378,541	-	26,378,541	-	29,141,788	-	29,141,788
Overdue > 90 days	-	-	19,723,796	19,723,796	-	-	19,802,550	19,802,550
Total	94,804,360	26,378,541	19,723,796	140,906,697	70,324,774	29,141,788	19,802,550	119,269,112
Loans and advances to customers								
Current	178,785,562	1,674,070	-	180,459,632	157,680,103	1,481,010	-	159,161,113
Overdue > 90 days	-	-	1,375,797	1,375,797	-	-	2,001,860	2,001,860
Total	178,785,562	1,674,070	1,375,797	181,835,429	157,680,103	1,481,010	2,001,860	161,162,973

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.5 Reconciliation of changes in gross carrying amount and allowances for ECL

The credit 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 during 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 in respect of financial instruments derecognised during the period;
- impact on the measurement of ECL due to changes in PD, LGD or EAD during the period;
- impacts on the measurement of ECL due to changes made to models and assumptions; and
- write-offs of allowances related to assets that were written off during the period.

The allowance for ECL in respect of loans and advances to customers as at 31 December 2023 increased marginally compared to the prior year, resulting in an ECL charge for the financial year ended 31 December 2023 amounting to €37,677. This was primarily driven by the growth in the size of the lending portfolio, which increased by €20.7 million during the financial year ended 31 December 2023.

In addition, the reconciliation of ECL in respect of loans and advances to customers also shows downward migrations of borrowers from Stage 1 to Stage 2 and from Stage 2 to Stage 3, primarily reflecting observed credit deterioration as well as the revised methodology surrounding ECL determination.

The allowance for ECL in respect of factored receivables as at 31 December 2023 decreased compared to the prior year, resulting in an ECL reversal for the financial year ended 31 December 2023 amounting to €48,563. This was primarily driven by the growth in the size and credit quality of the factored receivables portfolio, which increased by €21.6 million during the financial year ended 31 December 2022.

Refinements to the Bank’s ECL methodology during the financial year ended 31 December 2023 resulted in a downward migration of borrowers from Stage 1 to Stages 2 or 3 within the bills of exchange factoring portfolio. Notwithstanding that, the impact on the ECL in respect of these borrowers was immaterial due to the fact that, as described in more detail in section 4.3.2.3, the LGD calculation takes into consideration the cash collateral pledged by factoring clients to cover potential losses from factored bills of exchange.

Specifically in respect of the invoice factoring portfolio, the Bank reviewed long outstanding exposures as at 31 December 2023 in order to assess their recoverability, resulting in write-offs amounting to €530,435 (2022: €235,513).

The following tables provide a reconciliation of the gross carrying amount and credit loss allowances relating to loans and advances to customers and factored receivables. A full reconciliation of changes in expected credit losses and other credit impairment charges is presented in Note 9 of the financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.5 Reconciliation of changes in gross carrying amount and allowances for ECL (continued)

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
Loans and advances to customers	€	€	€	€	€	€	€	€
At 1 January 2023	157,680,103	(722,657)	1,481,010	(22,202)	2,001,860	(88,832)	161,162,973	(833,691)
New and further lending	41,816,724	(34,684)	-	-	12,330	-	41,829,054	(34,684)
Repayments and disposals	(21,058,360)	-	(413,499)	22,202	(50,590)	(25,195)	(21,522,449)	(2,993)
Transfers of financial instruments								
Stage 1 to Stage 2	-	-	-	-	-	-	-	-
Stage 1 to Stage 3	(18,757)	-	-	-	18,757	-	-	-
Stage 2 to Stage 3	-	-	606,559	-	(606,559)	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	-	-	-	-	-	-	-
Net impact from effective interest rate method	365,851	-	-	-	-	-	365,851	-
Amounts written off	-	-	-	-	-	-	-	-
At 31 December 2023	178,785,561	(757,341)	1,674,070	-	1,375,798	(114,027)	181,835,429	(871,368)
Total income statement charge for the year								(37,677)

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
Loans and advances to customers	€	€	€	€	€	€	€	€
At 1 January 2022	127,052,013	(263,165)	3,172,018	(1,699)	1,474,296	(64,122)	131,698,327	(328,986)
New and further lending*	56,625,161	(344,828)	-	-	40,143	(40,143)	56,665,304	(384,971)
Repayments and disposals	(25,630,773)	62,505	(399,420)	500	(1,144,073)	26,190	(27,174,266)	89,195
Transfers of financial instruments								
Stage 1 to Stage 2	(366,298)	23,794	366,298	(23,794)	-	-	-	-
Stage 1 to Stage 3	-	-	(1,657,886)	1,177	1,657,886	(1,177)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(200,963)	-	1,614	-	(35,972)	-	(235,321)
Amounts written off	-	-	-	-	(26,392)	26,392	(26,392)	26,392
At 31 December 2022	157,680,103	(722,657)	1,481,010	(22,202)	2,001,860	(88,832)	161,162,973	(833,691)
Total income statement charge for the year								(504,705)

* New and further lending classified within Stage 2 in the table above represents exposures originated under the terms of the MDB CGS during the financial year ended 31 December 2022 and subsequently migrated to Stage 2 on the basis of identified SICR events triggered by the sustained impact of the COVID-19 pandemic.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.5 Reconciliation of changes in gross carrying amount and allowances for ECL (continued)

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
Factored receivables	€	€	€	€	€	€	€	€
At 1 January 2023	70,329,555	(221,559)	29,141,787	-	19,802,550	(683,829)	119,273,892	(905,388)
New and further lending*	59,105,199	135,198	26,094,725	(53,712)	8,674,532	(32,923)	93,874,456	48,563
Repayments and disposals	(42,192,892)	-	(22,581,985)	-	(6,936,338)	-	(71,711,215)	-
Transfers of financial instruments								
Stage 1 to Stage 2	(9,490)	166	9,490	(166)	-	-	-	-
Stage 1 to Stage 3	(1,658,851)	163	-	-	1,658,851	(163)	-	-
Stage 2 to Stage 1	6,251,270	(2,703)	(6,251,270)	2,703	-	-	-	-
Stage 2 to Stage 3	-	-	(537,360)	258	537,360	(258)	-	-
Stage 3 to Stage 1	2,979,370	(13,746)	-	-	(2,979,370)	13,746	-	-
Stage 3 to Stage 2	-	-	503,155	(5,898)	(503,155)	5,898	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	(530,435)	-	(530,435)	-
At 31 December 2023	94,804,161	(102,481)	26,378,542	(56,815)	19,723,995	(697,529)	140,906,698	(856,285)
Total income statement charge for the year								48,563

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
Factored receivables	€	€	€	€	€	€	€	€
At 1 January 2022	55,526,948	(93,303)	26,530,945	-	13,769,754	(682,510)	95,827,647	(775,813)
New and further lending*	35,134,754	(86,734)	15,252,579	(24,628)	4,865,367	(484,346)	55,252,700	(595,708)
Repayments and disposals	(20,756,871)	32,337	(5,367,407)	18,203	(5,451,444)	336,503	(31,575,722)	387,043
Transfers of financial instruments								
Stage 1 to Stage 2	(5,699,245)	3,055	5,699,245	(3,055)	-	-	-	-
Stage 1 to Stage 3	(2,428,423)	1,259	-	-	2,428,423	(1,259)	-	-
Stage 2 to Stage 1	6,123,100	-	(6,123,100)	-	-	-	-	-
Stage 2 to Stage 3	-	-	(7,813,974)	-	7,813,974	-	-	-
Stage 3 to Stage 1	2,490,227	-	-	-	(2,490,227)	-	-	-
Stage 3 to Stage 2	-	-	963,500	-	(963,500)	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(26,782)	-	(41,911)	-	(22,014)	-	(90,707)
Amounts written off	(65,716)	-	-	-	(169,797)	169,797	(235,513)	169,797
At 31 December 2022	70,324,774	(170,168)	29,141,788	(51,391)	19,802,550	(683,829)	119,269,112	(905,388)
Total income statement charge for the year								(129,575)

* New and further lending classified within Stages 2 and 3 in the tables above represents exposures originated during the financial years ended 31 December 2023 and 31 December 2022, and migrated to Stages 2 and 3 on the basis of missed repayments.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.6 Renegotiation of financial instruments and forbearance

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. Where terms have been modified, an existing exposure may be derecognised if the modification is deemed to be substantial, with the renegotiated instrument being recognised as a new instrument measured at the fair value as at the date of modification and allocated to Stage 1 (assuming it is not credit-impaired at that time).

When the terms of an instrument are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the residual lifetime PD at the reporting date based on the modified terms; with
- the residual lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank has aligned its policies with the European Securities and Markets Authority ("ESMA") Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions. Under certain circumstances, the Bank may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer. Renegotiations of exposures to customers in financial difficulties (referred to as 'forbearance activities') are designed 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 maturity extensions, changes to the timing of interest payments, and amendments to the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the Bank assesses whether the modification has improved or restored the Bank's ability to collect interest and principal and the probability of default in view of previous experience of similar forbearance activity. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and may constitute evidence that an exposure is credit-impaired. A renegotiated loan is typically presented as credit-impaired when there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider and it is probable that, without the concession, the borrower would be unable to meet contractual payment obligations in full. Accordingly, this will represent a significant concern regarding the borrower's ability to meet contractual payments, and the loan will be classified as credit-impaired, unless the concession granted is insignificant.

Renegotiated loans are classified as non-credit impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet contractual payment terms, but contractual cash flows are expected to be collected in full following the renegotiation and no other unlikely-to-pay indicators are evident.

In the event that a forbore exposure is deemed to be credit-impaired, the renegotiated loan will continue to be disclosed as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. In this respect, a customer needs to demonstrate consistently good payment behaviour over a period before the exposure is no longer considered to be credit-impaired.

As at 31 December 2023 and 2022, there were no forbore exposures within the factored receivables portfolio.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.6 Renegotiation of financial instruments and forbearance (continued)

As at 31 December 2022, forborne loans and advances to customers comprised exposures with two borrowers (2022: two borrowers), operating within the wholesale and retail trade industry. The carrying amount in respect of these exposures, which are classified within Stage 3 as at 31 December 2023, is €1,152,249 (2022: €1,219,230). Credit loss allowances in respect of these exposures amount to €11,845 as at 31 December 2023 (2022: €2,838).

Interest income recognised during the financial year ended 31 December 2023 in respect of forborne exposures amounted to €33,999 (2022: €136,576).

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

	Forborne exposures	
	2023	2022
	€	€
At 1 January	1,219,230	1,425,193
Loans to which forbearance measures have been extended during the year	-	612,671
(Decrease)/increase in exposure amount	(66,981)	(818,634)
At 31 December	1,152,249	1,219,230

Information on loans and advances subject to CBM compliant moratoria

During the financial year ended 31 December 2020, a number of government support schemes and regulatory relief measures were announced in response to the outbreak of the Covid-19 pandemic, one of which being the granting of moratoria on capital and/or interest payments to provide relief to individual and corporate customers during the ensuing macroeconomic recession triggered by the pandemic. In this regard, the Central Bank of Malta issued Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') in order to provide guidance on the treatment of such instances, in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines'). These are referred to as general payment moratoria.

In line with the EBA Guidelines and Directive No. 18, exposures meeting established criteria and eligible for the granting of a general payment moratorium are not classified as forborne/reneegotiated, unless the borrower was already experiencing financial difficulties prior to the pandemic.

In accordance with the requirements of Directive No. 18, applications for new general payment moratoria or for extensions of existing general payment moratoria were accepted until 31 March 2021, with the total duration of the moratorium, inclusive of extensions, being limited to nine months. In this respect, applications for new general payment moratoria or for extensions of general payment moratoria received after 31 March 2021, or extending beyond the maximum duration prescribed by Directive No. 18, are considered to be forbearance measures. In addition, the granting of moratoria which do not meet the conditions of a general payment moratorium are also considered to be forbearance measures.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.6 Renegotiation of financial instruments and forbearance (continued)

During the financial year ended 31 December 2022, extensions were made to one borrower operating within the wholesale and retail trade industry, which was subject to a general payment moratorium as at 31 December 2021. In addition, as at 31 December 2022, the Bank granted new moratoria to a borrower operating within the information technology industry as established within Directive No. 18 and the EBA Guidelines during the financial year ended 31 December 2022. In view of the forbearance allowance granted by the Bank, both exposures have been classified as 'doubtful' and treated as Stage 3 exposures in line with the credit policy of the Bank.

4.3.7 Analysis of collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank's policies regarding obtaining collateral have not 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.

Loans and advances to customers

The Bank holds collateral against loans and advances to customers in the form of pledges over deposits held with the Bank, charges over real estate and corporate receivables. In response to the Covid-19 pandemic, the Bank provided support to its customers by offering loans originated in terms of the Malta Development Bank ("MDB") Covid-19 Guarantee Scheme ("CGS"). In this respect, up to 90% of such exposures are guaranteed by the Government of Malta, with the guarantee amount capped to 50% of all MDB CGS exposures originated by the Bank. The following is an analysis of the extendible value of the collateral (capped at the carrying amount of the loan) held by the Bank against exposures of loans and advances to customers:

	Carrying amounts	
	2023	2022
	€	€
Loans and advances to customers	181,835,428	160,329,282
<i>Of which secured by:</i>		
Real estate	93,286,508	72,959,337
Cash deposits held with the Bank	35,341,728	36,757,690
MDB CGS guarantee	10,947,313	19,256,234
Bills of exchange with recourse	14,936,273	13,699,381
Assignment of receivables and others	5,403,556	5,481,190
Total carrying amount secured by collateral	159,915,377	148,153,832
Residual unsecured exposure amounts	21,920,051	12,175,450
Allowance for ECL	(871,368)	(833,691)

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.6 Renegotiation of financial instruments and forbearance (continued)

During 2020, the Bank had confirmed its participation in the MDB CGS, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee. In this respect, as at 31 December 2023, gross loans subject to the MDB CGS amounted to €12,163,581 (2022: €19,256,234), of which a maximum of €6,081,791 (2022: €9,628,117) is considered guaranteed. As at 31 December 2023, gross loans originated under this scheme classified as Stage 1 and Stage 2 amounted to €9,711,859 (2022: €16,364,488) and €1,153,149 (2022: €1,483,156) respectively. As at 31 December 2023, loans originated under this scheme classified in Stage 3 amounted to €1,298,673 (2022: €1,408,590).

The allowance for ECL in respect of the corresponding loans classified as Stage 1, Stage 2 and Stage 3 amounted to €847 (2022: €17,116), €193 (2022: €22,202) and €2,242 (2022: €50,900) respectively.

Factored receivables

Factored receivables comprise bills of exchange and invoices factored on a no-recourse basis. The former sub-portfolio is secured by the motor vehicles being financed, with a pledge on cash deposits placed by factoring clients and held with the Bank also providing coverage on a first loss basis. The value of motor vehicles held as collateral in respect of factored bills of exchange as at 31 December 2023 and 2022, estimated by reference to the depreciated value of the motor vehicle to capture the loss in value through use, is presented in the table below.

	2023 €	2022 €
<i>Type of collateral</i>		
Motor vehicles	101,705,114	73,786,202

Invoice factoring facilities are secured by credit insurance from a foreign third-party underwriter providing insurance cover in respect of losses up to 95% of each eligible invoice.

Collateral held in respect of credit-impaired financial assets

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 2023			Extendible value of collateral held
	Gross carrying amount €	Allowance for ECL €	Carrying amount €	€
<i>Loans and advances to customers</i>				
Overdrafts	51,464	-	51,464	-
Fixed term loans	1,324,333	(114,027)	1,210,306	1,601,350
<i>Factored receivables</i>				
Bills of exchange factoring	11,865,713	(281,279)	11,584,434	13,273,885
Invoice factoring	7,858,083	(440,462)	7,417,621	-
	21,099,593	(835,768)	20,263,825	-

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.6 Renegotiation of financial instruments and forbearance (continued)

	As at 31 December 2022			Extendible value of collateral held
	Gross carrying amount €	Allowance for ECL €	Carrying amount €	€
<i>Loans and advances to customers</i>				
Overdrafts	108,722	(39,134)	69,588	101,205
Fixed term loans	1,893,138	(49,698)	1,843,440	3,081,795
<i>Factored receivables</i>				
Bills of exchange factoring	16,698,406	-	16,698,406	15,373,954
Invoice factoring	3,104,144	(683,829)	2,420,315	-
	21,804,410	(772,661)	21,031,749	18,556,954

The LTV ratio in respect of credit-impaired loans and advances to customers as at 31 December 2022 is 79% (2022: 63%). As at 31 December 2023, credit-impaired loans and advances to customers comprise one exposure with a carrying amount of €572,457 classified as forborne stage 3 exposure and another three exposures with a carrying amount of €803,340 classified as non-forborne stage 3 exposures. These exposures are secured by commercial, residential real estate, and others which are secured by the MDB CGS guarantee and cash collateral. As at 31 December 2022, credit impaired loans and advances to customers comprise two exposures with a carrying amount of €1,219,714 classified as forborne stage 3 exposures and another three exposures with a carrying amount of €803,340 classified as non-forborne stage exposures.

Credit-impaired invoice factoring facilities are secured by credit insurance cover procured from third party insurers up to 95% of credit losses in respect of each insured exposure.

No collateral is held in respect of financial investments and loans and advances to banks.

4.3.8 Write-off policy

The Bank writes off a loan, security and/or factored receivable balances (and any related credit loss allowances) when management determines that the loan, security and/or factored receivable is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the current year, amounts receivable of €530,435 (2022: €261,905) were written off by the Bank.

4.3.9 Settlement risk

'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank's activities do not expose it to significant settlement risk.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.10 Industry concentration

The following table analyses the Bank's loans and advances to customers and factored receivables by business segment:

	2023		2022	
	€	%	€	%
Accommodation and food services	686,005	1%	2,520,656	1%
Construction and real estate activities	55,259,689	17%	53,811,039	19%
Households and individuals	103,748,754	32%	72,954,247	26%
Manufacturing	16,416,298	4%	12,127,295	4%
Services	55,107,680	17%	80,124,280	29%
Transportation	2,008,052	1%	8,578,125	3%
Wholesale and retail trade	47,091,184	15%	43,982,936	16%
Other sectors	40,696,271	13%	4,594,428	2%
	321,013,933	100%	278,693,006	100%

The following table analyses the Bank's investment portfolio by business segment:

	2023		2022	
	€	%	€	%
Sovereign debt	72,474,849	71%	71,802,180	69%
Local corporate bonds:				
- Real estate	11,488,100	11%	12,828,010	12%
- Financial services	5,130,000	5%	5,324,241	5%
- Tourism	3,753,970	3%	3,828,382	4%
- Telecommunications	3,833,592	4%	3,641,946	4%
- Other	4,552,287	5%	5,539,203	5%
Equity investments	356,261	1%	578,298	1%
	101,589,059	100%	103,542,260	100%

4.3.11 Concentration risk

In addition to industry concentration mentioned in Note 4.3.10, the Bank monitors concentration of credit risk by counterparty and by geographic location. An analysis of credit risk concentration (net of credit loss allowances) is shown on the next page.

4. Financial risk management and review (continued)

4.3 Credit risk (continued)

4.3.7 Analysis of collateral (continued)

	Loans and advances to customers		Factored receivables		Loans and advances to banks		Financial investments	
	2023	2022	2023	2022	2023	2022	2023	2022
	€	€	€	€	€	€	€	€
Carrying amount	180,964,061	160,329,282	140,049,872	118,363,724	6,757,337	10,214,993	101,589,059	103,542,260
Concentration by counterparty								
Corporates	159,459,544	152,530,156	55,892,592	51,952,703	-	-	23,627,949	26,019,447
Private individuals	21,504,517	7,799,126	82,257,858	65,649,574	-	-	-	-
Sovereign	-	-	1,899,422	761,447	-	-	72,474,849	71,802,180
Banks and financial services	-	-	-	-	6,757,337	10,214,993	5,486,261	5,720,633
Concentration by location								
Europe:								
- Malta	136,569,215	116,514,907	107,232,489	82,660,500	3,545,973	4,913,366	99,491,554	89,526,389
- Belgium	35,552,942	35,874,194	27,055,083	31,201,798	1,133,218	5,221,415	38,800	30,275
- France	3,500,000	3,500,000	811,507	832,657	-	-	42,313	42,313
- Other	5,341,061	4,439,340	4,950,793	3,668,769	2,078,146	80,212	2,016,392	1,951,950
USA	843	841	-	-	-	-	-	-

Concentration by location for loans and advances to customers and banks and investment securities is measured based on the location of the borrower or issuer of the security.

4.4 Market risk

Market risk comprises the risk of losses in value caused by unexpected changes in market prices (interest rates, equity prices, foreign exchange rates and credit spreads) before the affected positions can be closed out or hedged.

Market risk for the Bank consists of three elements:

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

4.4.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. 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 re-price at different times or at different amounts. The Bank accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities. However, the Bank seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter-term liabilities over the medium to longer term. The table on the next page summarises re-pricing mismatches at reporting date together with the effective interest rates where applicable.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

2023	Carrying amount €	Average Effective interest rate %	Less than 3 months €	Between 3 months and 1 year €	Between 1 year and 5 years €	More than 5 years €
Assets						
Balances with Central Bank of Malta	56,242,720	4%	56,242,720	-	-	-
Loans and advances to banks	6,757,337	0%	6,757,337	-	-	-
Financial investments:						
- Debt securities measured at Amortised Cost	51,408,027	1%	-	-	20,284,817	31,123,210
- Debt securities measured at FVOCI	49,824,772	3%	-	3,365,067	25,418,263	21,041,442
Factored receivables	140,049,872	6%	60,917,844	21,434,957	57,566,144	130,927
Loans and advances to customers	180,964,062	4%	130,718,490	2,015,320	44,841,775	3,388,476
Total assets	485,246,790		254,636,391	26,815,344	148,110,999	55,684,055
Liabilities						
Amounts owed to institutions	20,000,000	5%	20,000,000	-	-	-
Amounts owed to banks	271,105	2%	271,105	-	-	-
Amounts owed to customers	429,743,262	3%	149,768,151	192,247,057	70,460,769	17,267,285
Debt securities in issue	16,861,501	5%	-	-	3,179,192	13,682,310
Total liabilities	466,875,868		170,039,256	192,247,057	73,639,961	30,949,595
Interest repricing gap			84,597,135	(165,431,713)	74,471,038	24,734,460
Cumulative gap			62,145,521	(119,153,890)	(6,363,540)	18,730,920

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

2022	Carrying amount €	Average effective interest rate %	Less than 3 months €	Between 3 months and 1 year €	Between 1 year and 5 years €	More than 5 years €
Assets						
Balances with Central Bank of Malta	17,598,287	3%	17,598,287	-	-	-
Loans and advances to banks	10,214,993	0%	10,214,993	-	-	-
Financial investments:						
- Debt securities at FVOCI	51,623,268	1%	-	-	20,386,673	31,236,595
- Debt securities at FVOCI	51,340,695	3%	-	2,000,000	31,341,973	17,998,722
Factored receivables	118,363,724	6%	41,370,591	6,082,484	63,090,738	7,819,911
Loans and advances to customers	160,329,282	4%	92,543,392	38,784,583	28,755,057	246,250
Total assets	409,470,249		161,727,263	46,867,067	143,574,441	57,301,478
Liabilities						
Amounts owed to institutions	40,000,000	1%	40,000,000	-	-	-
Amounts owed to banks	275,815	0%	275,815	-	-	-
Amounts owed to customers	335,660,870	1%	134,800,316	103,102,902	78,312,950	19,444,702
Debt securities in issue	16,820,322	5%	-	-	3,174,653	13,645,669
Total liabilities	392,757,007		175,076,131	103,102,902	81,487,603	33,090,371
Interest repricing gap			(13,348,868)	(56,235,835)	62,086,838	24,211,106
Cumulative gap			(13,348,868)	(69,584,703)	(7,497,865)	16,713,242

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

4.4.1.1 Interest rate profile

The interest rate profile of the Bank's interest-bearing financial instruments as at 31 December 2023 and 2022 is presented below:

	2023 €		2022 €	
	Fixed	Variable	Fixed	Variable
Interest-earning assets				
Financial investments				
– debt securities	101,232,799	-	102,963,962	-
Factored receivables:				
- Invoice factoring	41,433,481	-	41,822,368	-
- Bills of exchange factoring	98,616,390	-	76,541,356	-
Loans and advances to customers:				
- Corporate	47,771,845	113,529,541	50,633,347	103,806,362
- Retail	17,009,840	2,652,835	-	5,889,573
Balances with Central Bank of Malta and cash	-	56,242,720	-	17,598,287
Loans and advances to banks	-	6,757,337	-	10,214,993
	306,064,355	179,182,433	271,961,033	137,509,215
Interest-bearing liabilities				
Amounts owed to institutions	(16,861,501)	-	(40,000,000)	-
Amounts owed to customers	(302,065,672)	(127,677,591)	(260,658,694)	(75,002,176)
Debt securities in issue	(16,861,501)	-	(16,820,322)	-
Amounts owed to banks	-	(271,105)	-	(275,815)
	(335,788,674)	(127,948,696)	(317,479,016)	(75,277,991)

4.4.1.2 Fair value sensitivity analysis for fixed rate instruments

Financial instruments issued at fixed interest rates potentially expose the Bank to fair value interest rate risk. Balances with Central Bank of Malta, loans and advances to customers and to banks, amounts owed to Central Bank of Malta, customers and banks, and debt securities in issue are measured at amortised cost and are therefore not subject to fair value interest rate risk.

In this respect, the fair value sensitivity for fixed rate instruments is only performed in respect of debt financial investments measured at FVOCI. An increase of 250 basis points (2022: 250 basis points) in the yield to maturity of each respective debt security would lead to a decrease in value of debt financial investments measured at FVOCI amounting to €5,370,842 (2022: €5,794,582). Likewise, a decrease of 250 basis points (2022: 250 basis points) in interest rates would lead to an increase in value of debt financial investments measured at FVOCI amounting to €8,002,290 (2022: €7,540,878). Such increases or decreases in fair value would be recognised in other comprehensive income and in equity.

4. Financial risk management and review (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

4.4.1.3 Cash flow sensitivity analysis for variable rate instruments

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

The Bank manages its exposure to interest rate risk using interest rates repricing gaps and both economic value and earnings-based measures. The Bank's interest rate risk management framework is in line with the relevant guidelines issued by the EBA. The following tables show the impact on the Bank's economic value and earnings under different interest rate scenarios. The Bank's interest rate risk management framework follows relevant EBA Guidelines. These Guidelines outline six shock scenarios that set out the change in interest rates under which the impact on the economic value of equity is assessed. During the comparative year, four scenarios are presented, whereby two additional shock scenarios were included for the current year. The potential impact on the Bank's economic value is based on the most unfavourable scenario which, as at 31 December 2023, was brought through the 'parallel shift up' scenario. The scenarios are reviewed periodically by Management to ensure that these capture all plausible scenarios.

	Parallel shift up 200bp	Parallel shift down 200bp	Flattener	Steepener	Short-term upward	Short-term downward
2023						
Economic value measures	(1,206,824)	1,206,824	(11,553)	(591,859)	(11,553)	11,553
Earnings measures	(2,042,501)	2,042,501	(1,021,251)	-	(1,021,251)	1,021,251
2022						
Economic value measures	(1,478,446)	-	958,913	(1,097,660)		
Earnings measures	(192,599)	-	(96,299)	-		

4.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument fluctuates due to changes in foreign exchange rates. The Bank holds and deals in foreign currency with the aim to service the foreign exchange buying and selling activity of its clients. The Bank does not speculate on its foreign exchange holdings. The Bank's foreign exchange exposure is mainly limited to the United States Dollar and Swiss Francs, originating from the Bank's corporate banking business. The Bank manages this risk by ensuring that its foreign currency denominated liabilities are matched to corresponding assets in the same currency.

Exposure to foreign currencies is maintained at minimum levels and within the prescribed limits set by the Bank's Board of Directors. In the scenario whereby all foreign currencies fluctuate upwards or downwards by 20% against the Euro, the carrying amounts of financial assets and liabilities would fluctuate upwards or downwards by €245,808 (2022: €95,757 and €48,595) respectively.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.4 Market risk (continued)

4.4.2 Currency risk (continued)

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant currency groupings:

	2023			2022		
	Euro €	Other currencies €	Total €	Euro €	Other currencies €	Total €
Financial assets						
Balances with Central Bank of Malta and cash	56,242,720	-	56,242,720	17,598,287	-	17,598,287
Loans and advances to banks	5,997,378	759,959	6,757,337	9,743,873	471,120	10,214,993
Financial investments:						
- Debt securities measured at Amortised Cost	51,408,027	-	51,408,027	51,623,267	-	51,623,267
- Debt securities measured at FVOCI	49,824,772	-	49,824,772	51,340,695	-	51,340,695
Factored receivables	139,264,653	785,219	140,049,872	118,356,423	7,301	118,363,724
Loans and advances to customers	180,963,218	843	180,964,061	160,328,441	841	160,329,282
Other assets	2,391,356	-	2,391,356	1,937,194	-	1,937,194
	486,092,124	1,546,021	487,638,145	410,928,180	479,262	411,407,442
Financial liabilities						
Amounts owed to institutions	20,000,000	-	20,000,000	40,000,000	-	40,000,000
Amounts owed to banks	271,105	-	271,105	275,815	-	275,815
Amounts owed to customers	429,426,282	316,980	429,743,262	335,417,698	243,172	335,660,870
Debt securities in issue	16,861,501	-	16,861,501	16,820,322	-	16,820,322
Other liabilities	8,393,356	-	8,393,356	4,759,914	-	4,759,914
	474,952,244	316,980	475,269,224	397,273,749	243,172	397,516,921
Net currency position	11,139,880	1,229,041	12,368,921	13,654,431	236,090	13,890,521

As at 31 December 2023 and 2022, the Bank was not exposed to any significant currency risk in respect of off-balance sheet exposures. Balances under other currencies represent exposures predominantly to the US Dollar.

4.4.3 Investment price risk

The exposure of the Bank to this risk is not significant. Frequent management reviews are carried out to ensure high quality of the portfolio.

4. Financial risk management and review (continued)

4.5 Liquidity risk

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

Liquidity risk is divided into two categories:

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

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

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits, whilst also maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent of asset encumbrance which might prevent financial assets from being used as collateral to obtain further funding.
- Stress testing of the Bank's liquidity position against various exposures and global, country-specific and Bank-specific events.

Liquidity policies and procedures are reviewed by internal audit. All liquidity policies are subject to review by the Asset and Liability Management Committee and the approval of the Board of Directors.

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

- The Liquidity Coverage Ratio ("LCR"), which measures the Bank's level of High-Quality Liquid Assets ("HQLAs") against expected net cash outflows over a one-month period. This ratio is used to gauge the short-term resilience of the Bank's liquidity profile in terms of the requirements emanating from European Commission ("EC") Delegated Regulation 2015/61.
- The Net Stable Funding Ratio ("NSFR") is used to monitor the structural long-term funding position of the Bank. 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.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.5 Liquidity risk (continued)

Details of the Bank's ratios at the reporting dates and during the reported periods are presented below:

	LCR		NSFR	
	2023	2022	2023	2022
As at 31 December	1,948%	725%	153%	134%
Average for the year	1,571%	1,584%	162%	161%
Maximum for the year	3,054%	3,081%	182%	179%
Minimum for the year	240%	454%	135%	134%

4.5.1 Contractual maturity ladder

The Bank also monitors the contractual maturity ladder, which provides insight into the extent to which the Bank relies on maturity transformation in respect of contractual cash flows. More precisely, the maturity ladder is used to determine the availability of liquid assets to meet liquidity gaps for diverse time horizons.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant remaining maturity groupings based on the ability of recovery or repayment:

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
At 31 December 2023	€	€	€	€	€	€	€
Financial assets							
Balances with Central Bank of Malta	54,722,156	-	-	-	-	1,520,564	56,242,720
Loans and advances to banks	6,757,337	-	-	-	-	-	6,757,337
Financial investments:							
- Equity investments	-	-	-	-	-	356,260	356,260
- Debt securities at amortised cost	-	-	-	20,309,670	31,123,210	(24,853)	51,408,027
- Debt securities at FVOCI	220,363	-	3,365,067	25,197,900	21,041,442	-	49,824,772
Factored receivables	13,054,659	25,411,571	5,567,259	51,166,920	44,849,463	-	140,049,872
Loans and advances to customers	23,441,492	514,149	44,929,982	51,613,213	60,465,226	-	180,964,061
Other assets	1,630,780	-	-	-	-	-	1,630,780
Total assets	99,826,787	25,925,720	53,862,308	148,287,703	157,479,341	1,851,971	487,233,830
Financial liabilities							
Amounts owed to institutions	20,000,000	-	-	-	-	-	20,000,000
Amounts owed to banks	271,105	-	-	-	-	-	271,105
Amounts owed to customers	149,768,151	35,472,282	156,774,775	70,460,769	17,267,285	-	429,743,262
Debt securities in issue	-	-	-	3,179,192	13,682,310	-	16,861,502
Other liabilities	8,393,356	-	-	-	-	-	8,393,356
Total liabilities	178,432,612	35,472,282	156,774,775	73,639,961	30,949,595	-	475,269,225
Liquidity gap	(78,605,825)	(9,546,562)	(102,912,467)	74,647,742	126,529,746	1,851,971	11,964,605
Cumulative gap	(78,605,825)	(88,152,387)	(191,064,854)	(116,417,112)	10,112,634	11,964,605	

4. Financial risk management and review (continued)

4.5.1 Contractual maturity ladder (continued)

At 31 December 2022	Less than 1 month €	Between 1 and 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €	No maturity date €	Total €
Financial assets							
Balances with Central Bank of Malta	14,784,535	-	-	-	-	2,813,752	17,598,287
Loans and advances to banks	10,214,993	-	-	-	-	-	10,214,993
Financial investments:							
- Equity investments	-	-	-	-	-	578,298	578,298
- Debt securities at Amortised Cost	-	-	-	20,386,673	31,236,595	-	51,623,268
- Debt securities at FVOCI	-	-	2,000,000	31,341,973	17,998,722	-	51,340,695
Factored receivables	25,008,507	16,362,084	6,082,484	63,090,738	7,819,911	-	118,363,724
Loans and advances to customers	16,981,755	8,611,573	38,614,529	65,947,309	30,174,116	-	160,329,282
Other assets	1,973,194	-	-	-	-	-	1,973,194
Total assets	68,962,984	24,973,657	46,697,013	180,766,693	87,229,344	3,392,050	412,021,741
Financial liabilities							
Amounts owed to institutions	10,000,000	30,000,000	-	-	-	-	40,000,000
Amounts owed to banks	275,815	-	-	-	-	-	275,815
Amounts owed to customers	89,702,291	42,492,871	104,342,245	79,658,759	19,464,704	-	335,660,870
Debt securities in issue	-	-	-	3,174,653	13,645,669	-	16,820,322
Other liabilities	4,759,914	-	-	-	-	-	4,759,914
Total liabilities	104,738,020	72,492,871	104,342,245	82,833,412	33,110,373	-	397,516,921
Liquidity gap	(35,775,036)	(47,519,214)	(57,645,232)	97,933,281	54,118,971	3,392,050	14,504,820
Cumulative gap	(35,775,036)	(83,294,250)	(140,939,482)	(43,006,201)	11,112,770	14,504,820	

Amounts owed to customers of €127,677,591 (2022: €75,002,176) as at 31 December 2023 are repayable on demand and included in the 'less than one month' bucket in the tables above. 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.

4.5.2 Cash flows payable by the Bank under financial liabilities by residual maturity

The table below shows a maturity analysis of undiscounted cash flows payable in respect of financial liabilities by residual contractual maturities of the instruments:

At 31 December 2023	Carrying amount €	Gross nominal outflow €	Repayable on demand €	Less than 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €
Amounts owed to institutions	20,000,000	(20,007,500)	-	(20,007,500)	-	-	-
Amounts owed to banks	271,105	(271,105)	(271,105)	-	-	-	-
Amounts owed to customers	429,743,262	437,977,363	(127,677,591)	(57,762,867)	(158,663,379)	(73,499,254)	(20,374,272)
Debt securities in issue	16,861,501	(23,589,121)	-	-	-	(3,403,843)	(20,185,278)
Other liabilities	8,393,356	(8,393,356)	-	(8,393,356)	-	-	-
	475,269,224	(490,238,445)	(127,948,696)	(86,163,723)	(158,663,379)	(76,903,097)	(40,559,550)

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.5 Liquidity risk (continued)

4.5.2 Cash flows payable by the Bank under financial liabilities by residual maturity (continued)

At 31 December 2022	Carrying amount €	Gross nominal outflow €	Repayable on demand €	Less than 3 months €	Between 3 months and 1 year €	Between 1 and 5 years €	More than 5 years €
Amounts owed to institutions	40,000,000	(40,307,014)	-	(40,307,014)	-	-	-
Amounts owed to banks	275,815	(275,815)	(275,815)	-	-	-	-
Amounts owed to customers	335,660,870	(347,359,212)	(75,002,176)	(60,716,266)	(105,299,378)	(83,103,035)	(23,238,357)
Debt securities in issue	16,820,322	(24,616,110)	-	-	(843,370)	(6,272,740)	(17,500,000)
Other liabilities	4,759,914	(4,759,914)	-	(4,759,914)	-	-	-
	397,516,921	(417,318,065)	(75,277,991)	(105,783,194)	(106,142,748)	(89,375,775)	(40,738,357)

4.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology, and infrastructure, as well as from external factors other than credit, market, and liquidity risks, such as risks arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Bank's operations.

Management of operational risk

The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. The Bank's operational risk management activities comprise actions to:

- Adopt policies, processes, and procedures to control and/or mitigate material operational risks.
- Identify and assess the operational risk inherent in all material products, activities, processes, and systems. Before new products, activities, processes, and systems are introduced or undertaken, the inherent operational risk is subject to adequate assessment.
- Monitor all potential operational risks and material exposures to losses.
- Monitor whether there is motive, means and opportunity within the overall control environment to commit fraudulent acts.
- Adopt contingency and business continuity plans to ensure the Bank's ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. Periodic operational risk reports are submitted to the Bank's Audit and Risk Committee. A financial measurement of this risk is estimated by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive rules. The capital requirement for operational risk under this method was calculated at €1,061,965 as at 31 December 2022 (2022: €1,026,733).

4. Financial risk management and review (continued)

4.7 Fair value measurement of financial instruments

The fair value of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair value using other valuation techniques.

(a) Valuation models

The Bank measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, 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.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates.

Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of the counterparty as appropriate.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

(b) Valuation framework

The Bank's financial assets measured at fair value comprise investments in Malta Government Stocks, corporate bonds listed on the Malta Stock Exchange, and collective investment schemes. A select group of Malta Government Stocks, corporate bonds and unquoted equity investments are classified as financial investments measured at FVOCI. Equity investments representing units in collective investment schemes are classified as financial investments measured at FVTPL. The Head of Finance and Treasury has overall responsibility for independently verifying the results of all fair value measurements.

(c) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by fair value measurement categorisation within the fair value hierarchy. The amounts reflect the carrying amount recognised in the statement of financial position.

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.7 Fair value measurement of financial instruments (continued)

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2023				
Financial investments:				
- Debt securities	49,824,772	-	-	49,824,772
- Equity investments	317,461	-	38,800	356,261
	50,146,233	-	38,800	50,185,033
31 December 2022 (Restated)				
Financial investments:				
- Debt securities	49,340,694	-	2,000,000	51,340,694
- Equity investments	548,023	-	30,275	578,298
	89,520,652	-	2,030,275	91,550,927

Financial investments – Corporate Debt securities and sovereign debt securities held within a held-to-collect and sell business model

This category of assets is carried at fair value, measured primarily by reference to quoted market prices as at 31 December 2023 and 2022.

Financial investments – Equity investments

The Bank has an interest in an open-ended investment fund as disclosed in Note 15.5, which is carried at fair value, determined by reference to the net asset value of the fund as at 31 December 2023 and 2022. The Bank's exposure to unquoted equity investments is deemed immaterial as at 31 December 2023 and 2022.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2023 and 2022, except for an investment of €2,000,000 representing a subscription for an investment during an initial public offering and subsequently converted into a holding during 2023, with the fair value determined by reference quoted market prices.

(d) Financial instruments not measured at fair value

Sovereign debt securities held within a held-to-collect and sell business model

The fair value of these securities as at 31 December 2023 amounted to €42,713,946 (2022: €31,631,934) whilst the carrying amount of these debt securities was €51,408,026 (2022: €51,623,267).

Debt securities in issue

The fair value of the debt securities in issue as at 31 December 2023 amounted to €17,122,280 (2022: €17,281,580) whilst the carrying amount of these debt securities was €16,861,501 (2022: €16,820,322).

Balances with Central Bank of Malta, loans and advances to banks and factored receivables

These categories of assets are reported net of credit loss allowances to reflect the estimated recoverable amounts. Balances with Central Bank of Malta and loans and advances to banks re-price within 3 months, whilst factored receivables are relatively short-term in nature. The carrying amounts of these financial assets are therefore deemed to be a reasonable approximation of their fair value.

4. Financial risk management and review (continued)

4.7 Fair value measurement of financial instruments (continued)

Loans and advances to customers

Loans and advances to customers are carried at amortised cost in the statement of financial position. The board considers the carrying amounts of these loans to be a reasonable estimate of their fair value in view of the relatively short periods to repricing or maturity from the end of the reporting periods.

Amounts owed to institutions

Amounts owed to institutions amounting to €20,000,000 (2022: €40,000,000) represent loans contracted in terms of the 'Eurosystem Monetary Policy Operations - Central Bank of Malta Directive No.8' and are carried at amortised cost. These amounts are secured by a pledge on a portion of the Bank's portfolio of investments in Malta Government Stocks as disclosed in Note 15.2. The fair value of these amounts is deemed to approximate the carrying amount in view of the short-term nature of the financial liability.

Amounts owed to customers

This category of liabilities is carried at amortised cost and amounts to €429,743,262 (2022: €335,660,870). The majority of the customer deposits reprice within one year or less and, in this respect, their carrying amount is deemed to be a reasonable approximation of their fair value.

Amounts owed to banks

This category of liabilities is carried at amortised cost and amounts to €271,105 (2022: €275,815). These liabilities are short-term in nature and, in this respect, their carrying amount is deemed to approximate their fair value.

Debt securities in issue

This category of liabilities is carried at amortised cost. The debt securities in issue with nominal value of €14.0 million and €3.2 million are quoted and the fair value has been determined by reference to the market price (Level 1), which was €100.00 and €98.00 respectively as at 31 December 2023 (2022: €100.00 and €103.00), resulting in a fair value of €14,000,000 and €3,122,280 (2022: €14,000,000 and €3,281,580).

(e) Non-financial instruments measured at fair value

The judgements and estimates made in determining the fair values of property classified within 'Property and equipment', which is recognised and measured at fair value in the statement of financial position are described hereunder.

The Bank engages external, independent and qualified valuers to determine the fair value of its properties at least every five years. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations and other market factors.

The Bank is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

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

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.7 Fair value measurement of financial instruments (continued)

The Bank's property, classified within 'Property and equipment', comprises the Bank's offices and other operational premises. All the recurring property fair value measurements at 31 December 2023 and 2022 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy. The last independent valuation of these properties was performed as at 30 September 2022 except for the property at 53-58, East Street, Valletta, which was carried out at 30 July 2023. During 2023, the carrying values of the properties, classified within property, plant and equipment, have been adjusted to the valuations and the net resultant adjustment comprised an increase of €1,170,375 in the carrying values for the Bank. For all Bank properties, their current use equates to the highest and best use.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, is reflected in Note 18.1. The principal movements reflect changes in fair value, additions, disposals and depreciation charge for the years ended 31 December 2023 and 2022.

The external valuations of the Level 3 property have been performed using predominantly the traditional investment method of valuation based on the capitalised rentals approach. In view of the limited market information available, the valuations have been performed using unobservable inputs. In relation to the capitalised rentals approach, the significant unobservable inputs include:

- a capitalisation rate applied at 6% (2022: 6%) which is effectively the discount rate adjusted for anticipated growth; and
- the expected annual rental value ("ERV") taking into account the rental rate per square metre for comparable properties located in proximity to the Bank's property with adjustments for differences in the size, age, exact location and condition of the property. The assumed monthly rental rate per square metre is €23.24 (2022: €23.24).

Effectively, the capitalisation rate indicates the return the investor expects to receive through annual rental value.

4.8 Capital base

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

4.8.1 Capital management

The Bank is required to maintain sufficient capital to comply with regulatory capital requirements. The Bank's capital management processes ensure an efficient use of capital in relation to risk appetite as well as business development. The Bank's regulatory capital comprises Tier 1 capital and Tier 2 capital, which includes ordinary share capital, the capital contribution reserve, retained earnings, other reserves and subordinated debt. The Bank's regulatory capital also included Tier 2 capital

All financial instruments arising from the Bank's operations are categorised as banking book exposures, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and to exposures not recognised in the statement of financial position.

In accordance with the common reporting framework (COREP) submissions, used by credit institutions for reporting to the supervisory authority under the Capital Requirements Directive (CRD), submitted by the Bank to the authority, the Bank has complied with all externally imposed capital requirements including the Common Equity Tier 1 ('CET1'), Tier 1 Capital ('T1'), Tier 2 Capital ('T2') and Capital Adequacy Ratio ('CAR') throughout the financial years ended 31 December 2023 and 2022. There have been no material changes in the Bank's management of capital during the respective financial years.

4. Financial risk management and review (continued)

4.8 Capital base (continued)

4.8.2 Calculation of minimum capital requirement and risk-weighted assets

Minimum capital requirements are computed for credit, market and operational risks. The Banking Act, 1994 requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%.

The Bank is compliant with the CRD IV capital requirements and in addition to the prescribed minimum, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act 1994' requires Banks to hold additional buffers, namely the 'capital conservation buffer' and the 'countercyclical buffer'. Automatic restrictions on capital distributions apply if the Bank's CET1 capital falls below the level of its CRD IV combined buffer.

The Bank is required to maintain a capital conservation buffer of 2.5% and the institution-specific countercyclical buffer as determined by Article 140 (1) of Directive 2013/36/EU which is composed of CET1 capital. These buffers were phased in over the period from 1 January 2016 to 31 December 2020.

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure risk-weighted assets, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. Given that the local group's exposures are all contained within Malta, this buffer was set at 0%.

On 27 April 2023, the Bank received from the MFSA a SREP Decision letter, whereby in addition to the regulatory requirements stated above, the Bank is expected to maintain a Pillar 2 Requirement (P2R) of 3.25% to be held in excess of the minimum own funds requirement and to be maintained at all times in accordance with Article 104a of the EU's Capital Requirements Directive (CRD V). In addition, a Pillar 2 Guidance (P2G) of 1.50% and made up entirely of CET 1 Capital is to be held over and above the Overall Capital Requirement (OCR) of 13.85%.

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements, as reported by the Bank in the COREP return:

	2023	2022 (Restated)
	€	€
Tier 1 capital		
Ordinary share capital	29,000,000	29,000,000
Capital contribution	32,675	32,675
(Accumulated losses)/Retained earnings	(514,946)	916,452
Property revaluation reserve	3,967,372	2,977,302
Fair value movement reserve	(1,708,321)	(2,500,774)
Other reserves	55,025	72,782
Deductions related to intangible assets	(2,869,859)	(1,399,036)
Total Tier 1 Capital	27,961,946	29,099,401
Subordinated debt	14,000,000	14,000,000
Total Tier 2 Capital	14,000,000	14,000,000
Total Own Funds	41,961,946	43,099,401

Notes to the Financial Statements

For the Year Ended 31 December 2023

4. Financial risk management and review (continued)

4.8 Capital base (continued)

4.8.2 Calculation of minimum capital requirement and risk-weighted assets (continued)

By reference to regulatory returns submitted to the MFSA in respect of the financial year ended 31 December 2023, as well as regulatory returns submitted to the MFSA up to the date of signing of these financial statements relating to reporting periods falling after 31 December 2023, the Bank is deemed to have met all minimum legal capital requirements until signing date.

Further information in respect of the Bank's capital ratios may be found in sections 3 and 4 of Appendix 1 - Pillar 3 disclosures as at 31 December 2023, which are subject to internal review by the Bank.

5 Net interest income

	2023 €	2022 €
Interest income		
Factored receivables	7,858,688	6,362,852
Loans and advances to customers	7,325,706	5,345,149
Amounts owed to institutions	2,124,743	28,194
Financial assets measured at amortised Cost	434,329	434,329
Financial assets measured at FVOCI	1,695,553	1,304,151
Amortisation of premium on financial assets	(399,673)	(386,904)
Total interest income	19,039,346	13,087,771
Interest expense		
On amounts owed to banks	(1,361)	(290,730)
On amounts owed to customers	(11,157,738)	(4,197,297)
On debt securities in issue	(852,092)	(701,743)
Amortisation of debt issuance costs	(41,179)	(52,577)
Loss on modification of debt securities	-	(170,298)
Total interest expense	(12,052,370)	(5,412,645)
Net interest income	6,986,976	7,675,126

6 Net fee and commission income

	2023 €	2022 €
Account maintenance and other bank charges	157,529	182,419
Fee and commission income	157,529	182,419
SWIFT and bank charges	(141,096)	(126,507)
Fee and commission expense	(141,096)	(126,507)
Net fee and commission income	16,433	55,912

6 Net fee and commission income (continued)

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to corporate customers, including the provision of credit facilities, foreign currency transactions, account maintenance and servicing fees. Transaction-based fees for foreign currency transactions and credit facilities are charged to the customer's account when the transaction takes place. Servicing fees are charged on a periodical basis and are based on fixed rates reviewed annually by the Bank. No fees are charged to the Bank's retail customer base.	Revenue from account maintenance and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

7. Net trading income

	2023 €	2022 €
Net (loss)/gain from other financial instruments at FVTPL	(12,779)	10,543
Net (loss)/gain from foreign exchange	(25,021)	5,246
	(37,800)	15,789

8. Other operating income

	2023 €	2022 €
Other operating income	129,864	101,325

Notes to the Financial Statements

For the Year Ended 31 December 2023

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

	2023 €	2022 €
Changes in expected credit losses:		
Factored receivables	48,563	(129,575)
Loans and Advances to customers	(37,677)	(504,705)
Debt financial investments measured at Amortised Cost	(47,509)	-
Debt financial investments measured at FVOCI	(24,853)	(34,822)
	(61,476)	(669,102)
Other credit impairment charges:		
Write-offs		
- Factored receivables	(530,437)	(235,513)
- Loans and advances to customers	-	(26,392)
Recoveries		
- Factored receivables	150,733	-
- Loans and advances to customers	-	11,860
	(379,704)	(250,045)
	(441,180)	(919,147)

10. Loss before tax

10.1 Loss before income tax is stated after fees, exclusive of VAT, charged by the Bank's statutory auditor in relation to the financial years ended 31 December 2023 and 2022, which comprise the following:

	2023 €	2022 €
Auditors' remuneration	78,000	90,000
Other assurance services	-	7,000
Other non-assurance services	-	2,000
	78,000	99,000

10.2 Employee compensation and benefits incurred by the Bank during the respective financial years are analysed as follows:

	2023 €	2022 €
Directors' fees	140,000	145,000
Staff costs:		
- wages, salaries and allowances	2,737,513	2,222,340
- defined contribution social security costs	176,975	145,936
	3,054,488	2,513,276

Notes to the Financial Statements

For the Year Ended 31 December 2023

10. Loss before tax (continued)

10.3 The weekly average number of persons employed by the Bank during the respective financial years was as follows:

	2023	2022
Managerial	8	8
Supervisory and clerical	66	57
	74	65

10.4 Other expenses incurred by the Bank during the respective financial years are analysed as follows:

	2023 €	2022 €
Credit servicing fees	466,614	508,534
Depositor compensation scheme contributions	482,501	395,931
IT support and maintenance costs	1,330,555	1,204,538
Marketing expenses	584,644	175,613
Professional fees	618,345	802,907
Other expenses	1,032,510	695,964
	4,515,169	3,783,487

11. Income tax expense

11.1 Total income tax expense

	2023 €	2022 €
Income Statement		
Current income tax – current year expense	(10,187)	(215,197)
Deferred tax credit	737,197	318,784
	727,010	103,587

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

	2023 €	2022 €
Loss before income tax	(1,969,378)	(387,806)
Tax at the applicable tax rate of 35%	689,282	135,732
Tax effect of:		
- Non-deductible expenses	(15,847)	(27,447)
- Tax at source	(10,187)	-
- Other differences	63,762	(4,698)
	727,010	103,587

Notes to the Financial Statements

For the Year Ended 31 December 2023

12. Earnings per share

Earnings per share is calculated by dividing the profit or loss after tax attributable to ordinary shareholders of the Bank by the number of ordinary shares in issue and ranking equally for dividend during the year.

	Note	2023 €	2022 €
Income Statement			
Net loss attributable to equity holders of the Bank		(1,242,368)	(284,219)
Number of ordinary shares in issue	26	58,000,000	58,000,000
Earnings per share		(2c14)	(0c49)

The comparative information has been restated to reflect the bonus issue, share split and the capitalisation from the capital contribution reserve effected during the current financial year and the impact on the number of shares in issue, referred to in Note 27, retrospectively.

13. Balances with Central Bank of Malta and cash

	2023 €	2022 €
Balances with Central Bank of Malta	56,242,720	17,598,287
	56,242,720	17,598,287

Balances with the Central Bank of Malta comprise mandatory reserve deposits of €1,520,564 (2022: €1,981,892) and are not available for use in the Bank's day-to-day operations. During the current and prior years, the Bank has been compliant with the reserve deposit requirement. These balances also comprise an amount of €990,089 (2022: €831,860) pledged in favour of the Depositor Compensation Scheme. Credit loss allowances in respect of balances with the Central Bank of Malta are deemed to be negligible.

14. Loans and advances to banks

	2023 €	2022 €
Repayable on call and at short notice	6,757,337	10,214,993
	6,757,337	10,214,993

Credit loss allowances in respect of loans and advances to banks are deemed to be negligible.

15. Financial investments

15.1 Composition of investment portfolio

	2023	2022
	€	€
Debt securities measured at FVOCI	49,824,772	51,340,694
Debt securities measured at amortised Cost	51,408,026	51,623,268
Equity investments designated at FVOCI	38,800	30,275
Equity investments designated at FVTPL	317,461	548,023
	101,589,059	103,542,260

15.2 Debt financial investments measured at FVOCI comprise:

	2023	2022
	€	€
Malta Government Stocks	21,066,823	20,178,912
Local corporate bonds listed on the Malta Stock Exchange	28,757,949	31,161,782
	49,824,772	51,340,694

At 31 December 2023, expected credit loss allowances in respect of debt securities measured at FVOCI amounted to €94,191 (2022: €46,682).

The Bank's holdings of debt financial investments measured at FVOCI represent securities quoted on the Malta Stock Exchange.

As at 31 December 2023, a portion of the Bank's investment in Malta Government Stocks with a fair value of €62,504,627 (2022: €59,810,846) was pledged in favour of the Central Bank of Malta as collateral held in respect of the Bank's participation in the Main Refinancing Operations ("MROs") €20,000,000 (2022: Nil), ECB Pandemic Emergency Longer-Term Refinancing Operations ("PELTROs") amounting to nil (2022: €10,000,000) and Targeted Longer-Term Refinancing Operations ("LTROs") amounting to nil (2022: €30,000,000) as at that date.

15.3 Debt financial investments measured at amortised cost comprise:

	2023	2022
	€	€
Malta Government Stocks	51,408,026	51,623,268
	51,408,026	51,623,268

At 31 December 2023, expected credit loss allowances in respect of debt securities measured at amortised cost amounted to €24,853 (2022: Nil).

The Bank's holdings of debt financial investments measured at amortised cost represent securities quoted on the Malta Stock Exchange.

Notes to the Financial Statements

For the Year Ended 31 December 2023

15. Financial investments (continued)

15.4 Equity investments designated at FVOCI comprise:

	2023 €	2022 €
Unquoted equity holding (Society for Worldwide Interbank Financial Telecommunications SCRL – SWIFT)	38,800	30,275
	38,800	30,275

15.5 Equity investments measured at FVTPL comprise:

	2023 €	2022 €
Collective investment schemes	43,871	42,409
Unrated financial investments	273,589	505,614
	317,461	548,023

Collective investment schemes represent holdings in investment-grade money market funds as part of the active liquidity management of the Bank. Furthermore, the unrated financial investments disclosed above represent equity investments listed on the Malta Stock Exchange which are unrated by international credit rating agencies.

15.6 The table below summarises the movement in financial investments

	2023 €	2022 (Restated) €
At 1 January	103,542,260	117,280,712
Restatement	-	1,252,735
Acquisitions	100,000	40,740,036
Redemptions and disposals	(1,302,167)	(51,362,776)
Amortisation of premium	(399,673)	(386,904)
Fair value movement	351,361	(3,981,543)
At 31 December	101,589,059	103,542,260

Notes to the Financial Statements

For the Year Ended 31 December 2023

16. Factored receivables

	2023 €	2022 €
Receivables factored on a non-recourse basis:		
- Invoice factoring	41,940,634	42,611,756
- Bills of exchange factoring	98,966,063	76,657,356
Allowance for ECL	(856,825)	(905,388)
	140,049,872	118,363,724

17. Loans and advances to customers

	2023 €	2022 €
Term loans and advances to third parties	92,699,611	70,934,420
Term loans and advances to related parties	42,003,298	42,239,142
Credit cards and overdrafts	47,132,520	47,989,411
Allowance for ECL	(871,368)	(833,691)
	180,964,061	160,329,282

Notes to the Financial Statements

For the Year Ended 31 December 2023

18. Property and equipment

18.1

	Total €	Premises and improvements €	Computer hardware €	Motor Vehicles €	Other equipment €
Cost/revalued amount					
At 1 January 2022	14,714,858	13,037,171	899,714	104,924	673,049
Acquisitions	1,413,917	1,186,558	86,114	-	141,245
Premises revaluation	100,787	100,787	-	-	-
Disposals	(2,774,204)	(2,724,795)	-	-	(49,409)
At 31 December 2022	13,455,358	11,599,721	985,828	104,924	764,885
At 1 January 2023	13,455,358	11,599,721	985,828	104,924	764,885
Acquisitions	1,237,935	829,818	251,592	-	156,525
Premises revaluation	1,170,375	1,170,375	-	-	-
At 31 December 2023	15,863,668	13,599,914	1,237,420	104,924	921,410
Depreciation					
At 1 January 2022	2,149,463	734,216	714,219	76,608	624,420
Charge for the year	149,201	77,820	49,781	5,998	15,602
Depreciation released on disposals	(555,531)	(520,795)	-	-	(34,736)
At 31 December 2022	1,743,133	291,241	764,000	82,606	605,286
At 1 January 2023	1,743,133	291,241	764,000	82,606	605,286
Charge for the year	181,399	54,629	112,874	5,966	7,930
At 31 December 2023	1,924,532	345,870	876,874	88,572	613,216
Carrying amount					
At 1 January 2022	12,565,395	12,302,955	185,495	28,316	48,629
At 31 December 2022	11,712,225	11,308,480	221,828	22,318	159,599
At 31 December 2023	13,939,136	13,254,044	360,546	16,352	308,194

18.2 The carrying amount of premises and improvements that would have been included in the financial statements had these assets not been revalued (see Note 3.5) but had been carried at cost less depreciation would have been:

	2023 €	2022 €
Cost	9,202,190	8,372,372
Accumulated depreciation	(302,398)	(295,437)
	8,899,792	8,076,935

18.3 The progress on the construction and refurbishment of the Bank's main premises at Castille Square is approaching completion and any commitments have been honoured. Ongoing expenditure being incurred relate to the final finishing stage of the construction phase.

18. Property and equipment (continued)

18.4 Revaluation of premises

The Bank's premises are measured at revalued amount less accumulated depreciation. The revaluation amount is determined based on open market values provided periodically, at least every five years, by independent valuers. The Bank occupies almost the full complement of two adjacent and prestigious houses – Nos. 53 and 58 in East Street, Valletta, close to the 'Lower Barrakka' Gardens and with views of the Grand Harbour and the Three Cities. The buildings date back to the eighteenth century and are structurally sound and complete of finishes of a very high standard. In 2017, the Bank acquired new premises at 4, Castille Place, and as at 31 December 2023, was in the process of overseeing the finishing stage of the building.

The Bank's property, classified within 'Property and equipment', comprises the Bank's offices and other operational premises. The last independent valuation of these properties was performed as at 30 September 2022 except for the property at 53-58, East Street, Valletta, which was carried out at 30 July 2023. During 2023, the carrying values of the properties, classified within property, plant and equipment, have been adjusted to the valuations and the net resultant adjustment comprised an increase of €1,170,375 in the carrying values for the Bank. For all Bank properties, their current use equates to the highest and best use.

Information in respect of the fair value measurement of the properties measured at revalued amount is disclosed in Note 4.7.

19. Intangible assets

	Computer software €
Cost	
At 1 January 2022	5,076,662
Acquisitions	1,064,771
At 31 December 2022	6,141,433
At 1 January 2023	6,141,433
Acquisitions	2,527,225
At 31 December 2023	8,668,658
Amortisation	
At 1 January 2022	3,302,292
Charge for the year	863,548
At 31 December 2022	4,165,840
At 1 January 2023	4,165,840
Charge for the year	872,615
At 31 December 2023	5,038,455
Carrying amount	
At 1 January 2022	1,774,370
At 31 December 2022	1,975,593
At 31 December 2023	3,630,203

As at 31 December 2023, commitments in respect of capital expenditure authorised and contracted for amounted to €811,097 (2022: €1,179,000). The bulk of this expenditure will be directed toward the procurement and development of the core banking system.

Notes to the Financial Statements

For the Year Ended 31 December 2023

20. Other assets

	2023	2022
	€	€
Accrued interest	1,452,670	1,437,194
Prepayments	760,575	1,244,617
Other receivables	178,110	500,000
	2,391,355	3,181,811

21. Amounts owed to institutions

The Bank participates in the ECB MROs, LTROs and PELTROs. In this respect, a portion of the Malta Government Stocks held by the Bank as at 31 December 2023 and 2022 (see Note 15) were pledged in favour of the Central Bank of Malta as collateral in respect of the Bank's participation in the MROs, LTROs and PELTROs. As at 31 December 2023, MROs amounted to €20,000,000 (2022: nil), LTROs amounted to nil (2022: €30,000,000) and PELTROs amounted to nil (2022: €10,000,000).

22. Amounts owed to banks

	2023	2022
	€	€
Repayable on demand	271,105	275,815

23. Amounts owed to customers

	2023	2022
	€	€
Repayable on demand	127,677,591	75,002,176
Term deposits	302,065,671	260,658,694
	429,743,262	335,660,870

24. Debt securities in issue

	2023	2022
	€	€
At 1 January	16,820,322	11,940,167
Debt securities issued	-	14,000,000
Debt securities converted to new securities	-	(6,811,900)
Redemption of debt securities	-	(2,002,100)
Issue costs incurred	-	(528,720)
Loss on modification of debt securities (Note 5)	-	170,298
Amortisation of debt issuance costs during the year (Note 5)	41,179	52,577
At 31 December 2023	16,861,501	16,820,322

On 6 July 2022, the Bank announced the issue of €14,000,000 5% unsecured subordinated bonds maturing on 15 September 2032 with an early redemption option held by the Bank on 15 September 2027 and annually thereafter. These debt securities, which are listed on the Malta Stock Exchange, are denominated in Euro, pay interest at a fixed rate of 5% and are redeemable at par. The €14,000,000 5% unsecured subordinated bonds will, in the event of winding up of the Bank, be subordinated to the claims of depositors and all other creditors. As at 31 December 2023, the contractual amount due at maturity is of €14,000,000.

Holders of the €12,000,000 4.50% Unsecured Bond 2025 with a total nominal amount of €6,811,900 and a carrying value of €6.79 million subscribed to the unsecured subordinated bond issued in 2022 by surrendering bonds with a nominal amount of €6,811,900. This exchange did not result in derecognition and the loss on modification of €170,298 was recognised as an adjustment to the effective interest rate in profit or loss. Furthermore, the Bank purchased and cancelled an additional amount of bonds of €2,002,100 in nominal amount from the 4.5% Unsecured Bonds 2025 in accordance with the prospectus dated 18 May 2015.

The Bank has not had any defaults of interest or any other breaches with respect to these debt securities during the financial years ended 31 December 2023 and 2022.

Notes to the Financial Statements

For the Year Ended 31 December 2023

25. Deferred tax assets and liabilities

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than 12 months from the end of the reporting period, and are attributable to the following:

	Assets 2023	Liabilities 2023	Net 2023	Assets 2022 (Restated)	Liabilities 2022 (Restated)	Net 2022 (Restated)
	€	€	€	€	€	€
Depreciation of property and equipment and amortisation of intangible assets	-	(185,458)	(185,458)	-	(242,851)	(242,851)
Revaluation of properties	-	(616,719)	(616,719)	-	(436,414)	(436,414)
Fair value changes on financial investments						
- measured at FVOCI	919,865	-	919,865	1,346,572	-	1,346,572
- measured at FVTPL	-	(5,880)	(5,880)	-	(4,779)	(4,779)
Unutilised tax losses & capital allowances	663,291	-	663,291	-	-	-
Allowance for ECL	617,493	-	617,493	625,016	-	625,016
	2,200,649	(808,057)	1,392,592	1,971,588	(684,044)	1,287,544

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

The principal tax rate used is 35% (2022: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property, which is computed on the basis applicable to disposals of immovable property mainly giving rise to a tax effect of 10% of the transfer value (2022: 10%).

Movement in temporary differences relates to:

	At 1 January 2023	Recognised in profit or loss	Recognised in OCI	At 31 December 2023
	€	€	€	€
Depreciation of property and equipment and amortisation of intangible assets	(242,851)	57,393	-	(185,458)
Revaluation of properties	(436,414)	-	(180,305)	(616,719)
Fair value changes on financial investments				
- measured at FVOCI	1,346,572	-	(426,707)	919,865
- measured at FVTPL	(4,779)	(1,101)	-	(5,880)
Unutilised tax losses & capital allowances	-	663,291	-	663,291
Other charges for the year	-	25,137	-	-
Allowance for ECL	625,016	(7,523)	-	617,493
	1,287,544	737,197	(607,012)	1,392,592

	At 1 January 2022 (Restated)	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	At 31 December 2022 (Restated)
	€	€	€	€	€
Depreciation of property and equipment and amortisation of intangible assets	(329,988)	87,137	-	-	(242,851)
Revaluation of properties	(558,446)	-	(15,118)	137,150	(436,414)
Fair value changes on financial investments					
- measured at FVOCI	(41,026)	-	1,387,598	-	1,346,572
- measured at FVTPL	(2,240)	(2,539)	-	-	(4,779)
Allowance for ECL	390,830	234,186	-	-	625,016
	(540,870)	318,784	1,372,480	-	1,287,544

26. Accruals and other liabilities

	2023 €	2022 €
Accrued interest payable	6,149,250	3,744,225
Other accrued expenses	2,244,106	1,015,689
	8,393,356	4,759,914

27. Share capital and reserves

27.1 Share capital

	2023		2022	
	No. of shares	€	No. of shares	€
Authorised				
Ordinary shares of €0.50 each	120,000,000	60,000,000	120,000,000	60,000,000
Issued and fully paid up				
Ordinary shares of €0.50 each	58,000,000	29,000,000	58,000,000	29,000,000

At 31 December 2023 and 2022, the authorised and issued share capital comprised 120,000,000 and 58,000,000 ordinary shares of €0.50 each 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 shareholders' meetings of the Bank.

27.2 Capital contribution reserve

These amounts represent irrevocable and unconditional contributions by the shareholders and are interest free and repayable at the sole discretion of the Bank. As disclosed in Note 27.1, the Bank obtained regulatory approval for the conversion of €17,000,000 from its capital contribution reserve into fully paid-up ordinary share capital effective on 25 February 2022.

27.3 Property revaluation reserve

The property revaluation reserve represents the surplus arising on the revaluation of the Bank's premises, net of related deferred tax effects. This reserve is not available for distribution.

27.4 Fair value reserve

The fair value reserve, comprises:

- the cumulative movement in the fair value of equity investments measured at FVOCI, net of deferred tax; and
- the cumulative movement in the fair value of debt securities measured at FVOCI net of deferred tax and allowances for ECL.

The fair value reserve in the comparative period has been restated. Refer to the statement of changes in equity for further detail.

Notes to the Financial Statements

For the Year Ended 31 December 2023

27. Share capital and reserves (continued)

27.5 Depositor compensation scheme reserve

The depositor compensation scheme reserve represents amounts set aside by the Bank from its retained earnings. As at 31 December 2023, a total amount of €1,038,647 (2022: €831,860) was placed with the Central Bank of Malta and pledged in favour of the Depositor Compensation Scheme.

27.6 Reserve for general banking risks

Banking Rule 09 (BR09) requires the Bank to hold a Reserve for General Banking Risks, calculated as a percentage of non-performing loans. This reserve is required to be funded from planned dividends. In this respect, the reserve at the end of the year amounted to €55,025 (2022: €72,782).

27.7 Availability of reserves for distribution

	2023	2022
	€	€
Distributable	(514,946)	916,452
Non-distributable	3,385,398	1,413,845

27.8 Dividends

As disclosed in Note 27.1, the Bank declared a net interim dividend of €2,000,000 at the Annual General Meeting held on 24 March 2022. The Bank obtained all the necessary approvals on 25 October 2022 and paid the dividend through a bonus issue of new ordinary shares on 22 November 2022. No dividends are being declared in respect of the financial year ended 31 December 2023.

28. Commitments

	2023	2022
	€	€
Unutilised factoring, overdraft facilities and credit card commitments	288,377,842	185,068,135

The Bank may unconditionally cancel undrawn factoring commitments at 31 December 2023 amounting to €197,877,981 (2022: €137,794,135) at its discretion.

Notes to the Financial Statements

For the Year Ended 31 December 2023

29. Net cash from operating activities

	2023 €	2022 €
Loss for the year	(1,242,368)	(284,219)
Adjustments for:		
Depreciation of property and equipment	181,399	149,201
Amortisation of intangible assets	872,615	863,548
Income tax (credit)/expense	(727,010)	(103,587)
Allowance for ECL	13,967	919,147
Interest income on debt financial investments	(2,129,882)	(1,738,480)
Interest expense on debt securities in issue	843,370	701,743
Net unrealised (loss)/gain from financial investments measured at FVTPL	12,779	(10,543)
Realised gains/(losses) on disposal of financial investments	-	7,299
Amortisation of premiums and discounts on debt financial investments	399,673	386,904
Loss on modification of debt securities	-	170,298
Amortisation of debt issuance costs	41,179	52,577
	(1,734,278)	1,113,888
Movements in reserve deposit with Central Bank of Malta	-	(613,235)
Movements in loans and advances to customers	(20,672,456)	(29,464,646)
Movements in factored receivables	(21,637,585)	(23,441,465)
Movements in amounts owed to institutions	(20,000,000)	(15,000,000)
Movements in amounts owed to customers	94,543,720	37,880,361
Movements in other assets and other liabilities	5,959,699	(781,716)
	36,459,100	(30,306,813)

30. Cash and cash equivalents

	2023 €	2022 €
Balances with Central Bank of Malta	54,722,156	15,616,395
Loans and advances to banks with contractual maturity of three months or less	6,757,337	10,214,993
Amounts owed to banks	(271,105)	(275,815)
	61,208,388	25,555,573

Balances with the Central Bank of Malta exclude mandatory reserve deposits of €1,520,564 (2022: €1,981,892) which are not available for use in the Bank's day-to-day operations. Balances with the Central Bank of Malta also comprise an amount of €1,038,647 (2022: €831,860) pledged in favour of the Depositor Compensation Scheme.

Notes to the Financial Statements

For the Year Ended 31 December 2023

31. Related parties

31.1 Identity of related parties, and parent and ultimate controlling party

Related parties of the Bank include the ultimate parent, all entities controlled by the ultimate parent, key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being the directors and the Bank's executive management. Reference to executive management shall mean the CEO, the Head of Finance & Treasury, the Head of Strategy & Value, the Head of Operations, the Head of Credit, the Head of Information & Technology, the Head of Risk and Compliance and the Head of Human Resources.

The Bank's immediate parent is IBL T Limited, the registered office of which is 53-58, East Street, Valletta VLT 1251, Malta.

The financial results and assets and liabilities of the Bank are included in the consolidated financial statements of Carlenco Finance NV, with registration number 0755.471.533, the registered office of which is Lar Blok Z5, 8511 Kortrijk, Belgium.

Magdalena De Roeck and Caroline Van Marcke have an indirect beneficial interest in the shareholding of the Bank and have significant control in the ultimate parent.

31.2 Related party transactions

Interest, fees, and other income/expenses in respect of related parties, principally comprising entities within the Van Marcke Group, in the statement of profit or loss and other comprehensive income comprise:

	2023	2022
	€	€
Interest and similar income	4,280,461	3,778,761
Fee and commission income	78,325	80,500
Other operating income	112,141	2,100
Interest expense	407,438	332,385

31. Related parties (continued)

31.3 Related party balances

The statement of financial position includes outstanding transactions and balances with related parties, principally comprising entities within the Van Marcke Group, as follows:

	2023 €	2022 €
Assets		
Loans and advances to customers	41,305,410	42,239,142
Prepayments and accrued income	526,160	537,581
Liabilities		
Amounts owed to customers	36,285,602	42,133,209
Debt securities issued to directors	364,300	364,300
Accruals	5,743	5,743

Loans and advances to customer include 8 (2022:6) outstanding loans to key management personnel amounting to €947,426 (2022: €782,327). Two loans are secured against property in Malta. Both loans are repayable after more than five years from the reporting date. The remaining amounts are unsecured and bear interest.

31.4 Transactions with key management personnel

	2023 €	2022 €
Directors' fees	140,000	145,000
Compensation to key management personnel – salaries	840,535	757,758

Notes to the Financial Statements

For the Year Ended 31 December 2023

32. Operating segments

32.1 The segment reporting of the Bank is presented in terms of the following business segments, determined in accordance with the disclosure requirements in respect of reportable segments under IFRS 8 – Operating Segments:

Reportable segment	Description of activities
Factoring	Principally factoring of bills of exchange and invoices on a no-recourse basis
Lending	Principally lending to corporate clients and mortgages
Other	Principally treasury and other central functions

Revenues earned and expenses incurred in respect of each of the reportable business segments are presented in the table below. No reconciliation is required since there are no differences between the measurements of the reportable segments' profits or losses and the information disclosed in the statement of profit or loss and other comprehensive income.

	2023 Total €	2023 Lending €	2023 Factoring €	2023 Other €	2022 Total €	2022 Lending €	2022 Factoring €	2022 Other €
Interest and similar income								
Loans and advances to customers	7,325,706	7,325,706	-	-	5,345,149	5,345,149	-	-
Factored receivables	7,858,688	-	7,858,688	-	6,362,852	-	6,362,852	-
Amounts owed to institutions	2,124,743	-	-	2,124,743	28,194	-	-	28,194
Financial assets measured at amortised cost	434,329	-	-	434,329	-	-	-	-
Financial assets measured at FVOCI	1,695,553	-	-	1,695,553	1,738,480	-	-	1,738,480
Amortisation on financial assets measured at FVOCI	(399,673)	-	-	(399,673)	(386,904)	-	-	(386,904)
Total interest income	19,039,346	7,325,706	7,858,688	3,854,952	13,087,771	5,345,149	6,362,852	1,379,770
Interest expense								
Loans and advances to banks	(1,361)	(507)	(392)	(462)	(290,730)	(117,100)	(86,450)	(87,180)
Amounts owed to customers	(11,157,738)	(4,156,295)	(3,216,811)	(3,784,632)	(4,197,297)	(1,690,585)	(1,248,081)	(1,258,631)
Debt securities issued	(852,092)	(317,407)	(245,661)	(289,024)	(701,743)	(282,647)	(208,666)	(210,430)
Amortisation of debt issuance costs	(41,179)	(15,339)	(11,872)	(13,968)	(52,577)	(21,177)	(15,634)	(15,766)
Loss on modification of debt securities	-	-	-	-	(170,298)	(68,592)	(50,639)	(51,067)
Interest expense	(12,052,370)	(4,489,548)	(3,474,736)	(4,088,085)	(5,412,645)	(2,180,101)	(1,609,470)	(1,623,074)
Net interest income	6,986,976	2,836,158	4,383,952	(233,133)	7,675,126	3,165,048	4,753,382	(243,304)
Net fee and commission income/(expense)	16,432	103,483	(58,243)	(28,808)	55,912	130,753	(61,504)	(13,337)
Net trading income	(37,800)	-	-	(37,800)	15,789	-	-	15,789
Net (losses)/gains on disposal of financial investments measured at FVOCI	-	-	-	-	(7,299)	-	-	(7,299)
Other operating income	129,864	-	-	129,864	101,325	-	-	101,325
Operating profit/(loss)	7,095,472	2,939,641	4,325,709	(169,877)	7,840,853	3,295,801	4,691,878	(146,826)
Depreciation and amortisation	(1,054,014)	(393,664)	(465,637)	(194,712)	(1,012,749)	(339,220)	(585,964)	(87,565)
Changes in expected credit losses and other credit impairment charges	(441,180)	(37,677)	(331,141)	(72,362)	(919,147)	(519,237)	(365,088)	(34,822)
Employee compensation and benefits	(3,054,488)	(1,063,321)	(1,362,642)	(628,524)	(2,513,276)	(542,271)	(1,481,981)	(489,024)
Other administrative expenses	(4,515,169)	(1,545,671)	(2,077,751)	(891,746)	(3,783,487)	(1,239,828)	(2,146,055)	(397,604)
(Loss)/profit before tax	(1,969,379)	(100,694)	88,537	(1,957,222)	(387,806)	655,245	112,790	(1,155,841)

Notes to the Financial Statements

For the Year Ended 31 December 2023

32. Operating segments (continued)

	2023 Total €	2023 Lending €	2023 Factoring €	2023 Other €
Assets				
Segment assets	485,603,049	180,964,061	140,049,872	164,589,116
Unallocated assets	22,344,685	-	-	-
Total Assets	507,947,734	180,964,061	140,049,872	164,589,116
Liabilities				
Segment liabilities	466,875,868	173,912,836	134,601,785	158,361,248
Unallocated liabilities	9,201,413	-	-	-
Total Liabilities	476,077,281	173,912,836	134,601,785	158,361,248
	2022 (Restated) Total €	2022 (Restated) Lending €	2022 (Restated) Factoring €	2022 (Restated) Other €
Assets				
Segment assets	410,048,546	160,329,282	118,363,724	131,355,540
Unallocated assets	19,235,086	-	-	-
Total Assets	429,283,632	160,329,282	118,363,724	131,355,540
Liabilities				
Segment liabilities	392,757,007	158,194,468	116,787,689	117,774,850
Unallocated liabilities	5,196,328	-	-	-
Total Liabilities	397,953,335	158,194,468	116,787,689	117,774,850

33.2 Geographical information

The Bank provides all its services from Malta. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2023 €	2022 €
Revenue		
Malta	14,627,788	8,977,283
Belgium	4,661,150	4,402,722
	19,288,939	13,380,005
Non-current assets		
Malta – tangible and intangible assets	17,569,338	13,687,818

Further geographical information about Loans and advances to customers, Factored receivables, Loans and advances to banks, and Financial Investments is set out in Note 4.3.11.

The Bank's major customer is the Van Marcke Group of which it forms part. Belgium is the country of domicile of this Group.

Information about revenues, expenses, and balances as a result of transactions with the Group is set out in Note 31.

33. Critical accounting estimates and judgements

The preparation of financial statements in accordance with the requirements emanating from IFRSs as adopted by the EU requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about these estimates and judgements is included in other notes together with information about the basis of calculation for affected line items in the financial statements.

Measurement of ECL in respect of loans and advances to customers and factored receivables

The estimation of credit loss allowances in respect of loans and advances to customers and factored receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgements are required in the measurement of ECL, including:

- The determination of criteria for the identification of significant increase in credit risk and unlikelihood-to-pay events;
- The choice of appropriate models and assumptions for the measurement of ECL; and
- The selection of forward-looking scenarios used in the estimation of credit loss allowances, including judgements and assumptions in relation to the number and severity of scenarios as well as the relative probability weights assigned to each scenario.

The measurement of the credit loss allowances is an area that requires the use of complex models and of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current and future macroeconomic conditions are such that the level of ECL is likely to be greater or less than historical experience. The ECL models are reviewed regularly in light of differences between loss estimates and actual loss experience, although available information in respect of the Bank's historical loss experience since the initial adoption of IFRS 9 is still contained.

A detailed description of the inputs, assumptions and estimation techniques used in measuring ECL in respect of loans and advances to customers and factored receivables is disclosed in Note 4.3.2. The underlying risk factors have a high degree of interdependency and there is no single factor to which credit loss allowances as a whole is sensitive.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios in the context of the heightened level of macroeconomic uncertainty being experienced. The level of expert judgement required is exacerbated by the heightened level of uncertainty around predictions in respect of the potential impacts of assumptions in relation to inflation and interest rates, particularly the potential market response to further increases in interest rates, and of the effectiveness of government support schemes together with the impacts of their unwinding, on key macroeconomic variables and, as a result on forward-looking PDs. The determination of economic forecasts in the current environment thus represents a significant source of uncertainty, which in turn significantly increases the level of subjectivity around the estimation of credit loss allowances in respect of loans and advances to customers and factored receivables.

For loans and advances to customers, the Bank performs periodic credit assessments at borrower level by reference to recent historical management information and financial forecasts, where available. As part of these credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay. In particular, corporate borrowers operating in industry sectors which are most likely to be impacted by inflationary pressures and an increasing interest rate environment, as well as being most reliant on the Maltese government's subsidization of energy prices, were monitored closely in order to determine whether these economic shocks may transform into long-term financial difficulties.

33. Critical accounting estimates and judgements (continued)

In relation to factored receivables, ECL models are generally reliant on the assumption that default emergence is directly impacted by delinquency related indicators since less information is available at asset level to enable the timely identification of SICR or UTP events. For credit-impaired loans and advances to customers, management estimates credit loss allowances by reference to the realisable value of security under different scenarios. Judgement is applied in estimating the forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery.

34. Subsequent events

There are no subsequent events up to the date of approval of the financial statements.

INDEPENDENT AUDITOR'S REPORT To the Shareholders of Izola Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Izola Bank Plc («the Bank»), set out on pages 1 to 113, which comprise the statement of financial position as at 31 December 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRSs) and have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386), and the Banking Act (Cap. 371) of the Laws of Malta.

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 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 that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2.8 of the financial statements, which describes the effects of the change in accounting policy as a result of a business model realignment on sovereign debt securities. Our opinion is not modified in respect of this matter

Other matter

The financial statements of the Bank for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 26 April 2023.

An overview of the scope of our audit

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of material misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatements we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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. We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of the procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The result of our audit procedures, including the procedures performed to address the matters below, provide the basis for the audit opinion on the accompanying financial statements.

1	Expected credit loss allowances on loans and advances to customers and factored receivables
----------	--

Key Audit Matter

Most of the Bank's assets comprise of the loans provided to customers and factored receivables. The Bank has adopted a specific impairment assessment approach by way of an internally developed expected credit losses (ECL) model. The assessment involved significant management judgements and estimates.

Related Disclosures

Refer to note 9, 16 and 17 of the accompanying financial statements.

Audit Response

- We obtained an understanding of the Bank's credit policy and tested the design and TOC over the processes in Bank.
- We analysed the impairment model, data input and management assumptions.
- We assessed the impact of management decisions on business rules updated during the year under review.
- We have tested the mathematical accuracy of the expected credit loss model.
- We have assessed, compared to historical actuals and challenged management's view of credit risk that impacts the recognition of expected losses upon initial recognition over the life of the loans.
- We have performed sensitivity analysis in relation to the key forward looking assumptions.
- We have assessed the adequacy of the disclosures outlining the uncertainty relating to expected loan losses.
- We have audited the parameters and assumptions made within the model.
- We have also obtained and tested, on a sample basis, the parameters in relation to the aging of loans and advances to customers as well as performed a recalculation.

We have found the approach adopted by the management reasonable based on information made available up till the date of this audit report.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

Our application of materiality

We determine materiality for the Bank's performance to be EUR 637,400 which is approximately 2% of net assets, and for the Bank's financial position to be EUR 5,079,400 which is approximately 1% of the total assets. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. On the basis of risk assessments, our judgement was that overall performance materiality for the Bank should be 65% of planning materiality, and clearly trivial error threshold set at 3.5%.

Other Information

The directors are responsible for the other information. The other information comprises the Chairperson's Statement, Directors' Report, Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance, Report of the Remuneration and Nomination Committee, additional regulatory disclosures and 5 years summary, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the "Report on Other Legal and Regulatory Requirements". In connection with our audit of the financial statements, our responsibility is to read the other information 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) and the Sixth Schedule to the Act. 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 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. We have nothing to report in this regard.

We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the Other information section.

With respect to Report of the Remuneration and Nomination Committee, we are required to consider whether the information that should be provided within the Remuneration report, as required in terms of Appendix 12.1 to Chapter 12 of the Capital Markets Rules, has been included.

In our opinion, the Report of the Remuneration and Nomination Committee has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

Responsibilities of the Directors

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, 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 has no realistic alternative but to do so.

The directors 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

Report on compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by reference to Capital Markets Rule 5.55.6

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the Annual Report of the Bank for the year ended 31 December 2023, entirely prepared in a single electronic reporting format.

Responsibilities of the directors

The Directors are responsible for the preparation of the Report and Financial Statements and the relevant mark-up requirements therein, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibilities

Our responsibility is to obtain reasonable assurance about whether the Report and Financial Statements, complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the Report and Financial Statements, in accordance with the requirements of the ESEF RTS.
- Obtaining the Annual Report and performing validations to determine whether the Annual Report have been prepared in accordance with the requirements of the technical specifications of the ESEF RTS (in XHTML format).

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

Opinion

In our opinion, the Annual Report for the year ended 31 December 2023 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS (in XHTML format).

Report on the Statement of Compliance with the Code of Principles of Good Corporate Governance

The Capital Markets Rules issued by the Malta Listing Authority require the Directors to prepare and include in their Annual Report a Statement of Compliance with the Code of Principles of Good Corporate Governance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles within Appendix 5.1 to Chapter 5 of the Capital Markets Rules. The Statement's required minimum contents are determined by reference to Capital Markets Rule 5.97.

The Capital Markets Rules also require us, as the auditor of the Bank, to include a report on the Statement of Compliance with the Code of Principles of Good Corporate Governance prepared by the Directors by expressing an opinion as to whether, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements.

We read the Statement of Compliance with the Code of Principles of Good Corporate Governance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance with the Code of Principles of Good Corporate Governance cover all risks and controls, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance with the Code of Principles of Good Corporate Governance has been properly prepared in accordance with the requirements of the Capital Markets Rules.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the Other information section.

Other matters on which we are required to report by exception

We also have responsibilities under the Companies Act, Cap 386 to report to you if, in our opinion:

- adequate accounting records have not been kept
- the financial statements are not in agreement with the accounting records
- we have not received all the information and explanations we require for our audit
- certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We also have responsibilities in terms of Capital Markets Rules to review the statement made by the Directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

Appointment

We were first appointed as the statutory auditor of the Bank for the financial year ended 31 December 2023, at the annual general meeting held by the shareholders. This appointment will be renewed on an annual basis by the shareholders. The total uninterrupted engagement period as statutory auditor, including previous renewals and reappointments amounts to 1 year.

Consistency with the additional report to the audit committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Bank which was issued on 26 March 2024.

Non-audit services

No prohibited non-audit services referred to in Article 18A(1) of the Accountancy Profession Act (Cap.281) were provided by us to the Bank and we remain independent of the Bank as described in the Basis for the Opinion section of our report.

No other services besides statutory audit services and services disclosed in the annual report and in the financial statements, were provided by us to the Bank.

Other Matter - Use Of This Report



INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Izola Bank Plc
(continued)

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

BDO Malta
Certified Public Accountants
Registered Audit Firm

**This report has been signed
for and on behalf of
BDO MALTA
by Sam Spiridonov (Partner)**

It-Torri Street
Msida MSD 1824
Malta

28 March 2024

Contents

INTRODUCTION	A-ii
1. RISK MANAGEMENT OBJECTIVES AND POLICIES	A-ii
2. BOARD AND COMMITTEES STRUCTURE	A-iii
3. OWN FUNDS	A-v
4. CAPITAL ADEQUACY AND LIQUIDITY	A-v
5. CREDIT RISK	A-ix
6. STANDARDISED APPROACH TO CREDIT RISK	A-xiii
7. REMUNERATION POLICY	A-xiv
8. CREDIT RISK MITIGATION	A-xiv
9. CONCLUSION	A-xiv

INTRODUCTION

Background to Pillar 3 disclosures

The objective of Basel III Pillar 3 is to improve market discipline through effective public disclosure and to complement requirements under Pillar 1 and Pillar 2. To that end, Pillar 3 introduces additional public disclosure requirements and represents an increase in the amount of information made publicly available by banks and investment firms regarding capital structure, capital adequacy, risk management and risk measurement.

Nature of Disclosures

This document serves as the Basel III Pillar 3 disclosures of Izola Bank p.l.c. in accordance with the Malta Financial Services Authority ('MFSA') Banking Rule 7 (BR07). Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive — Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation — Pillar 2) of the European Parliament and of the Council of 26 June 2013.

The Annual Report of Izola Bank p.l.c. has been filed with the MFSA Registry of Companies and the MFSA Banking Unit. These Pillar 3 disclosures refer to the financial year ended 31st December 2023 and have been included in the Annual Report for 2023.

The Bank has in place a formal policy to comply with the disclosure requirements laid down in Banking Rule BR/07/2018. The Directors, after due consideration of the size and complexity of the Bank, do not feel it necessary to produce Pillar 3 disclosures more frequently than annually. Banking Rule BR/07 requirements are incorporated in this document if they are deemed relevant for the Bank.

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 International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank's management is responsible for the verification of these Pillar 3 disclosures. The Bank, through its internal verification process, is satisfied that these disclosures are presented fairly.

1 RISK MANAGEMENT OBJECTIVES AND POLICIES

The principal risks to which Izola Bank p.l.c. is exposed are business, credit concentration, operational and interest rate risk in the non-trading book. Counterparty risk is also recognised as important.

Business risk

Business risk is the risk that the Bank may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls. This is a risk that every business faces. The two main contributors to the business risk arise from the Bank's dependence on the Group as its anchor client and the general business environment in Malta and Belgium. There are no specific mitigating factors though it is to be noted that the Group is itself diversified and has a large number of clients and suppliers which in turn helps to diversify the underlying risk.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. These risks are managed through adherence to Board approved lending criteria.

1 RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

The Bank recognizes that credit concentration risk is present in the Bank's factoring business in view of the fact that factored debtors are mainly active in the property, building and construction sector in Belgium and to the retail sector in Malta. Credit concentration risk is mitigated by a comprehensive credit insurance policy covering credit risks arising from the Bank's factoring exposures in Belgium and Malta. Furthermore, the diversification of the Bank's business model is also an important contributor towards reducing this risk.

The credit risk concentration to the factored receivables in Malta is mitigated through the dispersion of debtors combined with security over the underlying asset. Furthermore, the Bank retains insurance for credit risk on a major part of its invoice factoring business. As the Bank continues its growth path, concentration risk is reduced as each new product or business line launched reduces the overall scale of previous concentrations.

Operational risk

Operational risk is associated with the Bank's internal processes and systems and the potential for these not to function properly. Through implementing a robust internal control system, the Bank is able to mitigate many of the identified risks. The Bank also maintains third party insurance to cover certain risk events such as computer fraud and cybersecurity risk. Regular reporting on operational risk is made to the Audit and Risk Committee.

Interest rate risk in the banking book (IRRBB)

Market risk incorporates the loss of income which in the Bank's case would be as a result of changes to interest rates. Izola Bank p.l.c. limits this exposure to movements in interest rates by matching, as much as possible, its advances to deposits in the same maturity bands. Competitive forces may at times result in strategic repricing which differs in quantum than that contractually agreed to in order to avoid loss of business.

2 BOARD AND COMMITTEES STRUCTURE

The Bank's Board of Directors comprises seven non-executive directors and one executive director and meets at least quarterly throughout the year. In addition, the Board delegates specific responsibilities to the Remuneration and Nomination Committee, the Audit and Risk Committee, the Credit Committee, the Strategy Committee and the Asset and Liability Management Committee (ALCO).

Remuneration and Nomination Committee

Composition: The Remuneration and Nomination Committee comprises 3 non-executive directors.

Main Functions: The Remuneration and Nomination Committee is tasked with delving into the detail of oversight of remuneration and nomination practices.

Frequency: This Committee meets at least once a year.

Credit Committee

Composition: The Credit Committee is made up of two non-executive independent directors and the Chief Executive Officer. Recently the Head of Risk and Compliance was admitted to the committee as a member.

Main Functions: The Credit Committee considers credit applications and keeps credit limits under review.

Frequency: The Committee meets at least four times a year.

2 BOARD AND COMMITTEES STRUCTURE (continued)

Audit and Risk Committee

Composition: The Audit and Risk Committee comprises three non-executive independent directors.

Main Functions: The primary purpose of the Audit and Risk Committee is to protect the interests of the Bank's shareholders and assist the directors in conducting their role effectively so that the Bank's decision-making capability, the accuracy of its reporting and financial results and the Bank's risk management processes are maintained at a high level at all times.

The Committee provides independent review, monitoring, and assessment of:

- the integrity of the annual financial statements
- the effectiveness of management's system of internal control
- the effectiveness of the Bank's risk management processes
- the Bank's compliance with applicable laws and regulations
- the Bank's ethical and business standards
- the appointment of the Bank's internal and external auditors

Frequency: The Committee meets at least four times a year.

Strategy Committee

Composition: This Committee is made up of two non-executive directors and the Chief Executive Officer.

Main Functions: The Committee is responsible for making recommendations to the Board of Directors on the Bank's business model and forward-looking strategy, taking into consideration the risks and opportunities related to various strategies. The Committee is also responsible for analysing the implementation of the business model and strategy or any changes thereof, including any potential ICT consequences.

Frequency: The Committee meets at least once a year.

Asset and Liability Management Committee (ALCO)

Composition: This Committee is made up of the Chief Executive Officer, the Head of Finance and Treasury, the Head of Strategy and Value and the Senior Finance and Treasury Manager.

Main Functions: The Asset and Liability Management Committee:

- monitors the Bank's financial performance, and reviews and manages financial risks in accordance with Bank policies;
- manages the Bank's balance sheet in respect of the adequate matching of assets and liabilities, asset mix, liabilities and balance sheet growth;
- formulates a forward-looking strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy.

Frequency: The Committee meets at least four times a year.

3 OWN FUNDS

During the year ended 31 December 2023, the Bank complied with all the externally imposed capital requirements to which it was subject. The following table summarises the composition of the Bank's regulatory capital as reported to the MFSA as at 31 December 2023.

	2023 €
Own Funds	
Common Equity Tier 1 (CET1) Capital: instruments and reserves	30,381,805
Paid up capital instruments	29,032,675
Accumulated losses	(514,946)
Accumulated other comprehensive income (and other reserves)	2,314,076
CET1 Capital before regulatory adjustments	30,831,805
Regulatory deductions and adjustments	
Deductions related to intangible assets	(2,869,859)
Tier 2 Capital	
Capital instruments and subordinated loans eligible as T2 Capital	14,000,000
Total Own Funds	41,961,946

Composition of Own Funds

- i. Paid up Capital Instruments: At 31 December 2023, the authorised share capital comprised 120,000,000 ordinary shares of €0.50 each. All shares in issue are fully paid up. 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 shareholders' meetings of the Bank. This also includes a contribution by the shareholders to the distributable reserves of the Bank.
- ii. Retained Earnings: this represents the accumulated net profits/(losses) of the Bank that have not been distributed as dividend to the shareholders.
- iii. Accumulated other comprehensive income: this includes the balance available for distribution to the shareholders, including Fair value reserve and Revaluation Reserve.

4 CAPITAL ADEQUACY AND LIQUIDITY

4.1 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP Methodology

The Bank's latest ICAAP report is based on 31st December 2023 figures.

The Bank has chosen to base its ICAAP on the results of the Pillar 1 calculation with additional Pillar 2 risks – business risk, credit concentration and interest rate risk in the banking book – assessed separately through stress testing and added to Pillar 1. The Bank has also further analysed its operational risk exposure through stress testing in order to determine whether an additional Pillar 2 charge for operational risk may be necessary.

4 CAPITAL ADEQUACY AND LIQUIDITY (continued)

4.1 Internal Capital Adequacy Assessment Process (ICAAP) (continued)

The Bank's ICAAP also contains three-year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan.

In order to produce a capital plan, the Bank's ICAAP contains calculations of the capital resources requirement (effectively the minimum capital required) for each of the three years using the standardised approach for credit risk and the basic indicator approach for operational risk.

Under the standardised approach for credit risk, the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

Under the basic indicator approach for operational risk, the Bank calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

4.2 Credit Risk Capital Requirements by Standardised Approach Exposure Class

Capital Requirement by exposure class as at 31 December 2023

	Capital Requirement
	€
Central Government or Central Banks	-
Institutions	321,454
Retail	6,411,891
Corporates	3,532,854
Exposures secured by Mortgages on Immoveable Property	2,666,224
Items associated with particularly high risk	1,553,806
Equities & Collective Investment Undertakings (CIUs)	59,706
Other	1,999,341
Total	16,545,275

4.3 Market Risk Capital Requirement

The market risk capital requirement of the Bank is not significant, comprising a foreign exchange risk charge of €99,682.

4.4 Operational Risk Capital Requirement

The gross income registered by the Bank in 2023, 2022 and 2021 amounted to €6,646,504, €7,840,853, and €6,751,938 respectively. The operational risk capital requirement for 2023 amounted to €1,061,965.

Appendix I – Pillar 3 Disclosures

As at 31 December 2023

4 CAPITAL ADEQUACY (continued)

4.5 Calculation of minimum capital requirement and risk-weighted assets

	Statement of financial position value 2023	Risk weighted exposure 2023	Capital requirement 2023	Statement of financial position value 2022 (Restated)	Risk weighted exposure 2022 (Restated)	Capital requirement 2022 (Restated)
	€	€	€	€	€	€
On balance sheet assets						
Balance with Central Bank of Malta and cash	56,242,720	-	-	17,598,287	-	-
Financial investments	101,589,059	17,207,855	1,376,628	103,542,260	26,646,809	2,131,745
Loans and advances to banks	6,757,337	1,351,467	108,117	10,214,993	2,042,999	163,440
Factored receivables	140,049,872	95,118,830	7,609,506	118,363,724	69,192,297	5,535,384
Loans and advances to customers	180,964,061	75,602,763	6,048,221	160,329,282	33,694,541	2,695,563
Property and equipment	13,939,136	13,939,136	1,115,131	11,712,225	11,712,225	936,978
Intangible assets	3,630,203	-	-	1,975,593	-	-
Prepayments and accrued income	4,775,345	3,595,889	287,672	5,794,898	3,228,492	258,279
	507,947,733	206,815,940	16,545,275	429,531,262	146,517,363	11,721,389
Off balance sheet items						
Commitments	288,377,842			185,068,135		
Credit risk capital requirement		206,815,940	16,545,275		146,517,363	11,721,389
Foreign exchange risk capital requirement		1,246,031	99,682		237,626	19,010
Operational risk capital requirement		13,274,559	1,061,965		12,834,159	1,026,733
Total capital requirement		221,336,530			159,589,148	
Total Tier 1 Capital	27,961,946			29,099,400		
Subordinated debt	14,000,000			14,000,000		
Total own funds	41,961,946			43,099,400		
CET 1 ratio			12.63%			18.41%
Capital adequacy ratio			18.96%			27.26%

4 CAPITAL ADEQUACY AND LIQUIDITY *(continued)*

4.6 Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) metric measures a bank's liquidity risk profile based on the stock of unencumbered high-quality liquid assets (HQLA) which can be easily converted in financial markets at no, or little loss of value, in relation to the estimated total net cash outflows over a 30-calendar day stress scenario.

The goal of this stress test is to ensure that the institution can meet its liquidity needs for a 30-day hypothetical financial stress scenario. The LCR is governed by the Liquidity Coverage Ratio Delegated Act (EU) 2015/61 which became a minimum regulatory standard from 1 October 2015. As of January 1, 2023, the minimum LCR regulatory limit required for banks is 100%.

The LCR ratio as at 31 December 2023 was 1948% (2022: 725%). As at 31 December 2023 and 2022 and during the respective financial periods, the LCR ratio was within both the regulatory minimum and the risk appetite set by the Bank.

4.6 Leverage Ratio

The Leverage Ratio (LR) tool was designed by the Basel Committee on Banking Supervision (BCBS) as an easy and understandable metric to mitigate against risks of excessive leverage. This measure was introduced to serve as a complementary tool with other approaches to risk-based capital requirements, and the European Banking Authority (EBA) established, by Regulation (EU) No 1093/2010 of the European Parliament and of the Council, that the leverage ratio requirement should be calibrated at 3%.

The leverage ratio is calculated as the capital measure, which shall be the Tier 1 Capital according to Article 25 of the CRR, divided by the total exposure measure comprising of both on and off-balance sheet exposures, net of any deductions applied directly to Tier 1 Capital.

The leverage ratio as at 31 December 2023 was 5.6% (2022: 7.64%). As at 31 December 2023 and 2022 and during the respective financial periods, the leverage ratio was within both the regulatory minimum and the risk appetite set by the Bank.

5 CREDIT RISK

5.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank follows standards, policies and procedures established by the Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's credit risk policies and procedures are reviewed regularly through internal audit.

5.2 Definition of 'past due' and 'impaired' for accounting purposes

Impaired factored receivables

These comprise factored receivables for which the Bank determines an expected credit loss based on the probability that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

Allowance for impairment on factored receivables

	2023 €	2022 €
Factored receivables – gross	141,116,603	119,269,112
12-month ECL	102,481	221,559
Lifetime ECL	754,346	683,829

Table 5.2 Neither past due nor impaired loans and securities

	2023 €	2022 €
Loans and advances to customers	180,459,631	157,680,103
Loans and advances to banks	6,757,337	10,214,993
Investment securities (restated)	101,257,652	103,542,260
	288,474,620	271,437,356

5 CREDIT RISK (Continued)

5.3 Description of approaches and methods adopted for determining value adjustments and provisions

Allowances for impairment

The Bank establishes an allowance for expected credit losses that represents its estimate of expected losses in its factored receivables, loans & advances and investment portfolios. The main components of this allowance are outlined in Note 4.4 of the financial statements.

	2023	2022
	€	€
Allowance for expected credit losses on factored receivables	856,827	905,388
Allowance for expected credit losses on loans and advances	871,368	833,691
Allowance for expected credit losses on investments	24,853	-

Table 5.3 Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class.

	Exposure as at 31/12/2023 € 000s	Average Exposure for period to 31/12/2023 € 000s
Central Government or Central Banks	130,637	134,040
Institutions	14,666	19,753
Corporates	86,380	88,476
Retail	130,291	120,741
Exposures secured by Mortgages on Immoveable Property	90,549	82,087
Items associated with particularly high risk	15,429	15,671
Equities & Collective Investment Undertakings (CIUs)	356	528
Other	38,038	33,978
Total	506,346	494,850

	Malta € 000s	Europe € 000s	Total € 000s
Central Government or Central Banks	130,547	90	130,637
Institutions	11,468	3,198	14,666
Corporates	43,170	43,210	86,380
Retail	97,196	33,095	130,291
Exposures secured by Mortgages on Immoveable Property	89,549	1,000	90,549
Items associated with particularly high risk	15,429	-	15,429
Equities & Collective Investment Undertakings (CIUs)	274	82	356
Other	35,797	2,241	38,038
Total	423,430	82,917	506,346

5 CREDIT RISK (Continued)

5.3 Description of approaches and methods adopted for determining value adjustments and provisions (continued)

Table 5.5 Distribution of the exposures by industry/counterparty type

	Central Government or Central Banks	Institutions	Corporates	Exposures secured by Mortgages on Immoveable Property	Equities & Collective Investment Undertakings (CIUs)	Retail	Items associated with particularly high risk	Other	Total
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Construction			613	2,880		16,708	5,241		25,442
Households and individuals				20,990		89,634			110,624
Monetary Financial Institutions	54,704	14,666			356				69,726
Manufacturing			6,682	4,056		10,512			21,250
Real estate, renting and business activities			1,898	12,089		3,062	10,187		27,236
Sovereigns	75,933								75,933
Wholesale and retail trade			26,861	10,364		8,466			45,691
Other sectors			50,326	40,170		1,908		38,040	130,444
Total	130,637	14,666	86,380	90,549	356	130,290	15,428	38,040	506,346

Table 5.6 Residual Maturity Breakdown of the exposures

	< 1 year € 000s	1–5 years € 000s	> 5 years € 000s	Total € 000s
Central Government or Central Banks	60,361	33,511	36,765	130,637
Institutions	11,036	2,730	900	14,666
Retail	46,021	33,959	6,400	86,380
Corporates	73,222	55,784	1,285	130,291
Exposures secured by Mortgages on Immoveable Property	21,547	10,414	58,588	90,549
Items associated with particularly high risk	7,005	5,198	3,226	15,429
Equities & Collective Investment Undertakings (CIUs)	356	-	-	356
Other	27,476	12,164	-	39,640
Total	247,024	153,760	107,164	507,948

Appendix I – Pillar 3 Disclosures

As at 31 December 2023

5 CREDIT RISK (Continued)

5.4 Past Due Exposures and Impaired Assets

Table 5.7 Impaired, past due exposures - provisions by industry sector

Standardised exposure classes	Expected Credit Losses € 000s	Charged to income statement in the year ended 31 December 2023 € 000s
Central Government or Central Banks	36	36
Institutions	13	
Retail	330	5
Corporates	1,115	16
Items associated with particularly high risk		
Exposures secured by Mortgages on Immoveable Property	259	4
Equities & Collective Investment Undertakings (CIUs)		
Other		
Total	1,753	61

Table 5.8 Impaired, past due exposures - provisions by geographic area

Standardised exposure classes	Expected Credit Losses € 000s	Charged to income statement in the year ended 31 December 2023 € 000s
Malta	1,119	52
Europe	634	9
Rest of the World		
Total	1,786	

Table 5.9 Movement in allowances for impaired and past due exposures and provisions

	Individual & collective provisions € 000s
Opening balance	1,786
Expected credit loss decrease	33
Closing balance	1,753
Amounts written off	530

6 STANDARDISED APPROACH TO CREDIT RISK

6.1 Exposure to Institutions

Fitch Rating Agency is the External Credit Assessment Institution (ECAI) used to rate exposures to institutions. The external ratings are mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings in line with Article 119 of the Credit Requirements Regulations (CRR).

The following table shows the exposure values before and after Credit Risk Mitigation associated with the credit quality step under the Standardised Approach.

Table 6.1 Institutions

Credit Quality Step	Risk Weight	Regulation – Ratings	Exposure € 000s	Exposure After CRM € 000s
1	20%	Art. 121(3) - Fitch AAA	11,049	2,210
2	50%	Art. 120/121	3,630	1,815

6.2 Exposure to Central Government and Central Bank

Exposures to central government and central bank denominated and funded in the domestic currency of the central government and central bank are assigned a risk weight of 0% in line with Article 114(4) of the CRR.

Table 6.2 Central Government and Central Bank

Credit Quality Step	Risk Weight	Regulation - Ratings	Exposure € 000s	Exposure After CRM € 000s
1	0%	Art. 114(4)	130,637	

6.3 Exposure to Retail & Corporates (including SMEs)

A large part of corporate exposures has a 0% risk weighting as it is cash secured. A number of corporate exposures are secured by real estate and are allocated a 35% or 50% risk weighting. The rest are allocated a 75% or 100% risk weighting as they are unsecured with a portion subject to a reduction by virtue of the application of the SME support factor

Table 6.3 Corporates

Credit Quality Step	Risk Weight	Banking Regulation	Exposure € 000s	Exposure After CRM € 000s
1	0%	Art. 400(1) (g)	36,916	-
2	35%	Art. 125(1) (a)	38,815	12,447
3	50%	Art. 126(1) (a)	55,404	22,709
4	75%	Art. 123 (a) (b) (c)	130,291	80,149
5	100%	Art. 122 (2)	110,593	68,373

Appendix I – Pillar 3 Disclosures

As at 31 December 2023

7 REMUNERATION POLICY

The Board has established a Remuneration Policy the aim of which is to increase transparency when offering remuneration and benefits to the Bank's staff. More details concerning remuneration are provided with the remuneration report as part of the Annual Report 2023.

8 CREDIT RISK MITIGATION

8.1 Collateral

Analysis of collateral is disclosed in Note 4.3.7 of the Annual Report 2023.

Table 8.1 Exposure value covered by eligible financial collateral

	€ 000s
Central Government or Central Banks	10,947
Corporates	128,628
Retail	58,972
Total	198,547

9. CONCLUSION

This disclosure document has been prepared in accordance with the requirements of Banking Rule 7 issued by the Malta Financial Services Authority (MFSA).

Appendix II – Five-Year Summary

Statement of Profit or Loss and Other Comprehensive Income

	2023	2022	2021	2020	2019
	€	€	€	€	€
Interest receivable and similar income	19,039,346	13,087,771	10,704,557	10,575,188	10,158,455
Interest payable and similar charges	(12,052,370)	(5,412,645)	(4,513,733)	(5,011,314)	(3,972,954)
Net interest income	6,986,976	7,675,126	6,190,824	5,563,873	6,185,501
Fee and commission income	16,433	55,912	(10,195)	66,892	62,351
Net trading income	(12,779)	15,789	31,168	64,717	97,656
Net (losses)/gains on disposal of financial investments measured at FVOCI	(25,021)	(7,299)	442,395	172,944	25,000
Other operating income	129,864	101,325	97,746	73,437	88,330
Other operating charges	(8,623,671)	(7,309,512)	(5,546,089)	(5,164,175)	(3,873,224)
Net impairment gain/(losses)	(441,180)	(919,147)	(385,692)	(172,797)	(90,400)
(Loss)/Profit before tax	(1,969,378)	(387,806)	820,157	604,892	2,495,214
Income tax expense	727,010	103,587	(372,176)	(219,671)	(1,034,473)
(Loss)/Profit for the year	(1,242,368)	(284,219)	447,981	385,221	1,460,741
Other comprehensive income for the year, net of income tax	1,782,523	(9,596,928)	(1,251,797)	27,507	875,549
Total comprehensive income for the year	540,155	(9,881,147)	(803,816)	412,727	2,336,289
Earnings per share	(2c14)	(0c49)	0c77	96c	365c

Statement of Financial Position

	2023	2022	2021	2020	2019
	€	€	€	€	€
ASSETS					
Balances with Central Bank of Malta and cash	56,242,720	17,598,287	16,193,768	18,612,618	39,087,309
Financial investments	101,589,059	103,542,260	118,340,310	109,304,630	81,369,795
Loans and advances to banks	6,757,337	10,214,993	25,420,282	22,695,594	40,549,407
Factored receivables	140,049,872	118,363,724	95,051,834	99,155,608	105,412,199
Loans and advances to customers	180,964,061	160,329,282	131,369,341	121,555,833	86,522,549
Property and equipment	13,939,136	11,712,225	12,565,395	11,994,449	11,618,961
Intangible assets	3,630,203	1,975,593	1,774,370	1,550,091	1,633,259
Other assets	2,391,356	3,181,811	1,971,720	3,603,758	1,576,048
Deferred tax asset	2,200,649	1,723,958	-	-	-
Current tax asset	183,341	641,499	793,029	824,359	562,378
Total assets	507,947,733	429,283,632	403,480,049	389,296,940	368,331,905
LIABILITIES					
Amounts owed to institutions	20,000,000	40,000,000	55,000,000	-	-
Amounts owed to banks	271,105	275,815	274,715	250,576	250,322
Amounts owed to customers	429,743,262	335,660,870	297,780,509	304,384,729	319,737,813
Debt securities in issue	16,861,501	16,820,322	11,940,167	11,923,078	11,905,989
Deferred tax liabilities	808,057	436,414	540,870	845,309	777,023
Accruals and other liabilities	8,393,356	4,759,914	3,975,122	2,809,505	1,989,742
Total liabilities	476,077,281	397,953,335	369,511,383	355,213,197	334,660,889
EQUITY					
Called up share capital	29,000,000	29,000,000	10,000,000	10,000,000	10,000,000
Property revaluation reserve	3,967,372	2,977,302	3,521,238	3,521,238	3,696,144
Fair value reserve	(1,708,321)	(2,500,774)	76,192	639,250	436,837
Depositor compensation scheme reserve	1,038,647	831,860	1,288,168	1,707,717	628,571
Reserve for general banking risk	55,025	72,782	45,091	3,860	3,860
Capital contribution reserve	32,675	32,675	17,032,675	17,032,675	17,032,675
Accumulated Losses/Retained Earnings	(514,946)	916,452	2,005,302	1,179,003	1,872,929
Total equity attributable to equity holders of the Bank	31,870,452	31,330,297	33,968,666	34,083,743	33,671,016
Total liabilities and equity	507,947,733	429,283,632	403,480,049	389,296,940	368,331,905
Memorandum items commitments	288,377,842	185,068,135	92,738,305	96,000,451	71,868,667

Appendix II – Five-Year Summary

Statement of Cash Flows

	2023	2022	2021	2020	2019
	€	€	€	€	€
Net cash from operating activities	36,907,071	(30,370,480)	9,818,579	(8,670,571)	99,049,941
Cash flows from investing activities					
Payments to acquire property, equipment and intangible assets	(3,765,160)	(2,478,688)	(1,639,455)	(1,022,615)	(683,999)
Proceeds from disposal of property	-	2,204,000	-	-	-
Payments to acquire investments	(100,000)	(40,740,036)	(85,996,927)	(89,109,086)	(50,641,277)
Proceeds from disposals of investments	1,302,167	51,362,776	76,537,399	59,299,332	10,672,792
Interest received from financial investments	2,152,107	1,612,389	2,066,104	1,529,179	1,227,372
Payments on investments which are traded but not yet acquired	-	-	-	(1,500,000)	-
Net cash used in investing activities	(410,886)	11,960,441	(9,032,879)	(29,118,187)	(39,425,112)
Cash flows from financing activities					
Proceeds from issue of debt securities	-	13,633,597	-	-	-
Redemption of debt securities	-	(8,814,000)	-	-	-
Dividends paid to shareholders	-	-	-	-	(1,750,000)
Net capital contribution received	-	-	-	-	1,000,000
Interest and premium paid on debt conversion	-	(284,663)	-	-	-
Interest paid on debt securities	(843,370)	(540,000)	(540,000)	(540,000)	(540,000)
Net cash from / (used in) financing activities	(843,370)	(3,994,934)	(540,000)	(540,000)	(1,290,000)
Net movement in cash and cash equivalents	35,652,815	25,555,573	(38,328,758)	(38,328,758)	58,334,829

Accounting Ratios

	2023	2022	2021	2020	2019
	%	%	%	%	%
Net interest income and other operating income to total asset	1.40	1.81	1.68	1.53	1.75
Operating expenses to total assets	1.78	1.92	1.47	1.37	1.08
Profit before tax to total assets	(0.39)	(0.09)	0.2	0.16	0.68
Pre-tax return on capital employed	(6.18)	(1.24)	2.82	2.14	8.63
Profit after tax to equity	(3.90)	(0.91)	1.35	1.13	4.34

Directors' interest in the share capital of the Bank or in any related company as at 31 December 2023

No director has a direct beneficial or non-beneficial interest in the share capital of the Bank.

Magdalena De Roeck and Caroline Van Marcke have an indirect beneficial interest in the shareholding of the Bank through their indirect shareholding in Carlenco Finance NV, a company registered in Belgium with registration number 0755.471.533.

Furthermore, Magdalena De Roeck and Caroline Van Marcke are also directors of IBL I Limited and IBL T Limited and other companies forming part of the Group.

Shareholders holding 5% or more of the Share Capital as at 31st December 2023

IBL I Limited	Ordinary
IBL T Limited	Ordinary

As at date of publication of the annual report, no changes were effected to the shareholding structure.



izola Bank

53-58 East Street, Valletta VLT 1251 – Malta

www.izolabank.com